Centre for International
Governance Innovation

Bennett Jones

Conference Report — August 25, 2021

Canada and the Digitalization of Money

Key Takeaways from a Virtual Workshop of International and Canadian Experts

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The Centre for International Governance Innovation (CIGI) is an independent, non-partisan think tank whose peer-reviewed research and trusted analysis influence policy makers to innovate. Our global network of multidisciplinary researchers and strategic partnerships provide policy solutions for the digital era with one goal: to improve people's lives everywhere. Headquartered in Waterloo, Canada, CIGI has received support from the Government of Canada, the Government of Ontario and founder Jim Balsillie.

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Introduction

On August 25, 2021, the Centre for International Governance Innovation and Bennett Jones LLP hosted a virtual workshop with international and Canadian experts from the public and private sectors and from academia on the theme of Canada and the digitalization of money.

The workshop aimed to take stock of international developments in digital payments and money; to review progress in Canada; and to develop advice for policy makers, regulators and market participants on how to advance digitalization with a view to serving the interests of the users of financial services, the soundness of the financial system and the competitiveness of the Canadian economy.

This conference report shares key takeaways from the workshop that was held under the Chatham House Rule. It does not purport to represent a consensus among the participants, nor to convey the views of any individual or organization. Its goal is to stimulate discussion and to encourage action on what participants broadly agree must be a matter of immediate attention for Canada: the digitalization of money.

Box 1 outlines the high-level messages that emerged from the workshop. These observations and the underpinning considerations are developed more fully below.

Box 1: High-Level Messages Emerging from the Workshop

Global innovation is transforming the financial services industry:

- Digitalization, driven by innovation and competition, is creating new opportunity worldwide to generate benefits for individuals and businesses and to drive productivity gains in the financial services sector and throughout the economy.

- Digital payments and money can lower transaction costs, both domestically and across borders. Financial technology (fintech) is expanding the range of financial services available in the marketplace. Open finance can stimulate competition and facilitate access to the benefits of digitalization.

- Some of the change is disruptive of existing market structures and does not fit existing regulatory frameworks. For example, cryptocurrencies pose a range of new policy challenges.

- Thus, governments, central banks and regulators, working with market participants, must adapt policy frameworks to accommodate and harness change in a manner that supports a financial system that is efficient, competitive, stable, secure, inclusive and that instills trust. This includes protecting data security and privacy and enabling consumers to have greater control over their financial data in ways that promote sound competition.

- In this context, central banks worldwide are exploring whether and how to introduce their own central bank digital currencies (CBDCs). No major central bank is yet committed to a CBDC. There must be careful consideration of a CBDC's potential role in wholesale and/or retail financial markets.

- A digital financial marketplace will require, as of today, a complementarity of roles of the public and private sectors, and thus a collective effort to design, build, operate and oversee the financial system, to realize the dividends of innovation and to serve the public interest.

Work is proceeding in Canada on a number of tracks, but it needs to be accelerated:

- Private sector innovation is also driving market change in Canada and eliciting responses from policy makers, regulators, standards bodies, and Payments Canada as owner and operator of the payment infrastructure.

- While progress is being made in establishing a framework for digitalization, Canada is not ahead of the game.

- → Yet Canada must be in step with global innovation to make its own decisions in shaping the future of our financial system. There is an opportunity, but not infinite time, to learn from early experiences of global leaders, for example, on open finance and on a CBDC.
- → Without faster progress, the country will fall behind global competitors, and our institutions will be disconnected from the aspirations and ways of transacting of younger, tech-enabled generations.
- → Moreover, too slow or too timid a course will impede the development of our vibrant fintech ecosystem and lessen the pressure on and the incentive for innovation by incumbents, allowing foreign competitors and big tech to take a stronger hold, without the appropriate safeguards for Canadians.
- → Thus, there must be a collective public and private sector effort — an agenda to give direction and to accelerate the digitalization of the financial system to serve the Canadian public interest.

