



Hi ,

A century ago, Canada reclaimed its monetary sovereignty. Are we about to give it away by accident?

The Bank of Canada was born as a sovereignty flex. Before 1935, the country didn't actually control its own money supply — private banks did, and global financial centres in London and New York set the tone. After the Great Depression exposed the risks of this approach, Canada built a central bank, made it public in 1938 and took the levers of monetary power: issuing currency and stabilizing markets. It was a nation-building move — and an early example of the importance of owning and governing essential economic infrastructure.

Now, Canada, and the Bank, are facing a new sovereignty threat: stablecoins that behave like traditional money but flow on privately-owned and foreign-controlled digital infrastructure. If the last century was about establishing monetary power outside of private banks, this one is about preventing our digital money from being intermediated (and eventually steered) by U.S. tech firms.

Things are moving fast. This fall, the federal government was forced to address a legislative void created by the Trump administration's crypto blitz, dusting off work on stablecoins that had been quietly shelved. That "seriousness" came in the form of the Stablecoin Act, tabled last month as part of the budget implementation bill. The Act is supposed to provide long-needed regulatory clarity to Canadian companies like Tetra Trust, Transactix, Stablecorp and Loon, who are all vying to tokenize our loonies on the blockchain.

Ottawa's move came at the urging of innovators who saw an opportunity for the country to chart its own course in the future of money instead of inheriting one from Washington or Silicon Valley.

But a close read of the Act suggests it will do little to defend Canada's monetary sovereignty. Instead, we're basically giving foreign multinationals free rein to de-Canadianize our dollars.

Loosely modeled on the GENIUS Act, a Trump-era law that has been a boon to U.S. stablecoin issuers, Canada's proposed legislation focuses on protecting consumers and preventing bank runs from destabilizing the financial system. Consumers are protected by being given redemption rights, which allow them to turn stablecoins back into cash at any time. The Stablecoin Act's reserve requirements, combined with some other regulatory scaffolding, minimize the risk of a stablecoin issuer going insolvent if too many redemption requests come at once.

That's all smart policy design, but it's incomplete from a monetary sovereignty standpoint. As currently drafted, the Stablecoin Act doesn't stop Canadians from switching to stablecoins denominated in U.S. dollars, which could reduce the relevance of the loonie.

The Bank of Canada's ability to administer monetary policy through the overnight rate depends on the Canadian dollar being supremely relevant — to everything from receiving our paycheques to paying our bills. This ability is crucial in an economic crisis.

If Canadians switch away from using Canadian dollars and start using USD-denominated stablecoins, the Bank of Canada's ability to influence the economy disappears. It would mean that influence could wind up in the hands of the U.S. Federal Reserve, whose own monetary policy would govern what is in your digital wallet.

What's more, the reserve assets backing the stablecoins issued by Tether and Circle — the biggest issuers in the world — are held by foreign financial institutions, outside the visibility and reach of Canadian regulators. Canada's Stablecoin Act requires reserve assets to be held with a "qualified custodian," but the legislation is silent about *who* can act as a qualified custodian and where, geographically, reserve assets must be held.

There's a real irony here: the urgency created by Trump's GENIUS Act has shaped the push for stablecoin legislation, but the proposal that's emerged fails to centre Canada's sovereign interests.

If protecting our monetary sovereignty was a priority, the Stablecoin Act would look a little different — and maybe at least one of the federal budget's 57 references to "sovereignty" would have been in its section on stablecoin regulation. And Coinbase, an American crypto company that is incentivizing Canadians to buy USD-backed stablecoins, wouldn't be so approving of Canada's legislative approach.

A Stablecoin Act that future-proofed our monetary sovereignty would have capped how many foreign stablecoins Canadian consumers and businesses can hold. It's not a wild idea. The Bank of England is currently proposing capping the amount of stablecoins U.K. citizens can hold — a bulwark against people clearing out their bank accounts in favour of stablecoins, which would dry up bank funding.

Canada's Act would have also done more to offer targeted incentives for domestic issuers and fintechs, recognizing that Canadian consumers will only choose local options if they can functionally compete with U.S. products. For example, our Act could have also given the issuers of CAD-denominated stablecoins the ability to pay yield or access our payment systems to make stablecoins more interoperable with plain, old money.

Right now, Coinbase is offering a 4.5 per cent yield on USDC to Canadian consumers — a push to get USD-denominated stablecoins into domestic digital wallets. That's way more interest than Canadians earn on their deposits. If Canadian issuers and fintechs can't find a way to keep Canadians on the Canadian dollar, that's a real risk to our monetary sovereignty — currently being exacerbated by U.S.-based crypto firms.

Banning foreign-issued stablecoins is not the answer, as one of the use-cases where stablecoins show a lot of promise is in cross-border payments, where Canadian dollars just aren't in high demand. Canadians must be allowed to use foreign stablecoins, but they need to be subject to the right legislative and regulatory requirements.

For now, the risk of USD-backed stablecoins overthrowing Canada's monetary regime is low.

But low risk now isn't low risk forever. Good legislation equips regulators to manage not just the risks of today, but also the risks of tomorrow.

JP Morgan, among the biggest banks in the world, is already experimenting with stablecoins and deposit tokens, while stablecoin issuer Circle is vying to turn USDC into a global settlement asset with the help of companies like Coinbase. Here at home, Shopify has been allowing its merchants to accept payment in USDC for almost a year.

It's not only digital money that is at risk of being Americanized, it's also the rails that digital money moves on. Circle and payment company Stripe are both building their own blockchains, the infrastructure that records stablecoin transactions. In a future where foreign companies control both the digital dollars Canadians use and the networks that power them, the relative influence of the U.S. monetary system will be undeniably stronger, and Canada's weaker.

