

Office of the Investor Blueprint



Our Mission and Mandate

The Office of the Investor's mission is to understand and inform investors and elevate their voice at CIRO. We **perform research** to better understand investor attitudes, experiences and behavior, **provide investor education** to help give investors the information and tools they need to make informed decisions, and build relationships and pathways to **bring the voice of investors** to our regulatory activities at CIRO.

In fulfilling our mission, we also support the Investor Advisory Panel in their work, participate in the oversight of the Ombudsman for Banking Services and Investments ("OBSI"), engage in stakeholder outreach and collaborate extensively on various regulatory initiatives affecting retail investors.

Understand

Inform

Elevate

About the Blueprint

To guide our work as we build the Office and execute our responsibilities we have established an initial blueprint including identifying key success factors and thematic areas of focus for the Office as set out below. We intend to take an informed and fact-based approach to our work and have designed this blueprint based on evidence from CIRO's regulatory activities and an environmental scan.

Our strategy, areas of focus and scope of work will evolve over time based on CIRO's strategic plan and input from our Investor Advisory Panel and the Canadian Securities Administrators ("CSA"). We will continually adapt our approach as investor needs and behaviour changes and as the investment industry changes through innovation.

Key Success Factors

We have identified four key success factors to help us achieve our objectives and fulfill our mission. We will embed these key success factors into our approach as we develop our processes and execute our work.



Purpose

We will maintain a clear focus on our purpose and mission. This focus will enable us to make the greatest impact.



Planning and Prioritization

We will take a strategic and disciplined approach to our work to mitigate the risk of misalignment between capacity and commitments.



Partnerships and Collaboration

We will build strong collaborative relationships both internally and with external partners to enable us to deliver on our mandate and increase our impact. This includes strong relationships with the departments responsible for member and market regulation within CRO, other regulators, investor advocates and champions for financial literacy.



Expertise

We will assemble a team in the Office of the Investor with deep regulatory knowledge and expertise to provide credibility with internal and external partners and allow us to bring an informed perspective to policy and operational discussions. We will also leverage CRO's specialized knowledge of markets and dealer oversight in our work.

Thematic Areas of Focus

In order to plan and prioritize our work and maximize our impact, we have identified five thematic areas of focus. We will have an **overarching focus on vulnerable investors** across all five thematic areas.

The work that the Office of the Investor will initially undertake will generally fall into these thematic areas particularly with regard to our activities in (i) policy engagement, (ii) collaboration and partnerships and (iii) investor research.

The five thematic areas of focus are:

1

Financial Challenges Facing Canadians and the Impact on Investing

2

Complaint Handling and Investor Redress

3

The Investor / Advisor Relationship

4

Fraud, Scams and Financial Exploitation

5

Investment Decision Making, Risk and Suitability

1

Financial Challenges Facing Canadians and the Impact on Investing

In the current economic context where we have seen pressures from inflation and the highest interest rates in over 20 years, many Canadians are facing significant financial challenges.



Through research, engagement and partnerships we will seek to understand how these financial challenges are affecting investors' financial resilience, investing goals and habits and how support and education can be delivered to help the most vulnerable.

The Financial Consumer Agency of Canada ("FCAC") has been tracking financial vulnerability and well-being through their monthly survey data. Their findings note a concerning trend where many are needing to draw on their savings or borrow money to cover their day-to-day expenses.

According to the FCAC:

- the percentage of Canadians who borrow money to cover daily expenses increased from 26% in 2020 to 38% in September 2022¹;
- 41% of Canadians did not have emergency funds to cover unexpected expenses – overrepresented groups include new immigrants, low income and indigenous peoples (September 2022);
- the percentage of Canadians who reported they were just getting by financially rose to 40% and one-third of Canadians reported being short on money at the end of the month (September 2022);

¹ FCAC: Consumer Vulnerability 'Evidence from the Monthly COVID-19 Financial Well-being Survey'

² FCAC 'The financial well-being of Canadian homeowners with mortgages' June 2023

³ MNP Ltd. Consumer Debt Index Results for July 2023

- two-thirds of mortgage holders surveyed in December 2022 reported having trouble meeting their financial commitments; and
- the proportion of mortgage holders who needed to draw on their savings due to the economic context increased by 20 percentage points from August 2020 to December 2022.²

Similarly, data from the MNP Ltd. Consumer Debt Index released in July 2023 noted that more than half of Canadians (52%) reported that they are \$200 or less away from not being able to meet their debts. This includes 35% who report that they already don't make enough to cover their bills and debt payments, an all-time high since the index began five years ago.³

We will perform research to learn how these financial circumstances have affected investors' goals and approach to saving and investing. We will also gather information to understand if the advice investors receive has evolved to meet these financial challenges. Furthermore, we will explore opportunities and partnerships to provide additional investor support and education, particularly to vulnerable investors and those who may be unable to access advice.