An agenda for Canada will comprise early deliverables as well as work on a possible CBDC:

- → As a matter of priority, Canada must deliver what it has already placed on the agenda, namely, the modernization of the payments system and open banking.
- → To take full advantage of digital innovation, key enablers are also priorities, specifically, a modernized legislative framework for privacy and data management, and the adoption (including by reference in law) of industry standards for digital ID.
- → Work should proceed on the possible design of a CBDC. As the use of cash declines, and as attention to CBDCs rises internationally, Canada must be ready to act if and as necessary on a CBDC. Work must be anchored in a careful assessment of the case for a CBDC; it is not an end in and of itself, but a potential instrument to serve the public good. The case for a CBDC is strong in the wholesale market; however, it is perhaps less certain for the retail market.
- → Indeed, together with competitive markets, a range of policy and market instruments can establish the framework for digitalization, comprising law, regulation, standards and codes, and delegation of certain functions to third-party organizations.
- → While different instruments will be required, a comprehensive and integrated agenda will be essential to connect all the moving parts. Interoperability will be critical to ensure coherence, contestability and competition.
- → For Canada, this entails not only public-private collaboration but also the active participation of the provinces, and thus intergovernmental efforts to promote the harmonization of rules and well-functioning markets.
- → For the same reason, there must be active participation by Canada's public and private sectors in international collaboration, such as in the development of global standards and trading platforms.
- → Making policy and market choices will require a careful balancing of objectives. Win-win solutions will be pursued, but there may be trade-offs at the margin, for example, between efficiency and stability, or between compliance and privacy. In a global context, not all change will be win-win. Risks must be taken. There must be space (for example, regulatory sandboxes) for experimentation.
- → Given the reach of change, including the very nature of our currency, digitalization is not a matter that can be left to experts and to technocrats alone. Nor will consensus among market participants, notably between fintech and incumbent market leaders, easily be achieved.
- → The government — specifically, the federal minister of finance, the Department of Finance and the Bank of Canada — will have to exert strong leadership in developing and moving forward an agenda and in mobilizing the necessary collective effort.
- → It is time to push forward and to accelerate progress. Delay will mean costs, risks and lost opportunities for Canadians.

Why Digitalization of Money Matters for Canada

Participants in the workshop engaged in wide-scoping and substantive discussion on the digitalization of money, touching upon the questions of why, what, who and how as pertinent to charting an agenda for Canada.

Why digitalization of money matters was largely self-evident to experts in the workshop but merits attention as a first-order question. As Canada seeks to emerge from the COVID-19 pandemic and to lay the foundations for a stronger economy, it must address structural factors that were present before the pandemic, notably, an aging population and low-productivity growth. In doing so, Canada must respond to global developments, in particular, digitalization that has accelerated throughout the pandemic, transforming virtually every sector of the economy, from natural resources to manufacturing to services.

Digitalization, driven by innovation and competition, creates an opportunity for productivity gains that can support growth and rising incomes, with policy also rightly concerned with promoting inclusion and a fair distribution of the benefits.

Digital technology is already being deployed in the financial services industry on a massive scale, as evidenced by the rise of new forms of payments, the reduced reliance on cash and cheques, and the emergence of new services and ways of doing business. Transformation is enabled by advances in networks, data management, artificial intelligence (AI) and cryptography. Blockchain technology and distributed ledgers are supporting the emergence of decentralized finance, or "DeFi." Fintech, as well as big tech, is aggressively pursuing the markets of regulated financial institutions that are investing heavily in the overhaul of their legacy systems and in their own innovation ventures.

At the heart of digital innovation is data, and there is an opportunity in the financial services industry to utilize data to deliver more efficiently, and to complement services such as payments, investment and lending.

Fintech, broadly defined, can bring benefits to the users of financial services — households, small businesses and large organizations, including governments — by stimulating competition, lowering the costs of transactions and creating value through new services such as programmable contracts.

Significant benefits are within reach, such as a reduction in credit card payment fees absorbed by merchants and passed on to consumers; easier and more secure transfers between individuals than available today under Interac; and potentially sharp cuts to today's high costs of cross-border payments, such as remittances. Investment advice can also be delivered more cheaply, enabling households to realize higher net returns on their savings, particularly in today's world of low interest rates. On the horizon, digital innovation may bring new services — and generate new benefits — not yet foreseeable.

An agenda for innovation and digitalization in the financial services industry thus fits within a wider priority for Canada to foster innovation and to place a greater value on competition to stimulate productivity growth and the competitiveness of our industries.

