

February 25, 2025

SUBMITTED VIA EMAIL

Member Regulation Policy

Canadian Investment Regulatory Organization

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Dear Sirs and Mesdames:

Re: Non-tailored Advice in the Order Execution Only Channel

Independent Trading Group (ITG), Inc. welcomes the opportunity to provide comments on the limitation of advice in the order execution only channel and appreciates the CIRO considering our input.

ITG was established in 1992 by a group of TSX floor traders with the intent of developing a business where market makers could conduct business in a professional manner without conflict or compromise. As a proprietary, institutional, market making and recently offering order execution only, ITG provides services such as price discovery, market making and liquidity provision for traders, marketplaces, issuers, institutional and retail execution.

General Consultation Questions:

Question 1: Notifications and Alerts

- a) Are there particular products or services in respect of which you think OEO Dealers should be encouraged to issue alerts or other information?***
- b) What consistent criteria could OEO Dealers use in choosing to issue alerts or other proactive information?***

Trade ideas for certain clients that qualify through historical trading activity, risk profile, investment goals (growth, income, speculation, etc.)

Question 2: Self-help Tools

- a) Specific tools. Are there any specific tools or services you believe should be included or excluded from the list of non-tailored advice?***

b) Model portfolios. The current guidance contemplates model portfolio tools that are “limited to a class of investor, asset class, industry sector and/or time horizon”. Model portfolios that reference specific securities are not contemplated. Would you support allowing model portfolios that do reference specific securities, providing no recommendation is made by the OEO dealer based on client information?

Allowing model portfolios that reference specific securities on a dealer platform, without making personalized recommendations, could provide investors with useful market insights. However, the practice raises regulatory, and investor protection concerns that must be carefully managed.

c) Self-assessment tools. The current guidance does not contemplate OEO dealers providing tools that help clients determine what class of investor they are. Would you support allowing OEO dealers to provide self-assessment tools?

We would support the use of educational tools that help OEO clients understand portfolio construction, diversification and risk management. This would allow investors to explore different investment themes without direct advisory services.

d) Filters. OEO Dealers provide their clients with tools for filtering the investments available on their platforms (e.g., large cap Canadian equities or TSX 60 index tracking ETFs). Would you impose limits on how specific such tools can be made (e.g., narrowing down large sets of investments such as those in the example above by price, performance or other criteria)?

Filtering tools help self-directed investors navigate large investment universes efficiently. Investors may want to filter by market-cap, sector, price range, dividend yield, or historical performance to find securities that match their self-directed strategies. Filtering would allow investors to compare securities objectively, rather than relying on outside sources that may have commercial biases.

Filtering tools should be permitted and encouraged, as they improve market transparency and investor autonomy. However, limits should be placed to ensure these tools do not inadvertently function as implicit recommendations or lead investors to overly risky or misleading conclusions.

e) Combining tools. What is your opinion on the potential effects of coming tools of various kinds (e.g., if a client uses each of the following in succession: a self-assessment tool, an asset allocation tool, a securities filter and a rebalancing tool)?

Combining different tools can provide a more comprehensive decision-making framework for clients, as each tool serves a distinct purpose in the investment process. By using these tools in succession, clients can make more informed investment decisions, increasing their confidence in managing their portfolios. However, it is important to ensure that each tool is designed to provide unbiased, clear and consistent guidance to avoid potential conflicts or misinterpretations.

- f) Limited client-specific information. Should there be greater allowance for the use of limited client-specific information that does not include a recommendation and is not based on KYC information? For example, in situations where a new client has funded their account but has not made any investments after a certain period, would it be appropriate to reach out with educational information about the benefits of investing some or all of their cash holdings?***

Question 3: Finfluencers

Some CIRO OEO Dealers have entered into referral arrangements with Finfluencers and in certain cases have integrated their trading platform with the third-party platform, (e.g., “Trade Now” functionality that provides the ability to trade directly through the third-party platform).

