



May 15, 2019

VIA ELECTRONIC EMAIL

British Columbia Securities Commission
Alberta Securities Commission
Financial and Consumer Affairs Authority of Saskatchewan
Manitoba Securities Commission
Ontario Securities Commission
Autorité des marchés financiers
Financial and Consumer Services Commission (New Brunswick)
Superintendent of Securities, Department of Justice and Public Safety, Prince Edward Island
Nova Scotia Securities Commission
Securities Commission of Newfoundland and Labrador
Superintendent of Securities, Northwest Territories
Superintendent of Securities, Yukon
Superintendent of Securities, Nunavut

The Secretary
Ontario Securities Commission
20 Queen Street West
22nd Floor, Box 55
Toronto, Ontario M5H 3S8
Fax: 416-593-2318
comments@osc.gov.on.ca

Me Anne-Marie Beaudoin
Corporate Secretary
Autorité des marchés financiers
800, square Victoria, 22e étage
C.P. 246, tour de la Bourse
Montréal (Québec) H4Z 1G3
Fax : 514-864-6381
Consultation-en-cours@lautorite.qc.ca

IIROC
Victoria Pinnington
Senior Vice President, Market Regulation
Investment Industry Regulatory Organization of Canada
Suite 2000, 121 King Street West
Toronto, Ontario M5H 3T9
vpinnington@iiroc.ca

Re: Proposed Framework for Crypto-Asset Trading Platforms (“the Proposal”)

Aquanow develops technology-enabled liquidity, execution, and market intelligence solutions for businesses that use digital assets for trading or commerce. Aquanow consolidates global

liquidity from major marketplaces and delivers it to investors through a single point of access to provide a better trading experience.

Aquanow is pleased to take this opportunity to provide our comments on the consultation paper (“Consultation Paper”) regarding the Proposal by the Canadian Securities Administrators (“CSA”) and Investment Industry Regulatory Organization of Canada (“IIROC”) to establish a framework that provides regulatory clarity to Platforms, addresses risks to investors (“Investors”) and creates greater market integrity.

We applaud the efforts of CSA and IIROC to establish a regulatory framework in response to the rapid growth of the digital assets in recent years. In light of the recent events with Platforms in both domestic and international markets, it is clear that regulatory oversight is needed to protect Participants, and gain the confidence of retail and institutional investors beyond the early adopters who are currently participating.

3. Are there any global approaches to regulating Platforms that are appropriate to be considered in Canada?

We are advocating for a balanced regulatory approach that gives entrepreneurs both the flexibility and incentive to create innovative solutions while protecting Canadian Investors. Due to the global nature of this new industry, overregulation could potentially create regulatory arbitrage. Also important is regulatory clarity that will give entrepreneurs the confidence to establish and grow businesses in Canada without fear of drastic regulatory changes that could destroy their businesses.

6. Are there challenges associated with a Platform being structured so as to make actual delivery of crypto assets to a participant’s wallet? What are the benefits to participants, if any, of the Platforms holding or storing crypto assets on their behalf?

Due to the nature of onchain digital asset transactions which require a period of time to be validated, Platforms may experience operational challenges facilitating timely execution of trades and delivery of assets. Participants may choose to custody assets with a Platform for convenience purposes, or to reduce latency time to process a trade. Most self-custody solutions require a reasonably high level of technical proficiency to use in their current form, where errors made by the Investor often result in an irreversible loss of their investment which may be another reason why a Participant would choose to store their digital assets on the Platform.

7. What factors should be considered in determining a fair price for crypto assets?

The fair price for digital assets should be based around the same best execution principles that are required in the trading of traditional assets. In order to do so, a Platform must be able to demonstrate that it considers the prices set in the most important global markets and can demonstrate that Investor trades were matched to the best available trade. Regulators should monitor the variance between global average prices and the prices quoted on domestic Platforms and promote Canadian spot prices that are competitive with the global markets. Furthermore, fair price should consider the “all in” cost of a potential trade including deposit/withdrawal and any other processing fees. Currently it could be challenging for Investors

to compare Platforms for the purpose of making an educated decision about where to place their trades.

8. Are there reliable pricing sources that could be used by Platforms to determine a fair price, and for regulators to assess whether Platforms have complied with fair pricing requirements? What factors should be used to determine whether a pricing source is reliable?

