"Responding to the Challenges of Evolving Markets"

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Good morning. Thank you for the opportunity to speak with you today. When I was looking at the agenda for today's conference, the themes were very familiar to me. They are the same issues that we are considering as securities regulators.

This morning I wanted to talk to you about the first theme, and that's data and technology and how it's driving change for regulators. I'll focus on a few things that are common for business and regulators:

- First, understanding the disruption of financial services here and considering how we need to respond;
- second, the need to understand new business models, both for their potential and for their risks; and,
- finally, how to adapt to these changes to position our organizations for long-term success.

These are challenges that all of us face in one form or another as we transition to a data-driven economy and adjust to a faster pace of change – and there's no doubt it's faster. This is equally true for regulators, as well as for industry, governments, central banks and all other institutions. We are all looking to understand the evolving power of technology to serve the needs of the market, to run our organizations more efficiently, and to use data while maintaining the security and the privacy of important personal data.

This is a major transformation that has implications for Canada's long-term prosperity. It is important that we get this right because we can't afford to be left behind. Our economy is positioned in a very good place, with large technology builds within our organizations. However, the access to data is too difficult for many. These are timely, and critically important discussions to be having today.

This morning, I'm going to talk about three ways in which the OSC is responding to the challenges of evolving markets:

- First, by adapting how we interact and respond to data and technology-driven changes in the financial markets;
- second, by modernizing our approach and organization to reduce regulatory burden, and,
- finally, by enhancing our understanding of new economic sectors and technology platforms so they can thrive.

Adapting to technology-driven changes in financial services

I'll begin with the changes in financial services. A few years ago, we began to see the emergence of new financial solutions and new business models catering to a new generation of consumers who trust technology, but not necessarily banks. These consumers have come to expect on-demand financial services anytime, from anywhere, and with no friction. People wanted more than just interacting with bank apps.

We saw the rise of new automated advisory services that offered investors a fully automated online service to invest in simple portfolios. We have also seen the use of AI in automated portfolio management. Additionally, we saw a surge in new ways to fund entrepreneurs and startup businesses, like crowdfunding platforms and new ways to access capital such as peer-to-peer lending.

These businesses don't operate under one regulatory regime but naturally span numerous regulatory frameworks. This makes registration and regulatory oversight more complex and confusing. It has challenged the oversight model immensely.

At the OSC, we knew we had to take a new and more nimble approach to regulating these businesses. That's why we started OSC LaunchPad in 2016. LaunchPad is the OSC's in-house team that engages directly with new and novel businesses and helps them navigate securities regulation. It gives them time-limited relief to test their ideas in a "sandbox" environment. We have had a lot of success with LaunchPad.

One example is a company called AngelList, which is an online platform that offers services to facilitate access to venture capital and angel investing by accredited investors. We worked with AngelList to develop an onboarding process that helped determine each accredited investor's experience and knowledge in venture capital investing, and to understand the risks of the businesses they were investing in. We also helped them develop tailored risk disclosure for investors that is easy to understand. In addition, we worked with them to have third party adjudication of the investments posted on their platform. This allowed investors direct access to investments which were appropriate for them to consider, well explained, and with risks clearly articulated.

These are core principles of investor protection that underpin market safety and confidence, so they are non-negotiable for the OSC. This is the basis of any market that wants to thrive. If investors don't have confidence that it's a fair and level playing field, they will not play. However, we know we can be flexible in our expectations of how those principles are achieved, depending on the type of business we're working with.

Another company we worked with is Wealthsimple, which is an online advisor that makes discretionary money management accessible to all consumers, including those consumers who only have very small amounts to invest. This is important, because as markets are becoming more and more complex, the size of the portfolio required to enter into those markets and receive good advice is growing and growing.

We worked with Wealthsimple to develop their client onboarding process to ensure appropriate internal controls, and to ensure that investor protections are built into the process. We also worked with them to meet the KYC and suitability obligations of a portfolio manager through technology solutions, and to provide investors with appropriate disclosures in a way that is accessible and easy to understand.

We've met with hundreds of these businesses, and we've watched as Ontario – and especially Toronto – grow as a hub of innovation. We have learned along the way and we are now much more open to achieving our core principles in new ways. I want to publicly thank them for helping us grow. However, more needs to be done to support the development of these businesses. They face many hurdles – not only from regulation.

For one, they need access to financial data to both develop, test and scale their solutions. Data is difficult to access, and it is rare that incumbent businesses allow their customers to share this information with other service providers. I believe that our growing fintech industry will not be able to excel unless there is better access to their clients' data.

Canada needs to consider new rules for the usage and ownership of data about Canadians, as they have in other jurisdictions like the E.U. I believe that Canadians should have more control and access to their own personal financial data so that they can try other value-add services that make their lives easier.

If we do not change our current views on data and look at the data charter, we will see innovators set up businesses elsewhere and we will lose out on great jobs for Canadians. We will lose our talent – which builds multiple businesses – and innovation will simply not thrive here. We have too much to lose not to act and to make data more accessible.

Regulators also have a role to play in making it easier to start, fund and grow a business – which is part of the impetus behind our burden reduction initiative, and which leads me to my second theme.

Modernizing our organization to reduce regulatory burden

At the OSC, while we were adapting our approach to new business models, we also needed to look at our rules and processes and our own behaviours to see how we could regulate more effectively and make things easier for the businesses we regulate. We needed to assess whether our existing rules and processes still make sense for today's markets.

