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BY EMAIL

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British Columbia Securities Commission
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Dear Sirs/Mesdames:

Re: Notice and Request for Comment - Consulting on the Securities Law Framework for Fintech Regulation (the "Notice")

The Canadian Advocacy Council[1] for Canadian CFA Institute[2] Societies (the CAC) appreciates the opportunity to comment on the Notice. While some of the questions posed with respect to technological innovations are outside our specific expertise, we wish to provide the following general comments on some of the issues raised in the Notice.

A recent study by CFA Institute of more than 3,000 individual investors and 800 institutional investors across 12 markets, including 501 retail investors and 36 institutional investors in Canada, identified that technology enhances investor trust. Investors of all ages and from all regions want more technology applied to investing, and trust in technology is generally high. Moreover, the effective use of technology increases trust in a financial adviser or firm, and new blockchain technology holds the promise of creating more trust in the system[3].

As identified in the Notice, regulation needs to keep pace with technological innovations. It is important to balance the need to create a stable environment conducive to innovation and capital formation with your stated mission of protecting and promoting the public interest by fostering (i) a securities market that is fair and warrants public confidence; and (ii) a dynamic and competitive securities industry that provides investment

[1]The CAC represents more than 15,000 Canadian members of CFA Institute and its 12 Member Societies across Canada. The CAC membership includes portfolio managers, analysts and other investment professionals in Canada who review regulatory, legislative, and standard setting developments affecting investors, investment professionals, and the capital markets in Canada. See the CAC's website at http://www.cfasociety.org/cac. Our Code of Ethics and Standards of Professional Conduct can be found at http://www.cfainstitute.org/ethics/codes/ethics/Pages/index.aspx.

[2] CFA Institute is the global association of investment professionals that sets the standard for professional excellence and credentials. The organization is a champion for ethical behavior in investment markets and a respected source of knowledge in the global financial community. The end goal: to create an environment where investors' interests come first, markets function at their best, and economies grow. CFA Institute has more than 155,000 members in 165 countries, including more than 148,900 CFA charterholders and 149 member societies. For more information, visit www.cfainstitute.org.

[3] CFA Institute, The Next Generation of Trust: A Global Survey on the State of Investor Trust, online https://nextgentrust.cfainstitute.org/wp-content/uploads/2018/03/CFAITrust-Global-Report.pdf.

opportunities and access to capital. We support the effort of the BCSC to collaborate with businesses and to provide much needed regulatory clarity in the fintech space.

We understand that some Canadian financial institutions will not invest in ICOs or cryptocurrencies, and may choose not to do so until they are subject to clear regulation. Certain Canadian banks have recently prevented their branded credit or debit cards from being used to purchase cryptocurrency, which underscores the need for regulation in this area while balancing the need not to stifle technological innovations.

Capital raising methods such as crowdfunding and ICOs are alternative means of raising capital, and require the same amount of regulatory scrutiny as more traditional methods. Given the innovation (and pace of change) occurring within the fintech industry, it would be preferable for all Canadian regulators to pursue a harmonized regulatory response. We would encourage staff to consult and work with other jurisdictions prior to finalizing any regulatory response to an industry that impacts all Canadians equally.

Crowdfunding

Some of the questions in the Notice focused on the crowdfunding method of capital raising. We support regulatory measures designed to assist the capital raising needs of Canadian issuers, while still strongly emphasizing the importance of investor protection. We believe that investor protection in the exempt market is best enhanced by providing clear risk disclosures, taking steps to verify eligibility to participate in the market, and implementing a best interest standard on all registrants.

