Why We Need Supply Chain Standardization

The New European Single Electronic Format

How the OSC Is Responding to Today’s Disruptive Challenges

Transforming Regulatory Filing Technologies

A European Company Confronts COVID-19

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Editorial

This is the first of our issues dedicated to a particular theme. In this case, the theme is regulatory reporting. The June issue will focus around a theme of cybersecurity. We’re especially excited about this new approach because it is so consistent with our objective of digging deeper into important issues.

Regulatory reporting is currently going through some important changes, particularly involving the technologies being used to produce the various reports required. Mike Willis, of the Securities and Exchange Commission, writes in his article about the implementation of inline XBRL (iXBRL) for filings with the SEC. This is an important change that simplifies the process for filers while at the same time enhancing the usefulness of the filings to investors.

Kim Eriksen, of Denmark, who runs a prominent consulting firm specializing in the use of XBRL and iXBRL throughout Europe, writes about the implementation of the European Single Electronic Format (ESEF) for filings with the European Securities and Markets Authority (ESMA). ESEF is based on iXBRL.

In an interview with Cameron McInnis, Chief Accountant with the Ontario Securities Commission, Gundi Jeffrey explores the many changes going on in the OSC to reduce the regulatory burden on Canadian companies using a combination of technology and modifications to policy and procedures.

We hope you enjoy learning about the changes affecting the world around you.

Gerald Trites,
Editor in Chief
Supply chain standardization is good for you. Although this may be obvious in many physical supply chain contexts, it is useful to look at the various benefits and usages of eXtensible Business Reporting Language (XBRL), the standardized machine-readable format for the business information supply chain. In the process, we’ll also examine the costs associated with those benefits and usages, and review recent SEC rulemakings that involve Inline XBRL structuring requirements for financial (and other) disclosures.

Let’s begin by diving into some examples that show just how transformative supply chain standardization can be, starting with the buildout of Canadian railways in the 19th century.

At the earliest stages of Canadian railway development, some railroads used a particular gauge type known as the “provincial gauge,” whereas others used a different type known as the “standard gauge.” In 1873, however, all Canadian railroads were converted to the “standard gauge,” literally laying the foundation for an explosion in economic growth in a vast country where growth was previously hindered by roads and waterways frozen for up to five months a year.

Another standardization example you see every day: the bar code. Before the bar code made its debut in Canadian grocery stores in 1974, Canadian department stores tried a number of different systems for tracking sales and inventories. Some used hole-punch cards, for example, while others scanned their own versions of alphanumeric codes. Shifting to a single, standardized tracking system — the Universal Product Code (aka the bar code) — drove process efficiencies for the entire supply chain and dramatically improved consumer options and buying information.
For a more recent example, consider the advent of digital video. When digital video began replacing VHS and Betamax, there was a vast array of various digital formats used (.wmf, .asf, .rm, .mov, etc.), many of which were proprietary and incompatible with one another.¹ This posed a significant challenge in sharing digital media with others — audiovisual content that was encoded in one format would often need to be converted into another format for the recipient to watch it. This all changed when the Moving Picture Experts Group (“MPEG”), an international collaboration involving hundreds of researchers and engineers from all over the world, designated the MPEG-4 standard for audiovisual coding formats and related technology in 1998.² The adoption of this standard dramatically enhanced the reusability and flexibility of content such as digital television, animated graphics, and webpage extensions.³ Thanks to the MPEG-4 standard, no longer would a vast array of proprietary, non-interworking formats and players obstruct what we can now clearly see as a digital video revolution.⁴

In the world of modern finance, stakeholders in multiple industry sectors have leveraged the same concept of supply chain standardization to their benefit. The mortgage industry has formed the Maintenance Industry Standards Maintenance Organization (MISMO) to develop an industry-wide transparent data standard,⁵ and the insurance industry has done the same with the Association for Cooperative Operations Research and Development (ACORD).⁶ Financial institutions on the buy side and broker-dealers on the sell side use the Financial Information eXchange (FIX) communication protocol for international real-time exchange of information related to securities transactions,⁷ and Financial products Markup Language (FpML) specifically for over-the-counter derivative transactions.⁸ And, of course, businesses across the globe have leveraged the standardized XBRL to make information supply chain management better, cheaper and faster.

**Standardization Produces Better Business Benefits**

Simply put, standardized data enables better, cheaper and faster business outcomes. Reporting processes are vastly improved by standardizing data so that it can seamlessly flow between disparate systems. In many organizations, data is housed in disparate data storage applications. By standardizing data from the get-go, companies can use software that instantly pulls information from these disparate data sources to write automated reports.⁹ This also makes the reporting process cheaper; companies can bring filing preparation filings in-house.¹⁰ Finally, standardizing data such as key performance metrics allows a company to monitor its performance and act on it in a more agile manner.¹¹

Many people will tell you that artificial intelligence (AI) is the wave of the future, and data scientists understand that, to enable successful AI, you need to input data that is structured in a machine-readable language. You’ve likely heard of the phrase “know your consumer.” Here, the
“consumer” of information is a machine, not a person. For that machine to be able to consume information so it can perform AI tasks, the information has to be “translated” into a language it can understand, such as XBRL. So the idea that AI will somehow “replace” XBRL and render it obsolete is missing the mark; XBRL is a language that works in tandem with AI technology, enabling more effective and successful results.\(^1\)

Let’s now dig into some of the specific benefits enabled by companies providing their disclosures in a machine-readable format such as XBRL and/or Inline XBRL. An example of actually seeing benefits is through Inline XBRL, a freely available international open standard that combines into a single document the human-readable HTML with the machine-readable XBRL. Inline XBRL reveals meta data for each of the tagged disclosures, such as whether the balance is in debit or credit, the scale of the disclosure, what tag was used, the related accounting standard for the tag and disclosure, etc. With a link to the accounting standards, filers may be enabled with a more automated approach to a disclosure checklist and can quickly observe what disclosure topics are and/or are not in the financial statements. Filers can also perform real-time risk assessments and validation checks, for example, if a value was inappropriately entered as a negative value. Further, filers can use system-to-system software to have machines, not people, submit required information to regulators.\(^2\)

Inline XBRL also enables instant market information through the open source Inline XBRL Viewer, as it can include capabilities such as time series charting, time series benchmarking and redlining changes in the disclosures. Filers and analysts alike may find these features increasingly embedded within vendor solutions and features.

In addition, with Inline XBRL machine-readable data all types of registrant’s disclosures are accessible, even for the very smallest reporting companies. Younger, often smaller, filers benefit disproportionately from XBRL reporting. Research\(^3\) shows that firms with a relatively shorter trading age have derived more benefit from XBRL adoption than older firms have. XBRL reporting facilitates disclosure access and the market to learn about younger firms faster, therefore bolstering their ability to raise funds on the market.

