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FAIR Focus: Cracking Down on Cryptos

These days, there are a lot of newspaper and social media stories about a new and wonderful investment called “crypto assets,” which are often portrayed as a sure way to make money. Despite all the hype, the reality is that the world of crypto assets is still largely uncharted territory and carries many risks for you as an investor.

Did you know that of all the crypto asset trading platforms offering to help you buy or sell crypto assets, only one company in Canada is currently authorized by securities regulators? And, that one company, Wealthsimple Digital Assets Inc., is subject to several restrictions designed to protect you as an investor.

Given the collapse of QuadrigaCX, at the time the largest cryptocurrency exchange in Canada, regulators have been pushing those involved in trading crypto assets to comply with regulatory requirements.

If you are not familiar with QuadrigaCX, it was the next best thing until it came crashing down in 2019. In the process, thousands of investors like you lost their investments (in total about $170 million) because of fraudulent trading by QuadrigaCX. The Ontario Securities Commission (OSC) conducted a review of QuadrigaCX to understand what led to its downfall. This review can be found at: **https://www.osc.ca/quadrigacxreport/**.

A big lesson for any investor is to take time to look into who you are dealing with. And do not assume, regardless of what form your investment is in, that it is in good hands or properly safeguarded.

Last month, Grant Vingoe, the Chair of the OSC summed up the current state of affairs: “Unregistered crypto asset trading platforms expose […] investors to significant risks, including potential loss, theft and misuse of their assets. The recent explosion of unregistered platforms has magnified these risks.”

The Canadian Securities Administrators (CSA) and the Investment Industry Regulatory Organization of Canada (IIROC) reminded those trading in crypto securities or derivatives that they are subject to regulation. As such, they must take steps to comply with existing legal requirements. Louis Morisset, the Chair of the CSA, made it clear that failure to do so could result in enforcement action against such companies or individuals.

What does this mean for you?

- If you are thinking about investing in crypto assets, be extra careful.
- Always check to see if the platform you are dealing with is regulated and in compliance with those regulations. Otherwise, there may not be anything protecting your investment from being misused or even stolen.
- One place to check is the CSA's list of firms and individuals who are licensed to carry on business. It only takes a few minutes to check. This list is available at **https://www.securities-administrators.ca/nrs/nrsearchprep.aspx**.

Can You Afford to Lose $90,000?

On March 31, 2021, the Alberta Securities Commission (ASC) and the Financial and Consumer Affairs Authority of Saskatchewan (FCAA) started a three-year pilot project designed to make it easier for companies in these provinces to raise funds from retail investors.

The pilot is trying to balance investor protection while reducing the regulatory burden for companies, particularly those starting new businesses, when raising money from investors like you. Time will tell whether the regulators have struck the right balance.

What you need to know

- If you self-certify that you meet certain educational requirements or work experience, you would no longer receive information that would normally be provided to you when making your decision to invest in the company. This information would include "full, true and plain" information about the company.
- In addition, you will not have the protection of knowing that those who had to provide this information could be held legally responsible for any misinformation in what they told you.

The thinking behind the pilot project is that if you have certain degrees, certificates or work experience related to finances generally, then you ought to be more sophisticated than most other retail investors. Of course, this is not necessarily true. We also know from behavioural research, that many investors overestimate their investment knowledge and ability, even to their own disadvantage.

What is also different about this new approach is that it does not consider your ability to withstand a loss. Rather, it assumes that you can lose all your investment.

However, to limit your losses the regulators in Alberta and Saskatchewan set caps on how much you can invest in certain situations. There are basically two caps: (1) you can only invest up to $10,000 in any one company; and (2) you can only invest up to $30,000 each calendar year.

Over the life of the pilot, this means you could invest up to a total of $90,000. These caps, which are designed to protect you, do not apply if the company is listed on an exchange and you get advice from a person licensed by the ASC or FCAA.

How will this affect you?

- You may not receive information about the company, its management team, recent financial performance, or other information that you would usually want to know before investing in the company.
- Even if you meet the requirements to self certify, investing under this time limited exemption may not be for you, particularly when you consider you may be giving up your right to be fully informed about your investment.
- Make sure you can afford to lose the full amount of your investment.
- Be sure to talk to a dealer representative at your financial institution to make sure the investment is suitable and within the risk level you can tolerate.

Details of the self certification and exemption are set out in the **Multilateral CSA Notice of Implementation Alberta and Saskatchewan Orders 45-538**.

How is the Pandemic Affecting You?

To understand how retail investors are reacting to the COVID-19 pandemic, the OCS did a survey of 2,000 investors across Canada with the help of Ipsos, a market research firm in Toronto.

The report, released in April 2021, showed mixed results. For example, about half of those surveyed have not bought or sold securities during the pandemic, while the other half have been actively buying or selling. And many of those selling had to do so because they needed the money to cover expenses.

More than one in five (22%) of Canadian investors sold investments during the pandemic. And 60% of those investors sold their mutual funds.

Just under half (47%) of the investors who sold mutual funds did not pay a fee, whereas 27% said they paid a fee for cashing out. Another 12% did not even know if they paid a fee when selling their mutual funds.

Given that these types of fees can really hurt you financially, it is worth your time to find out. For example, if you bought mutual funds with a deferred sales charge (DSC), you might have to pay a fee of up to 6% of your investment when you cash out. If you invested $5,000, you could end up paying $300 just in fees. It is troubling that 12% of the investors (or 144 out of 1,200 investors) were not even aware of the fees they paid.

As an investor, you have the right to know how much you pay in fees. Be sure to ask when you first open your account, and then each time you want to buy or sell an investment. It is worth your time as these fees can add up and impact your bottom line.

Another important finding from the study is that 18% of Canadians who sold their mutual funds were able to get the fees waived. This is some good news. While this typically requires you to argue the pandemic has caused financial hardship, some firms have programs in place that will waive these types of fees.

The lesson here is that you should be aware of any fees you may have to pay. And don't be afraid to speak with your dealer or fund company about getting any fees waived. These days, every dollar helps.

The full details from this helpful study can be found at **https://www.osc.ca/en/investors/investor-research-and-reports**.

FAIR Canada in the Media

An article published March 25, 2021 highlighted FAIR Canada's past advocacy regarding the Northwestern Exemption **Advisor's Edge**

Executive Director, Jean-Paul Bureaud, was quoted in the April 6, 2021 edition of Investment Executive regarding the **National Securities Regulator.**

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