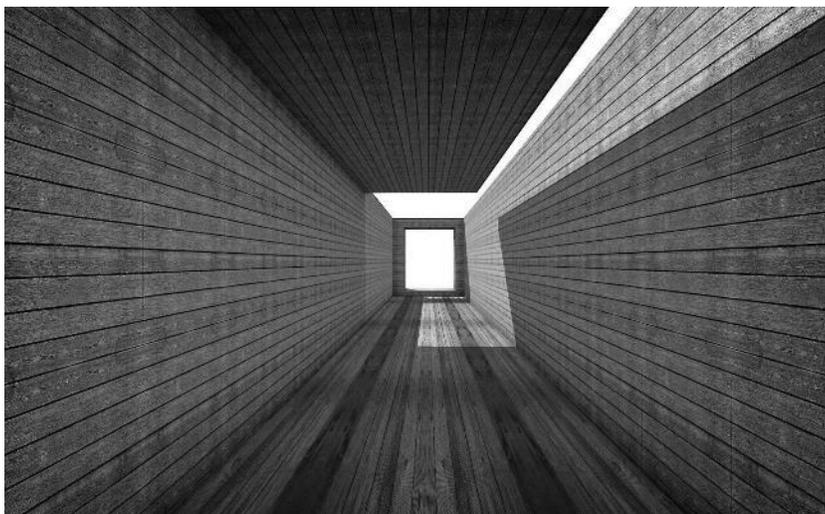




Master of Financial Risk Management

# The Launch of a Canadian Stablecoin

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MFRM '20



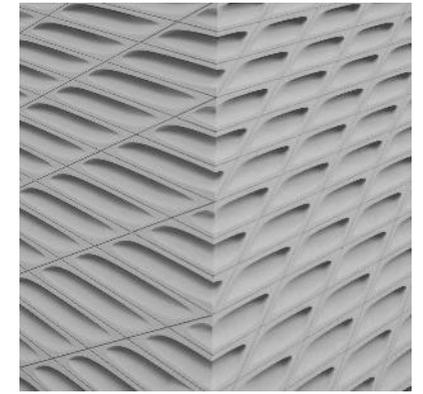
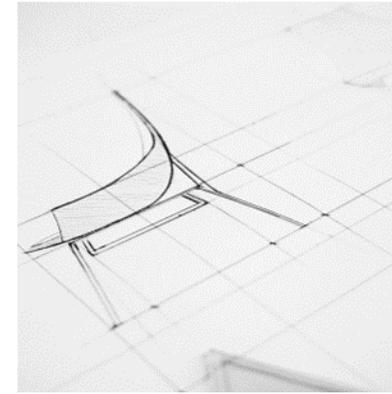
# Learnings to Share

From blockchain to my experience

- Stablecoins
  - What are Stablecoins?
- Who Makes the Market
  - Minting and Burning
- Canadian Affairs of Stablecoins
  - Regulatory Landscape

# What are Stablecoins?

- Stablecoins are not a physical coin that have any characteristic of stability, rather Stablecoins are a cryptocurrency that offer *price stability* compared to prominent cryptocurrencies.
- Stablecoins are built on blockchain networks.
- The most well-known blockchain network is the Bitcoin blockchain whose primary coin is Bitcoin.
- Is Bitcoin a Stablecoin, is it a cryptocurrency that offers *price stability*?