Standardized disclosure can also benefit market participants by enhancing the capabilities of financial regulators. In today’s globally connected world, regulatory regimes in different jurisdictions need to harmonize their approaches to maintain effective financial oversight. For example, the current security-based swap market is global in scope, and various jurisdictions have implemented mandatory reporting rules in their own jurisdictions.\(^4\) Structuring the key data elements reported by swap market participants in a machine-readable format would help enable collaborative information sharing between regulators in multiple jurisdictions (Canadian
For all the benefits it bestows, XBRL is neither expensive nor time-consuming. In 2017, the AICPA surveyed the amount paid by small companies for fully outsourced XBRL creating and filing solutions. According to its survey, small companies paid no more than $5,500 per year. The median cost? $2,500 per year. That’s significantly less than the SEC’s original cost estimate of $27,800 per year, and as adoption levels and technological advancements keep progressing, the costs may decrease further.

Some have questioned the benefits of machine-readable data, which could be subject to quality errors. For example, some have argued that the frequent use of custom tags defeats the idea of standardization. Custom tagging is necessary because filers could have unique transactions or disclosures that not covered by standard tags. The company-specific or custom tags provides filers with a method of directly exposing their unique disclosures to stakeholders highlighting value drivers, business segments and other areas of interest. For those concerned with ongoing growth of custom tags, the positive development is that custom tag rates in annual reports have been decreasing over the past four years, as SEC staff analyses show.

Lastly, it is pertinent for filers to know they are responsible for reviewing the disclosures, relevant disclosure requirements and tags to ensure that they submit high-quality data within their reports.

**How Machine-Readable Data is Used**

So how exactly are different stakeholders using machine-readable data and realizing these benefits? With the machine-readable data, SEC staff has been able to develop analytical applications such as the Financial Statements
Query Viewer and the Corporate Issuer Risk Assessment that allow them to extract, analyze and compare the financial data across filers and industries.

The machine-readable data also allows SEC staff to identify data quality errors, reporting omissions and trending patterns more quickly and easily. Commission staff have also used the machine-readable data to assist in economic analysis for rulemakings, data analytics included in white papers and to assess different disclosure scenarios across filers.

Filers can compare their disclosures to other filers when such comparisons are helpful, such as when a significant trend or event is affecting the industry and prompting new disclosures. Filers can also use the data for risk profiling by tracking net losses and impairments taken.

Machine readable data is also used outside of the SEC. For example, when main-street investors look up a reporting entity on a financial website, the earnings data is often derived from the machine-readable data. Other federal agencies, such as the Internal Revenue Service (IRS) and the Census Bureau, have used machine-readable data in fulfilling their regulatory and administrative duties. Additionally, accounting standards bodies such as the Financial Accounting Standards Board have used the data in their assessment and development of accounting standards.

**Recent Rulemakings**

Canadian companies with U.S. reporting requirements should take note of two rulemakings adopted by the SEC in recent years that have incorporated structured data.

In June 2018, the Commission adopted the Inline XBRL rule, requiring filers who report in U.S. GAAP or IFRS to transition their financial statement reporting from XBRL to Inline XBRL. Each Canadian filer’s compliance date will vary based on reporting standard and filer status — for IFRS companies, financial statements for all fiscal periods ending after June 15, 2021 are required to be provided in Inline XBRL. For U.S. GAAP companies that are accelerated filers, that phase-in date is June 15, 2020. And for U.S. GAAP companies that are large accelerated filers, the phase-in date was June 15, 2019, meaning that for those filers, all financial statements for periods that have ended since June 15 will need to be tagged in Inline XBRL, as will all subsequent financial statements.

In March 2019, the Commission adopted the FAST Act Modernization rule, requiring filers to tag cover page information (such as form type, company name, filer size, and public float) in Inline XBRL for Forms 10-K, 10-Q, 8-K, 20-F and — most relevantly for the majority of Canadian companies — 40-F. Note that many of those cover page data points were already required to be tagged in XBRL; the only thing that’s changing is the transition to Inline XBRL. Compliance dates are identical to the Inline Rule dates described above and summarized in the table below.
Future Considerations
Here are a couple future considerations for readers to keep in mind.

If a filing has data quality errors, they may indicate to the user the potential for related process control weaknesses. In other words, data quality errors may or may not be a ‘tell’ for other related problems. Often, as in life, it is never just one problem.

The machine-readable disclosures can be subjected to freely available data quality checks to identify some of the more common data quality error types. Filers might consider asking their reporting vendor and/or software provider if such data quality checks are available for testing their draft filings prior to submission.

Analysts, researchers and others may be interested in the Financial Statement and Notes data sets that are posted on the SEC website and updated quarterly. These data sets provide the text and detailed numeric information from all financial statements and their notes and is presented without change from the "as filed" financial reports submitted by each registrant. The data is presented in a flattened format to help users analyze and compare corporate disclosure information over time and across registrants.

Please Contact Us
We welcome your comments on our rules and feedback on structuring other disclosures. You can visit www.sec.gov, click on “Regulation” on top and then select “Proposed Rules.” You will see a section to leave comments once you click on a proposed rule of interest to you. Readers should feel free to contact us via email at StructuredData@sec.gov or leave a voicemail at 202-551-5494.

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The New European Single Electronic Format: The Story Behind ESEF

By Kim B. Eriksen

Kim B. Eriksen is founding partner and CEO of the company ParsePort, that specializes in XBRL solutions. Today they have more than 10 local offices across the EU in order to supply the market with ESEF solutions. Since 2010 Kim has been involved in the XBRL consortium, the latest as a board member of XBRL Denmark. Kim has specialized in helping listed companies in the EU, getting XBRL ready for ESEF.

In 2013, the European Securities and Markets Authority (ESMA) amended its transparency directive to have issuers provide a more transparent view of financial reporting. A further goal was to make it easier for issuers to produce, compare, facilitate and distribute financial reports.

Quite early on in the process, it became obvious that the best suitable format for the transparency directive was XBRL (eXtensive Business Reporting Language). But the question about whether it should be XBRL or iXBRL (inline XBRL) was yet to be answered. In 2016, after consulting the market and making various analyses and field tests, ESMA finally announced that the format chosen was iXBRL.¹

The European Single Electronic Format (ESEF)² came into force January 1, 2020. This means that companies delivering annual reports with balance sheet dates after this will have to deliver their annual report in the iXBRL format. So, the real effect will be from 2021 on, when all the annual reports following the calendar year will be delivered.