Complaint Handling and Investor Redress

The complaint handling and investor redress system is critically important to investor protection and vital to the integrity and confidence in the capital markets. Therefore, this area will be an area of focus for the Office of the Investor and our colleagues at CIRO.



Investor complaints can relate to a range of issues and retail investor concerns including concerns with investment suitability, account transfers or issues related to trading on a marketplace.

In 2021, IIROC (one of CIRO's predecessor organizations) released the findings from Qualitative Research among Complainants to gain a better understanding of the needs and expectations of complainants.⁴ That research revealed challenges in meeting investor complaint expectations as some expectations may exceed the limits of the regulator's mandate. However, it also identified further opportunities to continue to enhance communications and transparency on the complaints framework, the investigation process and to underscore the value of filing a complaint with the regulator.

⁴ IIROC and Navigator 'Qualitative Research Among Complainants' March 2021

We will work with our colleagues at CIRO to provide additional educational resources on the complaints process and investor redress options. The Office of the Investor will also be engaging extensively both internally and externally on several key projects and initiatives directly related to complaint handling or investor redress options. These include participation in:

- a working group on proposed changes to CIRO's Complaint Handling requirements;
- the oversight of OBSI through the Joint Regulators Committee ("JRC") with the CSA;
- a working group on a CIRO Proposal to Return Disgorged Funds Collected Through Disciplinary Hearings to Harmed Investors; and
- a working group reviewing the Arbitration program.

The Investor / Advisor Relationship

An area of focus we intend to examine through research and stakeholder engagement is the investor / advisor relationship including investor

relationship including investor

i) attitudes towards advice,

ii) access to advice and iii) experiences with professional investment advice.



A majority of Canadian households receive investment advice from CIRO Members. Research by the MFDA (one of CIRO's predecessor organizations) in the 2022 Client Research Report found that MFDA Members provided advisory services to 9.4 million Canadian households representing 57% of Canadian households.⁵ The footprint of CIRO with the combined membership of former MFDA and IIROC Members is even larger. Therefore, the investor / advisor relationship is a key area of focus for the Office of the Investor.

A number of research studies support the value of high-quality financial advice.⁶ However, there are differing views about how comprehensive the advice is that investors, particularly those with smaller accounts, receive. A 2019 survey conducted on behalf of the Investor Advisory Panel of the Ontario Securities Commission examined the level of advice investors receive. They found that only a small minority of advised investors reported receiving advice about budgeting or debt management (20%). They further noted that nearly half (49%) of investors with portfolios under \$50k reported they received no education from their advisor on financial concepts and 40% reported no advice on planning for financial goals.⁷ Other organizations have raised concerns that some Canadians, particularly those with low incomes, are frequently unable to access the types of help they need to build their financial capability and pursue financial goals.⁸

We will continue to monitor the research and stakeholder views on access to advice and the scope of advice investors receive, while also conducting our own research on these

topics. We are also interested in examining whether an increasing number of investors, particularly younger investors are choosing to turn away from traditional sources of investment advice. For example, a research report from the FINRA Investor Education Foundation and the CFA institute points to younger Gen Z investors being more reliant on advice from online sources and social media.⁹ We also know there was a significant rise in the number of investors opening do-it-yourself accounts during the pandemic.¹⁰ However, more data would be useful to understand the investment experiences of these investors and how their experiences have impacted their approach to investing today. For example, we may wish to examine what proportion of investors who opened new DIY accounts during the pandemic are now working with an advisor or alternatively have stopped investing all together.

The Office of the Investor will also be collaborating with our colleagues on the Member Services and Innovation team at CIRO on the planned 2024 Client Research Project.¹¹ That research will provide significant insights into retail investor holdings and activity and will be particularly relevant to several of our thematic areas of focus including the Investor / Advisor Relationship.

Lastly, our focus on the Investor / Advisor relationship will also include work to gain additional insight into investors' experiences with investment advice. This may include research, education or policy work on key issues such as fees, disclosures and client reporting.

