TFSA | TORONTO FINANCIAL SERVICES ALLIANCE

2016 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 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 focusing on the areas of growth, international reputation, and competitiveness.

Financial services are one of the most vital sectors in the Ontario and Toronto economies. For example:

- Based on output, financial services are Ontario's second largest sector after manufacturing. In 2014, the sector created jobs almost twice as quickly as the overall Ontario economy, resulting in more than 380,000 direct jobs.

- The sector directly accounts for 13.3 per cent of the Toronto region's GDP with only the public services sector being larger.

- Toronto is the second largest financial centre in North America by employment and is ranked as a top ten global financial centre by publications such as *The Banker* and the *Global Financial Centres Index (GFCI).*

The TFSA is a catalyst for collaboration between the public and private sectors. Our mandate and membership provide us with a valuable perspective on the role the financial services sector plays in creating economic growth, jobs, investment and prosperity. We look forward to continuing to work with the Government on the issues outlined in this submission.

Promoting a Strong Fiscal and Regulatory Environment

Sustainable public finances and an effective regulatory environment for financial services are some of the key elements in ensuring a strong and vibrant Ontario economy. The Ontario Government must ensure that these elements are a priority in developing public policy so as to promote economic growth and employment.

Fiscal Policy

For a second consecutive year, the 2015 annual report by the Auditor General of Ontario focused on the critical implications of growing debt for Ontario's finances. The Auditor noted that Ontario's net debt is projected to continue growing in absolute terms even after the province starts to run annual budget surpluses.

The Auditor's report cited projections that showed that Ontario's net debt will have doubled over a 10-year period, from $156.6 billion in 2007-08 to over $319 billion by 2017-18, with total debt estimated to exceed $340 billion by 2017-18. The report noted that the amount of net debt owed by each resident of Ontario on behalf of the government will increase from approximately $12,000 per person in 2008 to approximately $23,000 per person in 2018.

The report again highlighted the worrisome negative consequences for the province from carrying a large debt load, such as debt-servicing costs cutting into funding for other programs; a greater vulnerability to interest-rate increases; and potential credit-rating downgrades that could lead to higher borrowing costs.

The report recommended that the government provide legislators and the public with long-term targets for addressing Ontario's current and projected debt and develop a long-term debt reduction plan.

Concerns over Ontario's growing debt level were also recently expressed by the Office of the Parliamentary Budget Officer and in credit rating downgrades by Fitch Ratings and Standard & Poor's.

Recommendation:

- The Ontario Government should adopt the recommendation by the Auditor General of Ontario to develop a long-term total debt reduction plan that is linked to the Government's target of reducing its net debt-to-GDP ratio to its prerecession level of 27 per cent.

Regulatory Policy

The Ontario Government is currently reviewing the mandates of three key financial regulatory organizations in Ontario: The Financial Services Commission of Ontario (FSCO), the Financial Services Tribunal (FST), and the Deposit Insurance Corporation of Ontario (DICO).

Canada's financial sector is respected internationally based on the strength and stability of its financial institutions, the majority of which are based in Toronto, and to the soundness of its regulatory system at federal and provincial levels. An effective and credible regulatory environment is critical in supporting the financial services sector's ability to be competitive and attract employment and investment.

The principles outlined below should be adopted to strengthen the effectiveness of Ontario's financial regulators. These principles would further cement the world-class reputation of our regulatory system and thus complement the efforts being made by the industry and government to develop the stature of Toronto as a world-class financial centre.

Recommendations:

- The Ontario Government's current review of its financial regulators should ensure that its regulators contain the following key principles:

  - A principle-based code of good regulation that exploits the full potential for using risk-based methods in exercising its regulatory/supervisory responsibilities.

  - A capacity to undertake practical research on markets and consumers, including a cost benefit analysis of proposed regulations and active consultation with consumers and industry.

  - Arrangements with other regulators aimed at rationalizing and reducing overlap of supervision.

  - An external and internal governance structure that reflects standard OECD principles and best practices.

  - Independence that is complemented with strong accountability mechanisms such as reporting requirements.

  - Adequate resources to fully perform its mandate with respect to the regulation of all areas under its jurisdiction and a transparent cost-recovery model that does not impose unnecessary or burdensome costs on regulated entities.