And just to get some facts straight right away, behind the transparency directive:

1. The definition of the technical standards is called European Single Electronic Format = ESEF. Notice that ESEF is the name of the "directive" in daily speech across the industry.

2. When the annual report is prepared for a listed company, it needs to be delivered to the local receiving authority. This can differ in each country depending on which authority is at the receiving end, as it is the local authority – not ESMA – where the report needs to be delivered.

3. The files that need to be delivered to local authorities are xHTML files, also known as iXBRL files, not xHTML. It is more or less the same – do not get confused by the acronyms.

4. The file definitions used in this article are:
   XBRL = eXtensive Business Reporting Language
   iXBRL = inline XBRL
   HTML = Hyper Text Markup Language
xHTML = eXtensible Hyper Text Markup Language

5. To keep everything clear, notice that I will write iXBRL in this article, with iXBRL being "HTML+ XBRL = iXBRL." HTML is the “visual” part and XBRL is the “technical” part.

Why Choose iXBRL As The Standard?
The advantage of using iXBRL is that it gives you the best of both worlds: the "human" visual design part and the "machine" readable digital part of the annual report.

The "visual part" is for the human eye reading the report, maintaining the touch and feel, by showing the pictures, graphs, tables, formatted texts, references etc. The purpose is the same as today: to make it easy and digestible for the reader to understand the annual report and how the company has presented it. This is how we know the annual reports of today, we are accustomed to having them served in the PDF format. All the properties you have today in PDF will also be available in the iXBRL format from 2020 on.

The "machine readable" part is where the beauty of XBRL comes into play. You can compare it to the movie "the Matrix." The human eye sees and reads a regular table of numbers in the consolidated financial statement in the iXBRL file, but a machine will see and read a lot of the metadata that is hidden and embedded within the numbers. The machine can extract specific values and the details behind the numbers (Is it a value in millions? Which period is it for? Which currency is it? How much percentage increase or decrease is it compared to last year? etc.). This can be done instantly and, by doing this, the data extracted can also be exported to other systems, analyzed automatically, translated into other languages, etc.

A practical example:
In Denmark today, XBRL is a common standard reporting language. When a company delivers its annual report to the Danish Chamber of Commerce, it also sends along an XBRL file. The minute
the Danish authorities receive the reports online from the company, the XBRL file is published publicly online at the Chamber of Commerce website and in a publicly accessible Datawarehouse. This enables analytic agencies, banks, system-builders and other companies to import the files, thereby having the opportunity to analyze the company’s latest financial data. There are also language dimensions to the Danish XBRL files (as is the case for ESEF), meaning that a Danish bakery can deliver its XBRL file on a Monday evening and, on Tuesday morning, a Chinese investor can read the financial statement in Chinese, while another system can analyze or calculate statistics in the data, look at performance and compare the bakery to other similar bakeries or industries in real-time, based on the data that is published.

What Does This Mean for Listed Companies Across the EU?
This means that the listed companies need to convert their annual report production processes so that they can produce them in an iXBRL file. In effect, they will have to decide on how they want to produce their annual reports moving forward by choosing systems, vendors, consultants, processes etc.

Issuers will find that the biggest impact – and workload – comes the first time they need to prepare their annual report in iXBRL. In this preparation phase, all the individual accounting entries needs to be mapped against the XBRL dictionary, also known as “the taxonomy.” Once this is done, most of the mappings can be reused in the following years and, if the issuer invests in the right solution, it will most likely not need to map more than a couple of entries every year.

There are two important decisions that need to be taken when an issuer is ready to produce the iXBRL files:

1. The solution – which system do they wish to use to produce the iXBRL file?

2. Mapping of the elements – the largest task in the production of iXBRL files is to line up the elements in the annual report with their names in the XBRL dictionary. This task really demands an XBRL competence, and we are seeing a lot of companies that wish to do the mapping in-house but end up outsourcing the job to a consultant, auditor or XBRL specialist.

It is a common misunderstanding that issuers have to invest in new accounting and reporting applications. Many of the large applications already have support for iXBRL, however, and there are also plenty of add-on solutions that can support current applications.
Large applications vendors, such as Workiva, SAP etc., have already stated that they will implement and support iXBRL for ESEF as a part or an addon to their systems, although we still haven’t seen any fully tagged ESEF iXBRL files from them.

There are also other vendors who have a long history in producing XBRL solutions, such as ParsePort, Invoke, etc., who are building other kind of iXBRL supportive solutions, and companies can either integrate them into their current workflow or use them as bolt-on solutions.

My point is that there is a solution no matter where publicly listed companies want to go when they report in ESEF.

**Important Lessons Learned**

In the US, most of the Securities and Exchange Commission (SEC) filers chose to outsource the mapping of their XBRL files for the first several years. After they had gained the necessary competence from their outsourcing partners, we saw filers taking the mapping in-house again.

Denmark is the only country in the EU where it has been mandatory for listed companies to file their financial statements and reports in XBRL since 2014. The experiences also show that there is a need for an XBRL specialist in the mapping phase during the first years. In Denmark, most companies have outsourced that task to their auditors, meaning that the auditors hook the “XBRL specialist role,” which is contrary to the US SEC experiences.

The conclusion from the SEC and DKIFRS filings is that the mapping needs to be done by professionals who are experienced in working with XBRL, mapping and taxonomies. This is a complex task for inexperienced users, and having an expert to review and map the annual report in Year 1 and Year 2 is a good investment. This, in turn, will make the users working on these issuers feel safer and more confident.

**How Does a Listed Company Prepare in the Best Possible Way?**

We always recommend that our customers, partners and clients do the following when they are getting ready to switch to ESEF:

- **Eat the elephant in small bites.** Start early, but do not rush anything. We are seeing a lot of solutions in the market and often see filers start planning to build an airplane when they could have bought an airline ticket.

- **Take advantage of the resources you have nearby,** such as your consortium of XBRL specialists, auditors, etc. In Europe, we have a very active XBRL consortium that is presenting a lot of events, workshops and conferences about ESEF, where various vendors showcase different solutions and other filers share their knowledge.

- **Develop a strategy that covers a couple of years,** but exploit the fact that you are dealing with innovation. Do not plan five or 10 years ahead. Our experience is that solutions are evolving quickly and we often see that minor changes need to be made once the new rules have been
enforced. So, try to plan within 24 months and don’t over plan or rush long-term solutions, unless you are really sure they are right for the company.

