

Insights to Impact - Episode 3 - Conversation with Naizam Kanji - Transcript

00:00:09 Intro

This is Insights to Impact, a SIMA podcast where leaders give their perspectives on the trends, challenges, and opportunities shaping the investment industry.

00:00:23 Andy Mitchell

Good morning, I'm Andy Mitchell, the President and CEO of SIMA.

00:00:27 Andy Mitchell

Today, I'm joined by Naizam Kanji, Executive Vice President, Strategic Regulation at the Ontario Securities Commission. Through his leadership in areas ranging from regulatory and economic research to innovation, behavioral insights, and sustainable finance, Naizam has a unique perspective on the future of Canada's investment landscape.

In this episode, we will explore strategic regulation, opportunities to strengthen market confidence and competitiveness, and what lies ahead for investors and our SIMA member firms.

Naizam, thanks for joining me.

00:01:02 Naizam Kanji

Thank you for having me, and I hope this is the first of many conversations we're going to have.

00:01:07 Andy Mitchell

Fantastic. Naizam, before we get into it, I would like to provide our listeners just a little bit of background.

You've been working at the OSC for over 10 years in leadership roles, including general counsel and executive vice president of legal and governance. You recently stepped into a new role, which we're excited about, focused on strategic regulation, where you oversee thought leadership, regulatory, and economic research.

There is interest across the industry in hearing more from the OSC and the thinking that is shaping your work.

I'm looking forward to today's discussion.

So let's start here. Tell me about strategic regulation and what that could mean for SIMA members and the industry. Also, what you think of when you hear the term regulatory burden?

00:01:53 Naizam Kanji

Thank you, Andy. I'll start with strategic regulation and what it means for capital market participants, including SIMA members. The strategic regulation portfolio that I oversee works closely with the regulatory operations area that my colleague Susan Greenglass oversees. The goal is to ensure that between us, regulatory strategy, policy, and operations are all aligned across the OSC and expertise across all functions is brought to bear on important priorities.

Strategic regulation helps the OSC become a more proactive, evidence-based, and outcome-oriented regulator that better anticipates emerging trends and adapt dynamically to changing market conditions. This is a benefit to all market participants and investors.

Strategic regulation also includes teams dedicated to facilitating innovation and economic growth, and an investor office that advances our strategic goal of enhancing the experience of individual investors. I actually think what SIMA is doing on the advocacy side is a corollary to strategic regulation.

You could call it strategic advisory and advocacy, as you're also being proactive on identifying and addressing issues of importance to the capital markets and generating evidence-based research to support your advocacy.

On the issue of regulatory burden, you and I have had lots of conversations. Securities regulators have come a long way in how we address regulatory burden and seek feedback on areas for reducing burden. For me, regulatory burden is any cost or disruption beyond that required to accomplish a regulatory objective. This view is informed by the proportionality principle that is one of the fundamental principles that is set out in our act for pursuing our mandate. And that principle is that business and regulatory costs and other restrictions on the business investment activities of market participants should be proportionate to the significance of the direct objectives sought.

00:03:52 Andy Mitchell

You mentioned research. Could you share with me and our audience the latest research you've been doing at the OSC, particularly around areas such as crypto, AI, gamification, and the influencer work that we also participated in?

00:04:07 Andy Mitchell

Could you also provide some perspective on how the OSC works with your CSA colleagues on these very important industry developments?

00:04:14 Naizam Kanji

It is important to remind everyone how important research is for regulators in identifying opportunities to improve investor outcomes, support market growth, and respond to changing market conditions. So on gamification, our research has identified ways in which gamification and digital engagement practices have encouraged behavior that is not in the best interest of investors. This has then helped inform our responses through compliance reviews whose results and guidance have been published in the staff notice. So really tying our research to regulatory outcomes.

Our research on influencer content found that it significantly influenced investment decisions, and we tested interventions to help reduce the impact of potentially misleading content. This work has influenced our staff guidance on securities legislation and influencer activity. Now, we're really pleased to see that this is something that industry is also concerned about and SIMA itself has done research in this area.

Our AI-related research has examined its impact on investor decision-making and how generative AI is increasing the sophistication and effectiveness of investment scams related to conventional scams. We tested interventions that will support future investor protection efforts, so there's more to come on that front.

So overall, our research efforts are a collaboration between strategy and operations and policy staff so that we can advance our mandate using the research to identify what we need to work on and then see whether what we're working on is actually making a difference.

Now, when it comes to the CSA, the OSC has been a big supporter of collaborative work across the CSA and harmonization efforts. We know that for market participants and investors, it's really important to have as much a harmonized regime across Canada as we can have. Notwithstanding, we don't have a national regulator. So at the CSA, there's actually a number of processes in place to allow for effective harmonization, both on the operational side, you know, when exempt relief applications or a prospectus is filed or a registration application is made.

