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April 15, 2024

Member Regulation Policy
Canadian Investment Regulatory Organization
Suite 2600
40 Temperance Street
Toronto, Ontario M5H 0B4
e-mail: memberpolicymailbox@ciro.ca

Dear Member Regulation Policy:

**Re: CIRO Bulletin 24-0067 – Request for Comment – Proposed Rule Amendments
Respecting Fully Paid Securities Lending and Financing Arrangements**

Wealthsimple Investments Inc. (WSII) is pleased to provide comments to the Canadian Investment Regulatory Organization (CIRO) on its proposed amendments to the Investment Dealer and Partially Consolidated (IDPC) Rules and IDPC Form 1 (Form 1) relating to fully paid securities lending and financing arrangements (Proposed Amendments). WSII supports CIRO in its objective to codify measures that have proven effective, preserve investor protection and remove the need for Board exemptions.

WSII has collaborated with the Investment Industry Association of Canada's (IIAC) in its consideration of the benefits and opportunities that should be available to retail investors, the desire to create a more level playing field with traditional lending arrangements and the costs of the proposed amendments. WSII endorses and supports the recommendations and analysis submitted by the IIAC and our comments are focused specifically on the need for *investor opportunities and benefits being expanded and collateral that meets investor protection concerns being maintained*.

Investor opportunities and benefits should be expanded

In its request for comment, CIRO put forward a question on whether a dealer member should be permitted to borrow an expanded list of securities from their retail clients. WSII's answer is yes, and that all securities that meet the *Income Tax Act (RSC, 1985, c. 1 (5th Supp.))* definition of a qualified security should be eligible for retail fully paid securities lending programs. WSII recognizes CIRO's concern that market manipulation may increase if the types of securities being lent are not actively traded or not widely held. However, due to the relative size of the current fully paid securities lending market in Canada, we believe that expanding the eligible securities list would not give rise to a significant increase in risk for market manipulation. Additionally, Policy 2.2 - Manipulative and Deceptive Activities of the Universal Market Integrity Rules already prohibits market participants from engaging in manipulative or deceptive behaviour. WSII believes that industry participants

would be better served if CIRO, and the dealer members it regulates, dedicated more resources to preventing and detecting manipulative and deceptive activities rather than limiting lending opportunities for retail investors.

Lastly, WSII believes expanding the list of eligible securities to meet the *Income Tax Act's* definition of a qualified security would benefit retail investors by leveling the playing field with traditional institutional lending arrangements that already permit the lending of these securities. The opportunities and benefits for retail investors are limited compared to that of institutional investors if this imbalance is maintained.

Collateral that meets investor protection concerns is maintained

WSII believes that cash collateral valued at the full market value (100%) of the securities borrowed has, to date, provided sufficient protection of investor assets. By changing the minimum cash collateralization requirement from 100% to 102%, CIRO departs from Canadian industry standard which requires 100% cash collateral for transactions between dealer members and other financial institutions. This would negatively impact dealer members as they would be responsible to fund, from the dealer's own cash position, the additional 2% collateral shortfall to the retail client's trust account. Furthermore, the increase in minimum collateral required would also negatively impact retail clients, because fewer loans would be profitable for the dealer, resulting in fewer loans transacted overall and thus less revenue earned by clients. Rule 4624(3), and corresponding guidance, should continue to require 100% of the market value of the securities borrowed as collateral.

We hope that our comments will be received positively by CIRO, and are helpful in finalizing the Proposed Amendments. We welcome the opportunity to discuss our comments with you.

Yours very truly,

"Blair Wiley"

Blair Wiley
President

cc: Lia Mathiesen, *Wealthsimple*
Catherine De Giusti, *Wealthsimple*