TFSA | TORONTO FINANCIAL SERVICES ALLIANCE

2014 Ontario Pre-Budget Submission

Toronto Financial Services Alliance

February 2014

TABLE OF CONTENTS

About the Toronto Financial Services Alliance (TFSA)

The Toronto Financial Services Alliance (TFSA) is a unique, public–private partnership dedicated to growing the Toronto region's financial services cluster and building it as a global financial services centre. Established in 2001, TFSA is a collaboration involving three levels of government, the financial services industry and academia. Working collaboratively with industry and government, we build international awareness of the advantages offered by the Toronto region and we work with financial services companies from around the world that are exploring business opportunities in Toronto.

TFSA leads an integrated strategy with three main objectives:

- To set, drive, and execute cross-sector priorities for the **growth** of jobs and investment in the Toronto region financial sector;

- To promote awareness of the advantages of Toronto region's financial services sector and its importance in order to grow our domestic and **international reputation** as a global financial services hub; and

- To identify and pursue initiatives to sustain and enhance the **competitiveness** of Toronto region's financial sector as an attractive business environment and location for talent.

The TFSA is a catalyst for collaboration between the public and private sectors. Our mandate and reach provide 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.

The financial service sector in Toronto accounts for almost 30 per cent of Canada's total financial services employment and is now the second largest financial centre in North America by employment. The sector in Toronto directly and indirectly supported more than 420,000 jobs across Canada in 2012 (almost 330,000 in the Greater Toronto region) and generated a combined $13 billion in fiscal benefits for the Canadian, Ontario, and City of Toronto governments. In terms of its contribution to Toronto's economic output, financial services ranks second only to the manufacturing sector.[1]

[1] Ensuring the Future: Understanding the Importance of Toronto's Financial Services Sector. Conference Board of Canada. November 2013.

It is also important to note the growing global nature of the sector. Canadian exports of financial services more than doubled over the past decade (the best performance of any sector over this period) and now account for one-quarter of sector revenues, well above the average for all service sectors. Canada is also a major net exporter of financial services capital. Roughly half of the Canadian stock of outward foreign direct investment originates in the financial services sector and has risen by 70% over the last decade.[2]

[2] Ensuring the Future: Understanding the Importance of Toronto's Financial Services Sector. Conference Board of Canada. November 2013

Fostering a Strong Economic Climate

Sustainable public finances and a competitive tax environment are key components in fostering an economic climate that creates jobs, attracts investment, and maintains a strong international brand.

In addressing Ontario's current fiscal and economic situation, it is important for the Province to send international investors a strong signal by being vigilant in meeting its planned expenditure targets and by maintaining a competitive tax environment.

The recent report by the Auditor General of Ontario noted that Ontario currently has the second-highest net-debt-to-GDP ratio in Canada and that its fiscal outlook remains challenging. The report noted that the "province's debt burden and interest costs will continue to rise - acting as a constraint on future program delivery, exposing it to significant interest-rate risk, and allowing for less flexibility to respond to changing economic circumstances."[3]

It is important that the Ontario government adhere to previous commitments on spending restraint and broadly based tax reductions. Recent statements and decisions by the Government to place less of a priority on short-term fiscal targets, to alter previously announced corporate income tax reductions, and to explore "pay or play" tax incentives are not conducive to improving the economic environment of the Province.

Recommendations:

- The Ontario government should clearly articulate a priority to meet the current target of a balanced budget by 2017-18 and its commitment to lowering the debt-to-GDP ratio.

- At a minimum, the Ontario government should not alter the current corporate tax rates and should return to previously scheduled tax reductions as soon as possible.

- The Ontario government should reject "pay or play" tax incentives which cause economic distortions and complexity and should instead focus on broadly based tax relief.

[3] Office of the Auditor General of Ontario. 2013 Annual Report.

Financial Services as an Economic Development Priority

The Province has made tremendous efforts to support the promotion and development of the Toronto region's financial services sector over recent years. However, as the global economy and in particular the financial services sector recovers, the Toronto region needs to continue to press its case in an increasingly competitive market where other financial services centers are trying to attract global investors.

The key strengths of the financial services cluster in the Toronto region continue to be its stable regulatory environment, its strong financial institutions, great talent and quality of life. However recent research has confirmed that it is also important to identify, develop and promote other more discreet areas such as financial services technology where the Toronto region has comparative advantage. Working in close collaboration with its partners such as the Province, the TFSA has already achieved success in convincing a growing number of financial services technology companies to consider expanding into the Toronto region and thus it is important that this work continues.