However, as demonstrated by historical evidence, not all financial innovation, even if commercially attractive for some entrepreneurs and investors, will serve the public good. While generating early benefits, and showing immense potential, financial innovation today is revealing gaps in our policy and market frameworks. For example, the world of cryptocurrencies resembles a "Wild West," where large gains, but also large losses, may be realized. The potential for use or abuse of new platforms for money laundering or illicit activity is real. The misuse of personal data in the delivery of financial and ancillary services, and vulnerability to cyberattacks, can compromise privacy and security on a large scale. Absent competition and contestability, economic concentration facilitated by network effects and data capture will pose unacceptable risks. For some populations, lack of access to digital financial platforms may become a costly handicap, potentially deepening a digital divide with both economic and social consequences.

Thus, a collective public and private sector effort is required to adapt policy and regulatory frameworks, as well as market standards and infrastructure such as payments systems; to accommodate and stimulate innovation where it can serve the public good; and to contain risk where it can be destructive of value. Fundamentally, public authorities have to work with market participants, including industry and user groups (for example, consumers and small businesses), as well as third-party organizations (for example, standards bodies) to ensure that public trust in the financial system is upheld.

For any jurisdiction, public intervention may be necessary, at its most basic level, to protect sovereignty. Innovation may take place within a set of rules, or it may happen around, or outside, domestic rules and instruments as competitive pressures become overwhelming. The former, clearly, is better.

Indeed, money is at the core of national sovereignty. Central banks are exploring CBDCs, in part, as contingency against private cryptocurrencies or the CBDCs of global competitors, taking hold in the marketplace in a manner that may diminish the role of national currencies and the policy capacity of domestic authorities.

Participants in the workshop had somewhat differing views about how far Canada's policy, regulatory and market infrastructure has advanced on the path of digitalization, but all agreed there is a need to accelerate progress just to keep up with innovation and global competition, let alone to lead. While a modernized, large-value payments system (Lynx) is now launched, with the Real-Time Rail platform for retail payments scheduled to launch in 2022, legislation and regulation (for example, on privacy and data management, or on open banking) are moving painfully slowly.

The Bank of Canada is working closely with other large central banks on a CBDC, but if work in Canada does not progress fast enough on some of the necessary enablers of this and other innovations, such as digital ID, authorities will not be in a position to make timely decisions.

Absent a coherent agenda, the allocation of significant resources, and a collective effort by governments, regulators and market participants, Canada risks falling behind and becoming a technology and standard taker, rather than a strong participant in a global transformation.

Over time, this would mean higher costs and poorer services for individuals and businesses; loss of growth opportunities for our financial services industry, including a vibrant fintech ecosystem; and, ultimately, erosion of trust.

What Priorities Should Be Included in an Agenda?

Participants welcomed as a frame of reference the fintech tree developed by the Bank for International Settlements (BIS) (see Figure 1). The tree usefully illustrates the policy enablers of digitalization at the root, the enabling technologies forming the trunk and the fintech applications as the branches. One participant observed that one also must consider the soil — what may give life and shape to the tree based on a vision for the financial system that will serve the public good.

