

**CIPF Podcast Series – Innovation  
No. 19 – Regulating Financial Innovation**

Transcript<sup>1</sup>

Narrator:

You are listening to the Canadian Investor Protection Fund podcast channel. Here, we connect with industry leaders and experts in the financial sector.

Odarka Decyk:

Hello and welcome to the CIPF Podcast Series on Innovation. I'm Odarka Decyk, Senior Vice-President, Membership at the Canadian Investor Protection Fund, or CIPF for short. I am so pleased to have Suzanne Lasrado as our guest today. Suzanne is the Vice-President, Member Services and Innovation at Canadian Investment Regulatory Organization, or CIRO for short. Suzanne, welcome. We are delighted to have you here with us.

Suzanne Lasrado:

Thanks, Odarka. Glad to be here.

Odarka Decyk:

Our topic for today's podcast is Regulating Financial Innovation. During today's discussion, we will get some background information about CIRO, which may be new to some of our listeners who are more familiar with its predecessor organizations, IIROC and MFDA. We will also get some updates on the types of innovations that CIRO is seeing at this time and what CIRO is doing to support these industry initiatives while balancing the need to protect investors. Lastly, we will end the discussion with some key takeaways from our crypto-focused roundtable discussion that CIRO organized earlier this year and some next steps.

To begin, let's start with our first question. Suzanne, can you provide some background remarks about CIRO?

Suzanne Lasrado:

Yes, sure. I think the official description is that we are the pan-Canadian self-regulatory organization that regulates investment dealers and mutual fund dealers in Canada. And we also monitor the trading activity on all Canadian equity and debt marketplaces. Essentially, what that means is we regulate the investment industry in Canada, and that means that we have a responsibility to ensure that investors are protected and that trading on Canadian marketplaces is essentially fair for everyone.

Because we are a self-regulator, we do it under the oversight of the 13 Provincial Securities Commissions. They function under the umbrella organization called the Canadian Securities Administrators or the CSA.

---

<sup>1</sup>This transcript has been edited for clarity and ease of reading. This podcast is for informational purposes only and is not intended to constitute advice of any kind.

That is essentially what we do and, I think, Odarka, as you pointed out, we amalgamated this year. If you haven't really heard of CIRO before, it's not because we are new. It's just because we have a new name. But both IIROC and the MFDA have been around for decades, essentially regulating investment dealers and mutual fund dealers respectively. That is the shortest description of our organization.

Odarka Decyk:

Well, thanks, Suzanne. That's great. Now we understand that one of CIRO's priorities is supporting industry innovation. As the industry's self-regulatory organization, what types of innovations are you seeing from your member firms?

Suzanne Lasrado:

I think our firms, both investment dealers and mutual fund dealers typically, are always looking for new ways to do things. Particularly as it pertains to products and services, they are always looking for ways in which they can continue to meet their clients' changing needs and demands. But more pervasively, I guess, across the industry, some of the innovations or a lot of the innovations, I should say, that we are seeing are really related to the adoption of automation and digitization and technology.

I mean, the pandemic hustled in a lot of technological innovation and changes in order to enable more remote work. Firms are building off of that evolution and transformation. Right now, again, what we're seeing is a lot of interest in artificial intelligence and, in particular, generative AI, which is now becoming interesting not just to investment firms, but everyone, really, because of the wild success of ChatGPT.

I think we also see digital ledger technology is generating a fair bit of interest, primarily I think from the perspective of our firms, because of this immutability and decentralization of record keeping. It has a lot of use cases, particularly in ensuring accurate and complete records.

That's across the board, but one of the areas where there is a lot of innovation happening is in the crypto space. It is not just transforming in the types of assets and tokens and products that are being created, but also in how the crypto industry is impacting other sectors and industries, like payments and investments and settlements, for example. I think those are some of the key changes that spring to mind.

Odarka Decyk:

Okay, thank you. Very interesting. What is involved in supporting these industry initiatives? And are you engaging in conversation with members about how the rules would apply to these innovative business ideas? Is it leading to new rules or guidance or combination of both?

Suzanne Lasrado:

I mean, as an SRO, we really value industry engagement. It helps us understand trends, risks, challenges, and even implications, the practical implications of some of the rules that we want to propose.

When firms are coming to us because they have a business line or an offering that they want to be involved in, and it may be new or novel, what we do is have a conversation with them about what

they are proposing. If the proposal doesn't raise significant investor protection or market integrity concerns, then we essentially talk to them about how the existing rules would either apply to what they want to do, in which case we would issue guidance or an interpretation. That's the quickest and simplest way to do it. But if it isn't contemplated within our existing rules, now we need to determine whether what the firm is proposing is specific to the firm, or what they're proposing could potentially apply to the entire industry, or both.

If it's firm specific, then we consider granting an exemption from certain rules and impose certain terms and conditions. If it's industry-wide, now we are going down the path of proposing rule amendments and changes. We are trying to figure out how we can now cement it, so to speak, into our rule book.

But I do actually want to point out, Odarka, that the way the innovation function, or at least the way I'm envisioning the innovation function working, is that, yes, we have got firms coming forward to us with things that they would like to do, but then there is also a whole host of changes that are not specifically driven by firms necessarily. Rather, they pertain to changes that are either coming or changes that they are forced to deal with. And this is where the innovation function would also be involved.

