June 5, 2012

Robert Day
Manager, Business Planning
Ontario Securities Commission
20 Queen Street West
Suite 1900, Box 55
Toronto, Ontario M5H 3S8

Re: Request for Comments Regarding <u>OSC Statement of Priorities</u>

Dear Mr. Day,

Thank you for the opportunity to comment on the OSC's priorities for Fiscal 2012 – 2013. First North Consulting is pleased to provide our comments, specifically in the area of advanced data analysis and the organizational requirements needed to support it.

In general, our view is that the approach taken by the OSC in this initiative is excellent and demonstrates best practices used by other successful organizations. Your mandate is clear and focused with attention paid to continuous improvement in learning and adapting from the ever-changing events in our industry.

The OSC has established an ambitious agenda for 2012-2013. While the objectives have varying degrees of priority, we feel it is likely that data analysis and understanding and managing systemic risk associated with OTC securities will be a priority focus.

Data collection and analysis is the hot topic of the day. We believe the real challenge will be in separating the "signal from the noise" from the data that is being collected and analyzed. This is accomplished by ensuring the right organization is in fact managing the appropriate data, whether it is the OSC, other regulatory agencies, Financial Institutions themselves, or a combination thereof. Technology solutions available in the marketplace today for Enterprise Data Management (EDM) are plentiful with data storage itself being relatively inexpensive, however without a clear strategy to identify and organize "the data that matters", efforts may be diffused. Knowing which data elements are collected by the differing regulators provides an opportunity for sharing information without duplication. For example, IIROC is collecting large amounts of equity trade related information today and we expect they will increase their efforts incrementally to cover other asset classes over time. Given the OSC has oversight of IIROC; it would seem there is relevance with respect to the use of this same information by the OSC.

The following points have been extracted from the RFC whereby our feedback is provided within:

1. Establish an Emerging Risk Committee that will develop a framework for the identification and analysis of risk.

    This would be of great benefit to the OSC and the marketplace as a whole. It is difficult to comment further however as clarification on which elements of risk are required will most likely drive the particular governance structure that would be implemented by OSC. We would appreciate the opportunity to contribute to this discussion and are willing to participate on the committee. Nor being a Financial Institution affords us the opportunity to contribute experience and insights FI's may not be comfortable sharing.

2. Expand its research and data analysis capabilities to adopt a data-based approach to identifying issues, decision making and policy development.

   We believe a critical step in this process is an assessment of the business and data architecture to ensure expanded research and analytical capabilities are supportable. Implementing a data warehouse solution for example, extends itself far beyond the acquisition and deployment of product solutions available in the marketplace. Additional considerations such as systems integration (internal and even external), advanced analytical tool sets and even the potential need for organizational re-alignment come into play. Some questions that OSC is likely to consider include:

   - *Is the data architecture scalable for an expanding data dictionary as markets evolve?*
   - *Is the underlying infrastructure scalable and capable of supporting parallel computing?*
   - *Is the architecture capable of normalizing different data sources and protocols and does it support data cleansing capabilities to protect the integrity and completeness of the data within?*
   - *Are the analytical tools and techniques currently in place or being contemplated, flexible and scalable to support growing data volumes?*
   - *Is the system capable of historical and predictive capabilities with support for "machine learning"?*
   - *Does the visual application layer perform with a consistent user interface behavior amongst all users?*
   - *Do the different regulators share a common view of the advanced analytical objectives for historical and predictive data analytics capabilities?*
   - *Do the different regulators share the assumptions they use for analysing data in supporting rules and policies?*
   - *Are the reporting models consistent amongst regulators?*

3. Build an attractive, modern, high-performing workplace where every manager is a great talent manager and every employee is fully engaged.