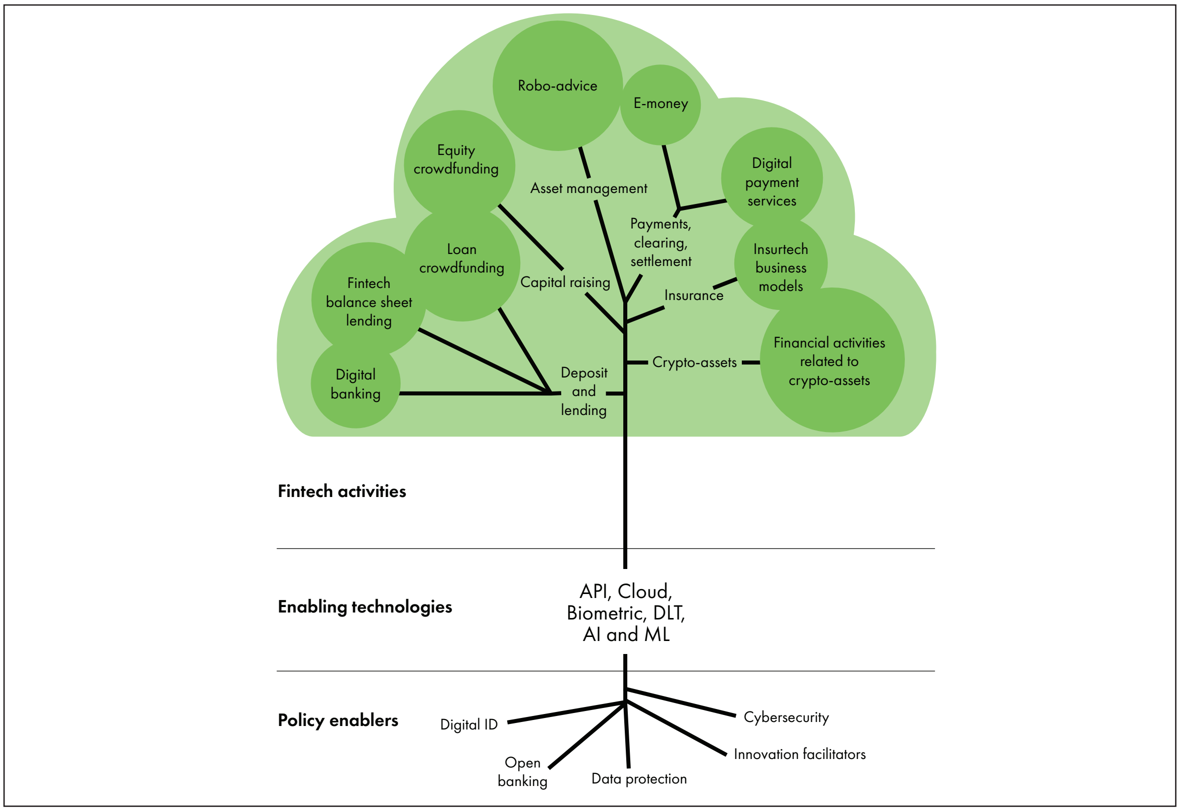
The tree, in fact, is already a living and growing reality, both worldwide and in Canada, and thus work must proceed apace, and on all of its components concurrently. An agenda will have to identify priorities, but it cannot be strictly sequential (for example, it must not simply move from the roots to the branches). This means also that some risks will have to be taken. Perfection should not be the enemy of the good.

Participants agreed widely on four immediate priorities for Canada.

The first two priorities are to deliver work already under way and policy initiatives already on the agenda.

→ **Complete the modernization of the payments system under Payments Canada, the public purpose, non-profit organization that owns and operates the payment clearing and settlement infrastructure in Canada:** Under new legislation enacted in 2021, this will include implementation of a regulatory oversight mechanism by the Bank of Canada of payment services providers that will become direct participants in the payments system. It will also include as a key milestone the launch of the

Figure 1: Fintech Tree and the Taxonomy of the Fintech Environment



Source: See www.bis.org/fsi/publ/insights23.pdf.

Note: API = application programming interface; DLT = distributed ledger technology; ML = machine learning.

Real-Time Rail in 2022. Such steps may still not be sufficient to keep up with market innovation, and there is a risk that the new platforms will soon become obsolete (for example, if overtaken by DeFi). Yet large investments have been made and early benefits will be tangible; thus the job should be completed. The Canadian Payments Act will need to be amended to ensure the right governance and allocation of rights, responsibilities and liabilities in a modernized system. It is noteworthy that Canada is the only major economy delegating the governance and operation of its core payments system to an arm's-length entity, with only indirect or exceptional government intervention, such as through ministerial approval of bylaws or a directive power (never used to date). The payments system is a critical infrastructure requiring significant investment, ongoing innovation, and diligent management and oversight as a matter of public interest. There should be a more active role for the public sector in its governance.