The TFSA was very pleased that the financial services sector was identified through the Ontario "*Open for Business*" initiative. This clearly demonstrates the continued commitment by the government to cooperate on key issues that impact the growth of the sector in the region.

It is vitally important to remember that financial services and financial services technology are highly mobile industries that have the ability to move jobs easily across borders at relatively short notice. It is therefore vital that the various ministries in the provincial government continue to work closely with the TFSA in both marketing and economic development initiatives.

Recommendations:

- Financial services and financial services technology should continue to be a priority area in terms of government marketing and economic development initiatives.

- Continue to provide dedicated resources aimed at promoting the financial services and financial services technology sectors and work to ensure that these resources are well integrated with the marketing and economic development efforts of the province and regions.

- Build on the strong ties between the provincial government and the TFSA to avoid duplication and maximize the return on investment in those resources.

- Work collaboratively with TFSA on key initiatives such as the proposition marketing project (developing and delivering specific value propositions to potential investors) and an aftercare strategy for current investors in the financial services sector.

Partnering With the Sector to Develop Infrastructure

Building or renewing public infrastructure is a key driver of economic growth, prosperity and job creation. Infrastructure investments help address congestion, increase private-sector productivity, and improve the quality of life for Ontarians. Quality infrastructure is especially vital in areas such as transportation where public transit and integrated transportation networks support economic growth by giving Ontarians better access to jobs, attracting business investment, helping to prevent bottlenecks and expanding access to suppliers, buyers and skilled workers.

The Ontario government has made substantial investments in infrastructure over the last several years and initiatives such as recent regulatory changes to allow pension plans to further invest in local infrastructure are strongly applauded. However, there still remains a significant infrastructure gap in the Province, particularly in areas such as the Greater Toronto Area (GTA). One of the most commonly used estimates is that congestion costs the GTA economy at least $6 billion per year.[4]

One of the most effective ways to facilitate infrastructure is through innovative mechanisms such as the use of Public-Private Partnerships (P3s) and Alternative Financing and Procurement (AFP). Infrastructure Ontario (IO) is recognized as an international leader in leveraging private sector expertise to deliver infrastructure and Ontario should look to expand the use of these innovative infrastructure mechanisms.

P3s and AFPs have demonstrated their worth in Canada and internationally by producing maximum value for taxpayers while ensuring transparency, fairness and competitiveness; while allowing the public sector to focus on defining the desired outcomes and the private sector to provide effective and efficient solutions.

It is also important to recognize the important role played by institutional investors. The long-term nature of P3s and AFPs matches the unique long-term investment needs of institutional investors, such as pension funds and life insurers, which can have investment horizons lasting more than 50 years. This allows, for example, insurers to continue to provide effective retirement saving and prudent long-term risk mitigation solutions to Canadians, while the long-term revenue streams provided by P3s and AFPs prudently match the nature of life insurance and pension liabilities. In this regard, insurers and pension funds have an appetite for making more infrastructure investment.

---

[4] C.D Howe Institute, “Cars, Congestion and Costs: A New Approach to Evaluating Government Infrastructure,” July 2013

Recommendations:

- It is critical that regulatory, tax, and accounting reforms recognize and support the unique role of long-term and institutional investors in providing funding for infrastructure and avoid any disincentives to invest.

- The Ontario government should explore opportunities to expand the utilization of public-private partnerships to facilitate the development of infrastructure.

- The Ontario government should work collaboratively to explore mechanisms to pool smaller projects to streamline P3 and AFP governance and create economies of scale and long-duration investments for large institutional investors. Permitting pooling of multiple small projects within larger portfolios will reduce costs, enhance market efficiencies and open more local projects for investment.

- Infrastructure Ontario (IO) is recognized as an international leader in leveraging private sector expertise to deliver infrastructure. The Ontario government should continue to explore opportunities to globally leverage and market this experience and expertise.