00:06:42 Naizam Kanji

And on the policy front, there's operations committee that is made up of the staff who are actually working on the matter and the managers most closely to the ground. And there's representation across the CSA on that. And that is a place where conversations about novel issues, for example, are escalated, something where there's a risk that one jurisdiction may be taking a different approach is discussed to ensure a harmonized approach.

And then there's a steering committee, which is made-up of more senior leadership where things can get escalated. And that's where a lot of the policymaking conversations happen. There are also committees that deal with specific policy matters. The idea is to have in place processes that maintain harmonization on a regular basis, but also adaptable and flexible enough to adjust to new developments and market impact changes that are occurring.

00:07:45 Andy Mitchell

Fantastic. Great perspective. Thank you for that.

Let's talk about a recent initiative that marks a significant step towards greater regulatory harmonization in lots of people's minds and potentially a more efficient, innovative and competitive Canadian capital market.

Ontario recently announced its intention to join the regulatory passport system. And we at SIMA realize this is a very early stage of the strategic and tactical processes that lie ahead. From your perspective, though, what are the most meaningful potential benefits for market participants, and what are the implementation challenges you see that need to be resolved in order to ensure the passport system delivers on some of its promises?

00:08:23 Naizam Kanji

In terms of the announcement itself, obviously, as you noted, it's early days. And what I can say at this time is that we are looking forward to our discussions with our CSA colleagues and our government to ensure that full participation in the passport system happens in a way that enhances and improves the system as we go forward.

00:08:48 Andy Mitchell

Yeah, I think the audience will appreciate that early days insight. Let's switch gears a little bit.

The OSC recently proposed fee amendments and that has generated considerable industry interest course. How do you go about assessing the impact of fee increases on registrants, investment fund managers, and dealers particularly at a time when firms are already facing rising compliance and technology costs?

00:09:11 Naizam Kanji

There really is an acute awareness at the executive level, at the board level of the significant cost pressures that the industry is facing. And every effort was made in what is proposed to balance the need for us to have the revenue to carry out our expanded mandate. As you know, post-global financial crisis, our mandate was expanded to include systemic risk and financial stability. The modernization task force added competitiveness to our mandate and a real focus on innovation.

So we need to be able to get our mandate, but at the same time achieving the appropriate proportionality on market participants of any fee changes. So the comments will obviously help us assess whether we got the balance right. There's also the other side, which is what we talked about earlier, which is regulatory burden. And we are really focused on reducing that as well while continuing the dialogue on the fee side and seeing where we land on that.

00:10:16 Andy Mitchell

Excellent. As we think about competitiveness, of course, in the modern era of our friends to the south and other things going on in the geopolitical world. You know, when compared to our global peers, that the number of IPOs in Canada is very small. It's often cited as a drag on growth, productivity, and investor opportunity.

What initiatives is the OSC pursuing to support capital formation and improve the attractiveness of Ontario's public markets while maintaining investor confidence? And how can we at SIMA and the industry itself help to support you and the momentum on this critical file?

00:10:54 Naizam Kanji

So stepping back, one of my favorite reports in securities regulation is the Kimber Report, which is one of the foundational reports underpinning modern securities regulation. And it explicitly made the connection between strong capital markets and economic growth. Capital markets are not there just for the sake of having capital markets.

They're there to support economic growth, improve opportunities for firms and businesses to have more choices for financing beyond banking and in particular, and for investors to have more options for investing for the goals that they have.

So in that regard, capital formation and competitiveness of our capital markets is critical to economic growth very, very directly. As you know, it has been a challenging environment for public companies really around the world.

00:11:56 Naizam Kanji

There are many factors that potentially explain the number of IPOs in Canada. But as securities regulators, we have to focus on what we are responsible for. And so we hope that there can be a broader conversation about all the other factors that need to be considered to improve public company growth in Canada. But definitely it's on us to make sure we are dealing with what's our responsibility. So reducing regulatory burden and modernizing a regulatory regime to improve the competitiveness of capital markets. So that is not a reason that companies don't go public in Canada is extremely critical to us. We have undertaken a number of reforms over the last few years to enhance the competitiveness of our markets.

00:12:49 Naizam Kanji We created and now we're expanding the listed issuer financing exemption. We implemented a well-known seasoned issuer regime that streamlined capital raising by established issuers, and we piloted a program allowing venture issuers to adopt semi-annual reporting. So this really

has been top of mind for us. Now, we have most recently published a consultation paper in the corporate finance area.

