

Presentation to the CFTC's Global Markets Advisory Committee

Retail Participation in the Derivatives Market: An Ontario Perspective

By: Alison Beer, Senior Legal Counsel, Derivatives Branch

Disclaimer

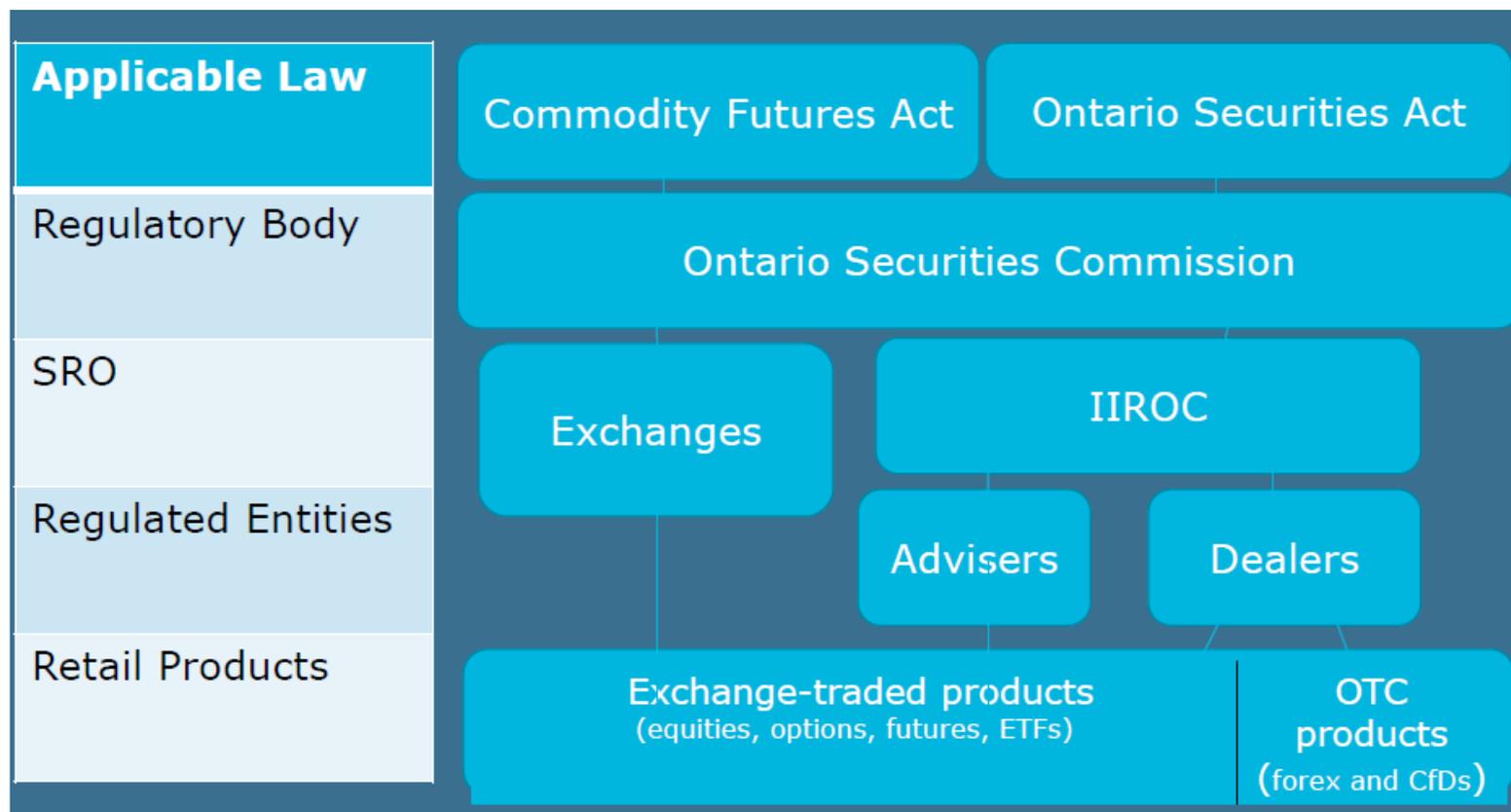
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Overview of Presentation

1. Overview of the current regulatory framework for retail derivatives trading in Ontario
2. Cross-border insights regarding the retail derivatives market and recent market events
3. Regulated retail activity involving certain cryptoassets, including crypto-linked derivatives

