



***“Change: Accelerated”***

**Keynote Address by Grant Vingoe**

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**Canadian Club Toronto**

**May 19, 2021**

**Check against delivery**

Good afternoon. I am pleased to join you today for an update on how the OSC is navigating the waves of change affecting Ontario capital markets. Off the top, and of importance because these are significant trends we're seeing that fundamentally impact our markets, I will discuss:

- First, the growing role of retail investing and how it is changing the way we regulate;
- second, the recent surge in capital-raising; and
- third, the Crypto Revolution.

Finally, I will describe the framework we use in approaching new financial products and services, and, the steps we take when there are threats to investor protection, fair and efficient markets, and market stability.

### **The growing role of retail investing**

Let me begin by outlining the growing role of retail investing in our markets. We usually think of large pension funds and other institutional investors as dominating market activity. That has changed since November with retail trading steadily increasing and, in February, surpassing institutional and high frequency trading to become the primary contributor to trading volume.

Retail trading represented about 45% of volume in February. In the US, it surpassed 50%. While it has subsided from its peak and is trending down somewhat, there is also a sense that some of this activity has moved to crypto assets, which I'll discuss in a moment.

We have seen more trading in the online/discount brokerage channel, mostly from do-it-yourself investing. Canadian online brokers executed 27 million trades and opened more than half a million new accounts in January alone, both of which are records.

Investors have also been borrowing money at record levels in order to trade, with margin debt up 40% from a year ago. This doesn't capture other forms of credit that could be used for trading including mortgage equity lines and credit card debt.

Collectively, we have all seen social media-fueled spikes in so-called meme stocks, including Blackberry in Canada and Canadians trading stocks in the US such as GameStop through online brokers. In the US, this retail surge caught some short-sellers off guard, with at least one large hedge fund needing a bailout. The risk of price surges and margin calls comes with the territory for hedge funds, and I mention this only as an example of the impact retail traders have had.

We've also seen the emergence of commission-free trading, which relies on spreads and other fees to generate profits. In the United States, revenue is driven by payment for order flow, which is prohibited for trades on Canadian exchanges – and that's an important difference. In Canada, revenue for these dealers has come mainly from foreign exchange fees paid by investors.

Finally, and understandably, we have seen an increase in investor complaints to firms, as well as IIROC, and the Ombudsman for Banking Services and Investments, or OBSI, about service interruptions and delays in answering service-related calls. These complaints mainly relate to

certain large discount brokers who've struggled to handle the high number of transactions and new clients, and the need for human troubleshooting. Improvements are underway, but as the trend continues, so does the risk.

### **How does this trend change our job?**

For regulators, these retail-focused trends change our job in fundamental ways. First, to be clear, it is good news that younger and tech-savvy investors are coming to the markets. I think many will convert to longer-term investing and advice channels over time.

Everyone has to learn the lessons of market cycles, and the inevitable downturns will help reinforce the value of advice. In my view, investment firms will pivot to attract and retain fee-based clients by offering advice services that meet the needs of a younger, digital generation.

We need to ensure transparency in all fees charged by these online and discount brokers. This includes the foreign exchange fees I mentioned a moment ago, which can easily exceed commissions in cross-border trading. We have concerns over potential conflicts of interest related to these fees, and we are looking at them closely.

I am also concerned about how much online trading is beginning to look like online gaming, complete with pop-ups, incentives and prompts designed to influence behaviour. On some US platforms, there were even on-screen confetti drops to reward first trades. Thankfully, this stopped after a lot of media and political attention. In Canada, we have easy-to-install trading apps and first trades that go through before the client's initial deposit has even cleared.

While these may be efficient and reflect investor choice, they can also lead to impulse trading. There is a fine line between being easy to use and encouraging reckless behaviour. Discount brokers should educate and warn investors, especially in periods of extreme volatility. They can do this without stepping over the line to give advice.

We also need to step up investor education in the online forums where new traders go for tips – and, design our messages in a way that will influence behaviour. Not many people know this, but the OSC's Investor Office is active on Reddit forums and is using behavioural principles to better reach investors.

We will not be shy about enforcing against those who feed misstatements into the market, either to denigrate stocks to profit from short-selling or, as part of pump-and-dump schemes. The Modernization taskforce has recommended giving us new tools that would strengthen our ability to combat market manipulation.

On the rising number of service complaints I mentioned earlier, we should ensure that fine print contracts do not prevent investor redress and that OBSI can recommend compensation in these cases. I applaud the steps taken by IIROC to address these issues and believe that firms should be prevented from adding new accounts if they don't have the capability to properly service these clients. When firms hang out their shingle to engage in the retail securities business, they must be

able to provide prompt, reliable service on all fronts – not just for opening new accounts, but also for existing clients when they need help. We are watching this along with our IIROC colleagues.

### **Increase in capital-raising**

The second trend I'll touch on briefly is the recent surge in capital-raising. Capital market financing has been at a remarkable pace since the start of the pandemic, reflecting the significant need for liquidity among public companies.

The OSC received close to 700 prospectuses in the past year – that represents a 67% increase from the year before. These included more than 50 prospectuses filed confidentially under our newly introduced pre-file program, which reduces burden by providing issuers with increased market certainty.

