OVERVIEW

Missing Middle Initiative
Mike Moffatt,
Founding Director, Missing Middle Initiative

"We will need to think big and act bigger. We will need to do things previously thought impossible at speeds we haven't seen in generations."

—Prime Minister Mark Carney

Falling behind on stablecoins harms Canada's economy

Canada has committed to removing barriers to internal trade, to unleashing the country's economic potential, and to getting infrastructure built faster. This should include creating regulatory systems to allow digital infrastructure and innovations to flourish, such as dollar-backed stablecoins.

Dollar-backed stablecoins are a type of cryptocurrency that is pegged to a specific currency, such as the Canadian or U.S. dollar. For every unit of the stablecoin, an equivalent amount of dollars or equivalent assets, such as treasury bills, is held in reserve by the issuer.

Dollar-backed stablecoins have several attractive features, including their stability, store of value, liquidity, and ability to be transferred globally, making them a compelling option for payments. As of March 2025, there were 240 billion USD (320 billion CAD) worth of stablecoins in circulation, with Citigroup estimating this will grow to 1.6 trillion USD (2.2 trillion CAD) by 2030. **(1)**

In a recent Abacus poll, Canadians identified the top three issues facing the country as the rising cost of living, the economy, and Canadian sovereignty. A well-regulated, made-in-Canada stablecoin regulatory system can assist with all three objectives, as it lowers transaction costs for both consumers and small businesses, allows for homegrown innovations and innovators to flourish, and creates new demand for Canadian bonds, thereby lowering government borrowing rates.

Despite the rapid growth in the global stablecoin market and the benefits to Canadians, Canada has fallen behind our G7 counterparts in developing stablecoin regulations. This failure to act harms both the Canadian economy and Canadian sovereignty.

RECOMMENDATION

Canada must, as soon as possible, create a clear regulatory framework for dollar-backed stablecoins, guided by seven principles:

Urgency: Canada has fallen behind our G7 peers in stablecoin regulation. Failure to act risks Canada being excluded from the benefits and having the rules of the game being written elsewhere.

Leadership: The federal government's stablecoin strategy must have a single point person, such as the Minister of Artificial Intelligence and Digital Innovation, to lead the process and work with relevant agencies and provinces to design and implement reforms.

Clarity: Overlapping agencies and jurisdictions create regulatory uncertainty and occasionally conflicting requirements. There should be a clear set of rules for stablecoins, and the federal government must establish a single window to shepherd innovators through the applicable regulations.

Safety: Stablecoins should be backed with high-quality, low-risk, and liquid assets to ensure stability and full-value redemption.

Competition: The assets backing stablecoins generate interest income. Stablecoin issuers should have the option of flowing some of that income to coin holders and users, in the same way that credit cards offer cash back and other rewards to their users.

Innovation: Rules governing stablecoins should not be overly prescriptive and allow for the development of new business models and new technologies, so long as those models and technologies meet minimum standards.

Transparency: Rules that govern stablecoins should have clear, fair, and proportionate disclosure requirements to ensure consumer protection without imposing excessive burdens.

WHAT ARE STABLECOINS

> "Currently, a whopping 98 percent of stablecoins are pegged to the US dollar. If Canada fails to create the regulatory space for homegrown coins, Canadians will continue to rely on US-based ones, driving capital outflows and weakening our monetary sovereignty."
>
> —*Claire Wilson, Council of Canadian Innovators*

How dollar-backed stablecoins function as digital dollars

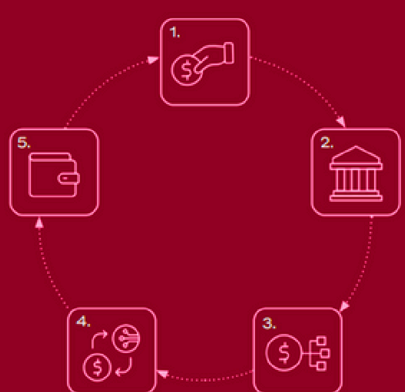
Dollar-based stablecoins, such as Tether (USDT) and USDC, are a form of cryptocurrency that, unlike traditional cryptocurrencies, do not fluctuate in value. Each dollar of stablecoin is backed by a dollar in savings, in the form of either cash, demand deposits, or highly safe and liquid assets, such as government-issued Treasury bills.