→ **Implement a model of open banking, or open finance, in Canada that would allow the clients of banks (more broadly, as a concept, the clients of financial services providers) to instruct their banks to provide access to their financial information to third-party service providers under standardized, efficient and secure protocols:** In 2018, the Standing Senate Committee on Banking, Trade and Commerce recommended the development of a framework. An Advisory Committee on Open Banking, commissioned by the minister of finance, submitted a final report to the minister in April 2021, recommending a path forward. There is an opportunity to learn from forerunners such as Australia, the European Union and the United Kingdom. We do not necessarily have to reinvent the wheel but perhaps simply give it better traction. With the right guardrails, open finance is an important lever to stimulate competition and innovation. Its development and implementation, including the technical specifications and policy framework to protect personal data, should be accelerated as a matter of priority.

Concurrently, work must be stepped up on growing the roots of the fintech tree — the enablers that remain weak and uncertain in Canada. Here again, participants identified two key priorities.

- **Legislation on privacy and data management:** Canada's regime is not providing adequate data protections to consumers, while the industry contends with the European Union's General Data Protection Regulation (GDPR) that has imposed itself as a de facto global standard. This can impair efficient, safe and secure access to data that may benefit, at their discretion and under their control, the users of financial services (for example, under open finance). It also diminishes accountability for the protection of user interests. Federal Bill C-11, the proposed update to commercial privacy legislation, purported to fill the gap, but it was heavily criticized and died on the Order Paper of the last Parliament. Thoughtful, modern legislation needs to be introduced by the government and passed as a priority. That said, there are jurisdictional challenges in Canada. Federal privacy law must operate alongside provincial law. Concepts such as data portability do not fit naturally under federal heads of power. For example, the concept of data portability, which is embedded in the GDPR to allow consumers to move their data from one supplier to another, cannot be legislated exclusively by the federal government. Moreover, as both federal and provincial laws move from an ombudsman model to a more active enforcement model, with meaningful penalties for non-compliance, there is a higher risk of conflict. Intergovernmental collaboration and harmonization are necessary.
- **Digital ID:** A sound framework for digital identification and authentication, known as a digital ID, is essential to enable Canadians to transact online and to manage their data efficiently and securely, consistent also with the know-your-client obligations of financial services providers. Participants in the workshop heard that the best path forward is the implementation of standards, such as those being developed under the CIO Strategy Council that bring together chief information officers from the public and private sectors (including large financial institutions). The flexible incorporation of standards in legislation would accelerate adoption, promote interoperability, and help align public and private sectors. Indeed, a digital ID is one that should allow individuals to securely access the widest range of services, from finance to health care.

Working on the above four fronts concurrently, and with added urgency, would represent a solid, if still not complete, agenda for the digitalization of money. For example, cybersecurity must be a domain of constant attention, notably to provide and secure a modernized, data-rich payments system. At a basic level, and to drive innovation across the economy, access to broadband must be assured in all regions of the country and on terms that are technically and economically competitive.

Digital Money: Who Does What?

Participants engaged in a lively discussion on the future of money itself, the space for private cryptocurrencies, including stablecoins backed by fiat currency, and the case for CBDCs. There was not necessarily a shared vision of the future, nor a consensus on a path forward. However, there was agreement that policy intervention is necessary to regulate cryptocurrencies, and that work on a CBDC should proceed to ensure a model is available as may be necessary to serve the public good.

It was observed in a first instance that most money today is private (for example, created by commercial banks) yet publicly backed through central banks, regulation and other policy instruments such as deposit insurance. Most money is also effectively digital, particularly in the wholesale market. Thus, change happening now is evolutionary, not revolutionary. It nonetheless raises important questions about the appropriate spheres for the public and private sectors in money and payments.

It matters *who issues the currency*, of course, but also critically *how it is backed* and *how it is regulated* to preserve public confidence. For example, private cryptocurrencies, in particular, stablecoins, could offer high levels of security if fully backed by fiat assets, and with appropriate regulation and safeguards for compliance (for example, anti-money-laundering frameworks). A case is made that under such a construct, as promoted by the Diem Association, efficiencies could be achieved, transaction costs could be lowered and complementary services could be offered (for example, programmable contracts). Standards and interoperability would help preserve competition. Different stablecoins could operate alongside each other, each with distinct offerings. A CBDC could be issued in the same marketplace, as necessary, to fill in gaps and to correct for market failures. Whether this would all hold true in practice (for example, whether network externalities would, in fact, be contained and competition sustained) requires additional review and deliberation.

