

B.C. regulators okay registration of Canada's first cryptocurrency fund manager

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The British Columbia Securities Commission (BCSC) has granted investment fund manager registration to First Block Capital Inc., a Vancouver-based investment firm focused on providing investment exposure to the emerging digital currency asset class. This registration makes First Block the first registered investment fund manager in Canada dedicated solely to cryptocurrency investments.

"Cryptocurrency investments are a new and novel form of investing in Canada. We have seen from the market and from investors that there is a strong appetite for access to these kinds of investments," said Zach Masum, manager, legal services, capital markets regulation and leader of BCSC's tech team, as part of BCSC's announcement of First Block's landmark registration. "This first registration allows access to bitcoin investments, while providing the BCSC with unique mechanisms to monitor operations in a rapidly developing area."

First Block's registration will allow it to operate FBC Bitcoin Trust, a privately offered investment fund established by First Block that invests exclusively in bitcoin. According to First Block, the fund is designed to provide qualified investors with the opportunity to gain exposure to bitcoin in an efficient manner without having to acquire, store or manage the underlying bitcoin. "Many accredited investors have been watching bitcoin appreciate in value, but until now they haven't been able to invest in it through a managed fund as they would with a commodity like gold or silver," said Marc van der Chijs, co-founder of First Block in a statement relating to First Block's initial fund. "FBC Bitcoin Trust removes the complicated barriers to investing in bitcoin, making it more accessible to the mainstream investment community."

In granting the registration, the BCSC emphasized that cryptocurrency investments involve risks that differ from those associated with traditional asset classes. To address the unique risks and other issues associated with cryptocurrency investments, the BCSC has imposed terms and conditions on First Block's registration. These terms and conditions have been designed to allow First Block to operate under the current securities regulatory framework while providing the BCSC with the opportunity to continue to assess the potential risks associated with cryptocurrency investment funds.

The terms and conditions of First Block's registration require it to obtain the approval of the BCSC before it launches additional cryptocurrency investment funds. For First Block's existing fund, First Block is required to obtain the approval of the BCSC before First Block makes certain significant changes, including any changes to the fund's investment objective, any changes to the procedures for valuing the bitcoin held by the fund, any changes to the custodian responsible for the safekeeping of the fund's bitcoin investments, and any change to the fund's principal broker for executing transactions in bitcoin. The terms and conditions also impose certain additional reporting and other requirements on First Block.

The successful registration of First Block follows the recent issuance by the Canadian Securities Administrators of CSA Staff Notice 46-307 *Cryptocurrency Offerings*. The notice outlines the CSA's views on the application of securities laws to cryptocurrencies and highlights a number of issues unique to investment firms seeking to establish cryptocurrency funds. These include the need for such firms to establish a process for valuing the funds' cryptocurrency assets, to conduct due diligence to ensure the integrity of the exchanges on which cryptocurrency transactions will be executed, and to engage a custodian with expertise in the safekeeping of cryptocurrencies.

The issues highlighted in the recent CSA Staff Notice mirror those addressed by the BCSC through the terms and conditions of First Block's registration. "That's not surprising," said Jason Brooks, the partner at Borden Ladner Gervais LLP who led the legal team that represented First Block in relation to its

registration application. “The terms and conditions were designed to address the unique issues that arise when funds invest in this new asset class. We expect to see similar terms and conditions imposed on other firms that want to move into this area — including both startup firms and existing managers that are expanding into the digital currency asset class.”

Industry standards relating to the operation of cryptocurrency investment funds may develop over time; however, for now, firms contemplating the formation of cryptocurrency investment funds should expect to engage in discussions with the securities regulators on a number of issues, including those identified in the CSA Staff Notice.



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