

To whom it may concern,

I am writing to express my appreciation for the thoroughness reflected in OSC's Statement of Priorities, notably the focus on enhancing the short-selling framework (Priority 5) and scrutinizing limitations within the order-execution only channel (Priority 6). However, it is imperative to stress the profound systemic risks intrinsic to prevailing short-selling practices and the urgent need for robust regulatory measures and transparency in this realm.

Short-selling poses a unique and idiosyncratic systemic risk, not only to the Canadian stock market but also to the broader economy and the global financial system. The inadequacy of supervision, transparency, and rule enforcement mechanisms in monitoring short-selling activities exacerbates this risk.

The events of 2021, exemplified by Bill Hwang's Archegos Capital Management, have served as poignant reminders of the calamitous consequences that unchecked trading activities can wreak upon the financial landscape. These activities led to a perilous systemic risk resulting in the collapse of institutions like Credit Suisse. Notably, the lack of transparency in reporting short-selling positions, often concealed through instruments like total return swaps and married deep-out-of-the-money puts/calls, renders an accurate assessment of the real liabilities stemming from potential infinite-risk short-selling unattainable.

I advocate for embracing contemporary technological advancements to implement essential reforms. Firstly, same-day reporting of all short-selling at the end-of-day should be mandated. Secondly, stringent penalties and margin calls for failure-to-deliver should be imposed without any waivers. Thirdly, mandatory buy-ins must be enforced, and if buy-ins fail, escalating offers should be utilized until closure. Additionally, accounts of brokers who chronically fail-to-deliver over a three-month period should be suspended and closed to uphold accountability.

The recent policies introduced by the SEC to combat these issues, including additional reporting as guidance, serve as a commendable step forward. These initiatives aim to rectify the disproportionate power wielded by market-makers and brokers over individual investors through practices such as payment-for-order-flow, front-running trades, and exploiting settlement discrepancies.

To foster healthy capital markets and eliminate systemic risks associated with short-selling, a transparent and robust short-selling framework with stringent enforcement mechanisms is imperative. These measures will safeguard Canadian companies from devaluation brought about by parasitic financial instruments and ensure their continued growth and stability.

Sincerely,

Moïse Perreault

Canadian Individual Investor