TFSA | TORONTO FINANCIAL SERVICES ALLIANCE

2015 Federal Pre-Budget Submission

Toronto Financial Services Alliance

December 2014

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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 Toronto region's financial services cluster and building it as a "top ten" 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 focussing on the areas of growth, international reputation, and competitiveness.

The economic importance and global stature of Toronto's financial services sector is demonstrated by some facts such as:

- Toronto is now the second largest financial centre by employment in North America;
- In 2013, the sector in Toronto directly and indirectly supported almost 450,000 jobs across Canada (almost 350,000 in the Toronto region);
- Since 2002, employment in Toronto's financial services sector has grown by 34 per cent while centres such as New York and Chicago have seen decreases of 6.6 per cent and 10.3 per cent, respectively; and
- *The Banker* publication currently ranks Toronto as the 6th most important global financial centre.

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. We look forward to continuing to work with the Government on many of the issues outlined in this submission.

Regulatory and Taxation Environment

The Canadian economy benefits greatly from strong public finances and balanced budgets, effective financial services regulation and a competitive tax environment. The federal government should continue to remain diligent in all these areas to ensure a strong and vibrant economy.

Regulation

Some of the reasons why Canada made it through the financial crisis better than most jurisdictions were its financial regulation system that included principles-based regulation, integrated supervision, a risk-based approach, sound capital requirements, and strong corporate governance.[1]

However, recent domestic and international regulatory requirements continue to pose challenges and regulators and policy makers must regularly review their effectiveness. As noted by the Auditor General of Canada, "a well-designed regulatory framework needs to be regularly reviewed to determine whether policy objectives are being achieved and whether unintended consequences might require the reconsideration of part of the framework." [2]

Regulatory policy must ensure that the role of regulation in financial markets, and the regulation of financial institutions, should be to both enhance economic efficiency as well as financial market stability.

Cooperative Capital Markets Regulator

The TFSA has long supported the creation of a common securities regulator for Canada as we are the only industrialized country without one. The TFSA strongly supported the announcement by the governments of Canada, British Columbia and Ontario on the agreement to establish a Cooperative Capital Markets Regulator (CCMR) and are very pleased with the recent announcements of some other provinces joining. We support the federal government's efforts to have all provincial governments put in place legislation enacting a CCMR as soon as possible.

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[1] Lawrie Savage. "From Trial to Triumph; How Canada's Past Financial Crises Helped Shape A Superior Regulatory System." University of Calgary, School of Public Policy. May 2014.

[2] 2010 Fall Report of the Auditor General of Canada. Chapter 5.

Capital Tax

Taxes on capital have been widely recognized as a barrier to attracting new capital investment. Every dollar of bank capital typically translates into financing for individuals and businesses that is many times larger than the amount of that capital. Taxing capital penalizes financial institutions for prudent risk management and undermines international efforts to strengthen the financial system. The federal government should eliminate the capital tax on financial institutions and in the short term should at least reduce the capital tax rate to a level consistent with the reductions to the corporate income tax rate.

Taxing Pensions

The tax system should be strengthened to encourage Canadians to save more for retirement. Similar to the tax treatment for defined benefit and contribution pension plans, employer and employee contributions to Group RRSPs should be exempt from payroll taxes such as CPP and EI.

Recommendations:

- **Regulatory policy should both enhance economic efficiency as well as financial market stability.**
- **TFSA supports the federal government's efforts to have all provincial governments put in place legislation enacting a CCMR as soon as possible.**
- **The federal government should eliminate the capital tax on financial institutions and in the short term should at least reduce the capital tax rate to a level consistent with the reductions to the corporate income tax rate.**
- **Employer and employee contributions to Group RRSPs should be exempt from payroll taxes such as CPP and EI.**

Developing our Talent Base

The TFSA Centre of Excellence in Financial Services Education (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 works closely with a wide range of stakeholders such as employers, academia, professional associations, student associations, employment and immigration agencies, as well as career and guidance counsellors to address the demand and supply of talent for the financial services sector.

The data collected by the CoE through its workforce size and mobility survey done with employers, and its talent supply survey done with colleges and universities, point to the: (i) need for greater efforts to enhance labor market research to collect more granular workforce data in related sectors in the Toronto region; and (ii) the importance of tapping into alternate channels of talent available across different sectors in the province.

Simultaneously, employers in the Toronto region have also provided the CoE with feedback on the negative impact that newly-introduced changes to the Temporary Foreign Worker Program (TWFP) are having on their organizations' ability to recruit senior executives or talent with specialized knowledge to the region. The Departments of Citizenship and Immigration Canada (CIC) and Employment and Social Development Canada (ESDC) have yet to specifically address these concerns. There is therefore a need to consider the use of provincial options such as the business immigration program available from the Ontario Ministry of Economic Development, Employment and Infrastructure (MEDEI).

