

## In Their own Words....

### How the OSC Is Responding to Today's Disruptive Challenges

By Gundi Jeffrey



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Every accountant and professional financial adviser is familiar with regulatory burdens, changing financial reporting requirements and other compliance issues. The Ontario Securities Commission (OSC) has been working on helping to ease the squeeze – it has made reducing the regulatory burden a priority for 2019 and 2020. “Having spent the first half of my career in the mining industry navigating regulatory requirements, I know firsthand the frustrations that can be involved for regulated entities and individuals,” says Maureen Jensen, the OSC’s chair and chief executive officer in the introduction of *Reducing Regulatory Burden in Ontario’s Capital Markets*, released late last year. “It was this experience that led me to become involved in regulation in the first place – to try to make things better.”

Over the past 12 months, the OSC, together with the Ontario Ministry of Finance, has begun a process to reduce regulatory burden in Ontario’s capital markets and to make it easier to do business in there. “This is a real opportunity for us to take a hard look at all aspects of our work to see if there are ways to do things better and to alleviate burden,” Jensen adds.

In this interview with Cameron McInnis, the chief accountant of the OSC, as well as excerpts from the above-named document, excerpts from the OSC’s *2019 – 2020 Statement of Priorities* and quotes from a keynote address given by Jensen at the Toronto Refintiv Summit, December 2, 2019, on “Responding to the Challenges of Evolving Markets,” we will explore some of what has been accomplished and what is still ahead.

***ThinkTWENTY20:*** *What did the OSC accomplish in 2019 in its efforts to reduce the compliance burden for Ontario’s marketplace?*

***From the Jensen keynote address:*** At the OSC, while we were adapting our approach to new business models, we also needed to look at our rules and processes and our own behaviours to see how we could regulate more effectively and make things easier for the businesses we regulate. We needed to assess whether our existing rules and processes still make sense for today’s markets.

We started slowly reducing burden rule by rule a few years ago, however, that would have taken too long, so in response to a red tape reduction focus by our government, we began our organization-wide focus on burden reduction about a year ago.

In late 2019, we published *Reducing Regulatory Burden in Ontario's Capital Markets*. Our report contains 107 tangible initiatives the OSC will undertake to save time and costs for participants in our capital market. We have costed out about 20 of these -- we will be saving for businesses just under C\$8 million a year. As well, we will be looking at fee reductions in the near future. Over the next five years, we will be saving substantial amounts of money for businesses without lowering investor protection at all. These reforms range from changes to our day-to-day processes, to longer-term policy initiatives we will be undertaking with the CSA (Canadian Securities Administrators).

The firms and individuals we regulate will see better coordination between the OSC and our regulatory partners, resulting in less duplication of requirements, more coordinated reviews and more harmonized rules. We are also making a commitment to improving communication with those we regulate, whether it's using more plain language in our rules and guidance or providing more clarity about our requirements.



In addition, we are working to make important information for issuers and registrants more easily accessible, including the launch of a new public website. Overall, we are taking a more modern and tailored approach to regulation that considers different types and sizes of businesses and allows for innovative ways to demonstrate compliance with our rules and principles.

For us, our burden reduction initiative is an important step in an ongoing process of modernization which will be supported, beginning in 2020, by a new OSC Office of Economic Growth and Innovation.

***ThinkTWENTY20:*** *And on what area or issues will it focusing on next? What initiatives are you planning, and what are the benefits you expect to reap from these initiatives?*

***From the Jensen keynote address:*** A few years ago, we began to see the emergence of new financial solutions and new business models catering to a new generation of consumers who trust technology, but not necessarily banks. These consumers have come to expect on-demand financial services anytime, from anywhere, and with no friction. People wanted more than just interacting with bank apps.

We saw the rise of new automated advisory services that offered investors a fully automated online service to invest in simple portfolios. We have also seen the use of AI in automated portfolio management. Additionally, we saw a surge in new ways to fund entrepreneurs and

startup businesses, like crowdfunding platforms and new ways to access capital such as peer-to-peer lending.

These businesses don't operate under one regulatory regime but naturally span numerous regulatory frameworks. This makes registration and regulatory oversight more complex and confusing. It has challenged the oversight model immensely.

At the OSC, we knew we had to take a new and more nimble approach to regulating these businesses. That's why we started OSC LaunchPad in 2016. LaunchPad is the OSC's in-house team that engages directly with new and novel businesses and helps them navigate securities regulation. It gives them time-limited relief to test their ideas in a "sandbox" environment. We have had a lot of success with LaunchPad.