Regulatory framework

Retail-derivatives trading in Ontario



Cross-border insights

Retail-derivatives trading in Ontario

- Significant rise in the past decade in the number of online trading platforms offering derivatives products to retail investors
- Retail access to off-exchange transactions – in addition to leveraged equity products, retail investors can access over-the-counter derivatives known as contracts for difference (CFDs), forex contracts and similar OTC derivatives, including CFDs on single-name securities through regulated dealers
- Retail online dealer space is relatively consolidated for exchange-traded products (for the most part retail online brokerages are owned by the large Can banks), whereas there are a number of independent dealers offering OTC derivatives products at the retail-level
- Significant acceleration in the number of retail investors opening trading accounts throughout 2020
 - younger demographic

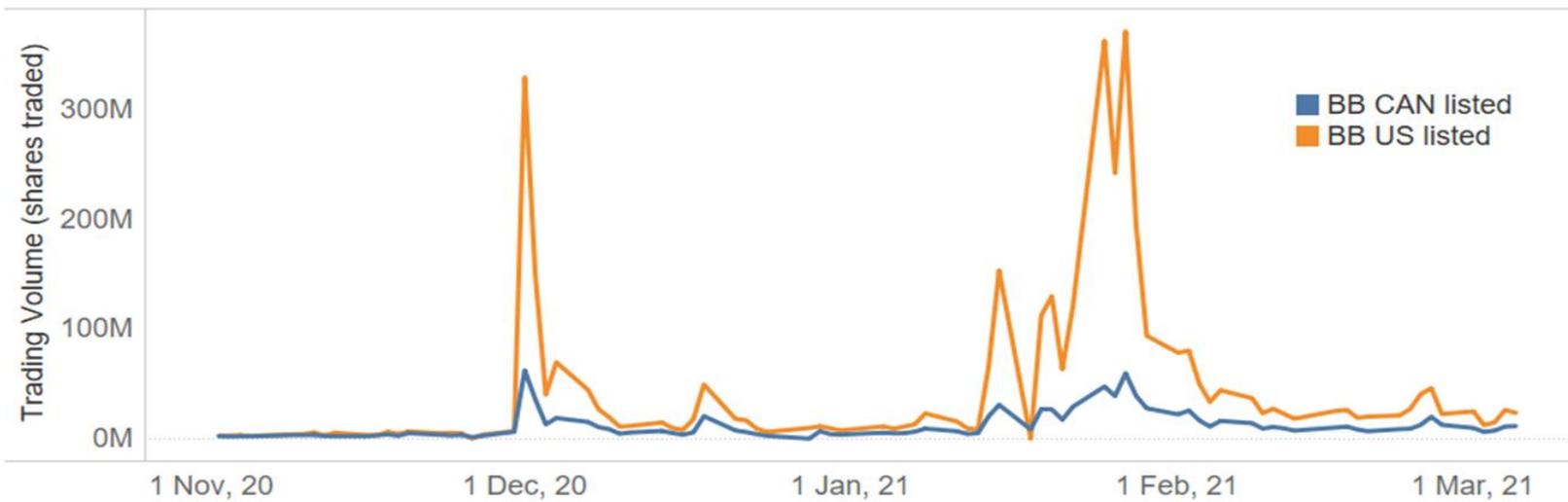
Cross-border insights

Retail Derivatives Trading in Ontario

- Trading information is being accessed through online social media channels, including through subreddit forums (both U.S. focused (e.g., “WallStreetBets”) and Canadian focused (e.g., “BayStreetBets”)
 - Two-thirds of 18–34 year-olds, who invest, use social media as source of information about investing, including Youtube (29%), Instagram (28%), Reddit (21%), Snapchat (18%) & TikTok (Source: [2020 CSA Investor Index, Survey Report](#))
- The example of **Blackberry**:
 - *Amplification and cross-border effects* - while much of the ‘meme’ trading activity is occurring in securities that are listed in the U.S., there are a small number of Canadian-listed securities that have seen notable price increases, including BlackBerry Limited which is interlisted on the NYSE and trades in Canada on the TSX under the symbol BB
 - *Impact on trading volumes* - for a comparison of recent BB stock and options trading on U.S. based exchanges compared to Canadian, see Figure 1
 - Note, Ontario retail investors can trade across certain markets in both the U.S. and Canada