Regulatory Environment

The development of effective financial services regulation requires a balanced and co-ordinated approach and a continuous dialogue between regulators, governments, and the private sector about the cumulative impacts and unintended consequences of regulatory initiatives. "A core challenge for effective regulatory governance is the co-ordination of regulatory actions, from the design and development of regulations, to their implementation and enforcement, together with monitoring and evaluation which informs the development of new regulations and the adjustment of existing ones."[5]

The TFSA applauds the Ontario government for recent initiatives such as the establishment of a cooperative securities regulator and the Ontario "*Open for Business"* initiative. A common regulator will foster more efficient and globally competitive capital markets, strengthen the ability to identify and manage systemic risk, provide better protection for investors, and enable Canada to speak with a single voice on international regulatory initiatives. The Ontario *Open for Business* initiative recognizes that governments must consult with and continue to dialogue with stakeholders and sectors when developing public policy and regulatory reforms.

The Ontario government must ensure that it is striking the appropriate balance between fostering economic growth and implementing new regulatory initiatives. For example, section 2.1 of the Securities Act (Ontario), principle 6, states that "business and regulatory costs and other restrictions on the business and investment activities of market participants should be proportionate to the significance of the regulatory objectives sought to be realized."

The volume of recent regulatory changes and initiatives require that industry and regulators have an opportunity to assess the longer term implications or possible unintended consequences of new requirements on areas such as job growth and capital flows.

Recommendations:

- Regulatory initiatives must be risk based and considered holistically, taking into account the potential unintended consequences and the cumulative impacts of the total regulatory environment for the economy.

- Before introducing or implementing new regulatory requirements, governments and regulators should consult with stakeholders to develop and analyze a cost-benefit analysis.

- Time must be taken to assess new regulatory requirements to ensure that longer term implications are better understood before new rules are implemented.

---

[5] The Case for a More Co-Ordinated and Balanced Approach to Financial Regulation: A BIAC (OECD) Discussion Paper. November 14, 2013.

- New regulatory requirements must include an assessment outlining their impact on job growth and capital flows.

- Future capital, solvency and other regulatory changes should be carefully balanced against the need to provide affordable, accessible and competitive financial services products. Capital and solvency requirements should not disadvantage Canadian financial sector industries in relation to their counterparts in foreign markets.

- All Government regulations impacting the financial services sector should have a mandatory five-year review.

Retirement/Pension System

Ensuring adequate levels of retirement saving is important to the future economic security of all Ontarians. Canada's pension system is among the strongest in the world and its foundation has been built on effective programs such as the Canada Pension Plan (CPP), Old Age Security (OAS), Guaranteed Income Supplement (GIS), registered and individual savings plans, and workplace pension plans.

The enactment of federal legislation for Pooled Registered Pension Plans (PRPPs) was an innovative initiative aimed at enhancing our retirement system and Ontario should follow the lead of several other provinces and enact enabling legislation.

Toronto's world-leading private-sector financial expertise can, and has, contributed significantly to meeting the needs identified by government to provide affordable retirement options for all Ontarians. Toronto's financial institutions, and their recognized strength in asset management, have been identified among the top reasons that Toronto stands out as a global financial services hub.

When considering any potential modifications to our retirement system, such as a new Ontario pension plan, it is important that the government consider and analyze the economic impact of such potential measures; as such modifications could interact with existing components of the retirement system in ways that might negatively impact consumers and the other necessary pillars of the Canadian system. It is critical that potential changes to the retirement income system do not detract from the private sector's proven ability to play a strong and effective role in helping Ontarians meet their retirement income objectives.

It is also important that the government review other potential areas of improvement in the retirement system, as it is important that stakeholders and all levels of government work together to ensure high participation rates in all retirement savings vehicles and pension models.

Recommendations:

- The Ontario government, to expand existing retirement savings options, should:
    - Enact enabling legislation for Pooled Registered Pension Plans (PRPPs) that also addresses critical policy issues raised by the various TFSA members; and
    - Work with the federal government and all provinces to remove CPP and Employment Insurance (EI) taxes on Group Registered Retirement Savings Plan (GRRSP) contributions to restore fairness to low-income employees and smaller employers.

- When considering any potential modifications to our retirement system, it is important that the government consider and analyze the economic impact of such potential measures, how such modifications would interact with existing components of the retirement system, and any potential benefits to the overall system.

- The Ontario government should also work with the federal government, all provinces, and stakeholders on issues such as incorporating advice/financial literacy in retirement savings options and the simplification of federal/provincial pension-related administration.

Skilled Workforce

As part of its mandate to enhance the financial services talent advantage in the region, the TFSA established the Centre of Excellence in Financial Services Education (CoE) in 2009. The CoE acts as a catalyst to strengthen and expand Toronto's talent pool and elevate the region's global stature as a financial services capital. The CoE:

- Aggregates research and information on Toronto's talent and educational strengths, and identifies talent needs for the benefit of educators, employers and job seekers;

- Works with employers and educators to improve the focus and quality of education programs; and

- Encourages cross-sector dialogue on talent and education-related issues, and showcases the sector's strengths and career opportunities.

