



# New IOSCO Recommendations Solidify Canada's Regulatory Path

How CSA Guidance successfully aligns with the *Policy Recommendations for Crypto and Digital Asset Markets Final Report*



**Tetra Trust Company**  
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IOSCO is an international body, globally recognized as the standard setting organization for securities commissions, and counts Canadian provincial securities commissions amongst its members. The organization has taken into account the feedback received from its consultation and has published the ***Policy Recommendations for Crypto and Digital Asset Markets Final Report***. These recommendations align well with the regulatory directions already taken by the Canadian Securities Administrators (CSA) and the individual provincial securities commissions who are members of IOSCO.

In this publication, Tetra connects the dots between IOSCO's recommendations, and previously published CSA Staff Notices that pertain to crypto trading platforms, value-referenced crypto assets, and public crypto asset funds. We aim to bring it all together, providing examples of how some of these best-practices can be and have already been implemented in Canada. As Canadian regulation around digital assets evolves, crypto asset service providers (CASPs) can expect continued influence from and adherence to IOSCO's recommendations.

Additionally, the report places emphasis on custody considerations with many of its recommendations. These include ensuring assets are segregated, having an auditable trail for assets, and being aware of extraterritorial risk. Tetra has analyzed the implications that these recommendations have on CASPs and the custody of their assets in June, which can be found on our [website](#).

## IOSCO Recommendation and Recent CSA Examples

- 1** Recommendation 2 focuses on organizational governance, specifically the controls and segregations of duties CASPs should maintain, and is exemplified in CSA Staff Notice 21-332 about Crypto-Trading Platforms (CTPs).
- 2** Recommendation 14 outlines suggestions for custody with emphasis on the importance this has for stablecoins. CSA Staff Notice 21-333 on Value Referenced Crypto Assets (VRCA) also clarifies reserves and disclosures of risk.
- 3** Recommendation 15 about client asset reconciliation has similarities with CSA Staff Notice 81-336 for Public Crypto Asset Funds (PCAFs) and the suggestions on redemptions and reconciliations.

*IOSCO Policy Recommendations for Crypto and Digital Asset Markets Final Report*  
<https://www.osfi-bsif.gc.ca/Eng/fi-if/rg-ro/gdn-ort/gl-ld/Pages/crypto-bnk.aspx>

## Recommendation 2 – (Organizational Governance)



As part of its recommendations on governance and disclosure of conflicts, IOSCO recommends regulators to build in requirements on having effective governance and organizational arrangements for CASPs. This includes examining the extent of business lines a single entity may have, as well as ensuring the organizational controls and systems in place are adequately addressing any remaining conflicts of interest.

*“Regulators should require a CASP to have **effective governance and organizational arrangements**, commensurate to its activities, including systems, policies and procedures that would, amongst other things, address conflicts of interest, including those arising from different activities conducted, and services provided, by a CASP or its affiliated entities.”*

– Excerpt from the Policy Recommendations for Crypto and Digital Asset Markets Final Report

Effective governance systems and controls are a key focus in the CSA Staff Notice 21-332 for CTPs, including specific guidance for separating functions such as custody. Unregistered CTPs that wish to continue operating in Canada must submit a pre-registration undertaking (PRU), which includes several governance commitments and assurances, including:

- Enhanced commitments in relation to the **custody and segregation of crypto assets** held on behalf of Canadian clients;
- Enhanced commitments in relation to the retention of a **qualified Chief Compliance Officer (CCO)** during the pre-registration process;
- Being proficient and experienced in holding Crypto Assets and applying policies and procedures that manage and mitigate custodial risks, including, an **effective system of controls and supervision** to safeguard the Crypto Assets;
- Maintaining appropriate policies and procedures related to IT security, cyber-resilience, **disaster recovery capabilities and business continuity plans**; and
- Holding Crypto Assets in trust for the benefit of clients **separate and apart from its own assets and from the assets of any custodial service provider**.

*For registered CTPs and those with a PRU, Tetra’s custody service helps segregate the custody function to meet their regulatory requirements, adds an enhanced level of governance and controls, and has a comprehensive understanding of digital asset regulatory requirements.*

Canadian Securities Administrators Staff Notice 21-332 - Crypto Asset Trading Platforms: Pre-Registration Undertakings - Changes to Enhance Canadian Investor Protection

[https://www.osc.ca/sites/default/files/2023-02/csa\\_20230222\\_21-332\\_crypto-trading-platforms-pre-reg-undertakings.pdf](https://www.osc.ca/sites/default/files/2023-02/csa_20230222_21-332_crypto-trading-platforms-pre-reg-undertakings.pdf)

## Recommendation 14 – (Disclosure of Custody and Safekeeping Arrangements)



IOSCO has several recommendations on custody, with this recommendation specifically focusing on what CASPs should tell clients about the safekeeping of their digital assets. This includes disclosing how assets are held, if a custodian is used, whether these assets are in an omnibus account, any risks with handling assets, and ensuring the obligations and responsibilities of the CASP are accurately represented. Stablecoins are highlighted here as custody arrangements are especially important for assets backed by a reserve.