Our government could get ahead of this by mandating that all transaction data and reserve asset custodianship for stablecoins be physically located in Canada — a move that would eliminate our reliance on foreign technology stacks.

The country has two jobs: we need to prevent colonization by foreign infrastructure for stablecoins, and we must invest more time and public consideration into building homegrown digital infrastructure for stablecoins and other digital assets.

The future of money is already being drawn up, and the forces shaping it are not necessarily thinking about what's best for Canada's monetary sovereignty. If the Stablecoin Act is any indication, perhaps our policymakers aren't either. That could change.

Until next time,

Vass Bednar

This newsletter was written in collaboration with Alex Vronces. Alex is a friend of SHIELD and is leading our unified digital ledger project, which will be released in 2026.

In the Sovereignty Conversation this Week

International Policy Ideas Challenge

Emily Osborne, Policy Research Associate at SHIELD, co-delivered a presentation to officials from Global Affairs Canada (GAC) and other government departments on Tuesday. She has been working on the topic of AI accountability with her colleague Christo Hall as part of GAC and the Social Sciences and Humanities Research Council's 2025 International Policy Ideas Challenge, a venue for graduate students, post-doctoral fellows and early-career researchers to propose innovative solutions to international policy issues. The presentation focused on the Hiroshima AI Process as a vehicle for increasing AI accountability and leveraging Canada's domestic trade strengths, and marked the culmination of their research. They argued that increasing AI trustworthiness and promoting adoption are not mutually exclusive goals, but rather should be pursued in tandem such that Canada can lead globally on trustworthy AI.

Parliamentary Standing Committee on Access to Information, Privacy and Ethics

SHIELD Managing Director Vass Bednar and Senior Policy Researcher Matthew da Mota appeared before the Parliamentary Standing Committee on Access to Information, Privacy and Ethics, exactly one year to the day since Vass's last appearance before the same Committee.

They discussed the urgent regulatory challenges posed by artificial intelligence. To protect Canadians, preserve Canadian sovereignty and enable Canadian firms to adopt AI safely and thoughtfully, they highlighted three key areas that need policy attention: AI-generated music and cultural production, algorithmic personalized pricing targeting people based on demographic and contextual data, and the risks of autonomous payment systems transacting without human initiation and outside Bank Act principles.

They also questioned whether AI productivity gains are well-founded, citing recent scholarship to the contrary from MIT and METR. Spending big in search of unproven productivity AI gains could be like investing everything in Beanie Babies in 1999 just before the prices fell, while also potentially displacing early-career workers.

The committee members' questions reflected current concerns around AI: growing monopolies; tradeoffs between international and national governance (spoiler: we can do both); liability for AI failures, including autonomous vehicle crashes; disinformation impacts from LLM hallucinations; and AI sycophancy leading to social siloing and mental health harms.

Two central questions emerged: Does regulation stifle innovation? Are big AI companies too big for Canada to regulate? The answer to both: nope. Regulation can create environments where innovation thrives (see Canadian nuclear or the global aerospace sectors). The defeatist assumption of inevitable big tech dominance ignores reality. Canada urgently needs standards, liability frameworks, mobilization of existing laws and new protections. By taking action, we absolutely can govern technology within our borders while creating the safe AI tools people actually want to use around the world.

AI and the Growing Economy of Fraud

Generative AI isn't just transforming how we work. It's rewriting the scammer's playbook at scale. This event was co-hosted by the Centre for Media, Technology and Democracy, the Canadian SHIELD Institute and MASS LBP (with support from the Ronald S. Roadburg Foundation), brought together global experts and Canadian policy-makers to ask: how do we defend markets, consumers — and trust — in an AI-fuelled fraud wave?

The AI We Want

Later tonight we are kicking off the Toronto Public Library's AI Summit with a discussion on Building the AI Future We Want To Live In. We will interview Mutale Nkonde, the founder of AI for the People.

SHIELD In the News

In his popular Substack, Paul Wells mentioned that Vass Bednar advised playwright Michael Healey on competition policy for his play Rogers v. Rogers. The Toronto Star also excerpted The Big Fix, the competition policy book from Bednar and co-author Denise Hearn. The excerpt digs into the competition challenges raised by artificial intelligence: AI might help huge tech giants dominate even more unless we act.

Vass also appeared on CBC Morning Live and CBC News to contextualize new legislation proposed in Quebec that targets ticket resellers and subscription traps. If you caught the live segment, then you noticed she was joined by a special, tiny guest.

The CBC Ideas podcast released the final episode in a special series to mark the show's 60th birthday. The discussion surveyed the best and worst ideas of the past six decades, and Managing Director Vass Bednar was a part of it. Here's the conversation, which will be posted at 5:00 pm ET today.

And we loved when Raymond Luk of Source Canada referred to us as Alpha Flight.

Chart of the Week

Canada's productivity picture just got a plot twist. Revised data from Statistics Canada suggests the productivity slump of the past few years may not have been as dire as previously believed. Earlier numbers showed productivity falling in five of the last eight quarters. The updated figures flip that story: productivity actually rose in six of the last eight quarters.

The takeaway? Canada entered today's trade and economic uncertainty in better shape than we thought — and we may now be on a modest upward trajectory. This isn't quite a victory lap, but it is a reminder that the productivity crisis narrative isn't updating.

Canada's Productivity Performance: Not As Bad As We Thought?

Source: The Canadian SHIELD Institute, Statistics Canada

Rochelle Jordan is a *British-Canadian singer of Jamaican descent* based in Toronto, Canada. On her 2025 album Touch the Wall, she delivers a sleek, late-night dance record: lush house-pop with R&B soul, where her restrained vocals and velvet hooks conjure moody, intimate club vibes.

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