

**2013 Ontario Pre-Budget Submission
Toronto Financial Services Alliance
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About the Toronto Financial Services Alliance (TFSA)

The Toronto Financial Services Alliance (TFSA) is a unique, public-private partnership dedicated to growing the financial services cluster and continuing to strengthen Toronto's profile as a top ten global financial hub. Established in 2001 by the City of Toronto in partnership with the financial industry, TFSA works on behalf of the entire financial cluster, including its business and educational support sectors. With both federal and provincial governments support, the TFSA has established the Global Risk Institute in Financial Services to leverage the sector's global reputation for stability, as well as the Center of Excellence in Financial Services Education to capitalize on Toronto region's human capital advantages.

The financial services sector is one of the largest economic contributors to the country, province, and city, contributing approximately 20% to the city's gross domestic product (GDP) and employing over 650,000 people in direct and indirect jobs in Ontario.¹ Toronto is the second largest financial sector in North America by direct employment and the financial services sector is the second largest employer for the Toronto region.

Toronto is quickly becoming a prominent global financial services centre. The city has managed to move into the top ten of both indices responsible for reporting on global financial services centers as noted by both *The Banker* and the *Global Financial Center's Index*. The financial services sector in Toronto currently boasts several strengths:

- Canada's banks have been ranked as the 'soundest banking system in the world' by the World Economic Forum for the 5th year in a row;
- Toronto is home to two of the largest global life insurers;
- The Toronto Stock Exchange is ranked #1 in global metals & mining, energy and clean technology listings; and
- Three of the top 50 global pension funds are based in Toronto.

The TFSA is a catalyst for collaboration between the public and private sectors. Our mandate and reach provides us with a valuable perspective on the role the financial sector plays in promoting economic growth and prosperity and a deep understanding of the critical success factors for the industry. We appreciate Ontario's attention to the issues that drive sector growth and we look forward to continuing to work with the government on many of the issues outlined in this submission.

¹ *Talent Profile Chart Book*, June 2012, Centre for Excellence in Financial Services Education, www.explorefinancialservices.com/Files/Resources/Talent_Profile_June_2012_Print_Three.pdf

Deficit/Debt Reduction

Sustainable public finances are an important component in fostering an economic climate that creates jobs, attracts investment, and maintains a strong international brand. While we do not underestimate the current challenges posed by Ontario's fiscal situation, it is important for the Province to remain vigilant in meeting its current expenditure targets and schedule for a balanced budget.

It is important that the provincial government adhere to recent commitments on spending restraint as recent expenditure patterns point to some worrying trends. The 2012 Commission on the Reform of Ontario's Public Services made several important observations in this respect. The Commission noted that "Ontario's debt record over the past quarter century was similar to that of other Canadian provinces...the past decade has broken the historical pattern."² For example, the Commission noted that Ontario's annual deficit, relative to GDP, has been the largest in Canada since 2008-09.³

The Commission also noted that "the province's interest payments have been trading at around their lowest levels in the past 20 years, both in relation to GDP and to the province's total spending. In 2010-11, interest amounted to 7.9 per cent of total spending (well below the 20-year average of 11.3 per cent) and 1.5 per cent of GDP (compared with the 20-year average of 2.0 per cent)."⁴ Thus, when interest rates rise to more historical levels, this will pose significant challenges to the provincial government if debt levels are not reduced as growing debt servicing costs will divert funding from other key priorities.

Recommendations:

- At a minimum, the provincial government should adhere to its current target of a balanced budget by 2017-18 and commit to lowering the debt-to-GDP ratio in the medium term.

² 2012 Commission on the Reform of Ontario's Public Services. P. 79

³ 2012 Commission on the Reform of Ontario's Public Services. P. 80

⁴ 2012 Commission on the Reform of Ontario's Public Services. P. 78

Maintaining a Competitive Tax Advantage

A key element in marketing the Toronto region as a global financial hub, in addition to its sound regulatory environment and talented workforce, is a stable, competitive tax advantage.

