Wealthsimple

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DELIVERED BY EMAIL

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Member Regulation Policy
Investment Industry Regulatory Organization of Canada
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Toronto, ON M5H 3T9
memberpolicymailbox@iiroc.ca

Market Regulation
Ontario Securities Commission
Suite 1903, Box 55
20 Queen Street West
Toronto, Ontario M5H 3S8
e-mail: marketregulation@osc.gov.on.ca

Dear Sirs/Mesdames:

Re: Proposed Amendments respecting Reporting, Internal Investigation and Client Complaint Requirements (the "Proposed Amendments")

Canadian ShareOwner Investments Inc. ("**ShareOwner**" or "**we**"), a subsidiary of Wealthsimple Financial Corporation ("**Wealthsimple**"), is pleased to provide comments to the Investment Industry Regulatory Organization of Canada ("**IIROC**") regarding the Proposed Amendments.

Wealthsimple is on a mission to help everyone achieve financial freedom, no matter who they are or how much they have. We do that by building powerful financial tools for people to grow and manage their money. Wealthsimple started by providing smart, simple investing, without the high fees and account minimums associated with traditional investment management, through the Wealthsimple Invest product. Since the launch of Wealthsimple Invest, Wealthsimple has introduced more ways for investors to reach their goals and manage their money. ShareOwner operates an online brokerage platform that provides commission-free trading and high-interest savings through the Wealthsimple Trade product. Wealthsimple now provides digital financial services to more than 2.5 million customers in Canada, almost 80% of whom are aged 40 and under.

Definition of "Serious Misconduct"

IIROC proposes to introduce a definition of "serious misconduct" that is principles-based, with the intention of focusing IIROC's ComSet Reporting Requirements. We believe that the proposed definition of "serious misconduct" is much too broad, which would create an unduly burdensome reporting requirement for dealer members.

We note that the first prong of the definition of "serious misconduct" is "any activity which creates a reasonable risk of material harm to a client or the capital markets" and includes, but is not limited to, a list of matters set out in paragraphs (a) through (p) of the definition. The phrase "reasonable risk of material harm" is overly broad, and may extend to matters beyond securities law, and thus outside IIROC's jurisdiction. IIROC notes that it plans to issue guidance with the final version of the Proposed Amendments that provides clarification regarding the interpretation of "material harm" and "serious misconduct activities." Therefore, IIROC members are not able to consider and comment on this guidance before the Proposed Amendments are finalized. We submit that the items listed in paragraphs (a) through (p) should be an exhaustive list of items IIROC considers "a reasonable risk of material harm to a client or the capital markets." If there are additional items that IIROC believes should be reported, they should be included in this list rather than outlined in subsequent guidance. This approach will give members certainty regarding the items that must be reported pursuant to this rule, which will avoid an unduly burdensome reporting and investigative process. This is particularly the case for matters that are not related to securities law, and where there may be other reporting and investigative processes for the matter that are more appropriate than those required by IIROC.

The second prong of the definition of "serious misconduct" is "any other instance of material non-compliance with IIROC requirements, securities law or any applicable laws." We believe a requirement to report material non-compliance with any applicable law is overly broad. Therefore, we submit that the reference to "applicable law" in the definition of "serious misconduct" should be deleted. The inclusion of "any applicable law" in the definition extends IIROC's reporting and investigation requirements to matters that are not related to securities law, and thus outside IIROC's jurisdiction. It could also lead to duplicative processes whereby dealers have to report material non-compliance of law to IIROC, as well as another body having jurisdiction over the matter. Similarly, dealers may have to comply with IIROC requirements and other legal requirements regarding the investigation of the matter. IIROC has not provided adequate justification for the expansion of the reporting requirement to a material breach of any applicable law. IIROC should instead specifically outline in the definition of "serious misconduct" which breaches of law, other than securities law, it considers serious misconduct that must be reported.

Reporting Requirements

We believe that the reporting requirements for Approved Persons and employees set out in sections 3710 and 3711 of the Proposed Amendments are too broad. Specifically, the requirements for Approved Persons and employees to report to the dealer, and in certain circumstances for the dealer to report to IIROC, if the Approved Person or employee:

- is charged with a criminal offence, as this requires reporting of an unproven allegation;
- is subject to an investigation by an SRO, professional licensing or registration body, as an investigation is preliminary in nature and the individual subject to the investigation may have very limited information about the nature of the investigation;

- is named as a defendant or respondent in any investigation alleging a contravention of any securities laws or applicable laws, as an investigation is preliminary in nature. Additionally, including "applicable law" makes this provision unduly broad and would require the reporting of items outside IIROC jurisdiction;
- is subject to a pending legal action, including a civil claim or arbitration notice alleging serious misconduct, as this requires reporting of an unproven allegation. Additionally, as discussed above, the definition of "serious misconduct" includes material non-compliance with any applicable law, which would require Approved Persons and employees to report unproven allegations regarding issues outside IIROC jurisdiction.

Further, we do not believe IIROC has provided enough justification for why the reporting requirements must extend to any employee of the dealer, instead of only Approved Persons or registered persons.

We do not believe that the net positives of these expanded reporting requirements described in Appendix 8 outweigh the negative impact on dealers and their employees. We believe there will be a material cost related to having to develop monitoring and reporting processes to implement these requirements. We also have grave concerns regarding the fundamental breach of privacy of Approved Persons and employees arising from having to report practically any investigation or legal proceeding to their employer and, potentially, their regulator, particularly when the matter is completely unrelated to securities law and IIROC jurisdiction. The only benefit noted from these requirements is that they enable IIROC to better inform its examinations of firms and assess an Approved Person's or employee's fitness for registration. We do not believe this minor administrative benefit to IIROC outweighs the fundamental concerns we have about undue regulatory burden and invasion of privacy.

Timing Concerns

Our understanding is that IIROC and the MFDA will merge into a new self-regulatory organization ("**SRO**") at the end of the year. On April 5, 2022, the Canadian Securities Administrators ("**CSA**") published a notice stating that the CSA and the new SRO, once established, will work on a harmonized rule book for investment dealers and mutual fund dealers. Therefore, we believe that asking stakeholders to review and comment on changes to IIROC's complaint handling rules, without details of what will be carried forward into the rulebook of the new SRO, is an inefficient use of time and resources. It would be a further inefficient use of resources for IIROC to implement the Proposed Amendments prior to December 2022, and for dealers to spend time implementing new policies and procedures to comply with these rules, only for the new SRO to subsequently propose amended complaint handling rules. Therefore, we recommend that IIROC postpone the consultation on the Proposed Amendments until after the new SRO complaint handling rules are proposed and stakeholders have time to review these rules.

We are happy to discuss any questions you may have on the above.

Yours very truly,

"Blair Wiley"

Blair Wiley
President
Canadian ShareOwner Investments Inc.