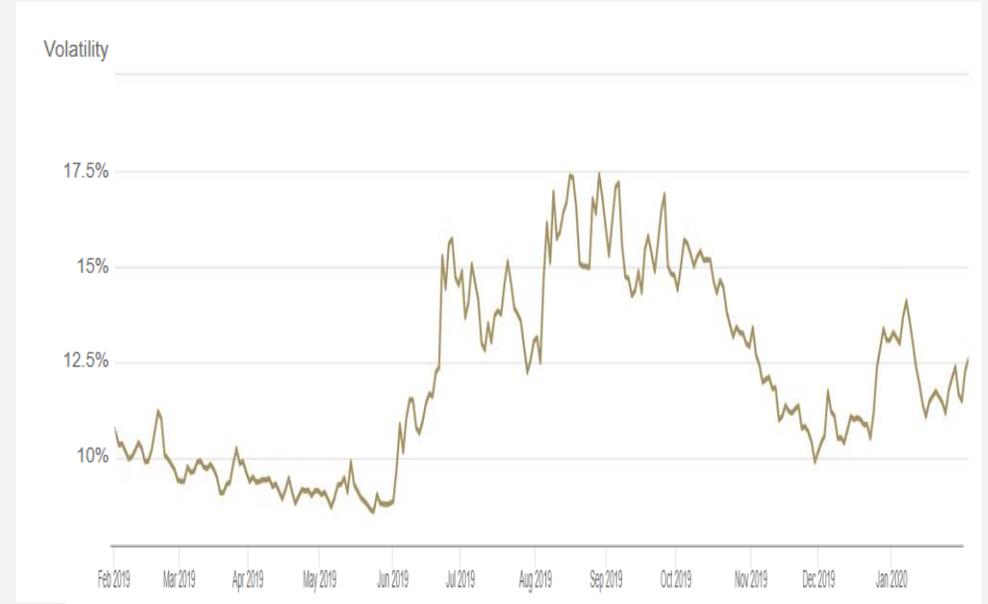
## ***Blockchain***

A blockchain is a decentralized & distributed digital ledger that is used to record transactions that cannot be altered retroactively.

## ***Cryptocurrency***

A cryptocurrency is a digital or virtual currency that is secured by cryptography. These are used to facilitate (financial) transactions on a blockchain network.