⁵ MFDA 'Client Research Report 2022'

⁶ See for example Lei, S. and Yao, R. Use of financial planners and portfolio performance. *Journal of Financial Counselling & Planning* 2016. / Grable, J.E. Reducing Wealth Volatility: The Value of Financial Advice as Measured by Zeta. *Journal of Financial Planning*, 2014.

⁷ OSC Investor Advisory Panel. 'A Measure of Advice: How much of it do investors with small and medium sized portfolios receive' 2019

⁸ See Prosper Canada. 'Missing for Those Who Need It Most – Canada's Financial Help Gap' 2023

⁹ FINRA Investor Education Foundation and CFA Institute. 'Gen Z and Investing' 2023

¹⁰ See IIROC Canadians Opening DIY Accounts in Unprecedented Numbers 2021 and Ontario Securities Commission; Self Directed Investors: Insights and Experiences 2021

¹¹ See CIRO Bulletin 23-0114. 'Client Research Project' 2023

Fraud, Scams and Financial Exploitation

Investment fraud and financial exploitation take a destructive toll on victims. While the financial cost is very significant, the full impact on victims goes far beyond the money lost and can include stress, anxiety and depression.



One study that examined the broader impact of financial fraud among Americans age 25+ found that nearly two-thirds of self-reported financial fraud victims experienced at least one non-financial cost of fraud to a serious degree, including anger, stress, psychological, and emotional issues.¹²

Estimates on the prevalence of investment fraud vary, but a reasonable estimate is that 1 in 10 investors will be a victim of investment fraud at some point in their lives.¹³ However, another way to think about it is how many investors have assets at risk of fraud? Most of the population has assets that can potentially be vulnerable to investment fraud if for example the fraudster convinces them to take money out of their investment accounts or borrow money against their home. Investors can be particularly vulnerable to fraud at key 'wealth events' in their lives, such as when they face a decision about what to do with money arising from the sale of a house, an inheritance or a legal settlement.

An overarching principle across all our thematic areas of focus is vulnerable investors and these investors can be particularly at risk of fraud, scams and financial exploitation. Researchers have found older age and decreased level of cognitive function, decreased psychological well-being and lower literacy to be important markers of increased susceptibility to financial fraud.¹⁴ Research conducted by the British Columbia Securities Commission found those who had difficulty "making ends meet each month" and those who were worried about running out of money in retirement to be more susceptible to investment fraud.¹⁵ In addition, research conducted by FINRA's Investor Education Foundation with the AARP Fraud Watch Network also noted that older people might be more susceptible to acting on fraudulent pitches, which employ tactics designed to push a variety of emotional buttons.¹⁶ Therefore, of particular interest to the Office of the Investor will be the extent to which frauds and scams disproportionately impact seniors or other vulnerable investors and what tools and interventions can mitigate the risks.

¹² FINRA Investor Education Foundation 'Non Traditional Costs of Financial Fraud' 2015

¹³ Kieffer and Mottola 'Understanding and Combating Investment Fraud' 2016

¹⁴ For example see James, Boyle and Bennet (2014). 'Correlates of Susceptibility to Scams in Older Adults Without Dementia'. Journal of Elder Abuse and Neglect. and Gamble, Boyle, Yu and Bennet (2014) 'The Causes and Consequences of Financial Fraud Among Older Americans'. Boston College Center for Retirement

¹⁵ British Columbia Securities Commission, 'National Investment Fraud Vulnerability Report' 2012

¹⁶ FINRA Investor Education Foundation, AARP and Stanford Centre on Longevity. 'Heightened Emotional States Increase Susceptibility to Fraud in Older Adults' April 2016.

4 Fraud, Scams and Financial Exploitation

The challenges to finding effective interventions to disrupt frauds and scams are significant. A qualitative study with people affected by investment fraud prepared for the Financial Conduct Authority (“FCA”) found that as well as having a well-honed veneer of legitimacy, fraudsters were able to use deception to circumvent regulatory regimes and obscure their identity. For example, participants described being convinced by the fraudster’s explanations that the information on the FCA website was outdated and that the fraudster was in the process of working with the FCA to fix it.¹⁷ Fraudsters are also able to adapt their deception and grooming mechanisms to selling any investment product, and actively seek products which are seen by victims as topical and interesting. This adaptation has been demonstrated recently, with multiple regulators and OBSI noting a significant increase in crypto related scams.¹⁸

Despite these challenges, there remains reason for optimism that education and interventions can help. Research from the FINRA Investor Education Foundation found that repeated

educational interventions can increase consumers' ability to recognize fraudulent investment opportunities and increase their knowledge about investment fraud.¹⁹ In addition, interventions by firms and advisors can also help significantly, particularly when an investor is on the cusp of sending money to a scammer. Another study by the FINRA Investor Education Foundation found that more than half of people who reported a third-party intervention from a bank employee or financial service company were able to avoid losing money.²⁰ This can include for example an intervention by the advisor or the firm at the time of a large withdrawal.