At an operational level, a related question is *who owns and operates the infrastructure*, or the "rails," for digital currencies. In our current system, Payments Canada provides the infrastructure. Under the Diem proposal, there may be competing rails, and, indeed, the project commits to phasing out its own currency and to working with central banks for CBDCs to trade on the Diem payments system. A CBDC would then be viewed as a new public-private partnership with digital money issued by a central bank, but traded on competing private rails, again with distinct offerings for users. For some, stablecoins could be a step toward such an end-game. Again, there was only limited discussion possible on whether this model could, in fact, deliver on all of its promises.

At the same time, digital money raises the question of *who intermediates*. Currently, our system relies mainly on banks and selected institutions with access to the account of a central bank and funding facilities to enable transactions among economic agents. This is a major source of revenue for banks and a highly profitable business. Cryptocurrencies operate on decentralized ledgers that enable direct and instantaneous transactions, including settlement and clearing, between market participants. In principle, a CBDC could follow a similar model where each holder would have direct claims on the central bank. However, work at the international level, notably in the BIS, would appear to privilege a "hybrid" model whereby retail clients continue to interact with their banks as the distributors of the CBDC and as the holders of accounts at the central bank. Clearly, future choices about private cryptocurrencies or CBDCs will have major impacts on the structure of the financial system, and entail profound adjustments to policy and regulation, from prudential and market conduct regulation to the operation of monetary policy. There is much to be weighed upfront.

Finally, there is the question of *who controls the data* and what policy and operational safeguards will be necessary, not only to protect privacy but also to ensure that network effects do not create opportunities for heightened levels of economic concentration. This concern may be compounded by the scope for some business models to drive transaction costs down sharply while earning returns on data-enabled services offered together with the use of the currency or the use of the rails. By substituting data monetization for float, such propositions would obscure terms for users. Developing a level playing field and adequate rules of the game, no doubt a challenging task, will be an essential part of fostering a marketplace that is transparent, competitive and trustworthy.

The above questions can be answered one by one — there are many possible permutations, at least in theory — but taken together they can provide insight into the operation of the financial system and the end-to-end experience of market participants. The flow of payments and data — the messaging system — will enable not only the clearing and settlement of transactions but also the execution of programmable contracts and integration of the instruments and infrastructure for payments with other information systems for businesses, such as accounting or liquidity management. It is the integration, not just the pieces, that will deliver the greatest benefits to users. Thus, there is a need for an agenda for Canada to not only be accelerated but also to be better integrated, with careful consideration of the respective and complementary roles of the public and private sectors.

CBDC: Anchoring Work in Its Potential Role in a Digital Marketplace

There was wide-scoping discussion in the workshop about a CBDC: what its function would be and how it could be designed. The rapid decline of cash transactions, the basic notion of money as a public good, the rising international attention to CBDCs and a discernible shift of expert opinion favourable to CBDCs globally tend to create a sense of inevitability about the introduction of CBDCs in major economies. The United States may appear reluctant at this time, but its position as issuer of the global reserve asset is unique. Participants in the workshop agreed that it is necessary to assess the case for a CBDC, and that it is incumbent on policy authorities to identify the best means to meet policy goals.

It is inarguable that sovereign nations must ensure as a priority that their central banks can retain the capacity to fulfill their core responsibilities, notably to provide monetary and financial stability. This may entail introducing a CBDC in what is already a digitalized wholesale market.

It is also clear that the market and policy framework must accommodate a digital retail financial marketplace. In Canada, it is already established that this includes regulating new payment service providers and giving broader access to central bank lending facilities.

What is less certain — and worthy of timely and critical inquiry — is the role of a CBDC as a policy instrument in the retail market.

One way to answer the question is to determine what market gap or failure a CBDC would aim to address, and how effectively it could, in fact, do so. In some jurisdictions, access to banking is low and a CBDC (including with the availability of offline options such as prepaid cards) is seen as a potential vehicle for greater financial inclusion. This is not necessarily a compelling argument in Canada, which has close to universal access to banking. More broadly, the CBDC may be seen as a necessary public option, a medium of exchange, a store of value and a unit of account that is not founded on a purely commercial interest and that is not only universally accessible but also affordable. A CBDC could thus compete with private currencies to help spur innovation and to nudge the market toward better serving the public good. Yet there still needs to be the demonstration that a central bank can issue a digital currency that will, in fact, keep up with market innovation and compete effectively with private currencies. If not, the public option could turn out to be a poor one and thus defeat its purpose, in which case regulation may be a better course.