# Bitcoin's Price Change (Jan 2019-current)

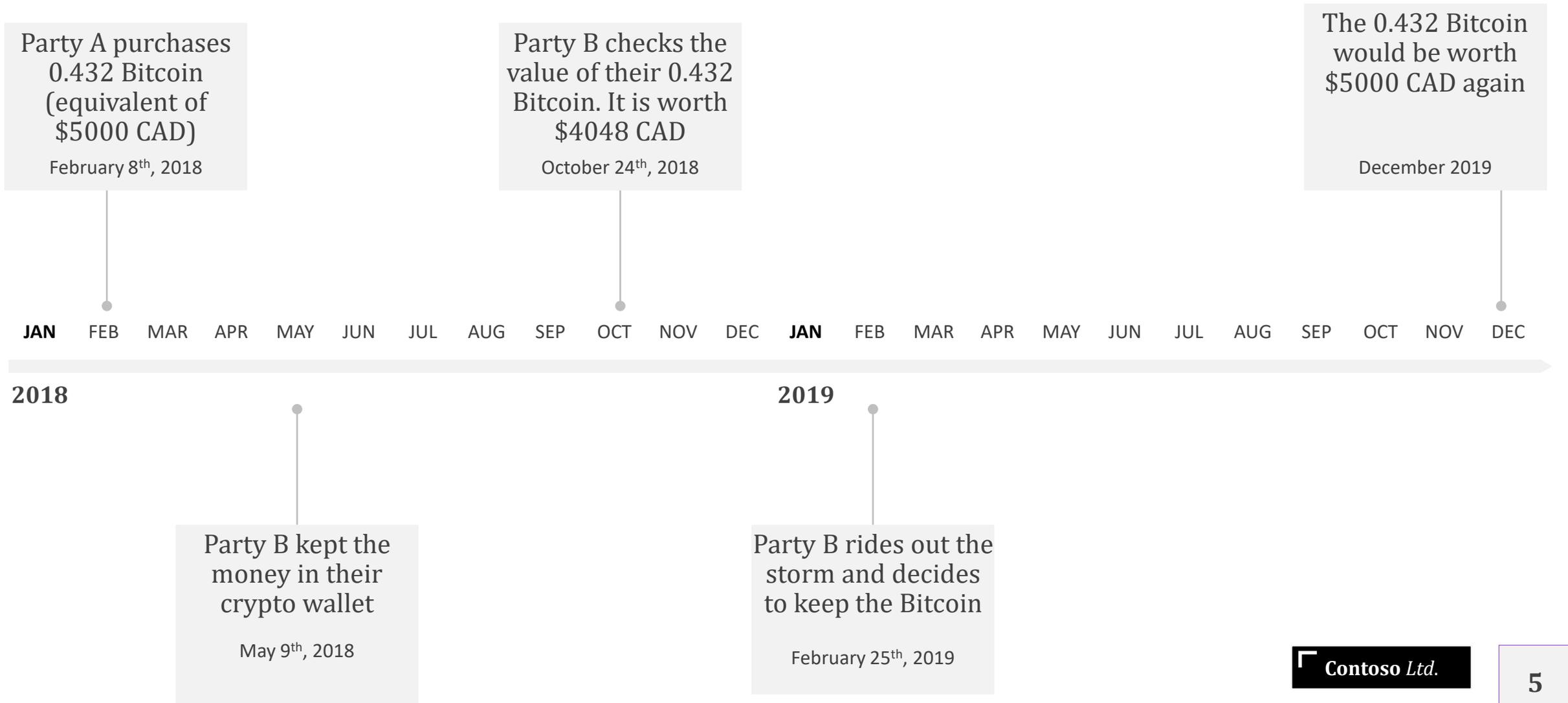


# Gold Price Change (Jan 2019-current)

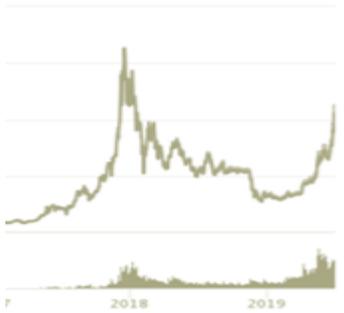
Data retrieved from: [www.coinbase.com](http://www.coinbase.com)  
Data retrieved from: [www.gold.com](http://www.gold.com)

# Why we should not use Bitcoin to trade and store value.

Let's suppose party A resides in Mexico and would like to send \$5000 CAD to party B who resides in Canada.



# Does Bitcoin really have a fundamental value to fall back on?



## Intrinsic Value

Does Bitcoin have a fundamental or intrinsic value?



## Efficient Means of Transferring

Faster and efficient means of transferring value from one person to another person



## Anonymity

Using Bitcoin as a medium for anonymous transactions



## Commodity

Used for some other commodity purpose intrinsic to the item, then slowly becomes money over time.



## Store Of Value

Purchasing cryptocurrency as an asset to store value

# *The Solution: Stablecoins*

- Stablecoins have price stability (unlike Bitcoin) as well as all the advantages of a cryptocurrency, such as efficient and faster transfer of value.
- Stablecoins are collateralized with a unit of an asset, the collateralized asset derives the intrinsic value of the Stablecoin.



Efficient Means of  
Transferring

Stablecoins use the blockchain infrastructure to transfer value efficiently.



Pegged To An Asset

Stablecoins are backed by an asset.



Intrinsic Value  
(Somewhat)

Shadows the price of the collateralized asset.

## ***Tether (USD₯)***

- **Tether (USD₯)** is the world's most popular Stablecoin.
- Tether Limited is the Tether (Stablecoin) issuer
- U.S. Dollar is the asset that backs Tether.
- Purchase 1 USD₯ for 1 U.S. Dollar.
- Redeem 1 USD₯ for 1 U.S. Dollar.



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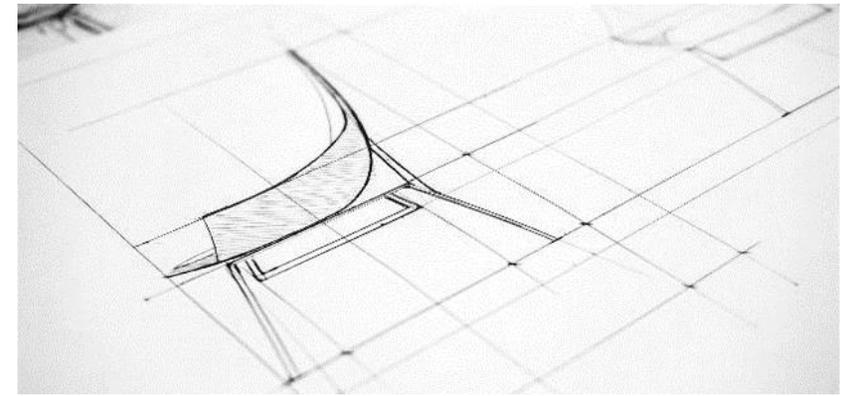
# *Market For Stablecoins*

The market for Stablecoins is primarily entities and people who participate in transactions using a blockchain.

The most common use of Stablecoins is for crypto traders to move between investment positions.

Stablecoins could replace wire transfers as it is faster, cheaper, and a more efficient process to transfer value.