Figure 1 - BB trading volume on US exchanges compared to Canadian exchanges

Blackberry (BB) Stock Trading Volume



Blackberry (BB) Options Trading Volume

Data Source: Bloomberg

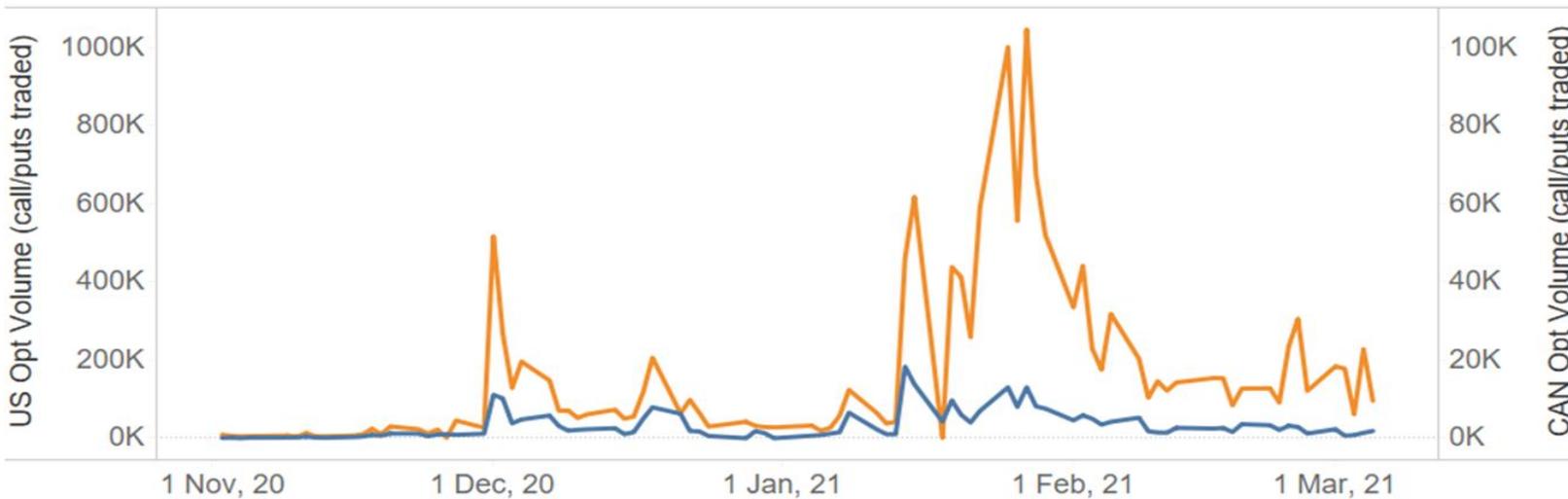
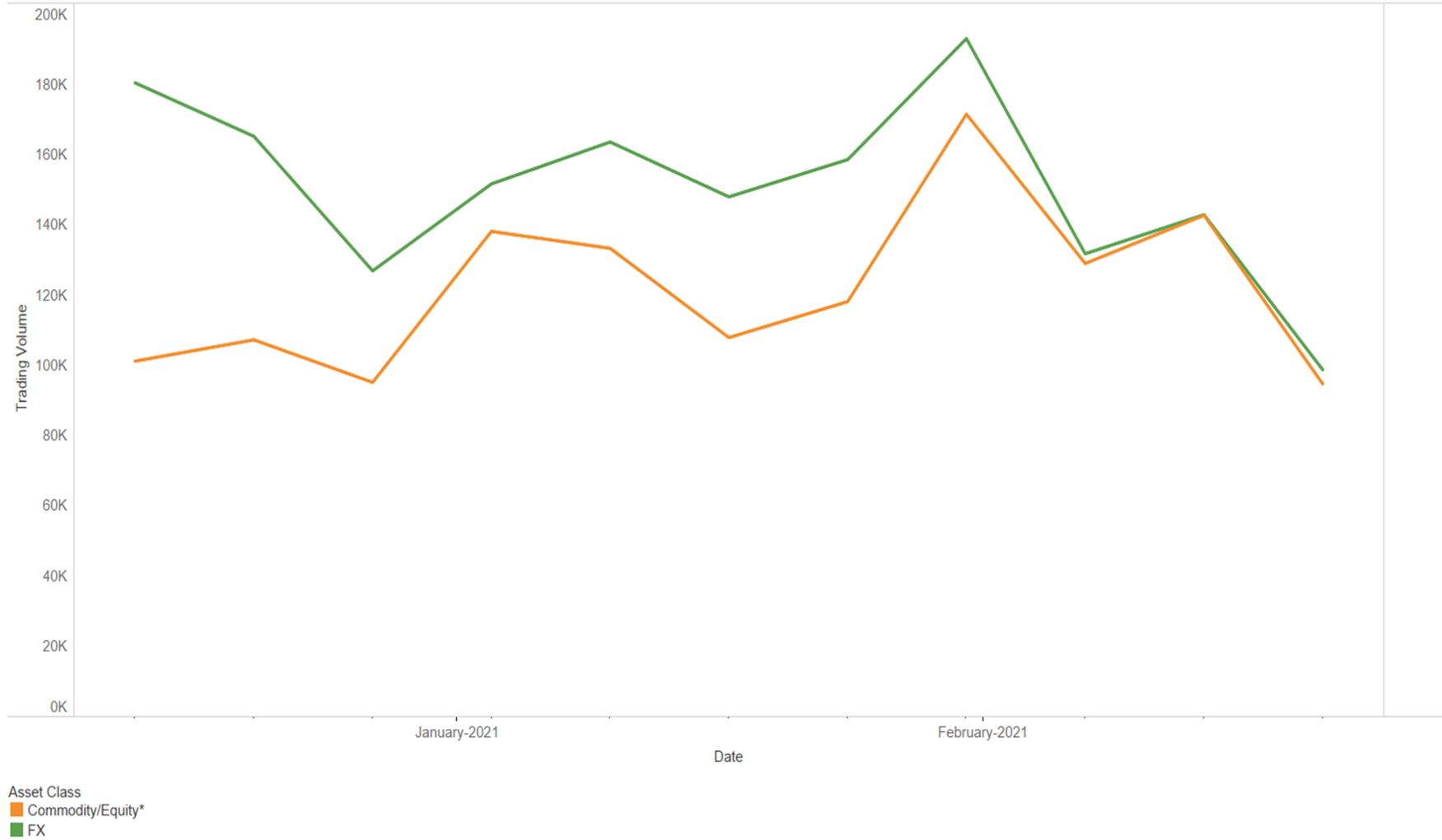