Canada needs to address this issue by considering the global context. While no large central bank has yet committed to a CBDC, research and pilots are being conducted around the world and, as already stated, the tone of discussion is trending more positive, less skeptical. There is also research into multi-CBDC arrangements to facilitate cross-border payments. International cooperation, such as between the Bank of Canada and six other central banks, together with the BIS and its Innovation Hub, is being stepped up. Simply put, if other large central banks decide to move forward, Canada likely will have no choice but to issue its own CBDC to protect our sovereignty and to ensure that our financial services industry is a full participant in a new global architecture.

Advice on design and implementation of a CBDC has been encouraged in Canada under a challenge by the Bank of Canada to Canadian universities. While there are different possible models, and there are many complex technical and policy issues, a CBDC is perfectly doable.

Thus, participants agreed that work on a CBDC, in collaboration with other central banks, should proceed vigorously. Indeed, there may be a risk of “overthinking” the case for a CBDC. The world is moving on. Younger generations are fully e-wired. Perhaps the greater risk is that Canada falls behind, that private cryptocurrencies and/or CBDCs issued by other central banks take strong hold, and that ultimately Canada’s economic and financial interests and sovereignty are weakened.

There can still be questions about whether, be it on a CBDC or other aspects of digitalization of money, Canada wishes to be a leader, a rapid follower or even a more conservative player. However, decisions of such potential consequence, about what to do and when, should in no case be made by default simply because the essential preparatory policy and operational work is not being done.

Conclusion: How to Move Forward

It should be clear that complacency with the status quo — the passive acceptance of today's high and often hidden transaction costs, or a benign neglect of forces of change that can generate new value but also new risks — is not an acceptable course. Yet the case needs to be made in compelling terms to decision makers, particularly to elected officials who may not yet be facing political pressure to act, despite a shifting of tectonic plates.

Canada needs an integrated agenda and a workplan on the digitalization of money. The outstanding question is how to design and implement a timely and adept response to change.

Presently, efforts are taking place on different fronts, in the public sector (federally and provincially), the private sector, and in organizations such as Payments Canada and the CIO Strategy Council. However, there is no apparent unifying agenda, with clear priorities, a target timeline and an integrated process of engagement, which will come only with stronger government leadership.

Participants in the workshop agreed that money and payments are matters of such consequence across the economy and, indeed, society that they cannot simply be left to technical experts in the private sector, regulatory bodies or even the central bank. Governments, including elected leaders, must get involved more actively and help shape the agenda.

Ultimately, a framework for money and payments will be some form of public-private partnership. Thus, there must be solid engagement with the financial services industry and delegation to the private sector, or third-party organizations such as Payments Canada, the CIO Strategy Council or standards bodies, of specific responsibilities in the execution of an agenda and in the operation of a digitalized financial system.

However, there will not always be consensus, and governments will have to make choices. For example, market incumbents will not voluntarily open up shielded and lucrative lines of business to new competition or shed legacy systems in which they have invested large amounts of capital. Big tech will be averse to forms of regulation that will conflict with their desired business models. Payment service providers and fintech firms may be unhappy with the costs imposed by measures enacted to protect users and maintain trust in the system as the counterpart to their greater access to markets. Consultation will need to be thorough, but efficient, with a concern for timeliness.

Governments, regulators and market participants will have to situate their work in an international context, ensuring that Canada participates actively in the design and operation of international standards, rules and platforms that will support cross-border financial activity and payments, and aligning decisions at home to ensure that our financial system meets evolving global norms. Canada has the credibility and the capability to contribute to international efforts.

Very importantly, the Government of Canada will have to engage with provinces that have their own jurisdictional responsibilities, notably in the financial sector. Payments and the management of data (for example, under open finance) cross jurisdictional lines. Cryptocurrencies currently are regulated mostly as securities under provincial securities law. Clarity, certainty, interoperability and efficiency require that federal and provincial policy and regulation be complementary and harmonized to the greatest extent possible within Canada's constitutional framework.