• **Look closely at your 2019 annual report and start preparing what you need to do going forward.** The 2019 report will be based on the latest IFRS standards and, in most cases, will look a lot like the new 2020 report. Therefore, you can start preparing now. Invite some different vendors in and see what the market has to offer in terms of solutions. You can find solutions at five thousand euros that might be more than enough and are the right ones for your company.

• **Human resources are involved in the transition.** They need time to observe, absorb and adopt. Be aware of the fact that you cannot change your course by 180 degrees without having your team and colleagues aboard. Inform, educate and include the human resources involved in the ESEF project. And listen to them! Do not force anything unless your arguments are really convincing. If this means you will have to have an interim solution for a year or two so that your employees are properly prepared – do it! A harmonized team spirit is priceless, no matter which system you are using.

**The Auditor’s Role**

This is still a bit undefined, but we do know for sure that the auditors will have to sign the xHTML(iXBRL) file that the issuer delivers. The latest we know is that the Committee of European Auditing Oversight Bodies (CEAOB) guidelines on the auditors’ involvement in the financial statements recommend that the auditors should report specifically on the work performed on ESEF. In other words, the auditors need to have some kind of statement and conclusion on the mapping, as this is a part of the ESEF.³ So, clearly, the auditors will have a quite significant responsibility for the iXBRL/xhtml file.

The customary PDF file will be replaced by the published xHTML file. The glossy, beautiful PDF file that is usually published will be replaced by an identical xHTML file. There is no need to worry about the quality of the new reporting format; the xHTML file actually has more to offer, and any browser can open it whereas a PDF file demands a software application that can read the file.

**ESEF in Short**

It is true that ESEF will result in extra work and expense for listed companies in the beginning. But, in my experience, listed companies are agile and very good at adopting new technologies and
processes. ESEF will make companies more attractive, because reports will be digitalized and distributed instantly, optimizing the market reactions and giving companies a greater appetite for foreign and local investors. It is also my opinion that we will see some companies align their account entries with the XBRL taxonomy, streamlining, rectifying and unifying the annual reports, which will make them easier to compare and analyse. All in all, ESEF is a great solution and definitely is in the best interest of both investors and the markets.

Endnotes

In Their own Words....

How the OSC Is Responding to Today’s Disruptive Challenges
By Gundi Jeffrey

Gundi Jeffrey, Managing Editor of ThinkTWENTY20, is an award-winning business journalist specializing in writing about the accounting profession for various publications in Canada and England.

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?

**McInnis:** 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.
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.
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.

**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.

**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 forefront 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.

**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.
A novel addition to regulatory reporting is transforming the way companies file with their regulatory authorities. And, once most of those authorities are on board, it should make life easier for corporate filers everywhere.

**A Bit of Backstory**

Corporate filings with regulators are a major part of the reporting cycle. Preparing them is time consuming and the whole process is complicated by the fact that companies often have to file with different regulators using different technologies.

Income tax departments are a prominent and well known recipient of filings for all companies and individuals. For public companies, filing with regulators and stock exchanges is an additional significant activity. Some industries are more regulated than others. For example, in Canada, a typical bank has to file reports with the Office of the Superintendent of Financial Institutions (OSFI), the Canada Deposit Insurance Corporation (CDIC), the US Securities and Exchange Commission (SEC), the Canadian Securities Administrators (CSA) and, of course, the Canada Revenue Agency. With US banks, the list includes the Federal Deposit Insurance Agency (FDIC), SEC, IRS and a host of local, regional and national governments.

Each of these agencies has its own format for receiving data, and most have developed their own proprietary systems for processing the filings. Therefore, preparing the filings often must include steps necessary to enable the files to be accepted and processed – steps that differ for each filing agency.

To help deal with this issue, numerous agencies and government departments around the world have adopted eXtensible Business Reporting Language (XBRL) as the electronic format required for filing corporate financial reports with them. More recently and more specifically, they have adopted Inline XBRL (iXBRL), which is a more advanced form of XBRL.

XBRL was developed in the early years of the 21st century by a small group of accountants led by Charles Hoffman, a practitioner from Tacoma, Washington, with the cooperation of the American Institute of Certified Public Accountants (AICPA). They, along with some others having
the needed technical skills, developed the first iteration of the standard, which was published in July 2000.

“XBRL is a standards-based way to communicate and exchange business information between business systems. These communications are defined by metadata set out in taxonomies, which capture the definition of individual reporting concepts as well as the relationships between concepts and other semantic meaning.”¹ What this means in practical terms is that the concepts referred to are financial statement items, such as cash, inventory and sales revenue. The relationship between these concepts defined in the taxonomy is the relationships they have in compiling financial statements; for example, accounts receivable is one concept and allowance for doubtful accounts is another. The allowance is deducted from the accounts receivable (the relationship) to get net receivables.

Metadata is added to the concepts, such as the date, valuation method and accounting standards used to measure and disclose the concept. The concept of inventory might have, for example, metadata that shows the inventory is work in process for X Company Ltd. as at December 31, 2020, and is valued at lower of cost and net realizable value. This metadata always travels with the data, which adds to its usefulness. Without the metadata, the data would constitute a meaningless number. In preparing financial information in XBRL format, the concepts and related information are gathered together in one document, called the instance document.

XBRL was never meant for human consumption, but just for other computer systems to read. An XBRL instance document can be read by a human, but only after extensive education in the intricacies of XBRL. It is certainly not suitable for human investors unless it is fed into systems that can render it into ordinary language. XBRL is very useful, however, because the computer systems that receive it can process it; for example, filings with the government, such as the SEC, can be readily checked without using valuable human resources. Only after this process is completed are the humans brought in to investigate apparent errors or other anomalies. This was one of the main reasons the SEC required XBRL filings in the first place.

But, because XBRL files cannot be read by humans, filings with regulatory authorities have had to be accomplished by two sets of files – conventional reports in a human readable language and XBRL files.

The iXBRL Solution
Enter Inline XBRL or iXBRL. iXBRL is a form of XBRL that is readable by both machines and humans. This is useful in coping with the SEC requirements under which two reports needed to
be filed – the traditional filing in HTML and the separate XBRL filing. With iXBRL, only one report needs to be filed, an HTML document that can be read by people and incorporates XBRL tags, so that the same file can also be machine read.

One of the first and most successful implementations of iXBRL was carried out in the UK by Companies House (the UK Registrar of Companies) and HMRC (the UK tax department). In September 2009, HMRC and Companies House issued a joint statement announcing a common approach to the online filing of company accounts utilizing iXBRL. To help companies comply, they developed dedicated applications to make the compilation of the filings easier. The new legislation meant that most companies would have to file their Company Tax Returns, financial accounts and other computations in iXBRL for accounting periods after March 31, 2010.