Due to the fragmented nature of the digital asset markets, Platforms and regulators must take multiple factors into account in order to determine a fair price. Some assessment considerations include liquidity of a particular venue, jurisdiction and the regulatory oversight that governs a particular venue. Until a best execution standard has been established, we believe the onus is on the Platform to communicate their best execution strategy and provide sufficient data to substantiate best execution based on their own methodology. As the industry matures, we believe the Platforms and regulators will agree on a best execution standard that delivers fair pricing to Canadians.

9. Is it appropriate for Platforms to set rules and monitor trading activities on their own marketplace? If so, under which circumstances should this be permitted?

We believe it is necessary for Platforms to monitor trading in order to identify potentially manipulative or abusive trading activities. However, it is important to establish common practices that will uphold the principles of fair access and prevent conflicts of interest.

10. Which market integrity requirements should apply to trading on Platforms? Please provide specific examples.

We advocate for trade execution surveillance to monitor trading, identify misconduct, and handle disciplinary actions when required. Furthermore, we believe in compliance reviews of Platforms to ensure that proper know-your-client (“KYC”) procedures are being followed to protect the integrity of the ecosystem.

11. Are there best practices or effective surveillance tools for conducting crypto asset market surveillance? Specifically, are there any skills, tools or special regulatory powers needed to effectively conduct surveillance of crypto asset trading?

The most important tool for digital asset surveillance is high quality data, which is unstructured in nature. In order to effectively conduct trading surveillance, regulatory powers need an aggregate view of the highly fragmented market. When this can be achieved, regulators will be able to see when and where Investors are being forced into systematically disadvantaged position.

12. Are there other risks specific to trading of crypto assets that require different forms of surveillance than those used for marketplaces trading traditional securities?

The first risk we identified is wash trading which has become a common practice used on many Platforms in order to inflate unaudited market share. The second risk relates to trading that

happens outside of displayed venues. These trades cannot be easily monitored as they are seldomly reported and it may result in the trades executed at large discounts or premiums of the consolidated market price.

13. Under which circumstances should an exemption from the requirement to provide an ISR by the Platform be appropriate? What services should be included/excluded from the scope of the ISR? Please explain.

This rapidly evolving industry is characterized by new technologies and business models emerging on a regular basis. We believe that the industry will benefit from a simple framework that will put investor protection first while at the same time encouraging entrepreneurs and young companies to continue innovating.

14. Is there disclosure specific to trades between a Platform and its participants that Platforms should make to their participants?

Platform operators should be required to disclose their relationship with the Participants they interact with, whether that be an agency relationship working on behalf of a client, or counterparty. Many Investors are under the impression that the Platform they interact with is an agency when in fact is a counterparty in their trade.

15. Are there particular conflicts of interest that Platforms may not be able to manage appropriately given current business models? If so, how can business models be changed to manage such conflicts appropriately?

The handling of the market making function should be carefully considered. The lack of oversight has created a situation where many Platforms operators are the sole market maker on the Platform, or where the Platform operator is working together with a market maker towards a common goal of Platform profitability with little regard for the fair pricing of client trades. Some Platform operators that advertise themselves as “exchanges” may restrict “outside” market makers from providing liquidity or make it very frictional – we believe transparency is important in these situations.

17. Are there specific difficulties with obtaining insurance coverage? Please explain.

It is currently very difficult to obtain insurance coverage due to lack of availability or willingness from insurance providers.

20. What, if any, significant differences in risks exist between the traditional model of clearing and settlement and the decentralized model? Please explain how these different risks could be mitigated.

Decentralized exchanges present some unique risks that are not present in centralized models. Although counterparty risk is eliminated through the use of a smart contract, there is also no way to know who your trade is being matched to. This presents a difficult situation for Investors

and regulators to manage compliance risks. Gaming risk such as front running is also present on decentralized exchanges, and much more difficult to prevent.

Conclusion

An effective regulatory framework for digital assets should foster innovation while maintaining the integrity of the Canadian markets. Increased competition coupled with fair market access will reduce the influence of bad actors and improve the trading experience for Canadians.

We applaud the Canadian regulators for starting an open dialogue about these issues and thank you for the opportunity to provide our comments on the proposed framework. Please feel free to contact us with any questions or requests for clarification.

Respectively submitted,

A handwritten signature in black ink, appearing to read 'Phil Sham', with a long horizontal flourish extending to the right.

Phil Sham

Chief Executive Officer

Aquanow