*“How reserve assets are held by **the stablecoin issuer or others** is of paramount importance, as is the fact that **these reserve assets remain sufficient at all times to cover redemption of all outstanding stablecoins**. The custody and client asset Recommendations should therefore be read, as relevant, as referring to **custody of reserve assets backing stablecoins, in addition to Client Assets**. Given that a large part of the market for stablecoins is conducted through CASPs, the disclosures set out above in Recommendation 14, as relevant, should be included in any disclosures to clients by CASPs.”*

– Excerpt from the Policy Recommendations for Crypto and Digital Asset Markets Final Report

In CSA Staff Notice 21-333, the CSA sets out to give further guidance for VRCAs, which are defined as *crypto assets that are designed to maintain a stable value over time by referencing the value of a fiat currency or any other value or right, or combination thereof*. Specifically on custody, the notice clarified that any reserve assets backing **VRCAs should be held with a Qualified Custodian** (as defined in National Instrument 31-103) in an account **in trust for the VRCA holders** and separate from any other assets of the issuer.

In addition, the notice states that the VRCA issuer should make **several public disclosures**, such as “details of how a VRCA holder can redeem the VRCA, including any possible restrictions on redemptions such as the requirement for a VRCA holder to have an account with the issuer of the VRCA and any criteria to qualify to have an account” and “any custodian of the reserve of assets.”

*To help VRCA issuers meet their regulatory obligations, Tetra is a Qualified Custodian and its cash custody services offer full transparency into VRCA reserves, allowing for easy redemptions and disclosures for both VCRA issuers and holders.*

CSA Staff Notice 21-333 Crypto Asset Trading Platforms: Terms and Conditions for Trading Value-Referenced Crypto Assets with Clients [https://www.osc.ca/sites/default/files/2023-10/csa\\_20231005\\_21-333\\_crypto-platforms-vrca.pdf](https://www.osc.ca/sites/default/files/2023-10/csa_20231005_21-333_crypto-platforms-vrca.pdf)

## Recommendation 15 – (Client Asset Reconciliation and Independent Assurance)



Among IOSCO’s custody recommendations, Recommendation 15 focuses on the reconciliation of client assets. It encourages regulators to require reconciliations of client assets to be accompanied by systems, policies and procedures that keep track of transactions and ownership. Reconciliations should also have a form of independent assurance, such as auditors.

*“A CASP should maintain appropriate books and records to track and record transactions and ownership of Client Assets. The CASP should conduct **regular and frequent reconciliation** of Client Assets on a client-by-client basis, to identify and resolve any discrepancies in a timely manner. In doing so, CASPs should also take into account both **relevant off-chain and on-chain records**.”*

– Excerpt from the Policy Recommendations for Crypto and Digital Asset Markets Final Report

CSA Staff Notice 81-336 provides expectations for PCAFs that align with both the CSA notices for other CASP groups, and the IOSCO recommendations, including:

- Regularly **measuring, monitoring and managing the liquidity** of the investment fund’s underlying portfolio assets, considering the time to liquidate each underlying portfolio asset, the price the asset may be sold at and the pattern of redemption requests;
- Taking the **liquidity of the specific crypto asset** into account when deciding whether the liquidity is sufficient to comply with requirements;
- Storing crypto assets held on behalf of a Public Crypto Asset Fund in hot wallets only as is necessary to facilitate purchases and redemptions by the fund, while keeping the rest of the assets in **custodial cold wallets**;
- Ensuring the **crypto custodian’s systems and controls** are independently audited; and
- Selecting PCAF valuation metrics that are based on “**transparent, auditable and replicable calculation methodologies** that comply with industry best practices” to mitigate any inaccurate pricing risks.

*For PCAFs, Tetra holds digital assets in cold storage and provides easy reconciliation of both digital assets and cash (including cash equivalents). Additionally, our assets under custody are independently audited via proof of reserve reports.*

CSA Staff Notice 81-336 Guidance on Crypto Asset Investment Funds That Are Reporting Issuers  
[https://www.osc.ca/sites/default/files/2023-07/csa\\_20230706\\_81-336\\_guidance-on-crypto-asset-funds.pdf](https://www.osc.ca/sites/default/files/2023-07/csa_20230706_81-336_guidance-on-crypto-asset-funds.pdf)



# Trusted Digital Asset Custody

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Tetra Trust Company is Canada's first and only trust company licensed to custody digital assets with a vision of enabling the institutional adoption of digital assets.

Registered as a Canadian trust company under the Loan and Trust Corporations Act (Alberta), Tetra is fiducially responsible to act in the best interests of its clients. Its operations are overseen by a Canadian regulator.

Tetra invites you to contact us to understand how we set the standard for regulated Canadian digital asset custody.

## Contact

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Steve has 20+ years experience in financial markets and has held previous senior risk management and compliance roles at BP based out of Calgary, London, and Singapore. He is a CFA charterholder and is also a sessional instructor at the University of Calgary where he teaches a fourth year course on Corporate Governance.