In recent years, governments have taken important measures to improve the competitiveness of the Canadian tax system, including lowering corporate tax rates, harmonizing federal and provincial taxes, and adopting a single tax administrator. Harmonized sales and income tax systems promote compliance efficiencies and savings for Canadian businesses that otherwise would not be possible – an effective way to enhance efficiency and competitiveness.

It is important that governments work toward a system that taxpayers can comply with better and revenue agencies can administer more effectively. Minimizing compliance costs and complexity increases investment and is a principle of sound tax policy.

A recent report ranked Toronto as the fifth most competitive tax jurisdiction among many international cities.⁵ To maintain this advantage and ensure that investment and capital are allocated efficiently, governments and stakeholders must work together on several tax issues as the TFSA believes that more can be done to enhance compliance and administrative efficiencies in the Canadian tax system.

A TFSA paper titled “Toronto as a Global Financial Centre- Strengthening Our Tax Advantage” outlines some key tax issues impacting the growth and competitiveness of the financial services sector in Toronto.

Recommendations:

- Ontario should work with and encourage the federal government to implement the following recommendations:
 - **Goods and Services Tax (GST)/Harmonized Sales Tax (HST):** The TFSA supports the decision by the Canadian and Ontario governments to harmonize the GST/HST. However, the current GST/HST treatment of financial services creates issues ranging from administrative and definitional complexity to economic distortions. The federal government should continue to undertake a comprehensive examination of the application of GST/HST to financial services to ensure greater tax neutrality, simpler administration, reduced definitional complexity, and increased productivity and competitiveness.
 - **Taxation of Corporate Groups:** The federal and Ontario governments should give increased priority to seeking consensus with all provinces and to engage other stakeholders in the next steps in moving towards a more formal system for the taxation of corporate groups.
 - **Advisory Panel on Canada's System of International Taxation:** The federal government should accelerate progress toward implementing the key recommendations of the Advisory Panel.

⁵ KPMG's *Competitive Alternatives 2012 – Special Edition: Focus on Tax*. The study did not include some major financial centres, such as Singapore, Hong Kong and Dubai.

- **Foreign Affiliate Dumping:** The current foreign affiliate dumping measures should be revised to exclude all Canadian public corporations from the application of the proposed measures or at a minimum to exclude Canadian public corporations that meet conditions that are designed to protect the Canadian tax base.
- **Attracting Multinational Corporate Treasury Operations:** The federal government could review and revise Canadian income tax rules to make Canadian financial institutions more attractive to Canadian and global multinationals as operators and managers of global treasury operations.
- **Federal Designation of Toronto as an International Financial Centre:** Currently, federal tax legislation recognizes Montreal and Vancouver as international financial centres. Federal tax legislation should also recognize Toronto's status as an international financial centre and thus contribute to Toronto's already strong global brand.
- **Overall Reporting and Compliance System:** The federal government, including the Canada Revenue Agency, should consult with various stakeholders to develop proposals to simplify the overall tax code, reporting, and compliance system.

Common Securities Regulator

The financial services sector continues to be a strong proponent of the need for a common securities regulator. As international developments in securities regulation continue to evolve, the establishment of a common regulator will greatly assist Canada and Ontario in addressing regulatory challenges, building a competitive advantage, attracting investment, and laying the foundation for strong economic growth.

The specific benefits of a common securities regulator are numerous and include a more effective regulatory structure for issuers and investors, lowering the cost of capital, stronger enforcement, a unified voice that enhances our global reputation, and a more coordinated and effective structure for policy making.

The establishment of a common securities regulator continues to be an important priority for the financial services sector as it will enhance our ability to build Toronto and Canada as a more prominent global financial hub.

Recommendations:

- The federal government and provinces should continue to work together to establish a cooperative, common securities regulatory framework. Provinces and the federal government should develop a co-operative structure that reflects provincial strengths and includes an important role for the federal government.

Retirement/Pension System

The TFSA encourages Ontario and all provinces and territories to enact enabling legislation for Pooled Registered Pension Plans (PRPPs) and to continue to work with stakeholders on pursuing improvements to other forms of retirement savings. Canada's pension system is among the strongest in the world and the introduction of PRPPs will help to ensure that this advantage does not erode.