Despite this increase in volume, OSC staff have risen to the challenge by continuing to issue comments letters and prospectus receipts well within OSC service standards, which you can find on our website. Our staff continue to be diligent in serving the important role the OSC performs to support capital formation in the Ontario markets. The investing public benefits from the speed and professional care we are taking in this area.

The increased number of filings also demonstrates that our system is working well. When there is sufficient investor demand, the regulatory system effectively enables companies to do IPOs and other offerings.

### **Crypto Revolution**

The last trend I'll speak about is the Crypto Revolution. Why do I say a revolution? Consider the acceleration of activity in the last few months. In January of this year, global crypto asset market capitalization reached US\$1 trillion for the first time. Then, in April – just 94 days later – it reached US\$2 trillion. By way of comparison, that's larger than the assets under management of all Canadian mutual fund and ETF holdings.

It has been a challenge to analyze how crypto assets fit into our regulatory structure, and then to assure compliance. We are mindful of the need to balance our mandates and not stifle innovation, ensuring investor choice and investor protection.

That said, there are significant investor protection concerns, especially in terms of where the assets are held and the controls in place to safeguard them. No one wants to see another situation like the collapse of QuadrigaCX, where we determined there were essentially no controls and more than 76,000 investors were defrauded in a Ponzi-like scheme.

Most dealers and platforms act as their own custodians, running the risk that client assets will not be legally segregated. Without regulatory oversight, investors need to consider what is preventing the misuse of their assets and what protections they have if the platform becomes insolvent. For the OSC, we have determined that registration is the route required to afford investors the critical protections they deserve.

Against this backdrop, there is only one crypto asset dealer registered with the CSA today, with others in the door but with many slow to be registered or set on a path to IIROC membership. Nonetheless, these firms have marketed their services to Canadians and dramatically increased their assets. That concerns me.

It is not easy for regulators to impose compliance in a worldwide market, but it worked to rein in securitized mortgages and credit default swaps after the Great Financial Crisis, and on the retail side, regulation has had an impact on binary options and contracts for differences.

We intervened last month to insist that non-compliant crypto asset firms come to us to register. The CSA has provided guidance about the steps they have to take. In Ontario, we set the deadline of April 19<sup>th</sup> for firms to take the first step, or risk enforcement action. Collectively, the CSA has more than 70 firms in the door that are correcting course. We have reached out to other firms we know are selling to Ontario investors and action is underway.

Firms that have nothing to hide should embrace this opportunity to enhance confidence in their business by seeking registration and appropriate oversight. We have a lot of work ahead in processing applications by these firms, and we are committed to working with them to get this done. Enforcement will also likely be very busy in the coming weeks.

### **Innovation principles**

Crypto assets and the firms that trade them pose regulatory challenges, but they are not the first nor will they be the last challenging forms of financial services innovation. With that in mind, I want to comment on the principles we apply to innovative products and services generally. There are three principles that I have found helpful and will use as Chair in guiding regulatory action.

**First, we must stay focused on our mandates: Investor protection, fair and efficient markets, and financial stability, as well as our very recently enacted mandates to promote competition and foster capital formation.**

The tools for investor protection are disclosure, education, the regulation of intermediaries and advisers, and the power to restrict products or services where it is contrary to the public interest. We are excited about our new mandates and I commend the Task Force and Government for their bold action and confidence in the OSC to take on wider responsibilities.

We must provide the conditions that enable businesses to contribute to growth and prosperity and facilitate wealth creation for Ontario investors. And, we must get the balance right so that capital can flow to growing Canadian businesses, innovation can flourish, and consumers have access to a diverse range of financial services from a variety of firms, large and small. In the crypto asset area, which will require action across the regulatory community, we must provide the conditions for strong and effective, well-regulated third-party custodians to be launched.

**Second, we must be technology-neutral and have a deep understanding of new technologies.**

We are enhancing our technical capacity even further at the OSC, including in our new Innovation Office. This team is up and running and includes experts in capital raising, and new financial intermediation technologies and services. This will allow us to support and encourage innovative business models.

That said, we will not approve a new product or service without applying a well-informed, critical lens. Products can be innovative but fundamental protections for investors must be observed. We will use carefully designed, time-limited experiments in an Ontario sandbox environment to gain experience and knowledge. You can expect to see concerted outreach by the Innovation Office within days.

**Finally, we need to develop a common approach across all Canadian regulators.**

This is critical to avoiding an activity falling between the cracks and no regulator adequately addressing it. Similarly, a common approach will help avoid the risk of regulatory arbitrage, where new entrants have an incentive to enter the system through the lightest touch regulator.

Instead, the regulatory community must assert a common, principled, predictable, and responsive approach no matter where a firm is based. The CSA holds out the promise of this approach, as do our relationships with other provincial and federal governmental bodies. We must constantly strive to make effective coordination a reality.

It is through these three principles that we will respond to new trends, product offerings and growing investor appetite in Ontario – a steadfast commitment to our mandate, the building of technical capacity and our work alongside other regulators.

I have full confidence in OSC staff, who have shown tremendous professionalism during the last 15 months as they responded to extraordinary volume, product innovation and regulatory developments. They are capable, dedicated and up to the challenge of what lies ahead.

I hope that my remarks have given you some insights into some of the most important issues the OSC is considering, and I am looking forward to your questions.