Intelligence MEMOS

From: Harvey Naglie

To: Financial Regulation Observers

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Re: **Ontario's Financial Future: Leading the Charge for a Competitive and Modernized Regulatory Framework**

Ontario faces a pivotal moment. As Canada's financial capital, it has long benefited from a stable financial sector. However, the evolving global landscape demands more than stability – it requires bold leadership. Our creaky financial services framework is ill-suited to a trade war. Facing geopolitical challenges, increased capital mobility, and rapid financial innovation, Ontario must modernize its framework to become a domestic leader and an international competitor.

This modernization should focus on: (1) scaling fintech and regtech to boost efficiency and innovation; (2) advocating for federal banking reforms to accelerate open banking and payments modernization; and (3) spearheading a truly national securities regulatory framework prioritizing efficiency, effectiveness, and competitiveness. The urgency demands immediate action; Ontario must lead and set a new standard for financial regulation.

Scaling Fintech and Regtech Initiatives

Ontario has experimented with regulatory sandboxes – controlled testing environment for financial innovation – but to date these efforts have been too limited. Global hubs like the UK and Singapore have aggressively expanded their sandbox initiatives to attract fintech investment and drive modernization. Ontario must follow suit by:

- Developing a coordinated provincial strategy to expand sandbox participation, ensuring that startups, established financial institutions, and global players view Canada as a preferred jurisdiction for financial innovation.
- Creating a dedicated fintech and regtech acceleration hub where regulatory authorities work directly with innovators to foster collaboration and provide resources to navigate regulatory complexities.
- Establishing cross-border partnerships with other sandbox regimes, enabling Canadian firms to test innovations internationally through reciprocal agreements.

By aggressively promoting and resourcing sandbox initiatives, Ontario can position Canada as regulatory-friendly for financial innovation, attract investment and talent, and strengthen consumer protection through real-world testing. These sandboxes allow for the safe exploration of new technologies and business models.

Advocating for Federal Banking and Financial System Reforms

While banking is federally regulated, Ontario must advocate for a competitive, modern, and consumer-friendly banking system. The province should urge the federal government to act decisively on key issues.

Open banking has been delayed despite industry and consumer support. Ontario should push for its swift implementation, allowing consumers to benefit from increased competition and lower costs.

Canada's payment systems are outdated. Ontario should urge Ottawa to accelerate payments modernization, particularly the real-time rail for retail payments, enabling fintech firms to compete on a more level playing field and improving transaction efficiency for businesses and consumers.

A National Securities Regulator: Ontario Must Lead, Not Compromise

The concept of a national securities regulator has been debated for decades. Despite broad consensus on the inefficiencies of the current fragmented system, previous attempts have failed because provinces prioritized their own interests over broader reform. In the current global economic climate, it is past time that the national interest trumps self-serving provincialism. Ontario must champion a future-oriented approach, making a compelling case that a national regulator is not just desirable, but essential for Canada's economic prosperity and stability.

The failed Capital Markets Regulatory Authority (CMRA) demonstrated the flaws of compromise and risk aversion. Its complex governance structure was a product of accommodation, and its regulatory framework was essentially a gussied up version of the status quo. Instead of another well-intentioned but ineffective compromise, Ontario should advocate for a forward-looking securities regulatory model based on:

1. **Efficiency:** Use technology like RegTech and AI to automate compliance and data analysis, cutting administrative burdens. Eliminating duplicate filings and using a single platform can speed approvals.
2. **Effectiveness:** Consistent enforcement across all provinces would pool resources for better market surveillance and quicker responses to misconduct. Clear, consistent rules reduce confusion for investors and participants, fostering confidence and facilitating better coordination with international regulators to fight cross-border fraud.
3. **Competitiveness:** Aligning with global best practices would make it easier for foreign companies to access Canadian markets and for Canadian companies to expand abroad. A national regulator can streamline foreign registrations, promote cross-border investment, and better position Canada as a destination for global investment.

To achieve this, Ontario should:

- Build alliances with capital markets stakeholders who recognize the need for reform and can provide industry-driven momentum.
- Establish a coalition of willing provinces, recognizing that national adoption will follow when demonstrated benefits are achieved.

Use technology to modernize securities oversight, employing regtech to create a more efficient compliance environment that attracts global investment.

These steps will highlight the benefits of a unified regulator and drive national adoption. By demonstrating tangible improvements in efficiency and investor protection, Ontario can lead by example.

Ontario is uniquely positioned to modernize Canada's financial sector and the time to act is now.

Harvey Naglie has spent 40 years in financial services, working in both the public and private sector. Most recently, he served as a Senior Policy Advisor with the Ontario Ministry of Finance.

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