At the same time, businesses in Canada need access to financial data to develop, test and scale their solutions. Data is difficult to access, and it is rare that incumbent businesses allow their customers to share this information with other service providers. I believe that our growing Fintech industry will not be able to excel unless there is better access to their clients' data.

Canada needs to consider new rules for the usage and ownership of data about Canadians, as they have in other jurisdictions like the E.U. I believe that Canadians should have more control and access to their own personal financial data so that they can try other value-add services that make their lives easier.

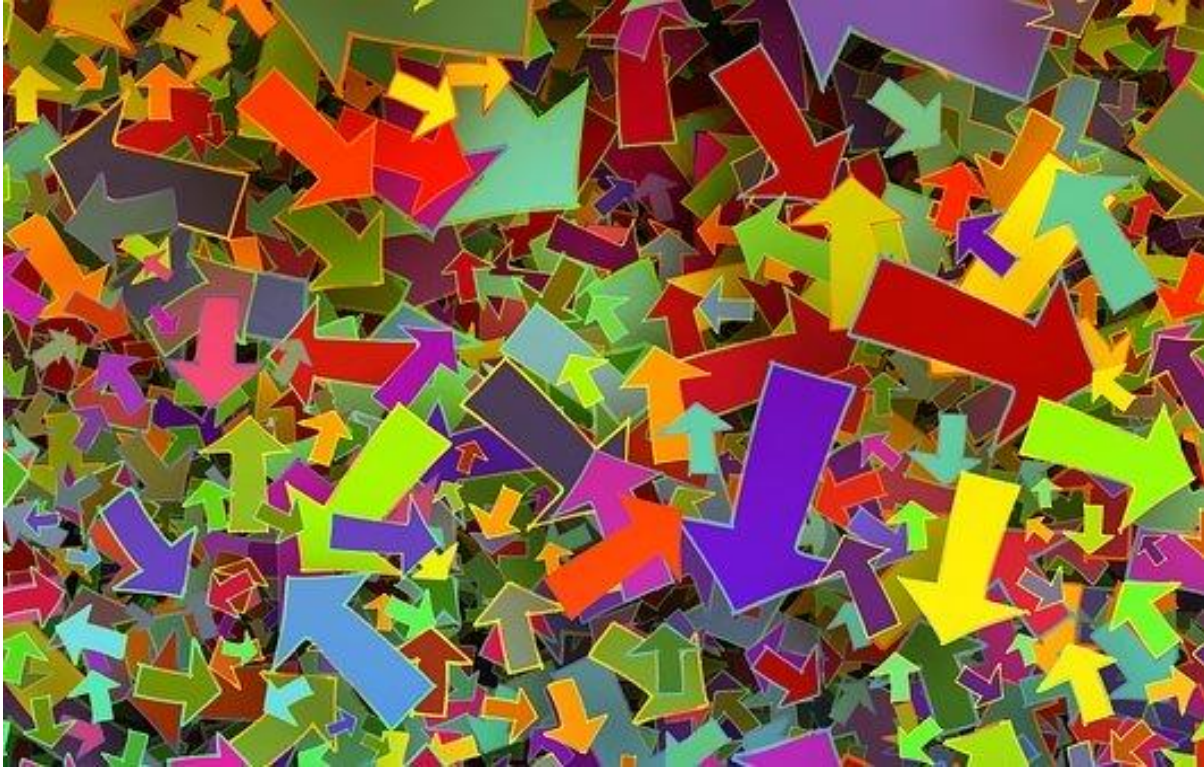
If we do not change our current views on data and look at the data charter, we will see innovators set up businesses elsewhere and we will lose out on great jobs for Canadians. We will lose our talent – which builds multiple businesses – and innovation will simply not thrive here. We have too much to lose not to act and to make data more accessible.

**ThinkTWENTY20:** *According to the Canadian Auditing and Assurance Standards Board, auditors of public companies listed on the TSX will be required to report significant new information in their audit reports as of December 2020. So, Key Audit Matters (KAMs) will become a standard part of the financial reporting process. Has this new standard influenced the OSC's deliberations and rule making? Is there new OSC guidance or are there new OSC requirements as a result?*

**Mclnnis:** Our rules will not require any changes as a result of key audit matters since those will be part of Canadian Generally Accepted Auditing Standards, and that is what our rules currently require. Canadian regulators have had a great deal of discussions with standard setters globally about KAMs over the past few years. It was important to us that the timeline for implementation in Canada moves in close step with US implementation, given the large number of inter-listed companies, so that we have a strong degree of consistency in audit reports. Once companies start to file these reports with us next year, we will look at them closely to ensure companies are reporting on specific audit issues that provide useful context for investors, as opposed to generic discussions that could apply to any company.