Figure 2

Contracts For Difference Weekly Volume by Asset Class



Asset Class
Commodity/Equity*
FX

*The majority of equity CFDs are reported as commodities.
Source: OSC trade repository data

Regulated activity involving crypto assets

- Ontario retail investors can currently trade the following products on a regulated basis:
 - Bitcoin and ether-linked futures contracts (and Bitcoin options) on certain U.S. based exchanges through registered dealers
 - Investment funds offering exposure to bitcoin and ether (closed-end) and an ETF linked to bitcoin
 - Crypto rights contracts linked to bitcoin and ether through a registered dealer (registered in the category of restricted dealer)

Regulated activity involving crypto assets

Crypto asset trading platforms

- In 2019 [CSA, IIROC consulted on a proposed framework to regulate crypto asset trading](#):
 - "securities and/or derivatives legislation may apply to platforms that facilitate the buying and selling of crypto assets, including crypto assets that are commodities, because the user's contractual right to the crypto asset may itself constitute a security and/or a derivative"*
- In [2020 the OSC \(along with the CSA\) issued guidance](#) (CSA Staff Notice 21-327) on the application of securities law (and commodity futures law) to platforms that facilitate the buying and selling of crypto assets, including crypto assets that are commodities
 - The CSA's guidance is cited in a FN to the CFTC's final interpretive guidance concerning retail commodity transactions involving certain digital assets
 - Although some similarities covered in each respective guidance, on an outcomes basis there are important distinctions
- August 7, 2020, the OSC (and other CSA jurisdictions) through the CSA Regulatory Sandbox issued its first decision [In the Matter of Wealth Simple Digital Assets Inc.](#) permitting the registration of a dealer operating a trading platform that allows residents in Canada to purchase, hold and sell Bitcoin and Ether through the platform (i.e., "crypto rights contracts")

Thank you