



SoapBox Network Inc.

info@soapbox.net

soapbox.net

May 15, 2019

BY 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

Dear Sirs/Mesdames:

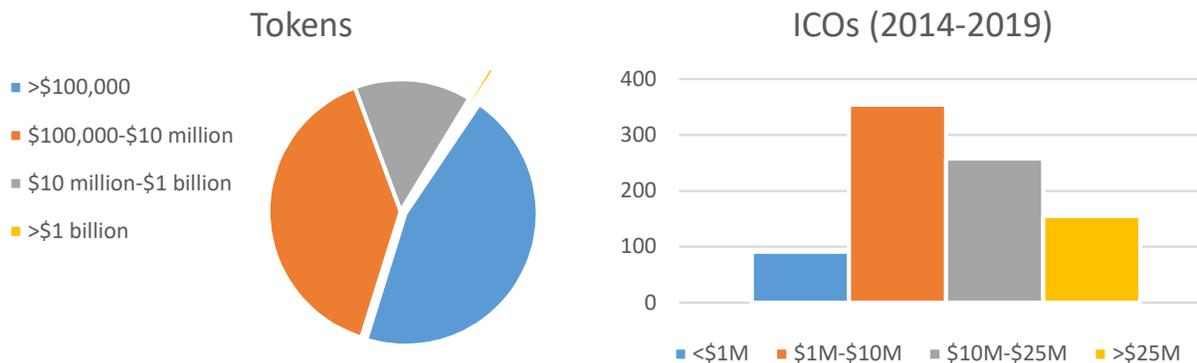
Re: **Joint Canadian Securities Administrators/Investment Industry Regulatory Organization of Canada
Consultation Paper 21-402 Proposed Framework for Crypto-Asset Trading Platforms**

First and foremost, we wish to thank the Canadian Securities Administrators ("CSA") and the Investment Industry Regulatory Organization of Canada ("IIROC") for the opportunity to comment on how the regulatory environment should govern crypto-token trading platforms.

SoapBox is a video distribution platform driven by blockchain technology. It is constructed around an expansive peer-to-peer network where content creation, storage and delivery is handled by a community incentivized by receiving tokens mined in a unique blockchain network. By either creating its own trading platform or allowing a third-party trading platform, SoapBox allows the tokens in its ecosystem to be exchanged for fiat currency. Given our business model, we welcome a better regulatory understating of how to affect or partner with trading platforms to allow for a seamless monetization experience for our community.

Before we comment on the questions posed by the CSA/IIROC, we would like to raise some issues we feel are relevant.

Market Capitalization Distribution of all Crypto-Tokens



The charts above show i) the current market capitalization of tokens currently in circulation and ii) the number of ICOs that have been issued in ranges shown.

Both charts suggest that most circulated tokens are relatively modest in value. This is important because regardless of how media has sensationalized the ramp-up of crypto-tokens and the related security breaches, the market in comparison is more tempered (outside of some known outliers such as Bitcoin).

In that vein, we feel there should be proportionate application of scrutiny from the regulatory authorities depending on the market capitalization of the token. A one-size-fits-all approach will stifle innovation in the crypto-asset area and allow beneficial projects to die out in their infancy. It will also cause platforms to seek out other less-stringent jurisdictions and possibly endanger investor proceeds.

Classification of Offerings as distributions of securities

We ask the regulatory authorities to better define the test concerning when an offering of utility tokens constitutes a distribution of securities. Much like a publisher pre-sells an upcoming book or an event pre-sells early bird tickets to a concert, there are instances where an initial offering of utility tokens does not invoke securities legislation. In fact, instead of seeking funding, an ICO's primary motivation can be to create a network of users.

There is also no guidance from the authorities on whether subsequent offerings of a utility token where the token is established also classifies as a distribution of securities.

Question 1 - Are there factors in addition to those noted above that we should consider?

- i) As the case in *Pacific Coast Coin Exchange v. Ontario Securities Commission*, [1978] 2 S.C.R. 112, there should be clear distinction between full and partial delivery subject to conditions. The courts were clear that in the latter case, it involved an investment contract.
- ii) If there is delivery it is important to assess who bears the pricing risk between the trade and settlement – the Platform or its participant. We should point out that given the inherent nature of crypto-token transactions, there is a market-governed transaction cost that may fluctuate before settlement.

Question 2 – Question 4

No comment.



Question 5 - Other than the issuance of Type I and Type II SOC 2 Reports, are there alternative ways in which auditors or other parties can provide assurance to regulators that a Platform has controls in place to ensure that investors' crypto-assets exist and are appropriately segregated and protected, and that transactions with respect to those assets are verifiable?

A significant amount of effort and time is required to obtain a Type II Report—including receiving a Type I Report first. Furthermore, the paper does not comment on which principles the Type II Report should be assessed on, but we assume at least Security and Availability. As stated in the paper, this type of audit will be challenging given the infancy of most of the Platforms.

As stated earlier in our response, we are of the position that there be a tiered system of compliance to such requirements, depending on the market capitalization of the token, the complexity of the crypto-token, the number of existing ledgers and velocity of transactions and the number of token participants.

Question 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 Platforms holding or storing crypto assets on their behalf?

The inherent problem revolves around private keys. If the key is stolen or lost, the participant could possibly lose the crypto-token and the associated value. Much like cash, it can be challenging to prove chain of custody after the fact.

In the same way a bank is a safer venue for money, we believe it is safer to keep the tokens in the Platform, specifically its internal or external custodian, than to keep the crypto-token in a home computer.

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

- i) Utility – With respect to utility crypto-tokens, the fungibility of the token into a portfolio of services lends itself to better price determination on a Platform. The more niche the service, the less likely a utility crypto-tokens will be embraced by users which will affect price.
- ii) Mining Difficulty/Coin Circulation - It is important to understand the scarcity of the tokens whether artificially set or the cost of mining. For instance, the current operational cost of mining one bitcoin is approximately between \$4,000 to \$6,000 USD. The hardware required to mine is approximately \$150,000 USD. Disclosure on mining activity is key for price determination.
- iii) Transaction Speed/Cost – Depending on how expensive or cheap the transaction fee is will determine the attractiveness of crypto-tokens trading and therefore price discovery.
- iv) Regulations – While both giving confidence to the market, regulations can also strangle the market and therefore cause poor price discovery.
- v) Macro Factors – external factors such as the economy, prices of other crypto-tokens and market speculation will affect price.

Question 8 - 15

No comment

Question 16 - What type of insurance coverage (e.g. theft, hot-wallet, cold-wallet) should a Platform be required to obtain? Please explain.

Crime, Errors & Omissions and Cybersecurity insurance coverage should be considered for the custodian (internal or external). The exchange portion of the Platform would presumably be more resistant to widespread fraud, human error or data breaches.



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

Traditional insurance coverage might be difficult to obtain. As with the Type I/II Reports given that each token has its own peculiarities, startups in this area might find insurance carriers unwilling to cover or charging too high an insurance premium.

Question 18 – Question 22

No comment

Conclusion

SoapBox would like to thank the CSA and IIROC again for the consultation to the proposed framework. It is key that the regulators give more certainty to the market and give comfort to both investors and the financial services industry in how crypto-tokens are to be incorporated into the securities framework.

If you require any clarification or further comments, please contact us at info@soapbox.net

SoapBox Network Inc.