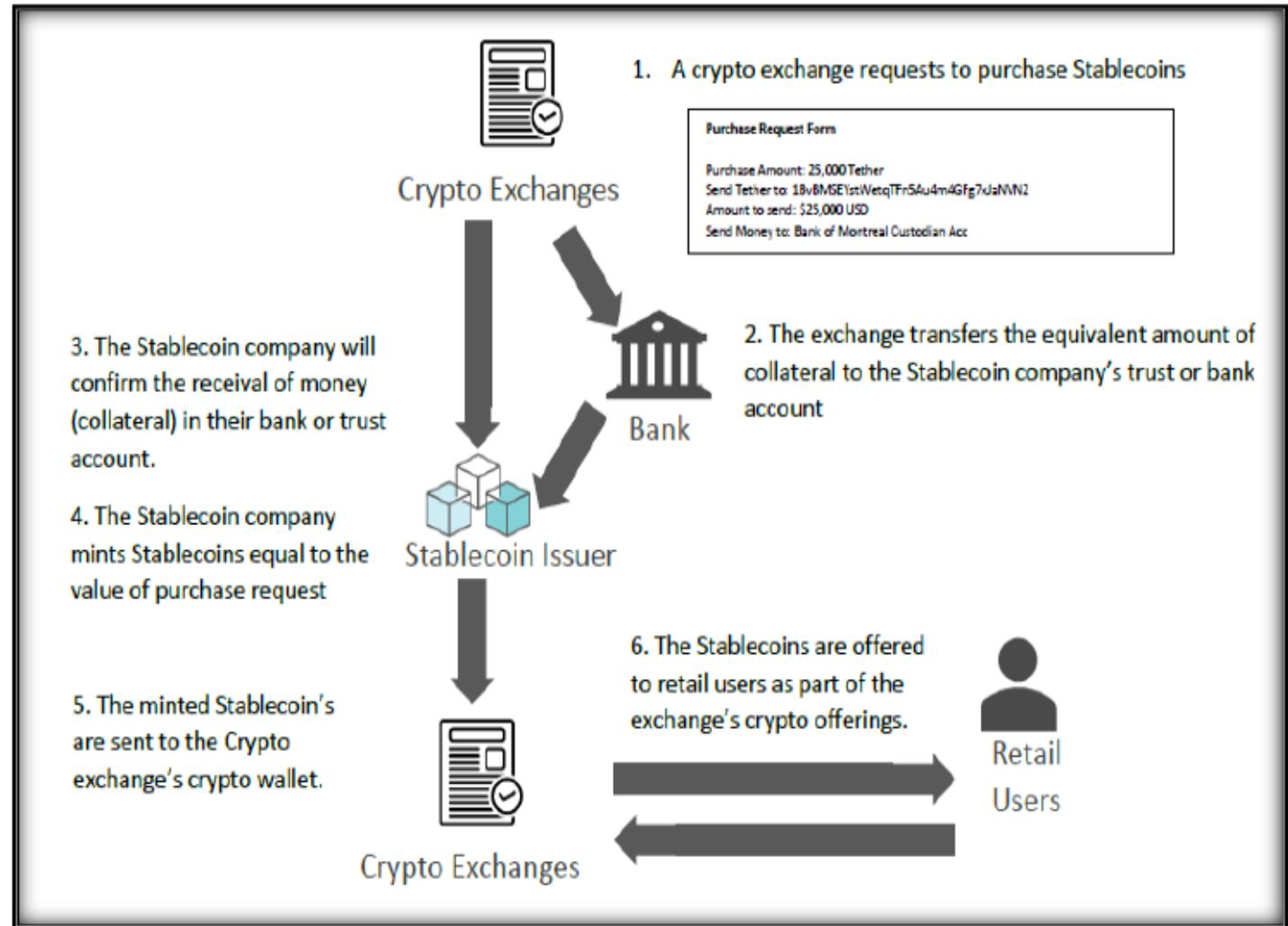




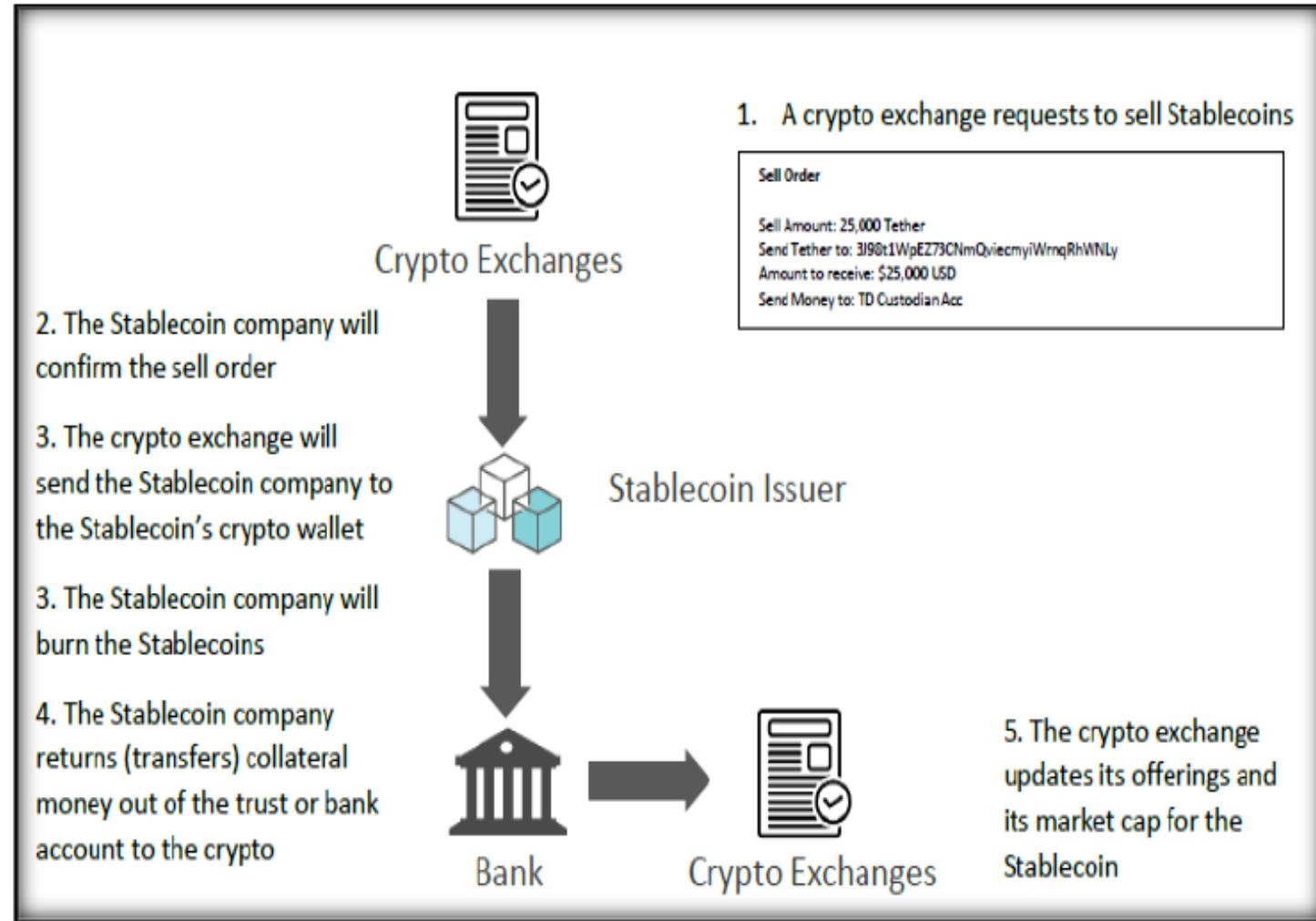
# *Functions*

Most issuers of cryptocurrency use a B2B business model. They do not offer their coins directly to the public. When cryptocurrencies are created (minted), they are sold to cryptocurrency exchanges first; the public can purchase cryptocurrencies from exchanges or third-party individuals (investors).