If implemented appropriately, PRPPs will offer new retirement savings options for groups such as self-employed Canadians and individuals who work for smaller companies. Employees of small and medium-sized businesses and self-employed individuals have traditionally faced barriers to traditional employer-based pension plans which are often viewed as too costly, administratively complex, and containing some risks that smaller employers are simply not prepared to take.

It is important that stakeholders and all levels of government work together to ensure high participation rates in PRPPs and other registered retirement savings vehicles. The TFSA also encourages Ontario to work with the federal government, other provinces and stakeholders on issues such as improvements to the tax rules governing Group Registered Retirement Saving Plans (GRRSPs), the transferability between PRPPs and Registered Retirement Saving Plans (RRSPs), incorporating advice/financial literacy in retirement savings options, and the simplification of federal/provincial pension-related administration.

Toronto's world-leading private-sector financial expertise can contribute significantly to meeting the need identified by government to provide affordable retirement options for all Canadians. Canadian financial institutions, the largest of which are headquartered in Toronto, and the Toronto financial sector's recognized strength in asset management, have been identified among the top reasons that Toronto stands out as a global financial services hub.

Recommendations:

- Ontario should enact enabling legislation for Pooled Registered Pension Plans (PRPPs).
- Ontario should also work with the federal government, other provinces and stakeholders on issues such as improvements to the tax rules governing Group Registered Retirement Saving Plans (GRRSPs), the transferability between PRPPs and Registered Retirement Saving Plans (RRSPs), incorporating advice/financial literacy in retirement savings options, and the simplification of federal/provincial pension-related administration.

Attracting Professional Talent

Ontario's diverse and highly educated talent base is a key component of business/jobs attraction to the sector. However, research continues to point to skills shortages in key parts of the financial services sector in the coming years. Employers have identified a broad range of technical and soft skills that are needed for in-demand roles identified by the sector. Growing the talent base domestically and attracting skilled foreign workers to Ontario therefore remains a priority for the sector.

As part of its mandate to build and strengthen the talent base for the sector, the TFSA established the Centre of Excellence in Financial Services Education (CoE) as a result of a 2008 Ontario Budget commitment. Funding was flowed from the Ministry of Training, Colleges and Universities and the private sector is also now contributing.

The CoE continues to work to strengthen the talent pipeline for the sector by collaborating with key stakeholders such as employers, educational institutions, professional associations and settlement agencies to:

- Enhance the readiness of internationally-trained individuals and career shifters to work in the financial services sector, by providing opportunities to build workplace knowledge and access to professional networks. The CoE has convened a cross-sectoral group of settlement agencies and employers to deliver orientation training and networking for job seekers.
- Prepare college and university students to work in the sector by collaborating with student organizations, such as AIESEC Canada, to offer opportunities to build workplace knowledge and access to professional networks.
- Work in a curriculum advisory capacity with colleges and universities to ensure the development of new curricula to meet the skills and knowledge needs of financial sector employers. To date, 12 new programs/courses have been introduced by colleges and universities in the Toronto region based on the CoE's research.

Recommendations:

Ontario should work with the federal government to:

- Implement the recommendations from:
 - the Ontario report, "A New Direction, Ontario's Immigration Strategy", including raising the proportion of economic immigrants to 70 per cent and doubling the limit of the Provincial Nominee Program; and
 - the Federal report, "International Education: a Key Driver of Canada's Future Prosperity."
- Reduce the processing time for individuals who may be eligible under the Canadian Experience Class. Additionally, international students should be permitted to take up part-time work opportunities while their studies are still in progress, so that their applications can begin to be processed prior to graduation.

- Explore opportunities to expedite the attraction of immigrants with the skills, knowledge and competencies needed by the sector. Applications could be expedited through the newly-launched Expression of Interest program.
- Increase the investment made in providing information and orientation opportunities for newly-approved immigrants while they are still in their home countries. This will ensure that immigrants have a better awareness of the business and talent needs of the sector before arriving in Canada, and that they arrive with a greater readiness for pursuing careers in the sector.