We have previously expressed some concerns with respect to the crowdfunding prospectus exemption. Many market participants agree that crowdfunding investment decisions may be emotions-based, which would result in a precarious situation for investor protection. Nevertheless, as the crowdfunding exemption has been adopted, we do concur that the current caps are too low to make the exemption effective. It would be more economically feasible if the individual offering limits were higher. We think a limit of $1.5 million could be sufficient for issuers to raise start-up capital while still offering investors some protection. We have considered though that the appropriate cap may be fact be industry specific, as, for example, technology start-ups are quite a bit more capital intensive than other start-ups. In all circumstances, if the maximum limit is too low, it could set up an issuer for failure before it has even really begun operations. However, if the limit is set too high, an offering might result in an unworkable number of small investors with a high cost of communication. If the cap is increased, we note that it would be useful for investors if the issuers were required to identify and periodically disclose key metrics related to the success of the venture (e.g. burn rate).

We are of the view that the exemption should continue to be restricted to non-reporting issuers. If the exemption is intended to address a funding gap for small and medium sized issuers, there should not be a need for public companies, which are already subject to an expensive continuous disclosure regime, to raise money through this specific exemption.

Additional restrictions could be considered to address concerns relating to investors with low financial literacy and/or minimal investment experience. Timely and effective enforcement with respect to misuse of the exemption continue to be key.

While we believe the caps should be increased as set out above, it is more important that the exemption be harmonized across the country given the small amounts of capital that can be raised.

ICOs and Cryptocurrencies

We have been advised that ICOs have indeed had an impact on crowdfunding opportunities as an alternative source of financing, particularly given the relative lack of regulation when compared to the crowdfunding regime. One likely impact is that non-ICO related crowdfunding financing has lessened as potential issuers are "tokenizing" their product in order to participate in an ICO, partially due to the potential higher upside.

With respect to cryptocurrency exchanges, there has been some industry stakeholders who are actively working to address some of the issues that have been identified in the Notice. For example, the Japanese regulators have recently announced that the world's top crypto-exchange, Binance, will require a licence to operate in the country. We understand that the top U.S. exchange, Coinbase, is sharing some customer data with the IRS. In addition, hedge funds are being created to provide liquidity between markets.

Some of the issues relating to trading cryptocurrencies could be addressed if there were licensing requirements for cryptocurrency exchanges in each jurisdiction within which they operate. The focus of such requirements could be on consumer protection measures, KYC/AML and compliance. In addition, when investment fund managers are making allocation decisions, they may wish to invest in cryptocurrencies through ETFs only.

It may be prudent to consider limiting investments in cryptocurrencies to accredited investors, or to persons who could otherwise purchase securities with the benefit of a prospectus exemption. Education of and disclosure to investors to the effect that a portion of their investment will be held in non-fiat currency and the associated risks thereof are also important.

A key challenge remains the ability to secure cryptocurrency holdings to protect against theft, as many existing precautions for securing cash and securities do not apply to digital currencies. That challenge could be addressed in part by storing cryptocurrencies in hardware wallets (physical device that store private keys and currency locally with no connection to the internet), and keeping those wallets themselves secure in safety deposit boxes or otherwise.

KYC and Suitability Obligations in an Online Environment

The Notice seeks information with respect to future sources for KYC and suitability information. We understand that there are already platforms available that automate the process for completion of subscription documentation to assist dealers and issuers when selling exempt securities. In addition, we understand that when opening up custodial accounts for cryptocurrencies, the process is completed online, including KYC and identification requirements.

We understand that the process for onboarding clients for an adviser is disproportionately difficult in an online environment when compared to a bricks and mortar operation. The online process requires multiple questions and touchpoints and can be frustrating for end users. In addition, the cost of making a "live" adviser available is not always proportional to the risks relevant to very small investment amounts.

While we are of the view that the regulations should apply equally to all delivery channels, we note that algorithms in an on-line adviser model may be able to learn more about the investor during each interaction, and thus ask more targeted KYC questions from those initially asked as investments flow in and out of the account.

Concluding Remarks

We thank you for the opportunity to provide these comments. We would be happy to address any questions you may have and appreciate the time you are taking to consider our points of view. Please feel free to contact us at cac@cfacanada.org on this or any other issue in future.

(Signed) *The Canadian Advocacy Council for*
Canadian CFA Institute Societies

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