Since dollar-backed stablecoins have full 1-to-1 backing with dollar-denominated assets, users can seamlessly exchange their stablecoins for dollars, and vice versa, at par.

Because these assets are pegged to the dollar, their primary use case is as a form of payment, rather than an investment vehicle, such as a stock or bond. Although not money in the traditional sense, they fulfill all three functions of money: they act as a medium of exchange, a store of value, and a unit of account, as they are tied to the dollar.

Stablecoins, however, offer several advantages over traditional payment systems, most notably low transaction costs and near-instantaneous settlement. Dollar-backed stablecoins offer the stability of currency with the programmability of blockchain.

How Fiat Collateralized Stablecoins Work



1. User deposits traditional fiat currency (e.g. USD) to stablecoin issuer.
2. Being pegged to fiat currency, the issuer maintains a reserve of fiat currencies in a secure account.
3. Some reserves are held in cash, the rest is invested in short-term treasuries/ cash equivalents.
4. User is provided value of stablecoins equivalent to their initial deposit.
5. User can deploy stablecoin as deemed fit – hold with centralized custodian or self-custodial wallet.

Source: Fireblocks, Global X Japan, Kraken, Citi Institute

With the growing popularity of dollar-based stablecoins for use in payments, and the creation of new regulatory regimes in other G7 countries, companies from Amazon to Wal*Mart are exploring launching their own stablecoin offerings. Such a system could enable them to reduce transaction costs, passing some of those savings on to consumers, and facilitate the creation of enhanced reward programs. **(2)**

Top issues facing Canadians

In early September 2025, Abacus Data polled 1,500 Canadians, asking them to list their top three issues facing the country. A well-designed, made-in-Canada stablecoin regulatory system can help address the first three. **(3)**

TOP ISSUES FACING CANADA

1. **The rising cost of living** (61%)
2. **The economy** (39%)
3. **Donald Trump and his administration** (38%)
4. **Healthcare** (33%)
5. **Housing affordability and accessibility** (30%)

HOW STABLECOINS CAN MAKE LIFE MORE AFFORDABLE FOR CANADIANS

> "Small and medium-sized [Canadian] enterprises have less bargaining power than larger merchants to negotiate lower rates and, as a result, are subject to transaction fees that are amongst the highest in the world."
>
> *—Department of Finance, Canada*

How stablecoins can drive household affordability

Because stablecoins can act as the backbone for frictionless payment systems without the need for costly intermediaries, they can save money for both consumers making payments and the small businesses accepting those payments.

A Bank of Canada study found that, in 2018, transaction costs on credit and debit purchases at merchant point-of-sale systems cost Canadians $13.2 billion, of which $3.4 billion was returned through various rewards, costing a family of four $1,000 per year. **(4)** A 2024 estimate by the U.S. National Retail Federation found that these fees cost the average American family $1,200 per year. **(5)**

Without a Canadian dollar-denominated stablecoin, Canadians must incur foreign exchange fees to purchase US dollar-denominated stablecoins.

Stablecoins are particularly valuable for Canadians needing to remit funds abroad. In 2018, residents of Canada remitted over $20 billion to friends and family in other countries **(6)**, with many losing 6-12% of the value of those remittances to fees. **(7)** Globally, remitters lose an estimated $59 billion of their nearly $1 trillion a year in remittances **(8)**, a transfer of wealth from those who can afford it the least. Stablecoins can cut these fees by two-thirds or more, saving Canadian remitters hundreds of millions of dollars annually.

Stablecoins can be created or custodied that pay interest or provide other rewards, allowing Canadians easy access to their money while earning higher returns than on debit accounts, and with lower minimum balances than savings accounts.

Two-thirds of Canadians who do not own a home cite the inability to save enough for a down payment as a primary barrier. Stablecoins, through their ability to offer higher rates of interest and lower transaction costs, can be a vital tool for those saving for a home.