<u>**Recommendations:**</u>

- **The government should: (i) amend the TFWP to meet the unique needs of sectors, such as financial services, which recruit a small number of global executives that are critical to boosting the economic development of a region; and (ii) re-consider its decision to end the province's business immigration program offered by MEDEI that is slated to come to an end in March 2015.**
- **The government should establish partnerships with the province to expedite the implementation of enhanced labor market research to collect granular data on potential labor shortages across the region.**

International Trade

Reducing barriers to international trade and investment are key in growing both the financial services sector and the Canadian economy. Access to international markets creates jobs, investment at home and makes Canadian firms more competitive. Trade is equivalent in value to more than 60 percent of Canada's gross domestic product (GDP) and exports are directly linked to one in five Canadian jobs.

The financial services sector is one of the most globally oriented sectors in Canada. For example, one-third of Canadian banks' revenue is generated by divisions in the United States and worldwide while Canada was ranked number three in the world in 2012 in terms of pension assets. Recent research by the TFSA and the Conference Board also confirms this continuing trend:

- Trade in financial services continues to expand. Since 2000, global exports have tripled, while Canadian exports have nearly quadrupled. The financial services' share of total Canadian services exports rose steadily, almost doubling, from 5.9 per cent a decade ago to 11 per cent in 2013.
- Canada's financial services outward foreign direct investment has more than tripled since 1999. In 2013, the sector accounted for 53.2 per cent of Canada's total FDI stock abroad, up from 44.7 per cent a decade earlier.[3]

Recommendation:

- **The TFSA strongly applauds and welcomes recent agreements such as the Canada-European Union Comprehensive Economic and Trade Agreement (CETA). We encourage the federal government to continue to work towards the reduction of trade and investment barriers by continuing to undertake agreements such as the Trans-Pacific Partnership (TPP).**

[3] Going Abroad: Examining the International Footprint of Canada's Financial Services Sector. Conference Board of Canada. December 2014.

Performance and Potential: Toronto's Financial Services Sector – 2014. Conference Board of Canada. December 2014.

Promoting New Specialized Areas

Canada's stable regulatory environment and strong financial services sector has been a strong asset in attracting jobs and investment. However, the Toronto region finds itself operating in an increasingly competitive market where other international financial centers are targeting groups of high growth companies to invest in their cities and regions. This increased competition, combined with the relative maturity of the Canadian financial services market, has made it imperative that we identify, develop, promote and grow new specialized areas of strength. Key areas identified by TFSA include:

First Renminbi (RMB) Trading Hub for the Americas

The TFSA congratulates the federal government on achieving the agreement with China to establish Canada as the first trading hub in the Americas for the Chinese currency, the Renminbi (RMB). The TFSA is proud of its role in leading and supporting this initiative. China is one of the world's largest economies and Canada's second largest trading partner. This initiative will continue to raise Canada and Toronto's stature as a global financial centre, facilitate increased investment and trade, and strengthen Ontario and Canada's broader economic relationship with China.

Toronto as the Islamic Finance Hub for North America

Industry estimates predict that global Islamic finance assets will surpass a historic $2 trillion by 2015, which is more than a tenfold increase since 2002. Canada, and specifically Toronto, has the potential to take greater advantage of this trend as Canadian financial institutions are involved in niche areas. For example, the Toronto Stock Exchange has an S&P Shariah Index while Canadian insurers offer *takaful* (Islamic insurance) products and services in jurisdictions such as Malaysia and Indonesia.

An exciting segment of the Islamic Finance market where there are opportunities for Canada is the global *sukuk* (Islamic bond) market. Global sukuk issuances are growing substantially with very recent issuances from non-Muslim jurisdictions such as the United Kingdom, Hong-Kong, Luxembourg, Singapore, and South Africa. Goldman Sachs also issued a sukuk in September 2014.

Financial Services Technology

Toronto has the highest concentration of information and communications technology (ICT) workers in financial services in Canada (49 percent of the total) and Toronto's ICT cluster is the third largest in North America in terms of the number of establishments. Toronto's ICT industry earns 16 percent of its sales from selling into the second largest financial services cluster in North America. However, TFSA has identified a need to explore and develop the Financial Technology or Fin-Tech Ecosystem that exists because of the proximity of these two major clusters. This will enable TFSA and its partners to promote and grow this sub-sector which will attract new investors, develop domestic champions and ensure that the region's financial institutions embrace new technologies.

Infrastructure Financing

Canada is increasingly being recognized as a world leader in establishing successful public-private partnerships (P3s) to address infrastructure deficits. As Canada's financial and business capital, Toronto provides a gateway for global public and private sector participants to reach members of the country's P3 infrastructure community. At the same time, Toronto's P3 community is actively seeking opportunities abroad to apply its expertise. Three of the world's leading infrastructure developers operate from Toronto, along with two of the world's major infrastructure advisory firms, and three of the world's 50 biggest pension funds.

Recommendation:

- **The federal government should work with all levels of government and the private sector to develop and market new specialized areas such as a RMB trading hub, Islamic Finance, financial services technology, and infrastructure financing.**