We started slowly reducing burden rule by rule a few years ago, however, that would have taken too long, so in response to a red tape reduction focus by our government, we began our organization-wide focus on burden reduction about a year ago.

Two weeks ago, we published our report on reducing regulatory burden in Ontario's capital markets. Our report contains 107 tangible initiatives the OSC will undertake to save time and costs for participants in our capital market.

In looking at these, we have costed out about 20 of these today. It's just under $8 million a year we will be saving for businesses. As well, we will be looking at fee reductions in the near future. Over the next five years we will be saving substantial amounts of money for businesses without lowering investor protection at all. These reforms range from changes to our day-to-day processes, to longer-term policy initiatives we will be undertaking with the CSA.

The firms and individuals we regulate will see better coordination between the OSC and our regulatory partners, resulting in less duplication of requirements, more coordinated reviews and more harmonized rules. We are also making a commitment to improving communication with those we regulate, whether it's using more plain language in our rules and guidance or providing more clarity about our requirements.

In addition, we are working to make important information for issuers and registrants more easily accessible, including the launch of a new public website. Overall, we are taking a more modern and tailored approach to regulation that considers different types and sizes of businesses and allows for innovative ways to demonstrate compliance with our rules and principles.

For us, our burden reduction initiative is an important step in an ongoing process of modernization which will be supported, beginning next year, by a new OSC Office of Economic Growth and Innovation. We will use the lightest touch possible to achieve our mandate, so businesses spend less time on regulatory compliance and more time on growing, innovating and responding to changes in the marketplace.

Building our understanding of new sectors and technology platforms

This brings me to the last area I'll cover today, which is how we are responding to the rapid growth of new sectors in our market. This phenomenon is nothing new – regulators have always had to adapt to market developments – but in just the past few years, we've seen two major changes that have really changed how the marketplace works and what you can buy in the marketplace. Allow me to touch on them briefly: the rise of a public cannabis market in Canada and other jurisdictions, and the rise of crypto assets.

With cannabis, it's the development of a brand-new industry that began with Canada's legalization of medical cannabis, followed by recreational cannabis. We are still the only G20 country to have legalized both.

We have had to learn quickly about this new industry – how these businesses operate, how they are governed, the controls over this product and a detailed understanding of where the risks are. We have had to ensure that our disclosure regime is effective and is being applied appropriately, so that investors understand all the risks of their investments

In the early stages of this industry as retail investors jumped on board, there were many cases of overly promotional statements, overly aggressive speculation, and some examples of market manipulation that often come with that kind of speculation. Currently, we are seeing the beginning of the maturation of this industry as consolidation happens, forecasts are becoming more reasonable, and prices are falling back down to earth.

We have worked to provide timely guidance to both issuers and investors, particularly on matters of disclosure. Most recently, it was about disclosure of conflicts of interest related to cross-ownership in mergers and acquisitions.

With cannabis, we had a regulatory model to follow as it is really an agricultural product, but we had to truly understand the legal, financial and business risks of these products. I can tell you one thing for sure: I know more about the cultivation, sale and distribution of cannabis and hemp than I ever thought I would. We even have a team of lawyers and analysts on staff that we affectionately call “Team Weed”.

This business has really changed capital formation in this country over the last year and a half because all the funding that was going to it. It was new, it was sexy, it was growing. Again, not something I would have ever predicted, but it highlights how we’ve needed to adapt quickly to change.

The same is true with the regulation of crypto assets, which is happening on a global scale. Other jurisdictions around the world are dealing with the same issues we are, and this is an area of intense cross-border collaboration among securities regulators. One of the primary challenges we have is determining which of these crypto assets and their associated trading platforms fall under our jurisdiction.

These assets do not fit nicely into traditional categories of financial products, and in some cases span multiple categories – securities, commodities, derivatives, and of course currencies.

It is not just about Bitcoin, Ether or Ripple. We have found that many of the coins and tokens being offered in the market constitute securities for the purposes of securities laws, because they are really investment contracts. In these cases, the businesses involved are subject to regulations relating to disclosure, registration as a dealer or advisor, marketplace requirements, or derivatives reporting.

With our CSA colleagues, we have done a lot of work to provide clarity around the regulation of digital assets for the Canadian market. But we know that these technologies are still in their infancy. Coins are just at the beginning of this journey, and we need to be ready for the many twists and turns to come as blockchain reaches maturity.

Conclusion

In conclusion, for businesses competing in global, data-driven markets, there's a need for new ways of thinking and a need to take a big-picture view. This applies equally for the governments and regulators overseeing them. This is a transformational time; what's at stake is Canada's competitiveness. We live in a global economy and companies, capital, and investors can, and do, go anywhere. We need to be thinking about how to nurture companies and attract investment here in Canada. At the OSC, we are doing our part – challenging ourselves to be a modern, dynamic regulator that looks forward and collaborates with others to prepare for the future.

Our work is increasingly data-driven, using equity data, debt data, derivative data, asset management data, market transaction data and, of course, compliance data, to name a few. We collect all of this on a daily basis. We know we how to use this data: how to analyze it, to identify and respond quickly to changes happening in the market, and to anticipate the ones that are coming.

I would like to stop here for a moment on "the ones that are coming". We are always looking ahead for potential ways that market developments will affect systemic risk – the risk that turns our economy, slows it down, and causes problems for investors and businesses. At the same time, we are continuing our work to reduce burden for those we regulate and to keep up with new developments in business.

And finally, it's critical to all our success that we continue to cooperate and share ideas. This conference is a great opportunity to do that, so take full advantage of it, and have a great day.

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