Affordability benefits of stablecoins

Existing payment systems	Stablecoins
Speed and availability: Existing systems, such as wire payments, can take several days to settle, particularly for international payments, and can be limited by banking hours.	**Speed and availability:** Nearly instantaneous settlement, available any time of day, any day of the year.
Costs to consumers and businesses: Outgoing wire payments can cost up to $80, and incoming payments cost $15 or more. **(9)** On a $500 payment, a retailer typically pays 10 cents on a debit transaction, and as much as $10 on a credit transaction. **(10)**	**Costs to consumers and businesses:** Less than 10 cents per transaction, and falling. On-ramp and off-ramp costs (costs to convert dollars into stablecoins, and vice-versa) are also falling as scale is achieved.
Foreign exchange costs: Additional exchange rate fees imposed by financial institutions and other intermediaries.	**Foreign exchange costs:** Low to non-existent fees.

Source: McKinsey

HOW STABLECOINS CAN CREATE JOBS AND GROW THE ECONOMY

"It's no exaggeration to say that if we didn't take steps to continuously improve our payments systems, our economy would suffer."

—Ron Morrow, Executive Director of Payments, Supervision and Oversight

Stablecoins as a driver of Canadian innovation and growth

A well-regulated, dollar-backed stablecoin system enhances innovation and creates economic opportunities both within and outside the tech sector.

In 2023, Canada's Information and Communications Technology (ICT) sector directly employed over 800,000 Canadians and had salary levels 54% above the Canadian average. **(11)** Unclear or delayed rules on stablecoins and other digital innovations deter investment, cause home-grown innovators to move their companies elsewhere, and make our fintech start-ups vulnerable to buyouts from foreign firms, causing a drain of IP and talent.

Research by Ivey Business School finds that a well-regulated stablecoin ecosystem could contribute $5 billion to GDP each year by 2030. The Ivey study notes that Switzerland demonstrates that smaller countries can compete and win in fintech, with its Crypto Valley boasting over 1,000 start-ups collectively valued at nearly $600 billion. **(12)**

The biggest benefits may accrue to the users of stablecoins, rather than the issuers. For example, in 2023, Canada exported over $700 billion in goods, with more than $260 billion coming from small and medium-sized enterprises (SMEs). **(13)** Even a relatively modest reduction in transaction fees and exchange rate costs can lead to substantial savings, and the immediacy of payment clearance allows SMEs to manage their cash flow better. It can also create opportunities for Canadian firms to access international capital more easily for financing.

There is historical precedent for these levels of gain. A 2025 OECD study found that, between 1995-2018, a 10% increase in financial sector digitalization led to a 10-basis point increase in productivity growth for the average industry. **(14)**

The biggest gains are likely to come from the creation of new business models. A 2022 Bank of Canada Staff Discussion paper finds that stablecoins can create "entirely new products and services that are not yet feasible or that would require significant changes to traditional payment systems."

Canada's cultural sector would particularly benefit from these innovations. Canada's creator economy is a multi-billion dollar industry, with YouTube Canada alone contributing over $1 billion to Canada's GDP in 2021. **(15)** Creators are particularly reliant on a large volume of micro-payments from their supporters. Raising a few dollars from many fans is uneconomic using traditional payment methods, due to large, fixed costs per transaction. Stablecoin transfers can substantially lower these costs, creating new financial models for our arts and cultural industries.

Although the potential economic benefits are substantial, Canada's current policy environment cannot create the conditions for the widespread creation and adoption of Canadian-dollar-backed stablecoins. Canadian governments must reform regulatory systems to allow Canadian-dollar-backed stablecoins to be treated as payment instruments, rather than as financial securities, and systems must be in place to have stablecoins seamlessly integrate with existing financial networks. Clear rules and transparent systems must be created to give confidence to investors, and governments must be willing to work with homegrown innovators to create services that can be used both domestically and abroad.

HOW STABLECOINS CAN ENHANCE CANADIAN SOVEREIGNTY

"Stablecoins are reshaping global finance – with the US dollar at the helm. Without a strategic response, European monetary sovereignty and financial stability could erode. However, in this disruption there is also an opportunity for the euro to emerge stronger."