Through its research, it has identified over 15 job groupings where the industry continues to experience difficulties in finding talent with the right skills and competencies. In addition, a 2013 talent mobility survey conducted by the CoE, found that 17,000 to 20,000 people will be leaving the sector (through attrition, retirement etc.) in each of the next 3 years.

Ontario continues to attract the greatest number of new immigrants and there are many integration programs available to these newcomers. However, for those who are described as "high human capital", with multiple post-graduate degrees from globally recognized universities, there are few programs to help them settle successfully in the region. These are usually people who have held senior executive positions in their countries and bring portable knowledge and skills that are needed by employers in the region. Such individuals also need integration programs that focus not only on increased awareness of the public and private sector but also on techniques for effective career transitioning**.**

The unemployment rate for Ontario youth between the ages of 15 and 24 is between 16 and 17.1 per cent, while the Canadian average is between 13.5 and 14.5 per cent.[6] While the Ministry of Economic Development Trade and Employment (MEDTE) and the Ministry of Training Colleges and Universities (MTCU) have launched initiatives that focus on helping youth obtain jobs in the region, there are few initiatives that focus on providing youth with the knowledge, skills, and interpersonal competencies that are needed by employers to help them in an effective transition from school to the workplace.

---

[6] https://www.policyalternatives.ca/publications/reports/young-and-jobless

Recommendations:

- The government should provide additional funding to organizations that focus on the integration of talent with high human capital and global experience.

- The government should provide additional funding to organizations that focus on youth development and workplace readiness programs.

Positioning Toronto as the North American Centre for Islamic Finance

The Islamic financing market represents a significant opportunity for Canada's financial sector. The global market for Islamic financial services is estimated to have increased by 20% in 2012, to a record $1.46 billion, and could top $2 trillion in assets by the end of 2014.[7]

Canada and Toronto offer many opportunities for investors from regions where Islamic Finance is growing - a diverse population base (including a prominent and growing Canadian Muslim community), a sound economy, a stable political environment, a wealth of physical assets, traditionally strong risk management skills, and a highly effective regime of regulation and supervision.

There are also several educational ventures that are helping to develop the Islamic finance knowledge base in Canada. For example, the Rotman School of Management within the University of Toronto is a globally ranked Canadian business school and continues to provide a leadership role in Islamic finance education. It has introduced Canada's first MBA level course in Islamic Finance.

The growing and strengthening economic relationship between Canada and regions such as the Gulf and parts of Asia represent an opportunity for Toronto to have a first-mover advantage and become a North American hub for Islamic Finance. For example, Sun Life Financial is one of the few North American life insurers to offer Islamic-compliant savings and insurance products.

Recently, other jurisdictions have been very proactive in attempting to establish themselves as centres for Islamic Finance. For example, the UK recently undertook several initiatives such as their government establishing a high-profile Islamic Finance Task Force, becoming the first non-Muslim nation to issue an Islamic bond ("sukuk"), creating a new Islamic index on the London Stock Exchange, and the recent hosting of the World Islamic Economic Forum.

Government and the private sector should follow the example of jurisdictions such as London and look to work cooperatively to build Canada and Toronto as a centre for Islamic Finance. Recent developments such as the development of a Canada-U.A.E strategic partnership, the Ontario Government's commitments through the *Open for Business* process, and the signing of a MOU between the TFSA and the Dubai International Financial Centre are all welcome steps, but more can be achieved.

[7] UK Islamic Finance Secretariat (The CityUK). October 2013.

Recommendations:

- Following the example of other jurisdictions, the Ontario and federal governments should work together to build and market Toronto as the North American centre for Islamic finance.

- The Ontario Ministry of Finance and the Federal Department of Finance should form a joint working group with the objective of developing specific proposals to ensure that Islamic finance (alternative finance) has a similar tax treatment to conventional financing. Before the end of 2014, the joint working group should prepare and deliver to both Ministers of Finance the relevant enabling legislation and regulations for adoption with respect to alternative finance.

Conclusion

The TFSA congratulates the Ontario government on their strong leadership and commitment in helping the Toronto region become a global financial services hub. The Ontario government continues to provide strong support for our shared objective 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 growing global financial services sector.