In June 2018, the SEC passed a motion to amend their filing requirements to make a transition to iXBRL. The plan was to phase in the requirements so that large accelerated US GAAP filers would comply beginning with fiscal periods ending on or after June 15, 2019, accelerated filers for fiscal periods on or after June 15, 2020 and all other filers on or after June 15, 2021. The SEC also introduced an open source Inline XBRL Viewer to enable filers and the public to review and analyze the XBRL data more efficiently. Interestingly, the requirement for companies to post the XBRL data on their websites was eliminated at that time.

The EU issued a directive in 2004 that set standards for companies listed to offer securities within the EU. In Sept 2018, guidelines setting out the details of the new European Single Electronic Format (ESEF) were issued. This standard included a requirement to file with jurisdictional regulators using iXBRL based on the new ESEF taxonomy (an adaptation of the IFRS taxonomy) for financial years beginning on or after January 1, 2020.
IXBRL was adopted in other countries as well:

- Japan’s Financial Services Agency mandated XBRL in 2008, replacing it with iXBRL in 2013.
- The Revenue Commissioners of Ireland initiated a voluntary program in 2012 for all taxpayers to file their financial statements in iXBRL. Mandatory filing was introduced in 2014.
- The Danish Business Authority introduced iXBRL in 2015.
- The Australian Securities and Investments Commission began its iXBRL filing program in 2015.
- The Companies and Intellectual Property Commission in South Africa mandated iXBRL to go into effect from July 2018.
- The Companies Commission in Malaysia also passed a peremptory decree for qualifying companies to file in iXBRL

The Challenges of iXBRL

Since iXBRL is filed as one single report, the audit opinion auditors express on the financial statements must be applied to the whole file, including the XBRL mark-ups or tags. Until then, the audit issue could be avoided by having the auditors express their opinion on the traditional financial statements and not on the XBRL files. Some companies did get an opinion on the XBRL files, but this was rare.

The problem was that, in expressing an opinion on the XBRL files, more audit work would be required, including:

- Determining that the appropriate taxonomy was used.
- Ensuring that the human-readable layer of the financial statements is identical to the audited information.
- Determining whether the information embedded in the electronic report is marked up in compliance with the regulatory requirements.
- Evaluating any significant judgments made in reviewing tagging and use of taxonomies. For example, the matching of financial statement items to the appropriate taxonomy items often requires the exercise of judgment.
- Ensuring that the audit procedures involve using the auditor’s understanding of a company’s disclosure and business model to ensure that the right tags are being selected.
- Ensuring that inappropriate extensions are not being used and that relevant extensions are properly anchored to the taxonomy.

The Committee of European Auditing Oversight Bodies published, in 2019, important guidance for auditors reviewing financial reports published in accordance with the new ESEF regulations.

To provide an opinion on whether or not financial statements comply with ESEF requirements, auditors must ensure that the human-readable layer of the electronic report is audited and must determine whether the information embedded in the report is marked up in
compliance with ESEF requirements. The guidelines state that, “taking into account the defined materiality, the auditor should express an opinion (sometimes called ‘positive’ conclusion) on the compliance of the marked up information with the ESEF requirements.”

In cases where the mark-ups are materially misstated, auditors should express a qualified or adverse opinion regarding this compliance. The conclusion will depend on the severity and pervasiveness of the misstatement(s).

A disclaimer of opinion on this compliance should be expressed when auditors are unable to obtain sufficient appropriate evidence in this regard. This step should improve both data quality and audit consistency for ESEF filings.

Adoption of XBRL and iXBRL

When XBRL was first conceived and discussed by the financial and accounting professions, there was a degree of excitement that this new reporting format had the potential to revolutionize financial reporting. There were visions of investors receiving their financial statements in XBRL format directly into their computers and then launching sophisticated analyses themselves. There were visions of all financial reporting using XBRL and, therefore, being comparable and consistent – the traditional bane of financial reporting. All accountants would learn XBRL and teach it to their clients and employers.

It didn’t quite work out that way. Companies found that implementing XBRL involved buying new tools and training staff in their use. Also, to do the tagging required, they had to add new procedures to their financial reporting process. Given that XBRL files could not be read by people, the output of the process was often regarded as limited in usefulness.

The use of XBRL in regulatory filings was an exception to these concerns. The regulators had long ago established standard types of filings. And they had the resources to provide assistance to filers preparing their filings in XBRL. They also had the resources to develop and use advanced processing and analytical programs.

In the case of the UK and EU regulators, for example, the assistance to filers took the form of providing filing systems that automate much of the tagging and formatting required to complete the XBRL files. In the case of the SEC, the assistance was less extensive and involved providing some support to developers who created the tools necessary for filing. On the other hand, the SEC led the way in developing analytical programs that were used to analyze the filings and reveal any anomalies and errors.
In most cases, the filings were displayed on the regulators’ websites, which substantially enhanced the volume and usefulness of financial information disclosed on the internet. Some companies also have disclosed the XBRL information on their own websites and, in some cases for several years, were required to do so.

Adoption in Canada has taken a different tack. While the US, UK and EU regulators have taken the lead on introducing advanced technologies for regulatory filings, Canadian regulators have done nothing. Although XBRL is used by Canadian companies, it applies only to those that are registered with the SEC, as a result of SEC requirements.

One consequence of this state of affairs is that there are many Canadian companies for which XBRL data are not available. Over time, this will become a disadvantage to these companies as XBRL becomes more widely used and such data are more widely expected to be available for analysts and others. Another consequence is that Canadian regulators are denying themselves the advantages of automated processing of the filings, which is faster and makes less use of valuable human resources. Also, Canadian regulators do not have the ability to use the advanced techniques available for analyzing the data from filings to identify anomalies and errors. The SEC has developed several tools for such analysis, which have proven to be very useful.

We can only hope that the situation for Canadian regulators and filers will improve as they learn from the experience in other countries.

1 XBRL International.
What Makes A Regulator Excellent?
By Jonathan Andrews, CPA

Jonathan Andrews, CPA, lives in Victoria, BC. He is the owner of Netlearn.ca, a provider of e-learning content and delivery services.

Achieving Regulatory Excellence, edited by Gary Coglianese, is an excellent resource for those faced with the task of establishing, maintaining, upgrading or improving a regulatory organization.

In 2015, CEO and president of the Alberta Energy Regulator Jim Ellis retained the services of Gary Coglianese and his team from the Penn Program on Regulation at the University of Pennsylvania who, in turn, obtained contributions from leading experts in the field from the US, Canada, UK and Australia. The result is a detailed and contemporary collection of twenty-first-century perspectives on Defining (Part I), Seeking (Part II) and Assessing (Part III) regulatory excellence.