—Jürgen Schaaf, European Central Bank

The consequences of stablecoin inaction for Canadian economic sovereignty

The European Union has recognized that allowing the United States to have a monopoly on stablecoins threatens EU's monetary sovereignty, as US dollar stablecoins could push out euro-denominated payment systems, even for within-Europe transactions. Jürgen Schaaf of the European Central Bank notes that "[s]uch dominance of the US dollar would provide the United States with strategic and economic advantages, allowing it to finance its debt more cheaply while exerting global influence. For Europe, this would mean higher financing costs relative to the United States, reduced monetary policy autonomy and geopolitical dependency."

Canada must recognize the importance of having Canadian dollar-denominated payment systems in protecting our monetary sovereignty.

How dollar-backed stablecoins can cut the cost of government debt

Because dollar-backed stablecoins must be fully backed by safe, liquid assets such as government T-Bills, they increase the demand for those assets. A May 2025 Bank for International Settlements (BIS) study finds that stablecoin issuers were the 3rd largest buyer of US government T-Bills in 2024, behind only JP Morgan Government Money Market Fund and the country of China. **(16)**

The increased demand for T-bills lowers borrowing costs for governments, as competition drives up the price of bills, lowering their interest rate (yield).

A 2025 study co-authored by Concordia University's Ingo Fielder, found that Tether's $98.5 billion of US treasuries "reduced 1-month yields by approximately 14-16 basis points relative to a counterfactual, resulting in roughly $10 billion in annual interest savings for the U.S. government." The BIS study found results of a similar magnitude, with a 3.5 billion USD inflow into stablecoins lowering US 3-month T-bill rates by 2 to 2.5 basis points. **(17)**

A Canadian-dollar-denominated stablecoin would increase the demand for federal government debt. Canada has approximately $200 billion in federal government T-bills in active circulation; even a small reduction in rates would yield substantial savings.

The federal government's debt management strategy recognizes that increasing the pool of investors in federal government debt "is of benefit to Canadians, as they serve to increase competition, increase the diversity of the government's investor base, and ultimately reduce borrowing costs for Canadian taxpayers."

(Footnote: A basis point represents one one-hundredth of one percentage point. A reduction in interest rates from 2.48% to 2.46% is a 2 basis point drop.)

CANADA IS FALLING BEHIND OUR G7 COUNTERPARTS

"If Canada does not create the regulatory framework and environment that encourages the development of CAD [Canadian dollar] stablecoins, consumers and businesses will default to using USD-pegged alternatives, eroding the relevance of CAD in global markets."

—Som Seif, Build Canada

Closing the gap: How Canada can catch-up to the rest of the G7

Canada benefits from having the Canadian dollar as both a global top-six reserve currency and a top-six most traded currency. It creates markets for our debt and opportunities for our exporters. But Canada cannot maintain this position if our currency is less functional than that of our competitors.

Canada is the only G7 country without a well-defined regulatory system, either in active or draft form, for stablecoins. The US, Japan, and the EU (France, Italy, Germany) already have systems in place, while the UK published draft legislation in April 2025.

In Canada, stablecoins can simultaneously fall under provincial securities regulations, federal payments rules, and OSFI macroprudential rules, though it is often unclear which regulations apply to which technology and for which use case. **(18)** This regulatory grey area has created a chill in the industry, providing consumers and businesses with inadequate protection, and sends a signal to entrepreneurs and investors to set up shop elsewhere.

Despite these challenges, some innovators are pushing forward. Toronto-based Stablecorp has been working on creating a made-in-Canada stablecoin since 2020, but has been hampered by regulatory issues, noting "our challenge is that we have 13 different provincial securities regulators, each approaching crypto through the lens of securities law... "that's led to a square peg, round hole problem." Canada's Tetra Group has announced plans to issue a CAD-backed stablecoin in early 2026, subject to obtaining the necessary regulatory approvals. **(19)**

Canada needs to develop a regulatory system that provides a clear framework allowing stablecoins to be regulated as payment systems, rather than as securities, such as stocks or bonds. The system should be designed as a made-in-Canada solution that, where possible, has harmonized standards with our global trading partners.

There is an appetite for innovation in Canada. What we lack is the regulatory environment to make it happen.

The state of regulations in our G7 counterparts

US: The United States enacted the GENIUS Act in 2025, which establishes a joint federal-state regulatory system for stablecoin payments. It specifically applies to what it calls "payment stablecoins", which are used as a means of payment, have a stable value relative to the US dollar, and promise redemption at a fixed monetary value.

