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Autorité des marchés financiers
British Columbia Securities Commission
Manitoba Securities Commission
Financial and Consumer Services Commission of New Brunswick
Office of the Superintendent of Securities, Digital Government and Services, Newfoundland and Labrador
Office of the Superintendent of Securities, Northwest Territories
Nova Scotia Securities Commission
Office of the Superintendent of Securities, Nunavut
Ontario Securities Commission
Prince Edward Island Office of the Superintendent of Securities
Financial and Consumer Affairs Authority of Saskatchewan
Office of the Yukon Superintendent of Securities

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Dear Sirs/Mesdames:

Re: CSA Staff Notice and Request for Comment 25-305 - *Application for Approval of the New Investor Protection Fund*

Wealthsimple is pleased to provide comments to the Canadian Securities Administrators (CSA) on their application for approval of the New Investor Protection Fund. We support the CSA's efforts to amalgamate the Investment Industry Regulatory Organization of Canada (IIROC) and the Mutual Fund Dealers Association of Canada (MFDA) into a single self-regulatory organization (the New SRO) and to amalgamate the Canadian Investor Protection Fund (CIPF) and the MFDA Investor Protection Corporation (MFDA IPC) into a single compensation / contingency fund (the New IPF).

Our mission is to help everyone achieve financial freedom, no matter who they are or how much they have. We started by providing smart, simple investing, without the high fees and account minimums associated with traditional managed-investment accounts. Since then, our platform has evolved to offer investment services for people who want a professionally managed portfolio, trading and crypto services for people who want to do it themselves, tax-filing software, and simple ways to save and send money. Wealthsimple now serves more than 2.5 million Canadians, three quarters of whom are aged 40 or under, with AUA topping \$15B.

Feedback on draft New IPF Coverage Policy

We strongly support providing the protection of the New IPF to clients of all participating organizations of the New SRO. We are committed to making investing more accessible, safer and less intimidating for Canadians.

This commitment extends to crypto investing and we are concerned both about the exclusion of crypto assets, crypto contracts and other crypto-related property (collectively Crypto Property) from the draft New IPF Coverage Policy and the way in which such a material amendment to the current CIPF and MFDA IPC coverage policies was introduced.

The New IPF Draft Coverage Policy states:

Property received, acquired or held by, or in the control of, a New SRO Member that consists of crypto assets, crypto contracts, or other crypto-related property is not eligible for New IPF coverage. For greater certainty, Property consisting of securities of a mutual fund or exchange traded fund that invests in or holds crypto assets, crypto contracts or other crypto-related property is, however, eligible for New IPF Coverage.

While other changes within the draft New IPF Coverage Policy are largely housekeeping in nature and required to bring CIPF and MFDA IPC coverage into a single policy, this Crypto Property specific carve out is not found in either of the existing policies. Absent this carve out, Crypto Property that members of the New SRO are entitled to deal and hold on behalf of clients would be covered under the draft New IPF Coverage Policy as well as the current CIPF and the MFDA IPC coverage policies.

Why Crypto Property should be covered

In 2019, a large number of the 52 commenters that responded to Joint CSA-IIROC Consultation Paper 21-402 *Proposed Framework for Crypto-Asset Trading Platforms* indicated that there should be member funded insurance such as CIPF or CDIC for Crypto Trading Platforms (CTPs), noting that they would expect CTPs that became IIROC registered platforms to be CIPF members. In 2021, in response to these comments the CSA confirmed that CTPs would be CIPF members and that coverage would be offered by CIPF on a case by case basis. Generally, we support this approach, and believe that member funded insurance for Crypto Property would offer very real investor protection to Canadians that use regulated CTPs.

The language in the draft New IPF Coverage Policy instead includes a blanket exclusion for all Crypto Property, an approach which contradicts these previous statements, fails to address the large number of comments received and offers no investor protection.

In addition, the exclusion raises a number of points that are not addressed in the notice including the following:

- New SRO members dealing only in Crypto Property would effectively be exempt from their regulatory requirement to participate in a compensation fund.
- This does not square with the approach taken at the time the MFDA IPC was created where, in response to commenters suggesting that there was no need for an investor protection fund given the low risk of mutual funds, the commissions confirmed that having no fund at all would not be acceptable.
- Client disclosures will be difficult and confusing. For New SRO Members that only offer Crypto Property, they will be members but not actually be participating in the New IPF. New SRO Members that offer both Crypto Property and non-Crypto Property will have to differentiate coverage, possibly within the same account, between different types of investments a single client holds.
- In the event of a bankruptcy, clients of New SRO Members that deal in both Crypto Property and non-Crypto Property will have to deal with the New IPF for their non-Crypto Property claims and then participate in the bankruptcy proceedings personally for their Crypto Property. This would effectively unwind the simplification and cost-savings that IPFs provide to investors and to participants in the bankruptcy proceedings.
- No rationale or analysis for the exclusion of Crypto Products has been provided for comment or consideration (see below for further details).

Overall, the language in the draft New IPF Coverage Policy runs contrary to previous statements of the CSA and public comments they received, it will weaken investor protection and confidence in New SRO Members while creating confusion.

Such a material amendment deserves significant consultation

We support the CSA's ongoing efforts to strengthen the oversight of crypto asset trading platforms and believe that there is a need for broad and transparent consultation among policymakers and regulators to achieve the appropriate balance to regulating crypto asset platforms that protects investors and promotes responsible innovation.

If CIPF were to amend their coverage policy today to add the above Crypto Property carve out, or if the New IPF were to do so after being established, such an amendment would be classified as a public comment amendment under either fund's respective Memorandum of Understanding. To carry out a public comment amendment the relevant IPF has to take certain steps to support the amendment and engage the public. These steps include proving the following:

- a letter to the CSA outlining how it has taken the public interest into account in developing the amendment and why the amendment is in the public interest;
- a notice for public comment including:
 - written analysis detailing the nature, purpose and effect of the amendment;

- the possible effects of the amendment on investors, issuers, registrants, other market participants, the SRO and the capital markets generally;
- Context and relevant issues considered and any alternative approaches considered; and
- a request for public comment.

Following this, the CSA would normally consider if it was in the public interest and if the relevant IPF had provided sufficient analysis to support the amendment.

The above amendment process provides transparency and sufficient information to engage in meaningful consultation. We are concerned that this amendment is being proposed without comprehensive analysis of its nature, purpose and effect or the benefit of consultation on these points.

We hope that our comments will be considered positively by the CSA and helpful in establishing the New Investor Protection Fund. We welcome the opportunity to discuss our comments with you.

Yours very truly,

“Blair Wiley”

Blair Wiley
Chief Legal Officer

cc: Evan Thomas, *Wealthsimple*