Our history of federal-provincial relations and judgments by the Supreme Court of Canada illustrate how difficult collaborative federalism may be to realize in practice. The workshop highlighted issues such as the potential conflicts between federal and provincial data privacy regimes, and the risk that a digital economy would be founded on a patchwork of rules and compliance frameworks, generating conflicts and incompatibility both nationally and internationally. It would be revealing, but unfortunate, if Canada and its provinces and territories failed to establish a harmonized privacy regime where the 27 countries of the European Union together have succeeded. Harmonization will also be required in respect of recognition of standards (for example, for digital ID), such that citizens may be able to conduct their affairs efficiently and securely in both the public and private spheres.

Overall, interoperability will be a vital attribute of a sound and efficient digital financial system, supporting competition and allowing market participants to operate seamlessly across jurisdictions nationally and internationally.

In advancing digitalization, risks will have to be taken, and in the words of some workshop participants, some things will get broken; that is the reality of keeping up with a fast-paced world. There will have to be a clear delineation of what activity must be within the regulatory sphere, and what may be conducted outside with lesser risks to users and to the financial system. To the extent possible, all players — incumbent financial institutions, fintech and big tech — should then play by the same rules. Risks in making policy choices may be mitigated by creating space for innovation (for example, regulatory sandboxes), and by allowing controlled experiments with new market or regulatory structures. An open mind should be applied to the use of available instruments, from public delivery to regulation to standards and codes, as to which will best solve specific problems.

The workshop did not go into detail on governance: how to organize the design and delivery of an agenda and game plan for Canada. Clearly, the finance minister and the Department of Finance, and the governor and the Bank of Canada, are the lead players. On such matters as data privacy and management, or a digital ID, levers may be held by other parts of government or, indeed, other jurisdictions. There must be cooperation to pull all matters together into an integrated agenda.

Participants in the workshop expressed a strong interest in contributing to the development and implementation of such an agenda. Indeed, with the right leadership, there is no lack of expertise and talent in the public and private sectors to place Canada in a competitive position globally.

Agenda

August 25, 2021

8:30–8:35 a.m.	**Welcome by the host institutions** → **David A. Dodge**, Senior Advisor, Bennett Jones LLP → **Robert Fay**, Managing Director of Digital Economy, CIGI
8:35–8:50 a.m.	**Opening remarks** → **Carolyn A. Wilkins**, External Member, Financial Policy Committee, Bank of England
8:50–10:05 a.m.	**Session 1: International State of Play on Digitalization and CBDCs** → **Robert Fay** (chair) → Lead speakers: • **Jon Frost**, Senior Economist, Innovation and Digital Economy, BIS • **Ross Leckow**, Senior Adviser Fintech — Strategy and Legal, Innovation Hub of the BIS • **Saule Omarova**, Professor, Cornell University • **Christian Catalini**, Co-creator, Diem, and Chief Economist, Diem Association
10:05–10:15 a.m.	**Health break**
10:15–11:30 a.m.	**Session 2: Digitalization of Money: A Canadian Perspective** → **Carolyn A. Wilkins** (chair) → Lead speakers: • **David Andolfatto**, Senior Vice President, Federal Reserve Bank of St. Louis • **Thorsten V. Koeppl**, Professor and RBC Fellow, Queen's University • **Andreas Park**, Professor, University of Toronto
11:30 a.m.–12:00 p.m.	**Health break**
12:00–1:28 p.m.	**Session 3: Digitalization of Money: An Agenda for Canada** → **David A. Dodge** (chair) → Round-table discussion
1:28 p.m.	**Closing remarks**

Participants

Steve Ambler
Professor, C. D. Howe Institute and
Université du Québec à Montréal

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Senior Vice President, Federal
Reserve Bank of St. Louis

David Barnard
Professor Emeritus, University of Manitoba

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Co-creator, Diem, and Chief
Economist, Diem Association

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Ben Harrison
Partner, Head of Partnerships and
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Professor and RBC Fellow, Queen's University

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Former Deputy Governor, Bank of Canada (retired)

Saule Omarova
Professor, Cornell University

Andreas Park
Professor, University of Toronto

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Senior Fellow, CIGI, and Professor,
Faculty of Law, University of Ottawa

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