We would look ahead to see what is coming out there that could potentially impact investors, our firms, our marketplaces, so that we can plan and get ahead of it. And that requires a different roadmap. We are thinking more planning, research, more engagement, white papers, and education. I mean, a good example of this is the work we do on cybersecurity. We do self-assessment surveys, tabletop exercises, and webcasts and education. We send alerts on cyber threats and vulnerabilities to our firms.

These are some of the tools that we would use to essentially help support transformation in the industry. This transformation the industry would like to implement, and there is some that they would be forced to deal with, and that is how our innovation function would help support that.

Odarka Decyk:

That's great, Suzanne. Thank you. I mean, certainly you want to support industry innovation, but you also have a responsibility to act in public interest and protect investors. There is a balancing act that you need to play as a regulator.

Suzanne Lasrado:

Yes.

Odarka Decyk:

How do you balance that need for investor protection and innovation?

Suzanne Lasrado:

That is a great question. I spend a lot of time thinking about that, but I think the way I see CIPF's innovation function... It is to support growth and transformation in our industry that leads to better outcomes for investors. When you remind yourself that, at the end of the day, that this is the objective... Does this create better outcomes for Canadians? It's not really terribly difficult conceptually to determine, whether what is being proposed is responsible, good innovation.

Now, the devil, of course, is generally in the details of the proposal not often at the concept level. Because almost all of the times, firms that are coming forward with proposals and solutions are doing it, because they truly believe that it does create better outcomes for their clients. Because ultimately, they know that if it doesn't, then they don't have a long-term viable solution or idea. The balance that we are trying to find is really working through the details of how firms want to implement their novel and innovative ideas, not quite the idea itself, if that makes sense.

Odarka Decyk:

Yeah. No, that is great. You have mentioned crypto a couple of times and there are some CIRO firms offering crypto-related services. Earlier this year, CIPF participated in the crypto-focused roundtable discussion that you and your team organized. What were some of key takeaways from that discussion?

Suzanne Lasrado:

The primary objective of conducting that roundtable discussion was to help CIRO enhance our crisis management procedures for firms who trade in crypto. It is no big secret that all organizations should have disaster recovery and business continuity plans. They should have incident response and crisis management plans. CIRO is no exception.

In a situation today where a regulated CIRO member is in crisis or has to wind up operations, as you know, Odarka, we work closely with CIPF to make sure that the wind down is orderly so that investors can get their assets back as quickly as possible, and that the firm's crisis or the firm's wind down minimizes disruption as much as possible to the stakeholders and the system that relied on that firm. Really, what we are trying to do is look at our crisis management procedures from the perspective of a regulated crypto firm since today, our existing procedures for traditional securities firms would not apply entirely to a crypto firm. We needed to understand the intricacies and nuances, so to speak, of these operational differences, so that we would be prepared to deal with a crypto firm that was in crisis if that were to happen. Essentially, the roundtable really helped us with that objective.

The industry participants were wonderfully open and candid about how they operated, how they would respond, and really gave us some really good ideas and suggestions to help us in terms of what CIRO would need to ensure that we can effectively minimize that harm and disruption.

That was essentially one of the takeaways, but while I am talking about this, though, I just want to point out that this protection, this oversight is one of the many reasons why investors should always make sure that the platform that they are using to invest in crypto is authorized to do so. The CSA has a list of firms on their website that are authorized to trade in crypto. Always check this list to make sure that the firm that you are trading through has their name on this list.

Odarka Decyk:

Thanks, Suzanne. That is great advice. Having conducted this roundtable, do you have any next steps for CIRO?

Suzanne Lasrado:

Well, yeah, we are updating our crisis response policies and procedures. That's the key next steps that we are involved in. In my mind, at least to me, another really cool takeaway from that roundtable was in the value of continuing engagement with the crypto industry. What we are doing now is creating avenues to enhance engagement with our crypto firms and their counterparties, so that we can try to leverage off of their expertise and insights just to help us with meeting our mandate and making sure that we are protecting investors, and making sure that trading on marketplaces in Canada is fair for everyone.

Odarka Decyk:

Suzanne, it was a pleasure having you with us today. It has been a very interesting discussion as we imagine how the industry could evolve with financial innovation.

Three key takeaways that I have drawn from the session today are: First, who is CIRO? CIRO is the national self-regulator for the investment industry and all marketplace trading in Canada. Second was your advice to investors that any investors looking to buy-sell crypto and digital assets should look up CSA's website to ensure that they are purchasing, selling only from crypto trading platforms identified on the list. Last was your comment about how CIRO will continue to engage the industry to help us identify emerging trends and understand and manage risk associated with those changes, not just related to crypto but all innovation in the investment industry.

We have now come to the end of our recording. Suzanne, thank you again for taking the time out of your busy schedule to provide these insightful observations. And we would like to thank the listeners for their attention and hope that they found the discussion interesting.

Suzanne Lasrado:

Thank you. Thanks for having me.

Narrator:

Please subscribe to our podcast and follow us on social media to stay up to date on all CIPF podcasts. More information about the speakers and what we discuss today can be found in the show notes. Please note that this podcast is for informational purposes only and is not intended to constitute advice of any kind. Thank you for listening.