In the opening chapter, Coglianese introduces the need for regulators, explaining what regulators do. In this chapter, he also describes the common features of regulators, draws a parallel between regulators and parents and refers to the three faces of regulatory excellence – organizational traits, its actions and the outcomes it achieves. But, he adds, even with these covered, a regulator can only really achieve regulatory excellence through “people excellence.”

All of the contributions that follow in Parts I, II and III address the question: What makes a regulator excellent? In answering, all of the contributors seek to clarify, in their own way, what regulatory excellence means to them.

Part 1: Defining Regulatory Excellence – Various Visions

Transform industry and society. In Chapter 2, John Braithwaite of the Australian National University stresses the importance of excellent regulators making a transformational impact on industry and even on society as a whole. Doing so creates public value, going beyond simply improving the quality of the rules to be followed by the regulators.

Keep “eyes on the stars, feet on the ground.” In Chapter 3, Wendy Wagner of the University of Texas argues that excellence lies in an “eyes on the stars, feet on the ground” approach – giving priority to the advancement of public interest, while maintaining expert, accessible and
fair decision processes.

**Maintain fairness, transparency and honesty.** In Chapter 4, Kathryn Harrison of the University of B.C. believes that the fundamental underpinnings of regulatory excellence lie in the process virtues of procedural fairness, transparency and honesty. She argues that robust and fair democratic engagement, while not an exclusive attribute of regulatory excellence, may often be overlooked.

**Get the substance right but promote individual well-being.** In Chapter 5, John D. Graham and Paul R. Noe, of the Indiana University & American Forest & Paper Association, respectively, agree that procedural fairness is necessary but feel that getting the substance right and ultimately promoting individual wellbeing throughout society determines whether excellence has been achieved.

**Exercise humility and restraint.** In Chapter 6, Ted Gayer of the Brookings Institution expresses the view that the best regulators show humility and restraint, and are guided by thoughtful consideration, rigorously assessing the quality of available evidence before making substantive decisions, while remaining aware that poorly defined and implemented regulation can cause its own kind of harm.

**Take a deeper and wider view.** In Chapter 7, Bridget M. Hutter of the London School of Economics and Political Science highlights the need to go beyond sound technical and scientific analysis to consider risks to social, economic and political values. To this, the author insists, must be added the impact of a more interconnected world on the work of the regulator.

**Aim for lucidity and responsiveness.** In Chapter 8, Robert Baldwin, also of the London School of Economics and Political Science, introduces the (much-needed) concept of “lucidity,” involving a clarity of approach in delivering on the essential tasks of regulation. The author argues that the excellent regulator is attuned to its setting, knows what needs to be achieved and responds dynamically to changes in its environment.

**Part II: Seeking Regulatory Excellence – How to go about it**

**Employ vision, analysis and innovation.** In Chapter 9, Daniel C. Esty of Yale University lays out key strategies for seeking regulatory excellence: a clear vision, thorough analysis and willingness to innovate.

**Focus on vision, funding, information and judgment.** In Chapter 10, Shelley H. Metzenbaum and Gaurav Vashist of the Volker Alliance add that the essential ingredients for regulatory excellence are a well-defined mission, adequate funding, sound information, and thoughtful judgment in selecting tools to solve regulatory problems.

**Find the sweet spot.** In Chapter 11, Adam M. Finkel of the University of Pennsylvania & University of Michigan suggests that a regulator’s excellence depends both on alignment of the
traits, actions and outcomes, referred to by Coglianese in Chapter 1, and on finding the “sweet spot” on a spectrum of virtues that compete with each other.

**Switch to multiple strategies to create responsive solutions.** In Chapter 12, Neil Gunningham of the Australian National University addresses what it takes for regulators to achieve excellence in their compliance and deterrence strategies, moving away from a single strategy to deploy multiple strategies, thereby creating a responsive solution, combining individual strategies in various ways, depending on the context.

**Build public confidence, learning and interaction.** In Chapter 13, David Vogel of the University of California-Berkeley introduces three case studies to illustrate: maintaining public confidence, striving for continuous learning and achieving constructive interaction with the regulated industry.

**Draw on expertise, history and political science.** In Chapter 14, David Levi-Faur of the Hebrew University of Jerusalem focuses on the excellent regulator’s need to draw on diverse expertise, including knowledge of history and political science, to arrive at context in implementing regulation strategies.

**Use a societal risk management tool.** In Chapter 15, Coglianese and Howard Kunreuther of the Wharton School at the University of Pennsylvania highlight a societal risk management tool – insurance. The authors suggest that there are opportunities that public-private partnerships can contribute to regulatory excellence.

**Trigger systemic change and achieve public goals.** In Chapter 16, Angus Corbett of the University of Pennsylvania believes in a system orientation, one that will find and exploit leverage points to influence systemic change and achieve public goals.

**Part III: Assessing Regulatory Excellence – Challenges to be faced**

**Assess performance and adapt.** In Chapter 17, Daniel P. Moynihan of the University of Wisconsin-Madison acknowledges that in a fast-changing world, regulators need to assess their performance and adapt as needed, although he cautions against making too strong a connection between measures of performance and incentives for regulatory employees.

**Strive for future excellence.** In Chapter 18, Coglianese concludes this publication by speaking further to performance measures, making the point that, performance measures for a regulator to become excellent are more important than those measuring whether a regulator is excellent.

**A Valuable Resource**
As editor, Coglianese points out that the role regulators perform is vital to society. What they do is hard, and to do it well is demanding and difficult. The world they work in is perpetually changing.

The individual authors’ contributions represent a wealth of ideas on defining, seeking and assessing regulatory excellence. Although not a roadmap, the true value of this publication lies in its ability to enable researchers to draw from the contents those potential principles and practices that may meet their own particular needs.

*Achieving Regulatory Excellence* is essential reading for regulatory organizations and their advisers, striving to maintain momentum in a fast-changing world. Without doubt, a stimulating resource.
A Special Report From Our Asian Correspondent: From Bhutan with Love

By John McAlister

John McAlister is a leading advisor specialising in information creation, management and distribution through enabling technology. Leveraging his government and private sectors background, John partners with executives to re-image the future of their business and employs technology to enable transformation.

With this article, ThinkTWENTY20 is launching a new series of international reports on what’s happening around the globe that may have an impact of the accounting profession. These will be shorter, newsy pieces to keep you up to date on what is happening elsewhere in the world. We begin with a report from Asia.