00:13:15 Naizam Kanji

We don't want to just follow slavishly another jurisdiction even the United States. We need to see what's right for us and what's right for our market. We have a lot of small issuers. Our venture market has companies that are typically smaller than what public company markets are elsewhere.

I would also say I think it's really important for us to think almost like in a life cycle way. So not just think about public companies, but let's think about its life cycle. And our innovation office is doing a lot of thinking on that, what is needed to support startups, and then what are all the different stages of growth that they go through all the way to becoming a public company. And really having financing options available and accessible all across the continuum. It's almost let's think beyond the private-public distinction. Let's think of it more broadly and make sure that when firms and businesses want to get capital, they can get it when they need it.

00:14:24 Naizam Kanji

On the public company side, it could be that the long-term direction is greater reliance on the continuous disclosure record on which you could do more financing. But we are open and really want to hear ideas, what we can do for the asset management industry, like for all the market participants that we have. All of this is going to require dialogue with our key stakeholders, like you and your members, SIMA members.

Now, the one place that I would say we would really benefit, in addition to increased engagement, is data. Data that feeds into better policymaking, data that feeds into better post-implementation analysis and review. And we are obviously trying to become a more data-enabled regulator. The CSA is really thinking about data from a strategic perspective. And I think a data partnership between market participants and us would really advance improved policymaking upfront and then on an ongoing basis.

So that would be my ask of the industry if that's something that we can collaborate on.

00:15:41 Andy Mitchell

Yeah, get the right people in the room again, right? Let's wrap up with some rapid fire questions. We typically do five of these, so I'll throw them at you quick. First thought that comes to mind, a couple of short words, whatever you want to respond would be great.

First one, where have you seen the most meaningful progress in strengthening Canada's investment industry and how can that momentum continue?

00:16:06 Naizam Kanji

So I think the competitiveness agenda I just talked about. Internally, Susan and I run a competitiveness working group that is on a constant basis together with the strategy regulation group, assessing opportunities to reduce burden and look at reform proposals.

00:16:24 Andy Mitchell

And what trend would you think would be the most important for investment industry leaders, thinking of our board and our most senior people at SIMA to be very mindful of over the next two years.

00:16:34 Naizam Kanji

We just had a number of roundtable events on tokenization, stablecoins, where that lands between federal regulation and obviously the securities regulation, prediction markets, AI. Now on AI, I would say very directly would be how AI is using potential advice. I think it's something that we're really keeping an eye on and I think would really be interested in seeing how industry leaders are thinking about that.

00:17:04 Andy Mitchell

Great, all things on our list as well. When you think about the future of regulation, what is the one opportunity that excites you the most? And this could be global in context, Naizam, it doesn't have to be Canadian biased.

00:17:16 Naizam Kanji

I've been reading this book called AI for Good, How Real People Are Using AI to Fix Things That Matter. And it is an example of a public service element, but there's a number of different examples. Maybe you could call it AI for dummies, I don't know, or practical AI. But it has really made me enthusiastic about how we can use AI to be better regulators in delivering high quality and timely regulation at a lower cost. Yes, of course, there are things to worry about with AI, but there's really opportunities for investors, market participants, and us to all benefit from AI. So maybe I'm picking something that's a bit conventional in that sense, but that's what's on my mind right now.

00:18:02 Andy Mitchell

As you look further ahead, what challenge do you think will be the most important for regulators in your role, but also investors and industry participants to navigate together?

00:18:12 Naizam Kanji

The open borders, open capital flows, open trade and investment environment in which the capital markets really flourished is now being challenged. But I do think that that would really require us all to work together to build a fortress Canada, not just withstand what's coming, but can really thrive in the new world order that essentially is happening in front of us.

00:18:39 Andy Mitchell

Yeah, I like the way you framed that. I'm very supportive of your view there. Last but not least, if you could dispel one common misconception about securities regulation, what would it be?

00:18:50 Naizam Kanji

That investor protection and capital formation and market efficiency are either at odds or at trade-offs or have somehow to be balanced. The reality is that trust is the foundation of strong, mature capital markets, and trust is based on strong investor protection. So everything we do, all of us, if investors, consumers do not have confidence that all this is being done in their best interests, then everything we're doing in terms of burden reduction and all the other things trying to make our markets competitive will not matter.

00:19:22 Andy Mitchell

Fantastic. I really thank you for your time today and sharing your perspective and look forward to more conversations down the road.

00:19:29 Naizam Kanji

I do too. Thank you so much for inviting me.

00:19:31 Andy Mitchell

Thanks, Naizam. Have a great day.

00:19:34 Naizam Kanji

You too.

00:19:39 Outro

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