

Canada's blockades make it clear: Crypto can be a form of shadow banking — and needs a crackdown

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<https://www.theglobeandmail.com/business/commentary/article-canadas-blockades-make-it-clear-crypto-can-be-a-form-of-shadow-banking/#comments>

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For the crypto sector's evangelists, the package of financial measures Deputy Prime Minister Chrystia Freeland announced Monday might as well be one of the seven deadly sins.

Under the federal government's new laws, all companies that handle payments, including crowdfunding platforms, must now report large and suspicious transactions to Canada's money laundering watchdog – including transfers of digital assets, such as cryptocurrencies.

To the average Canadian, that may not sound like much of a change. Our banks and financial institutions are already obligated to do the same. And considering that recent donations in support of the demonstrations in Ottawa and elsewhere have been sent in the form of cryptocurrencies, the government is simply applying the same rules to another type of payment.

But to some in the crypto sector, it is akin to blasphemy, especially because it is coupled with another new measure under the Emergencies Act. For the next month, the government has the right to freeze personal and business accounts suspected of being used to support the blockades, without obtaining a court order.

"This is one of the best bitcoin ads ever created," Blockworks, a crypto sector publication, tweeted above a video of Ms. Freeland's press conference announcing the measures.

Crypto evangelists believe in freeing themselves from the tyranny of financial intermediaries that fall under government control.

Unlike the Canadian dollar, which is ultimately backed by the federal government and the Bank of Canada, cryptocurrencies such as bitcoin and ether have largely evaded

government oversight. That is by design. Because crypto assets are backed by computer code, the sector's most hardcore believers believe regulatory oversight isn't necessary.

While that makes sense in theory, real life is messy, and financial systems are prone to abuse. Cryptocurrencies have gained enough popularity that they can't be allowed to operate in a vacuum. Reputable data shows that more than US\$2-trillion is now invested in crypto assets globally.

There is also a dark truth about the crypto sector: It is being co-opted by people who want to build a parallel financial system known as decentralized finance, or DeFi, and they love to find reasons to dismantle the global financial system. Even though a democratically elected government in Canada is using lawful means to enact a temporary emergency order, crypto evangelists immediately have raced to call it authoritarian rule.

Emergencies Act will expand powers of Canadian banks to freeze accounts, halt funds

Banks grapple with new powers to curb the flow of funds to support blockades

That isn't necessarily a crazy argument. Izabella Kaminska is a financial journalist now writing a newsletter, The Blind Spot, after a long career at the Financial Times. She has long studied anti-money laundering rules, and on Tuesday she laid out her concerns about governments overreaching by using broad allegations of terrorist financing.

"There is a difference between arresting civil disobedience-orientated protestors and judging their actions on an individual basis under the habeas corpus regime, and applying blanket defunding measures to everyone involved in a protest movement on the assumption that absolutely everyone is guilty of criminal or terrorist intent."

But the solution to government overreach isn't to pour money into a system that has little oversight.

In an e-mail Ms. Kaminska noted she is "still very skeptical of crypto," adding, "in a functional economy, it is always better in my humble opinion to have a trust-based centralized system with good supervision."

Exact data on the amount of money donated to the Canadian blockades in the form of crypto assets is still unverifiable, but earlier this week it was pegged at around \$800,000

by Tallycoin, a crypto crowdfunding platform. That is a fraction of the nearly US\$10-million raised through crowdfunding site GiveSendGo.

But cryptocurrencies are bound to help fund future demonstrations, and it's far too difficult to tell where they are coming from.

In a speech last fall, former U.S. secretary of state Hillary Clinton warned that the sector was rife for abuse by foreign actors. "One more area that I hope nation states start paying greater attention to is the rise of cryptocurrency," she said, adding that it "has the potential for undermining currencies, for undermining the role of the dollar as the reserve currency, for destabilizing nations, perhaps starting with small ones, but going much larger."

The crypto sector has the potential to be a shadow banking system that does just that, and so far it has been ignored by far too many governments and central banks.