Partnering with the Sector to Develop Infrastructure

Modern world class infrastructure is vitally important to improving productivity, connecting people to employment, getting goods and services to market, and strengthening overall economic growth. Ontario's world-class Alternative Financing and Procurement (AFP) model is delivering value for taxpayer dollars while creating export opportunities for Ontario businesses.

The AFP model is a performance-based approach in which the private sector not only assumes responsibility for risks and a major stake in financing projects, but also their integrated design, construction and long-term maintenance. These benefits are in addition to the unquantifiable risks such as the benefit of having a project delivered on time. The AFP model is typically effective for large, complex infrastructure projects where the risks of cost overruns or delays are the highest.

Private sector capital is subject to substantial oversight and financial control by lenders and investors. A 2015 report on Ontario-based AFP projects concluded that 44 out of 45 projects were completed within budget. Canadian life insurers and pension funds are a leading source of long-term financing for infrastructure development through the AFP model. The inherent and structural advantage of the sector enables it to be an important and stable investor in long-term assets such as infrastructure.

Recommendations:

- The Ontario Government should expand and accelerate the use of AFPs to fund long-term infrastructure projects.

- The Ontario Government, working with Federal and municipal counterparts, should ensure investments prioritize critical economic infrastructure, including transit, transportation expansion and ageing legacy infrastructure.

Ontario Retirement Pension Plan (ORPP)

Employers and organizations such as the Ontario Chamber of Commerce continue to express significant concerns with the Ontario Government's plan to implement the ORPP. As research has indicated, the ORPP will increase the cost of doing business, impact the important and complementary role played by private workplace retirement savings plans, and divert existing workplace and individual savings. The Ontario Government should provide further information and clarification on issues relating to comparable pension plans that are exempt from the ORPP and the overall costs of the ORPP.

Recommendations:

- The Ontario Government should:
    - Delay the implementation of the ORPP by one year so as to allow sufficient time for the verification of comparable pension plans and the communication of implementation information to employers.
    - Incorporate in the ORPP Act a continuous, independent review process to assess the comparability of new pension plan products and designs in an efficient, timely manner.
    - Clarify how Pooled Registered Pension Plans (PRPPs) will be considered comparable pension plans under the ORPP.
    - Provide the specific actuarial and financial assumptions used to derive the definition of comparable pension plans.
    - Provide the specific overall set-up and administrative costs to develop, implement and maintain the ORPP.

Canada as the North American Hub for Islamic Finance

Globally, Islamic finance assets grew at double-digit rates during the past decade from approximately US$200 billion in 2003 to an estimated US$1.8 trillion in 2014.[1] Canada, and especially Toronto, has great potential to become the North American leader in Islamic finance. Canada has a large and growing Muslim population (proportionately larger than the U.S. as it is expected to rise to 3 million, or 6.6 per cent of the population, by 2030); a sound economy and stable political environment; a wealth of assets that are conducive to Islamic finance; traditionally strong risk management skills; and an effective regime of regulation and supervision.[2] Canadian life insurers are already active in Islamic financial services internationally in markets such as Malaysia and Indonesia.

A recent study by Thomson Reuters, *Canada Islamic Finance Outlook 2016*, highlighted Canada's potential as a hub for Islamic finance and some of the opportunities for the Canadian market. Specifically, the study noted potential Canadian demand to support Shariah-compliant mortgages of US$17.7 billion and an Islamic fund market of over US$2 billion.[3] The study also noted the significant opportunity for Canadian governments to access foreign sources of capital through the *sukuk*, or Islamic bond, market. Recently, governments such as the UK, Luxembourg, and Hong Kong have accessed the Islamic bond market which also has helped promote these jurisdictions as hubs for Islamic finance. The G-20 has also noted the potential of the Islamic bond market for infrastructure financing.[4]

Recommendations:

- Similar to other jurisdictions such as the UK, Luxembourg, and Hong Kong; the Ontario Government should consider issuing a sovereign Islamic bond.

- The Ontario Government should continue to work with the TFSA and the financial sector to help promote Canada as a hub for Islamic finance.

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[1] International Monetary Fund. The IMF and Islamic Finance.
[2] Thomson Reuters. Canada Islamic Finance Outlook 2016. December 2015.
[3] Ibid
[4] Bernardo Vizcaino. G20 Sets Sights on Sukuk for Infrastructure Financing. Thomson Reuters Zawya. March 17, 2015.