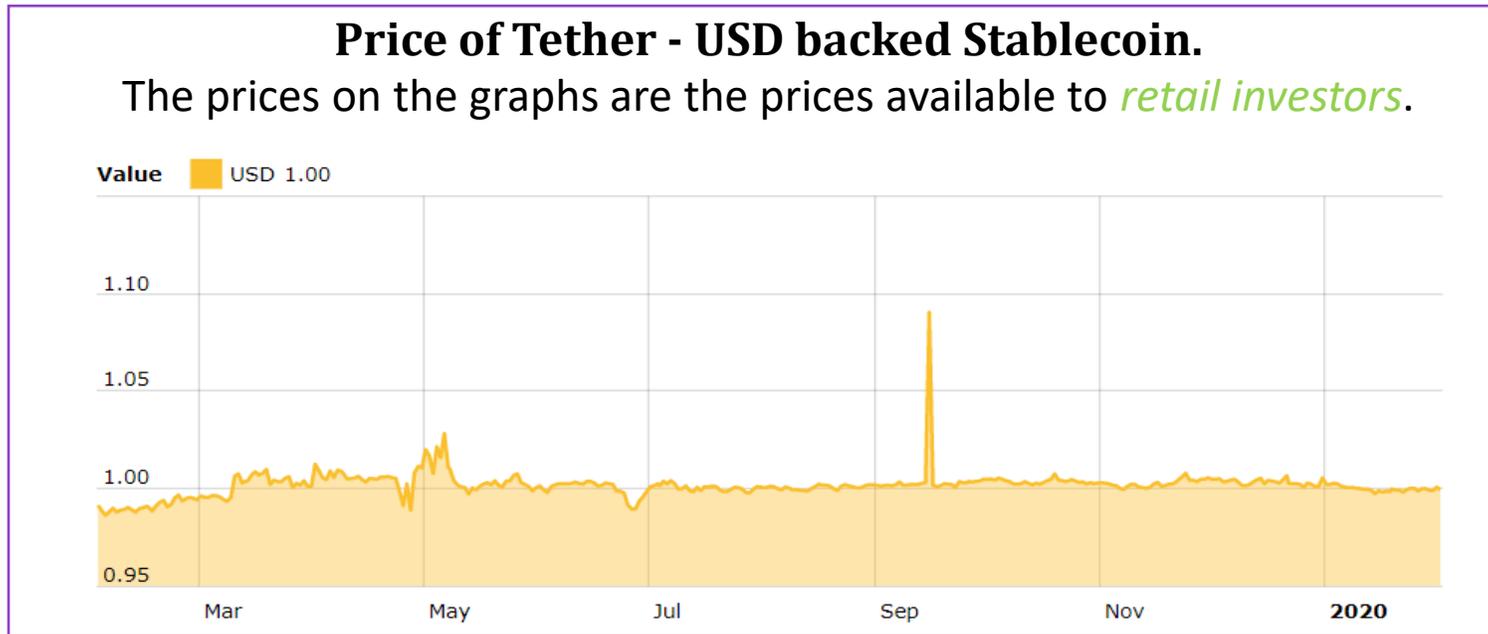
# Minting of Stablecoins



# Burning of Stablecoins

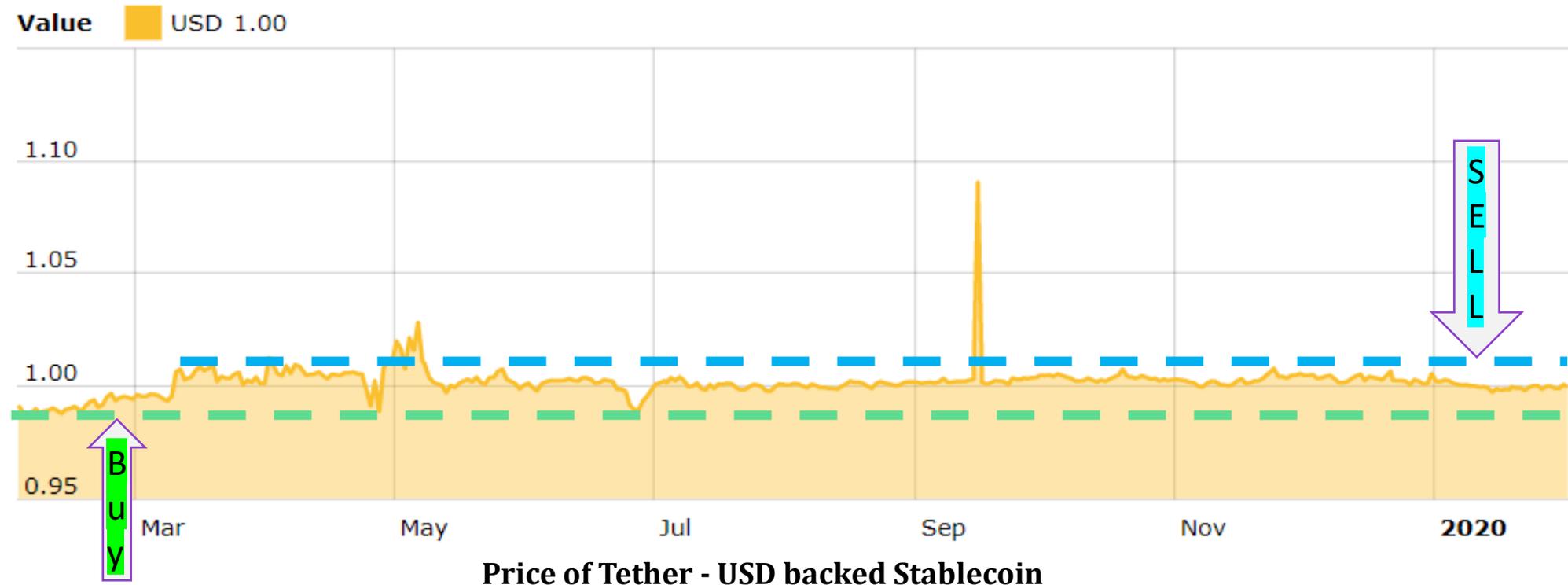


# The Retail Investors *(The Caveat)*

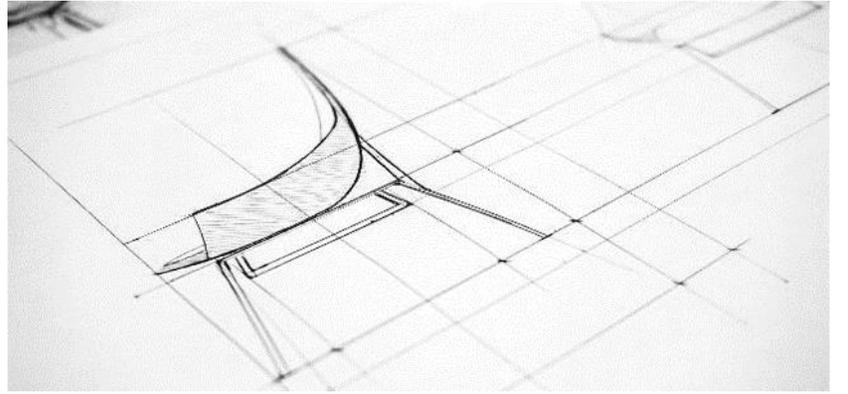


Practically, Stablecoin is only stable for the issuers of the coin and the crypto exchanges, since they are guaranteed purchase or redemption at a fixed rate. Stablecoin is not price stable for *retail investors*.

# *An easy and quick way for you to make money*



- A. We know the intrinsic value of the Stablecoin is \$1.  
Buy the stablecoin when it is below \$1 and then sell it when it is equal to or above \$1.
- B. Alternatively, if you have a large amount of capital, purchase a large volume of Stablecoins when they are below \$1 and then get the Stablecoin Issuer to buy back your coins at \$1 (face value).



# Canadian Affair of Stablecoins

# Major Regulations

Canadian regulations are not even at a point to be issuing statements on Stablecoins. However, there has been news releases and consultations that affect the business of crypto exchanges.



## *FINTRAC (Financial Transactions and Reports Analysis Centre of Canada)*

- By June 1, 2020, businesses that exchange virtual currencies for funds or funds for virtual currency will need to register with FINTRAC as a Money Service Business (MSB).
- Every MSB must have a:
  - Know Your Clients Policy and Procedure
  - Anti-Money Laundering and Counter Terrorism Financing Policy and Procedure
  - Appointment of a compliance officer; and
  - Maintaining transaction records, as well as, reporting receivables of funds or cryptocurrencies in the amount equal to CA\$10,000 or higher.

# Major Regulations

Canadian regulations are not even at a point to be issuing statements on Stablecoins. However, there has been news releases and consultations that affect the business of crypto exchanges.



## *Canadian Securities Administrator*

- The Canadian Securities Administrator (CSA) is the federal organization that provides directives on securities to provincial regulators such as the Ontario Securities Commission.
- According to CSA, Stablecoins are classified as Securities.
- Stablecoins must have “Immediate delivery”

# Major Regulations

Canadian regulations are not even at a point to be issuing statements on Stablecoins. However, there has been news releases and consultations that affect the business of crypto exchanges.



*Bank of Canada*

*“On January 20th, 2020, major central banks have partnered up to explore the possibility of issuing a crypto currency. These include European Central Bank, the Bank of Japan, the Bank of Canada, the Bank of England, the Swedish Riksbank and the Swiss National Bank. The group will assess central bank digital currency use cases; economic, functional and technical design choices, including cross-border interoperability; and the sharing of knowledge on emerging technologies.”*

- Bank of Canada January 21<sup>st</sup>, 2020 Press Release

# Thank You

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