Positioning Toronto as the North American Centre for Islamic Finance

The Islamic financing market represents a tremendous opportunity for Canada's financial sector with Toronto well positioned to become the North American centre for Islamic finance. For example, Standard & Poor (S&P) expects the \$1 trillion global Islamic finance industry will grow 20% annually to over \$2 trillion by 2015, doubling in size over the period.⁶

Canada is well-positioned to attract additional investment from countries where Islamic finance is becoming an important alternative to conventional finance, with Toronto well positioned to become the North American centre for Islamic finance. Asian economies such as Malaysia and Indonesia and the countries of the Gulf Co-Operation Council (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the UAE) are at the forefront of the development of Islamic finance. Many of these jurisdictions are of strategic importance to Canada from a trade and investment standpoint, and a willingness to accommodate structures that are widely utilized in Islamic finance will facilitate attracting additional trade and investment opportunities for Canada and the Canadian financial industry.

Other Western jurisdictions, including the U.K., Ireland, France, Singapore and Australia have taken steps or are in the process of making changes to their respective legislative and/or regulatory frameworks to create a level playing field between conventional and Islamic finance. London, U.K. has already successfully positioned itself as a global centre for Islamic finance and attracted significant investment as a result. S&P noted that there has also been "stronger and more active support from domestic authorities, particularly through the creation of regulatory and tax frameworks, ensuring a level playing field between conventional and Islamic instruments."⁷

The TFSA has created an Islamic Finance Working Group (IFWG) and the IFWG has done some of the initial policy work to identify issues and options to level the playing field with conventional finance. There are a number of proposed changes to federal and provincial legislation that would help level the playing field, thus allowing governments and private sector participants to take full advantage of Islamic finance in Canada.

⁶ September 21, 2012 GulfNews

⁷ September 21, 2012 GulfNews

Recommendations:

- Ontario should form a joint working group with the federal Department of Finance with the objective of developing specific proposals to ensure that Islamic finance has a similar tax and regulatory treatment to conventional financing.
- The Ontario government should also work with financial services stakeholders on tax and regulatory issues that are solely under provincial jurisdiction, with the objective of developing specific proposals to ensure that Islamic finance has a similar tax and regulatory treatment to conventional financing.
- Ontario should work with the federal government to market Toronto as the North American centre for Islamic finance.

Financial Services as a Priority Area

The Province has provided tremendous support to the efforts to promote the Toronto financial services sector internationally and attract foreign firms to invest in the Province. Among the key activities has been participation by Ontario officials in direct investment attraction initiatives, the sponsorship of very successful business missions, the on-going support for global media relations, the development of financial services sector marketing products, and the expansion of the International Business Development Representative (IBDR) teams in international markets.

The TFSA was pleased that financial services was recently chosen as one of the sectors to participate in the Ontario *Open for Business* initiative. This further demonstrates the commitment by the government to work cooperatively on many key issues impacting the growth of the financial services sector

The TFSA was also pleased to note that the recent report of Ontario's Jobs and Prosperity Council, *Advantage Ontario*, referenced financial services as a strategic area for growth and export opportunities.

Recommendations:

- Financial services should continue to be a priority area in terms of government marketing and economic development initiatives.
- Continue dedicated resources aimed at promoting the financial services sector and ensure that these resources are well integrated with the marketing and economic development efforts of other levels of government.
- Continue to strengthen and formalize the ties between the provincial government and TFSA to ensure that there is a proactive sharing of information such as market intelligence and the identification of potential investment leads.
- Ensure that the financial services sector receives appropriate coverage in the Province's marketing collateral used to promote the region's competitive advantages.

Conclusion

The TFSA congratulates the Ontario government on their active leadership and commitment to resources in helping the Toronto region become a global financial services centre. The Ontario government has provided a strong foundation and partnership for our mutual strategy of growing the financial services sector and attracting new investment and jobs to Ontario. The TFSA and the financial services sector continue to look forward to working closely with the provincial government to ensure a strong and growing global financial services sector.