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I am looking forward to the implementation of KAMs, as this is an important standard in Canada. I think it has the potential to provide investors with useful information about the audit. I want the KAMs to tell a story that relates to the company; the tricky areas of the audit, how the auditor dealt with it and why.



**ThinkTWENTY20:** *Getting on to more technical issues, technological innovations are changing the way businesses and financial professionals think and work. In turn, I would think they would also influence the issues you need to address and the way you need to address them. How are trends such as artificial intelligence, data analytics and blockchain, for example, affecting the OSC's slate of deliberations and rule making?*

**From the 2019 – 2020 OSC Statement of Priorities:** The Pace of technological evolution and innovation creates challenges to develop and maintain a responsive and aligned regulatory framework. Market participants continue to expand their product and service offerings, Fintech (technology facilitated financial services) and Regtech (technology facilitated regulatory compliance services) innovation continues to advance and is a key disruptive force in the financial services industry. Complexity, driven by financial innovation offers many potential benefits and risks to the market. Fintech is leveraging new technology and creating new business models in the financial services industry, such as providing new product offerings (e.g., blockchain-based crypto assets) and disruptive service channels (e.g., online advisors). Financial services firms are using technological innovation, digitalization and growth in the use of the distributed ledger technology to reduce operational costs and improve efficiency.

The breadth and pace of innovation in the financial sector could result in gaps in regulation or become a source of non-compliance. For example, the potential applications and impacts of Artificial Intelligence (AI) are significant but are not well understood.

As well, cyber-attacks that have the potential to disrupt our markets and market participants are likely to occur. Growing dependence on digital connectivity is raising the potential for digital disruption in our financial services and markets and creating a strong imperative to raise awareness about cyber-attacks and strengthen cybersecurity resilience. This is a growing challenge as more businesses, services and transactions span national and international borders. The OSC, working with other regulatory partners, has an important role to play in assessing and promoting readiness and supporting cybersecurity coordination and resilience within the financial services industry and raising awareness of cybersecurity risks.

And ever increasing market complexity is generating greater availability and reliance on data. The OSC is adding new tools and processes to support staff in delivering their responsibilities. A key element will be addressing challenges in managing growing volumes of data, including information security. The OSC is investing in information technology and infrastructure to support an integrated data management program that will improve access to information to identify trends and risks and support analysis and decision-making. This will also allow easier filings and access for market participants.



Specifically, the implementation of a data-driven, evidence-based, risk focused organization will require a clearly defined data strategy, policies and procedures, standards, skilled resources and a shift in culture; as well as visible and active senior management support. The OSC will build its capability to be a data driven, evidence based, risk focused organization. Actions will include:

- Establish and launch an Enterprise Data Management Office to support a data-

driven, evidence-based and risk-focused organization

- Develop and implement a fit-for-purpose data governance framework and approach to data management to enhance the collection, management and analysis of data
- Promote use of enhanced data management and analytics at the OSC to support and inform OSC policy and operations
- Further develop staff expertise to assemble and analyze relevant, reliable, comparable and timely data in a systematic manner.

***ThinkTWENTY20: And the upshot of all of this will be?***

**From the 2019 – 2020 OSC Statement of Priorities:** The changes will make it easier to start, fund and grow a business in Ontario, and make Ontario’s markets more competitive. While these initiatives will benefit businesses of all sizes, the OSC has carefully considered opportunities to benefit small and medium-sized companies, which make up nearly 70 per cent of those regulated by the OSC, and smaller registrant firms, which make up nearly a third of Ontario registrants. Specifically:

**Small and medium-sized businesses** that are registrants will see clear service standards for compliance reviews and, in appropriate cases, be able to hire a Chief Compliance Officer (CCO) who acts in that role for other, unaffiliated firms. Companies will see more support for raising capital in the public markets, through a confidential prospectus review process prior to announcing an IPO or other financing.