- a) What are your thoughts on this practice and to what level of initial due diligence and ongoing monitoring should be required on the part of the OEO Dealer?***

An investor survey published by CIRO in 2024 stated that roughly “1-in-5 Canadians (22%) say they use social media, forums or ‘influencers’ for financial information and advice.” (We believe this figure to be much higher). Although integrating with some of these platforms may enhance user engagement, it raises significant regulatory and investor protection concerns. It would require implementing strict monitoring of the Finfluencer’s content and marketing activities; full transparency and disclosure to clients about the risks involved and monitoring of investor trading behavior to identify harmful trends or potential misconduct.

Question 4: Copy Trading

- a) Should OEO Dealers be allowed to provide their clients with “copy trading” functionality that provides the ability to automatically replicate the trades of other investors?***

Clients should have increased access to expertise and be able to benefit from the expertise of skilled traders without requiring deep market knowledge. It democratizes access to advanced trading strategies. Automation would reduce manual effort of replicating trades, especially for those who prefer a “hands-off” approach to investing.

Copy trading could provide benefits for less experienced investors by allowing them to follow the strategies of more knowledgeable traders. However, several key considerations must be addressed to ensure transparency, fairness, and regulatory compliance. One critical factor is defining who qualifies as a trader whose portfolio can be copied. Would the brokerage provide a curated list of “professional” traders, and if so, what criteria would be used to determine their eligibility? Additionally, if traders receive compensation or commission when their trades are copied, this must be clearly disclosed to clients to avoid potential conflicts of interest. Investors should be fully aware of any incentives or biases that may influence the trading activity of those they are following.

Another important consideration is how frequently the list of traders would be reviewed and updated. There should be sufficient oversight to ensure that traders being copied adhere to best practices and do not engage in excessive risk-taking. Moreover, copy trading should not be seen as a substitute for informed decision-making. Providing educational content alongside trade replication could help clients understand why certain trades were executed, the associated risks, and alternative strategies.

From a regulatory perspective, OEO Dealers must ensure that offering copy trading does not cross into the realm of tailored advice or discretionary portfolio management, which could fall outside the scope of an OEO platform. Clear disclaimers should emphasize that past performance is not indicative of future results. While copy trading has the potential to be a valuable tool, it is essential to implement appropriate safeguards to protect investors, ensure transparency, and mitigate risks associated with blindly replicating trades.

b) What measures can be implemented to ensure that copy trading is used in a way that is beneficial to investors?

If implemented responsibly, copy trading should include clear disclosures about risks, costs, and performance of the trades being copied. Investors should be required to acknowledge risks and confirm understanding before enabling copy trading.

Copy trading should be limited to non-leveraged instruments or portfolios that comply with basic diversification standards. Ensure transparency around any financial relationships between the platform and the traders being copied. Platforms/dealers should be required to monitor and report performance, outcomes and client satisfaction to ensure the system works as intended.

Question 5: Delivery of Tools and Information

Should the guidance distinguish information and tools provided directly on the OEO Dealer websites or by email or made available through apps or social media sources?

We feel strongly that the guidance should distinguish information and tools provided directly on OE Dealer websites and the source of that information. Disclosure needs to be clear if the information is coming from a regulated body or from a third-party source.

Guidance and information should primarily be provided directly on the OEO Dealer's website to ensure consistency, reliability and regulatory compliance. However, there should also be an option for clients to receive notifications via email, mobile apps, or other digital channels to keep them informed when they are not actively on the platform. This approach would allow investors to stay updated on relevant information and make timely trading decisions without having to log in to the website to discover new insights. While social media can serve as an additional channel for general market commentary or educational content, official investment-related tools and guidance should be made available through secure and controlled platforms to ensure accuracy and compliance with regulatory standards.



Thank you for the opportunity to comment on these important matters. We would be pleased to address any questions from the CIRO in response to this submission.

Respectively,

“Nick Savona”

Nick Savona, LL.M

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cc: Sean Debotte, CEO, Independent Trading Group (ITG), Inc.