   While there is an abundance of technology solutions to assist management and staff, the knowledge required by the user population has increased significantly in complexity. This may necessitate ongoing review of an organization's team to determine if additional support is required. For the OSC to retain and attract the type of skills, experience and creative personnel it needs for the new data-driven environment, some of the following considerations may be applicable:

   - *Acknowledgement that no one person has the skills, knowledge and expertise to manage the business intelligence of the organization.*
   - *Creation of what could be described as a "data science team" with programming, mathematical, technology, business and artistic domain knowledge and extraordinary communication skills. The team functions with agility and flexibility in maximizing the business intelligence needs of the organization.*
   - *Creation of a common language to communicate data output amongst the various stakeholders.*
   - *Collaboration between business and technology personnel and stakeholders, who will identify, assess, manage and process the data, as well as, set forth any required key performance measures.*
   - *Creation of a "knowledge bank" focused on continuous learning and a culture of sharing.*

4. Develop IT tools to assist in gathering, monitoring and analyzing data, automating areas of work that are now manually intensive and not efficient – e.g. creating online information submission (*eForms*) to capture submissions electronically to reduce data entry and errors, expedite analysis, and improve the quality of information submitted through initial validation.

- *Is the eForms application built as an integral part of the Web Portal that integrates with backend data stores?*
- *Will the non-structured text (e.g. emails, texting etc.) be included?*
- *Will the integration of social media capabilities be included?*
- *Is the data gathering part of a broader strategy of engaging and serving stakeholders?*

5. Further develop key performance measures to track the outcomes of OSC activities and report on progress on a quarterly basis.

We believe that even before key performance measures are developed, it is essential that the system incorporates the analytics, tools and effective visual application layer for all users of the system. We feel support for mechanical learning and advanced analytical capabilities for historical and predictive analysis is relevant. Critical success factors may include clean and complete data, knowledgeable, skilled and collaborative team members with strong communication skills and a closed loop feedback process.

Key performance measures and their drivers are essential for ensuring that assumptions made by the organization in delivering against its mandate are continually validated through continuous learning. The use of carefully selected measures will not only result in documenting the actual performance of the organization, but will drive the behavior of staff and consistently focus their attention on the core values. Key to establishing effectiveness of the key measures is the simplicity and clarity of them. Our view is that OSC may strive towards answering the following questions when assessing this priority:

- *Is OSC managed with a few, well-recognized measures that stand out against the others?*
- *Is the state of the core values or objectives managed by a simple dashboard that allows drilling down to access relevant data (historical or real-time)? How are these core values and their drivers established and verified over time?*
- *Are the most important metrics visible and communicated effectively throughout the entire organization?*
- *Do changes in these metrics drive strong actions and decisions?*

6. The OSC aims to build the capabilities required to play a more active role in assessing risks to its own objectives and to financial stability arising from the interaction between securities and other financial services activities. The OSC will continue the work on the creation of a framework to regulate OTC derivatives participants in order to meet the G20 requirements.

Both the MF Global and recent JP Morgan CDS losses highlight the ongoing need for increased risk management oversight and collaboration. While the various measures in use today such as VaR, HVaR, LaR, etc. are contemplated and even debated, the objectives of increased transparency and effectives for risk

management related processes and techniques remain. We applaud the OSC for its focus on this aspect within the context of both domestic and international marketplaces. Ongoing assessment of the risk management capabilities in place at Financial Services firms also seem relevant in revealing exposures a given firm might not be aware of. It would appear there is a need to test the assumptions of the financial community to ensure they can be validated using data analysis that is empirically based. This approach ensures rules and policies can be enforced and defended with accurate data.

First North believes it is well positioned to assist the OSC in meeting some of its goals. Our company has extensive knowledge and experience with Enterprise Risk and Data Management, where our senior team members have served as advisor to the industry's most senior executives in both Business and Technology. We have led major program governance efforts and the deployment of solutions for clients such as Bank of Montreal, RBC Capital Markets, TD Bank and TMX Group, amongst others.

Most recently, our company led the program for successfully implementing the Canadian Central Counterparty Clearing platform for Fixed Income. The infrastructure is considered the 1st CCP that is compliant to (2012) CPSS-IOSCO standard. Our contribution was instrumental to the implementation that has earned recognition from Canada's Central Bank governor.

Our value proposition for OSC is to assist in meeting your priorities for 2012-2103 with a view to ensuring your organization attains self-sufficiency as quickly as possible.

We appreciate the opportunity to have contributed to this process. Please feel free to contact us at your convenience should you wish to explore further the work we have successfully completed to date and the continued efforts we are currently involved with in the marketplace.

Sincerely,

John Packwood

Managing Partner

First North Consulting

cc: Fionnuala Martin, First North Consulting