**Innovative businesses and startups** will receive more flexibility in the OSC’s approach to registration, resales in the secondary market, and other regulatory requirements. Individuals applying to be CCO of fintech firms will be assessed based on their qualifications and on their broader business experience, and how the experience aligns with the firm’s business model. Startups seeking financing will see crowdfunding rules harmonized across the country.

**Large businesses** will see duplicative filing requirements eliminated in investment funds and registration rules; delivery of documents, like prospectuses, electronically; and measures to facilitate the registration of multiple CCOs for large registrants with multiple lines of business. Public companies will have the ability to conduct at-the-market offerings without obtaining prior exemptive relief.

**ThinkTWENTY20:** *As Canada has become the only country to legalize both the medicinal and recreational use of marijuana, it has in effect created a brand new and booming industry in this country. In particular, what financial reporting issues and changes might be required with new industries such as this and, say, cryptocurrencies?*

**McInnis:** When new industries emerge in the capital markets, we want to make sure the financial reporting is of high quality. In the cannabis sector, we began looking at public company filings early on with this objective in mind, and in October 2018 we published CSA Staff Notice 51-357 *Staff Review of Reporting Issuers in the Cannabis Industry*. That notice provides our insights from the results of our reviews, and contains very good guidance for this sector to help issuers provide the most meaningful information to investors.

Crypto-assets is another area that we started to look at early on. Accounting and auditing standard setting doesn’t always move as quickly when it comes to new/emerging industries, such as crypto-assets. When we don’t have clear accounting solutions for evolving issues, the most important thing to emphasize is for public companies to provide clear disclosure. We need to make sure investors understand the products and the risks, and the assumptions that go into fair value.

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I also think the approach to standard setting needs to be refreshed. The standard-setting model of the past, where agenda consultations are done and a plan is set for the next five years, doesn't support innovation. There needs to be resources devoted to anticipating, monitoring and staying on top of technological evolutions, including AI, blockchain, and fintech-related initiatives.

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**ThinkTWENTY20:** *In another article in this edition of ThinkTWENTY20, the author says that the SEC is now requiring standardized data and disclosures for financial reporting, specifically InLine XBRL. Is this something the OSC is requiring also, or contemplating requiring? If so, what benefits does the OSC expect to derive from such a requirement?*

**McInnis:** Structured data for financial reporting has great potential, and we are watching this topic very closely. We are mindful about not wanting to move too quickly and impose unnecessary costs on the capital markets. In Canada, we want to see how investors are benefiting from these requirements, and whether investors in Canadian companies will want or need this in the future. Right now Canadian investors are not asking for this type of data. We'll keep watching this one closely. Our current systems allow companies to file XBRL with us and we will make that available to the public through our SEDAR system.

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**ThinkTWENTY20:** *What kind of score, out of 10, would you give Canadian financial reporters as of today in this quickly changing reporting landscape?*

**McInnis:** I'm not a huge believer of score cards or rankings when it comes to important things like the quality of information used to make investment decisions across the capital markets and facilitating access to capital. What I will say is that the Canadian financial reporting ecosystem is strong. I participate on domestic and international committees that deal with issues like the quality of financial reporting, and Canada is a leader when it comes to knowledge and skills. We get high marks in my opinion, and we always seem to be at the fore front of change. Look no further than the recent cannabis and crypto-asset industries that we all have had to deal with very quickly. These are areas where Canada has been a strong leader, and others look to us when it comes to evolution and change.

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**ThinkTWENTY20:** *How quickly and urgently must the OSC move on all of these issues?*

**From the Jensen keynote address:** Understanding the disruption of financial services here and considering how we need to respond, the need to understand new business models, both for their potential and for their risks and how to adapt to these changes to position our organizations for long-term success are challenges that all of us face in one form or another as we transition to a data-driven economy and adjust to a faster pace of change – and there's no

doubt it's faster. This is equally true for regulators, as well as for industry, governments, central banks and all other institutions.

We are all looking to understand the evolving power of technology to serve the needs of the market, to run our organizations more efficiently, and to use data while maintaining the security and the privacy of important personal data.

This is a major transformation that has implications for Canada's long-term prosperity. It is important that we get this right because we can't afford to be left behind. Our economy is positioned in a very good place, with large technology builds within our organizations

This is a transformational time; what's at stake is Canada's competitiveness. We live in a global economy and companies, capital, and investors can, and do, go anywhere. We need to be thinking about how to nurture companies and attract investment here in Canada. At the OSC, we are doing our part – challenging ourselves to be a modern, dynamic regulator that looks forward and collaborates with others to prepare for the future.