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M^e Beaudoin,

Subject: Consultation - Binary Options Trading **ENGLISH TRANSLATION**

The Investment Industry Association of Canada (IIAC) would like to submit its comments with regard to binary options trading by retail investors, as requested in the publication of your Draft Regulation amending Derivatives Regulation.

The IIAC is the national association of the securities sector. It defends the position of the securities sector with regard to the regulation of securities, public policies and matters affecting the sector on behalf of its 132 members, which are brokerage firms regulated by the Investment Industry Regulatory Organization of Canada (IIROC) operating in the Canadian securities sector. Furthermore, the IIAC aims to establish a dynamic and prosperous securities sector sustained by solid and efficient capital markets.

Current Issue

There is currently an issue concerning binary options trading. It is important for the Autorité des marchés financiers (AMF) to consider this matter.

Certain investors currently trade binary options on illegal electronic platforms, operated by persons who have not been certified by the AMF and who have not obtained prior authorization to trade those derivatives. The publication of warning notices by regulatory organizations is evidence of the seriousness of this issue, but seems to be unsuccessful in putting an end to the problem.

This activity must be regulated by the AMF to ensure the protection of the public against unfair, abusive and fraudulent practices, including the risk of diversion of funds outside of Canada. In addition, certain investors mistake this unlawful activity for that of regulated brokers in Canada. The reputation of our industry is, therefore, indirectly at stake.

Binary Options

Binary options are not the problem, per se. Their structure, as well as their mechanism, is simple. Binary options are also referred to as digital or all-or-nothing options. Institutional investors use them in order to increase the returns on their investments while assuming the risk involved. The issue we are currently facing is not related to binary options per se, but is a problem of another nature.

Illegal Platforms and Fraudsters

As mentioned above, the industry's concerns are not based on the structure of binary options, but rather on the way in which they are offered to investors. Offers are made illegally by persons who are not registered and not authorized under the Derivatives Act.

Online trading sites (often based abroad) provide incorrect information to investors and indicate that there is no risk involved in the transactions performed on their electronic platforms. The fraudsters behind these platforms manipulate the price of the underlying securities in order to "win" against the investor. In certain cases, investors could "win," but they will rarely receive the profit. In the latter case, the counterparty risk is related to the settlement of the product by fraudsters. The fact that there is no central clearing poses a major risk of fraud for individuals. The increase in the number of complaints made by clients who have lost their capital is evidence of this.

In addition, these trading sites are not registered with regulatory organizations and the persons operating them are not registered as derivatives brokers or members of a self-regulating body or of an investor protection fund. Considering the apparent illegality of these activities with derivatives in Quebec, not to mention the risk of unfair, abusive or fraudulent practices for the investing public, it is essential for the AMF to ensure the enforcement of its regulations on derivatives by specific measures aimed at suppressing these violations.

Certain fraudulent operation sites even indicate, incorrectly, that they are registered with regulatory organizations. These sites must be banned.

Binary Options Transactions through Regulated Firms

In order to end illegal transactions, regulatory organizations must consider the possibility of allowing brokerage firms regulated by IIROC to be registered to offer these products to investors. Regulators must correctly define binary options to avoid confusion in the industry.

Dealing with an IIROC regulated firm will allow investors who wish to trade binary options to properly understand the product as well as the significant risks involved. Furthermore, there would be no risk of fraud in regulated and legal trading as there is on illegal trading platforms.

Informing the Investor

As it is IIROC's mission to protect the investor, legal and regulated binary options trading will be beneficial to experienced investors seeking this kind of product. A strict regulatory framework would allow clients to gain an understanding of this kind of product, particularly due to the disclosure obligations, before a transaction is executed. In addition, clients of full-service firms will be protected by the concept of investment suitability.

Summary

The IIAC and its members urge the AMF to prevent illegal binary options trading in order to protect investors and contribute to the integrity of our industry.

As mentioned above, binary options are not a problem, per se. The fraudulent and illegal trading of this product must be stopped.

Regulatory bodies must consider the possibility of registering certain regulated firms to trade this product lawfully, with no risk of fraud, and with a strict regulatory framework to protect investors.

Kind regards,