The GENIUS Act outlines who can issue a stablecoin, and has highly prescriptive rules on the types of assets that can back stablecoins, such as T-bills with a maturity of 93 days or less.

Stablecoin issuers must redeem their coins on demand at par, immediately upon request. In the case where a stablecoin issuer were to fail, stablecoin holders' redemption claims would be prioritized above all other creditors.

EU: The EU's Markets in Crypto-Assets (MiCA) Regulation went into effect at the end of 2024 and covers a wider range of assets than the more narrow GENIUS Act. MiCA establishes a one-stop licensing regime with a mutual recognition approach, fostering a single-market approach that enables assets licensed in one EU country to be used across all.

As in the United States, stablecoins must have a full one-to-one reserve backing, but are less prescriptive on the types of assets which can be used for backing, instead relying on outcome-based criteria.

MiCA requires issuers to maintain a physical presence in the EU, and have their products comply with MiCA if they are to be offered to users within the EU.

UK: The UK is planning amendments to its Financial Services and Markets Act, which would go into effect in 2026. Similar to the US, the rules are specifically aimed towards fully-backed payment stablecoins.

The rules have not been finalized, and there has been a healthy discussion around the proportion of assets that must be held in on-demand bank deposits and the rules around how backing assets must be held.

JAPAN: Japan's revisions to the Payment Services Act (PSA) became law in June 2025. As in other G7 countries (excluding Canada), Japan treats "digital money-type stablecoins" as payment instruments.

Prior to Japan's 2025 reforms, stablecoins had to be fully backed by demand deposits. With the reforms, 50% of assets can be held in short-term assets, including Japanese and US government bonds.

RECOMMENDATIONS

> "We shouldn't abandon risk mitigation ... but we have to also not choke off our innovators and make sure that you have a framework to innovate."
>
> *—Hon. Evan Solomon, Minister of Artificial Intelligence and Digital Innovation*

Canada must, as soon as possible, create a clear regulatory framework for dollar-backed stablecoins, guided by seven principles:

1. **Urgency:** Canada has fallen behind our G7 peers in stablecoin regulation. Failure to act risks Canada being excluded from the benefits and having the rules of the game being written elsewhere.

   The EU has recognized the need to move quickly and the dangers posed by a loss of monetary sovereignty. Canada must do the same.

2. **Leadership:** The federal government's stablecoin strategy must have a single point person, such as the Minister of Artificial Intelligence and Digital Innovation, to lead the process and work with relevant agencies and provinces to design and implement reforms.

   Reforms will not happen without leadership. The federal government must send a strong message to industry, to our global partners, industry, and provincial governments that they are ready to act. Similar to the federal government's reforms on internal trade, a Minister must be given a clear and public mandate to allow them to work with provincial and territorial governments to enact needed reforms.

3. **Clarity:** Overlapping agencies and jurisdictions create regulatory uncertainty and occasionally conflicting requirements. There should be a clear set of rules for stablecoins, and the federal government must establish a single window to shepherd innovators through the applicable regulations.

   A fragmented regulatory system spread across the federal and provincial governments deters innovation and acts as an internal trade barrier, which governments have committed to removing. It hinders innovation and provides fragmented and inconsistent oversight, creating risk for consumers, businesses, and innovators. Single-window initiatives have proven effective in ensuring that regulators have the necessary information while reducing paperwork burdens and costs for businesses.

4. **Safety:** Stablecoins should be backed with high-quality, low-risk, and liquid assets to ensure stability and full-value redemption.

   Stablecoins should be fully backed by the most liquid of assets, such as cash, demand deposits, and short-term T-bills. Liquidity is particularly important, as stablecoin issuers must be obligated to convert, redeem, or repurchase their stablecoins, on demand, for full value, in a timely manner.

5. **Competition:** The assets backing stablecoins generate interest income. Stablecoin issuers should have the option of flowing some of that income to coin holders and users, in the same way that credit cards offer cash back and other rewards to their users.

   Stablecoins will compete with other forms of payment, such as debit payments from chequing accounts and credit card payments. To ensure stablecoins can compete on a level playing field, they should have the option of providing interest payments or other rewards to their users. This also ensures that the financial benefits of stablecoins are shared as broadly as possible.