As we look around the world, there are so many examples where the purpose of government seems to have been forgotten or pushed aside in favour of self-interest, partisanship, opposition for the sake of it and, often, corruption. Democracies are losing credibility. The “people” are losing “trust.”

Professor John Keane (University of Sydney) said in May that the rise of new political regimes is threatening established, power-sharing democracies around the world. Professor Keane noted that it appears that democracy is “dying by stealth.” Smaller and newer democracies are falling victim to despotism under the influence of rising global powers, while long-established democracies, such as the United States and the United Kingdom, are losing credibility.

“For hundreds of years, modern societies have depended on something that is so ubiquitous, so ordinary, that we scarcely ever stop to notice it: trust,” says English writer William Davies. “A modern liberal society is a complex web of trust relations.”

All too often the focus of attention is on those who breach this trust, who seem to have cast aside the codes of conduct established to ensure that officials and experts are not seeking personal gain or glory and are bound by strict norms of honesty.

The Exception

Yet, nestled in the beautiful Eastern Himalayas, landlocked by the giants China and India, is a country that is defying this trend! It is a country that opened its doors to the world, carefully, in 1974. There were no more than 20 cars back then. It was not recognized by the United Nations as a country. It did not get satellite television until 1999. And it had remained free from western influence.

But, it was an absolute monarchy. As such, can it really be said to be defying the trend mentioned above?
Less than 50 years ago, Bhutan didn’t actively participate in the world. In fact, I have been told that Bhutan didn’t even know World War II was happening! But what does that have to do with the growing lack of trust in government and the decline of democracy?

Contrast!
In the past 50 years, the wisdom and vision of the Fourth Druk Gyalpo (the Fourth King), his unwavering love of and trust in the Bhutanese people and his strength and determination allowed him to be vulnerable; he ceded power to his people and his throne to his son.

It is under these most benevolent monarchs that the Bhutanese take immense pride in their culture and Buddhist lifestyle, which is uniquely Bhutan. And, in this context, it is the responsibility of government, institutions and agencies to respond in the long-term interest of Bhutan.

With international support, the Royal Government of Bhutan is working to balance socio-economic development to strengthen financial management, improve private sector and employment opportunities and to close the gap between rich and poor.

The aim is to achieve an economic transformation toward a self-reliant and sustainable economy, built on the foundations of a just and harmonious society, as envisioned by His Majesty the King.

The Bhutan government’s ability to achieve this depends on efficient revenue mobilization centred on a modernized, robust and fair taxation system. Replacing the current indirect tax system, including sales tax – which has evolved into a complex and inefficient system that is neither fair nor equitable across the taxpaying community – is a priority.

And, as Bhutan is land-locked between giant countries, changes by its neighbours can have very big impacts. When GST was introduced in India, it also meant that the Indian
government no longer collected duties on products on behalf of Bhutan. This resulted in a reduction in revenues available to the Bhutanese government. And, what appeared to be a small amount on the balance sheet of India, was material to Bhutan.

Yet the real story here – the lesson parliamentary democracies around the world and for those looking to reinstate trust need to learn – is one of leadership. This means leadership by His Majesty, leadership by the Prime Minister, leadership by the government, leadership by parliament – all keeping in mind the good of the Bhutanese people before all else. It is through leadership in a very constructive way that discussion and debate is conducted.

Of course, not everyone agrees with everything. But, very refreshingly, the Opposition isn’t just opposing because it can; it is being very constructive in acknowledging the need for change and looking to make reforms the best they can be for Bhutan.

The government is focused on narrowing the gap between rich and poor not by pulling the better-off down, but by ensuring that it addresses reform based on consumption: those who can afford to consume more pay more. At the same time, it is trying to curb consumption of harmful products that are damaging to health, the economy, the environment and spirituality. They are investing in prevention rather than waiting to cure. They are focused on wellness, not just illness.

To illustrate just how amazing this is, please, take a few moments to read the press release of Dr. Lotay Tshering, Prime Minister of Bhutan:

**Press release:**

**Redefining nation building**

_The major tax reform is about narrowing the gap, making the best of what we can spare and exploring new economic opportunities._

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Dr. Lotay Tshering, Prime Minister of Bhutan

The story is not new. As we write this, a village has received its first road in one corner of the country, unfolding world of possibilities for the folks. In another quarter, a mother prepares to send her son to a school nearby, promising a future she could never seek.

Back in town, a father sighs with relief as his gazes at his daughter recovering from a surgery in the hospital.

You may not realize but, in all these anecdotes, you have played a part through your services, your actions and your contributions – taxes. Families are living a comfortable life; facilities have come about; and our nation has grown. Under our benevolent monarchs, we take immense pride in calling ourselves Bhutanese. And, it is in these humble gestures, like paying taxes, that we all seek to build our small nation together.
However, at this juncture of our country, a new chapter unfolds. It is time we rewrite the story and redefine nation building. Our gear should shift toward creating a resilient economy while strengthening our social sphere.

Therefore, in keeping with changing times, to match up to the 21st century economy, and in pursuit of one of our main motivations during the elections, to narrow the gap, the government has introduced major tax reforms through amendments to all tax related bills.

Through this, we seek the wisdom of the Parliament, and subsequently the people of Bhutan, to process and mould our propositions that should ultimately transform our country for the better. In doing so, we would like to share with you the chapters we waded through to arrive at this historic move.

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“Modernising” taxation
As a prelude, it is important we address the conventional perception that such reforms come with intentions to increase taxes. This need not necessarily be the case. But what is necessary is for us to ensure our culture and practices morph according to the changes in time and environment. From a barter base to a conventional sales tax system, our country has come a long way.

But it is now time to review our entire taxation system. We should channel our prized resources toward a reserve that flows back to benefit every single person born on this land. By reviewing the prevailing system while injecting new measures, by weaving present direct taxes with those of a new Goods and Services Tax, by digitalizing and boosting efficiency, our aspiration is to “modernize” the taxation system.

It is only correct that we do it now when the entire nation is gearing up toward digitization. Moreover, our responsibility as the government is to enable a system that provides an opportunity for every Bhutanese to come forward and be a part of the stories that add up to building this nation.

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Narrowing the Gap
We have always indicated our concern with income disparity, the visible gap between the haves and have-nots. So, with this reform, we hope to close the gap as far as possible.

The effort is more visible in the direct tax category that looks at increasing the ceiling from Nu 200,000 to 300,000 in the personal income tax category, doing away with taxes on cash crops or removing any sort of payment by the pensioners.

