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CSA reminds crypto-backed lending platforms of potential regulatory requirements, and cautions investors over risks

TORONTO – The Canadian Securities Administrators (CSA) reminds crypto-backed lending platforms about the possible application of securities law to their businesses and encourages them to ensure they comply with regulatory requirements. In addition, investors are reminded to seek information on the regulatory status of any firms they seek to do business with.

The CSA has been engaged with crypto-backed lending platforms that offer loans secured by crypto assets. It has granted exemptive relief tailored to the platform's specific business model, and includes conditions intended to address investor protection.

Crypto-backed loans typically involve the investor (or borrower) transferring their crypto assets to the platform (or lender) as collateral in an amount that exceeds the value of the loan. Depending on the circumstances, crypto-backed lending platforms may be engaged in securities trading and distribution with clients, which may require registration and the filing of a prospectus.

Platforms that are not registered with, or have not obtained exemptive relief from, securities regulators may present significant risks to investors, such as a lack of internal controls to safeguard collateral, or inadequate or inappropriate disclosure regarding terms of the loan.

Before engaging with any crypto-backed lending platform, investors should verify whether the platform is registered with a Canadian securities regulator or is operating under exemptive relief from securities legislation requirements. A list of those crypto-backed lending platforms that have obtained exemptive relief is available on the CSA website.

The CSA encourages platforms currently offering, or planning to offer, loans collateralized by crypto assets to contact the appropriate securities regulator if they haven't already done so. These discussions can help clarify the applicable regulatory requirements, including if they do apply to you, and whether exemptive relief may be appropriate. Through the CSA Financial Innovation Hub and jurisdictional innovation hubs, the CSA provides flexible approaches to support innovative businesses seeking to meet regulatory requirements under securities laws.

Platforms who do not engage with regulators risk contravening securities laws and may be subject to regulatory action.

About the CSA Financial Innovation Hub

The CSA Financial Innovation Hub, much like the jurisdictional innovation hubs, provide a forum for open dialogue and responsible experimentation within the regulatory framework. Firms can use these resources to test the parameters of relief, identify risks to investors, and promote innovation in Canada's evolving crypto asset industry in compliance with securities legislation requirements while promoting investor protection.

About the CSA

The Canadian Securities Administrators (CSA) is the council of securities regulators of Canada's provinces and territories. The CSA's objective is to improve, coordinate and harmonize regulation of the Canadian capital markets.

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