

DELIVERED BY EMAIL

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The Secretary
Ontario Securities Commission
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Dear Sirs/Mesdames:

Re: CSA Staff Notice and Consultation 11-348 – Applicability of Canadian Securities Laws and the Use of Artificial Intelligence Systems in Capital Markets

Wealthsimple is pleased to offer our response to CSA Staff Notice and Consultation 11-348 - *Applicability of Canadian Securities Laws and the Use of Artificial Intelligence Systems in Capital Markets* (the “Consultation”). We applaud the CSA for considering the impact of artificial intelligence (“AI”) on the Canadian capital markets, and proactively providing guidance regarding how securities legislation applies to the use of AI systems by capital market participants. We appreciate the CSA’s willingness to consider feedback from capital markets participants on whether additional guidance and oversight can better facilitate the adoption of AI systems by Canadian capital markets participants.

About Wealthsimple

Wealthsimple is one of Canada’s fastest growing and most trusted financial institutions. We offer a full suite of simple, sophisticated products across managed investing, do-it-yourself trading, cryptocurrency, tax filing, spending and saving. Wealthsimple serves more than 3 million Canadians, including 1 in 5 adults under 40, and holds over \$60 billion in assets.

Wealthsimple has a track record of launching innovative and inclusive financial products, including digital advice, Canada’s first Shariah-compliant ETF and fractional shares trading. In 2020 we became Canada’s first regulated crypto platform and, in 2022, we became the first ever non-bank, non-credit union to be granted approval for a settlement account with the Bank of Canada. A key ingredient in this progress has been early and ongoing engagement with the CSA and other regulators.

Recommendations

Wealthsimple has collaborated with the Investment Industry Association of Canada (“IIAC”) in its response to the Consultation. We endorse and support the recommendations and analysis submitted by IIAC. In particular, we agree with IIAC that submitting AI to a one-size-fits all approach may hinder the development and adoption of this technology, to the detriment of the competitiveness of Canada’s capital markets.

The current regulatory framework facilitates technological innovation

Securities laws are principles-based and technology neutral. This is a strength of the Canadian securities regulatory framework. It has enabled both regulators and market participants to rapidly adapt to technological innovation that provides benefits in terms of cost savings and operational efficiency for capital markets participants, and improved outcomes for investors. The introduction of smartphones revolutionized investing by providing retail investors with convenient access to trading platforms, real-time market data and financial tools. This technology has democratized retail investor access to the Canadian capital markets. Similarly, algorithmic trading has transformed the financial markets, by reducing latency, ensuring timely responses to market changes and improving market efficiency. Neither of these transformative technologies required any amendments to securities laws. This makes sense given the principles-based nature of securities regulation, and demonstrates the ability of our existing regime to facilitate the adoption of innovative technologies.

As noted in the Consultation, the use of AI technologies in the capital markets is not a recent phenomenon. AI technologies have already been used and integrated into various aspects of the financial markets. The continued adoption of AI-based technologies has the potential to dramatically change the Canadian capital markets for the better. The existing regime gives regulators the tools they need to address concerns that may arise from AI (or any) technology such as conflicts of interest, outsourcing, cybersecurity and adequate investor disclosure. Therefore, we strongly advocate that there is no current gap in securities law that requires new rules to address risks arising out of AI systems.

Overregulating AI due to a lack of understanding or fear of a new technology risks leaving Canadian capital market participants behind their global peers. Many firms are already implementing AI technology in their operations, and there is already early evidence to show that has enhanced the investor experience and operational efficiency. For example, [Wealthsimple](#) uses an AI chatbot to provide high quality customer service responses. This has given human customer service agents more time to answer phone calls and emails, which has reduced the wait times for all channels. If the AI chatbot doesn’t know the answer to something, it redirects the client to a human. This technology has already improved our clients’ experience, and we’re just getting started. We believe that AI will enable us to bring robust expertise and a breadth of investment knowledge to more people, not just the ones that can afford human wealth management professionals.

Regulators should be leaders in the adoption of AI technologies

We strongly believe that securities regulators themselves should embrace the potential of AI to enhance their own operations and activities. By actively using the technology to perform the

regulatory function, regulators will better understand the benefits and risks associated with it. It is only with this understanding that regulators will be able to determine if the regulatory regime requires changes to adapt to the risks of AI technology.

AI has the potential to provide tremendous benefits in enhancing the ability of securities regulators to monitor and regulate the capital markets, which will enhance their regulatory effectiveness. Securities regulators can leverage AI technology to enhance their regulatory capabilities in several key areas, including:

- *Enhanced market surveillance:* AI can analyze vast datasets of trading activity to identify patterns indicative of market manipulation and insider trading.
- *More efficient reporting and monitoring:* AI can automate regulators' review of regulatory filings and reports to ensure compliance with securities law. AI tools can also streamline the process of generating regulatory reports by automating data extraction and analysis.
- *Informed regulatory policy:* AI has the ability to analyze large datasets to identify trends and patterns that can inform regulatory policy, and can drive data-driven decisions about regulatory change.

The CSA should adopt AI technology to improve their own process and rulemaking wherever possible. Regulators should regularly report to the public on what they have learned about AI's ability and limitations from their own use of the technology. Regulators should collaborate with market participants to understand the uses of AI, its advancements and its related risks. This collaborative approach with the industry will help regulators determine which risks related to AI, if any, require the intervention of securities law.

Coordinate with provincial, national and international legal developments

Canada already has a robust legal framework that applies to AI, including privacy legislation, consumer protection legislation, marketing law and human rights legislation. Securities regulators should not duplicate efforts or create overlapping regulatory requirements. The CSA should only act if there is a specific gap in existing law that is not addressed by the existing principles-based securities law regime or other legal regimes that apply to Canadian capital markets participants.

We recommend that the CSA concentrate on promoting and supporting the use of AI by market participants, while continuing to monitor legislative and policy initiatives related to AI systems at the provincial, national and international levels. Additionally, the CSA should maintain its collaborative efforts with international bodies, such as IOSCO, to foster a shared understanding of the issues, risks and challenges associated with the use of AI systems in capital markets.

We acknowledge that CSA is asking the industry for feedback during a time of rapid technological change. Wealthsimple applauds the CSA's effort to provide guidance to the industry regarding the application of existing securities law to AI technology. We urge the CSA to continue to pursue a principles-based, technology neutral approach to securities regulation, which will enable Canada's market participants to explore the benefits and risks of AI technology

in a responsible manner.

We hope that our comments will be considered positively by CSA. We welcome the opportunity to discuss our comments with you.

Yours very truly,

"Blair Wiley"

Blair Wiley
President & Director
Wealthsimple Investments Inc.