The tax initiatives we are proposing are progressive in that contributions increase as income increases. But we are mindful that this reform should also recognize the hard work of Bhutanese who are doing well. The government is all for designing measures that acknowledge those who have contributed more.
As pledged, we also propose the removal of the five percent voucher tax on pre-paid mobile phone users, convinced that this translates to a substantial amount for people who cannot otherwise afford to have them.

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Promoting health, protecting the environment
In keeping with the election agenda, the government is mindful of promoting health at every level. Even as we reform the tax system, we are looking at opportunities to levy taxes on unhealthy processed food products.

On the other hand, we are extremely enthusiastic about doing away with additional charges on goods related to sports. We have to foster a culture that is conscious of healthy living. It is the adjustments we make now that will create less stress on our exchequer later.

Doing away with taxes on cash crops for our farmers is just the beginning. We are looking at local food items that will be more reasonably priced compared with those that are imported.

Meanwhile, if not for the concerted efforts from our visionary leaders, Bhutan’s pride in the country’s carbon-negative impact on the environment would be short lived. They are calling for bold measures, such as removing the 50 percent tax on hybrid cars. We have to reduce our dependence on fossil fuels, the import of which costs us Nu 9 billion annually.

Reinforcing the tourism vision of “low volume, high value,” we are proposing an imposition of 25 percent of the US$ 65 sustainable development fee on regional tourists. Complementing this with the digital transformation vision, we are also proposing to free up any tax on digital and energy efficient devices.

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Social and economic resilience
We have to prepare our economy for our graduation from the group of Least Developed Countries by the end of this economic period. But, to reinvigorate our economy, we need to generate more activities and trigger growth. This is also an opportunity for those who are not a part of the process to join in through tax contributions. If you look at it objectively, it is everyone’s responsibility to pay taxes, but it is government’s duty to ensure that there is an efficient system so that everyone pays equal and fair taxes.

There are often concerns that we are re-directing all our resources into the social sectors such as health and education. But we believe that government’s focus on free healthcare and education is the most efficient and fair redistribution of taxes we collect. It is an investment in our children, in our human capital

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Seeking views
Tax law is a thorny subject for any government to fiddle with. But if we are to simply worry about that and brush the matter aside, we are not working for our country. While the government and experts within the Ministry of Finance have been working very hard for months, matters related to tax rates and schedules discouraged us from
conducting public consultations. Now that our proposals have been formally submitted to the Parliament, we seek your views.

As stated, it is the need of the hour. It is us who need to run our economy, rather than being compelled to do so by outside forces. We have to come up with taxation measures that favour Bhutan and Bhutanese people.

Together, we can do so much and, to begin, we need to come together now more than ever. We have to reaffirm our sense of responsibility. We have to live up to His Majesty’s expectations of deriving the best out of our smallness. Let us rewrite the story and redefine nation building.

Since this press release, the Prime Minister and Finance Minister, along with the experts, had consultation meetings on the proposed GST that included more than 800 participants. Participants included; business representative groups, businesses large and small, state-owned enterprises, financial institutions, government agencies and civil servants. Events were held in three major business locations: Thimphu, Gelephu and Phuentsholing. The GST Law of Bhutan, a central part of the reforms, received final parliamentary approval on Friday, February 28. There is one more important step before the bill becomes law: Royal Assent. The GST goes into effect July 1, 2021.
How a European Company is Coping With COVID-19 – A Personal Account

By Dr. Josefine Tangen Jensen and Kim B. Eriksen

The COVID-19 pandemic is unlike any other we have seen before. It puts the world in an exceptional situation that will take its toll on the economy and the financial sector. Starting in December 2019 as an outbreak of pneumonia of unknown cause in Wuhan, China,¹ it has since spread throughout the world and was declared a pandemic by the World Health Organization (WHO) on March 11, 2020.

The WHO has named the causative virus SARS-CoV-2 and the following disease as COVID-19. Since March 12, Europe has been viewed as the new epicenter for the disease and as of March 23, 2020, there are more than 340,000 infected and nearly 15,000 deaths following the disease worldwide.²

The symptoms of the disease can be non-existent but are mainly fever, dry cough and fatigue. The major transmission route is droplet and close contact,³ which is why many countries have introduced far-reaching measures to reduce infection rates, such as limits on the size of assemblies, restrictions on travel outside of one's own residence, the requirement of work from home and the closing of restaurant, cafés and shopping centers. It is these measures to prevent the development of a major health crisis that will affect the economy greatly.

As owners and CEO of ParsePort, a European company specializing in XBRL solutions, we can see how COVID-19 has already taken its toll on us. We've been affected on several sides – the personnel side, where most of our employees have been sent home and asked to work remotely so that we will not have the risk of spreading the virus in our office. In the beginning, we merely asked employees with small children and elder relatives to stay home to avoid bringing and spreading the virus in our company. Later, the Danish government made some restrictions and recommendations, which currently are updated on a daily basis, which we are monitoring closely and following.

¹ http://wjw.wuhan.gov.cn/front/web/showDetail/2019123108989.
We have also been affected on the sales side, as many of our sales offices are spread over Europe, where we engage and meet potential customers to showcase our products. Now we are seeing those meetings cancelled, postponed or, in the best cases, moved to online meetings. Other companies across Europe are sending their employees home on forced vacation, some kind of leave of absence or to work remotely from home. We are expecting that COVID-19 will affect our business, as we will see months with empty orderbooks and postponed implementations and handovers of our products.

Despite all this, we believe that we will navigate successfully through the COVID-19 crisis. The beauty of our business is that we are able to move to digital sales, implementation and support. Our business is blessed as we can manage everything from first engagement to the handover of our products online, by using video conferences, online demonstration tools, etc. But I am seeing other businesses closing down, employees getting fired and cashflows being stalled, faster than I have ever seen before, and it really breaks my heart. The fact that the restaurant owner has to fire more than half of his employees, close the restaurant, write off the stock that will not be sold and put all plans on hold for an undefined timeframe is the new reality. And many business owners do try to be creative and adaptable to the situation, but there will still have to be a lot of sacrifices made.

The next effect – that has only begun – is the larger economic impact. Interest rates will go up, real estate prices will most likely go down, the economy in general will stall and some currencies will collapse – all affecting the financial ecosystem across the world. We will have to adapt even more as business owners, be creative, strong, brave and hold our breaths navigating through the storm COVID-19 will bring so that we can rebuild and rise once again once the storm has passed. I am convinced that we will return to a post-COVID-19 time where most businesses will be affected for years, not only financially but also in their way of acting and moving forward from here.
The Ethical Dilemma

The Ethical Dilemma is a 4.5 hour online course, accessible anywhere, anytime. The content includes 48 case studies based on recent disciplinary hearings.

For further details, see: The Ethical Dilemma

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