RECOMMENDATIONS

"We shouldn't abandon risk mitigation ... but we have to also not choke off our innovators and make sure that you have a framework to innovate."

—Hon. Evan Solomon, Minister of Artificial Intelligence and Digital Innovation

6. **Innovation:** Rules governing stablecoins should not be overly prescriptive and allow for the development of new business models and new technologies, so long as those models and technologies meet minimum standards.

   Financial regulators, such as the Financial Services Regulatory Authority of Ontario, recognize that overly prescriptive regulations can stifle important innovations and can quickly become out of date as technology changes. They recognize the need for principles-based and outcomes-focused regulation, which can facilitate innovators to find "new ways to achieve regulatory goals, leading to better outcomes for consumers". The rules governing stablecoins should focus on principles and outcomes, rather than being overly prescriptive. **(20)**

7. **Transparency:** Rules that govern stablecoins should have clear, fair, and proportionate disclosure requirements to ensure consumer protection without imposing excessive burdens.

   Transparency rules, including standards on reporting on the composition of the assets backing a particular stablecoin, can help protect consumers and businesses, and accelerate the adoption of the technology, as they increase confidence in the system. Regulators must collaborate with industry to establish transparency standards that meet the needs of users, while also avoiding excessive paperwork burdens.

Footnotes

1 https://www.citigroup.com/rcs/citigpa/storage/public/GPS_Report_Blockchain_Digital_Dollar.pdf
2 https://www.businessinsider.com/genius-act-passed-two-retailers-are-considering-stablecoins-wmt-amzn-2025-7
3 Abacus Data
4 https://www.bankofcanada.ca/wp-content/uploads/2021/02/swp2021-8.pdf
5 https://nrf.com/media-center/press-releases/retailers-say-adding-credit-card-swipe-fee-bill-to-cryptocurrency-bill-could-provide-relief-from-inflation
6 https://cidpnsi.ca/remittances-explorer/
7 https://www.buildcanada.com/en/memos/stablecoins
8 https://www.voronoiapp.com/money/Why-Are-Migrant-Families-Losing-59-Billion-in-Remittance-Fees-Every-Year-6397
9 https://www.cibc.com/en/personal-banking/ways-to-bank/sending-receiving-wire-transfers.html
10 https://www.retailcouncil.org/payment-and-credit-card-fees/
11 https://ised-isde.canada.ca/site/digital-technologies-ict/en/canadian-ict-sector-profile
12 https://www.ivey.uwo.ca/media/wk5dfvry/canadas-digital-asset-opportunity-final.pdf
13 https://ised-isde.canada.ca/site/sme-research-statistics/en/key-small-business-statistics/key-small-business-statistics-2024
14 https://www.oecd.org/content/dam/oecd/en/publications/reports/2024/08/digitalisation-of-financial-services-access-to-finance-and-aggregate-economic-performance_86d37dc7/10c7e583-en.pdf?
15 https://financialpost.com/news/economy/canadas-creator-economy-is-finally-getting-support-after-years-of-neglect
16 https://www.bis.org/publ/work1270.pdf
17 https://papers.ssrn.com/sol3/papers.cfm?abstract_id=5259211
18 https://thelogic.co/news/canada-banks-stablecoin-tsunami/
19 https://www.businesswire.com/news/home/20250908974772/en/Tetra-Digital-Group-Aims-to-Pioneer-Regulated-Stablecoin-Issuance-in-Canada
20 https://www.fsrao.ca/announcements/fsra-releases-its-final-approach-principles-based-regulation

Missing Middle Initiative

ABOUT THE AUTHOR

Dr. Mike P. Moffatt is the Founding Director of the University of Ottawa's Missing Middle Initiative. In 2017, Mike was the Chief Innovation Fellow for the Government of Canada, advising the federal government on innovation policy and emerging trends.

The author does not hold any financial position in stablecoins, crypto, or related companies.

The Missing Middle Initiative (MMI), housed at the University of Ottawa's Institute of the Environment is dedicated to addressing the challenges facing young urban Canadians, for whom the middle class is becoming increasingly difficult to join.

This project was funded with support from Coinbase.