We will contribute to the efforts to help reduce investment fraud through educational initiatives, investor alerts and partnerships with other stakeholders. We will also examine whether additional research can help determine what interventions may help protect investors from becoming victims of fraud.

We will also contribute to initiatives to combat financial exploitation. Financial exploitation goes beyond fraud perpetrated by strangers. A report by the AARP on the scope of elder financial exploitation noted that 72% of losses arise from fraud by people the victim knows.²¹ These cases, where an individual is victimized by someone they know are also less likely to be reported to authorities. In these cases, perpetrators familiar to the victim often gain direct access to funds for example by attaining joint ownership or power of attorney status on their victims’ accounts.

The Office of the Investor is participating in the CSA’s initiative to enhance the protection of older and vulnerable investors. In 2021 Canadian securities regulators adopted important new tools to enhance protection from financial exploitation including amendments pertaining to collecting trusted contact person information from clients and placing temporary holds. The regulators continue to assess the implementation of these tools, keep abreast of relevant policy development and are considering conducting a retrospective review of the amendments that would assess the efficacy of the framework.

¹⁷ Natcen for Financial Conduct Authority. ‘A qualitative study with people affected by investment fraud’ 2014

¹⁸ For example see OBSI Consumer Bulletin ‘Cryptocurrency scams increasingly targeting and exploiting Canadians’ 2022

¹⁹ FINRA Investor Education Foundation ‘Can Educational Interventions Reduce Susceptibility to Financial Fraud?’ 2021.

²⁰ FINRA Investor Education Foundation, BBB Institute for Marketplace Trust, Stanford Centre on Longevity. ‘Exposed to Scams What Separates Victims and Non Victims’ 2019.

²¹ AARP Banksafe Initiative, ‘The Scope of Elder Financial Exploitation: What It Costs Victims 2023.

Investment Decision Making, Risk and Suitability

Investment suitability has long been one of the most common complaints received by regulators and OBSI from investors.



The requirements to know your client, make suitable recommendations and put clients' interests first are key pillars of the securities regulatory framework and a critical area for regulators from a compliance, policy, education and enforcement perspective. This will also be a key focus for the Office of the Investor. We will engage with internal and external stakeholders to monitor trends in complaints, compliance findings and issues pertaining to suitability to determine whether additional research, education or policy engagement can assist to inform and enhance our regulatory approach at CIRO.

As markets and investment products continue to change and become more complex it's particularly important to understand investor decision making and perceptions of risk for both DIY investors and those who use an advisor. For some investors, there may be a lack of awareness of the risks of investing particularly where they do not use a financial advisor. In the UK, research conducted for the Financial Conduct Authority found that only 41% of new self-directed investors believed that 'losing some of the money' they

invest was a genuine risk.²² Some retail investors may invest in high-risk investments without fully understanding the risks, particularly where there is a perceived fear of missing out. When investors make investment decisions, particularly when choosing to invest in high risk investments, we want them to do so knowingly with a good understanding of the risks and a proper assessment of their risk tolerance and risk capacity.

Through our research efforts, we will gather further information on the sources of information and factors investors consider when making investment decisions, for both those who have an advisor and those who are do-it-yourself investors. We will also gather information on investors' perceptions and understanding of the risks of certain investments including crypto assets.

We will also examine what additional educational tools and resources we can provide to assist investors to understand their own risk tolerance and risk capacity and the risks of different types of investments and strategies, particularly higher-risk investments and borrowing to invest.

²² Britainthinks for the Financial Conduct Authority. 'Understanding Self-Directed Investors' 2021

Summary of Our Approach

Investor protection is at the core of everything CIRO does. The Office of the Investor has an opportunity to make a significant contribution to investor protection through its work. We intend to seize that opportunity and believe that a strategic, focused and evidence based approach to building the Office of the Investor will enable the Office to be a highly credible and valued voice and partner within CIRO and with external stakeholders.