TFSA | TORONTO FINANCIAL SERVICES ALLIANCE

2017 Federal 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.

The financial services sector has been a strong source of growth for the Canadian economy over the past decade and also facilitates growth for other businesses in the economy. For example:

- The sector's employment, financial results, and international trade and investment performance outpaced the average for **all** sectors over the past decade.
- The sector directly accounted for 4.4 per cent of Canadian employment in 2015 (almost 800,000 jobs) and almost 7 per cent of Canadian GDP. Employment in the sector has risen by more than 11 per cent since 2005.
- The sector accounts for 53 per cent of the stock of outward Foreign Direct Investment (FDI) undertaken by Canadian firms.

- Canada is ranked among the top 4 countries in the world in terms of access to public equity, private equity, and venture capital. Access to credit is also strong with business credit growing more quickly than business investment.[1]

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.

[1] Michael Burt. An Engine for Growth: 2016 Report Card on Canada and Toronto's Financial Services Sector. The Conference Board of Canada. November 2016.

A Regulatory Environment that Supports Growth

Canadian and international regulators are implementing new reforms that are intended to ensure that the financial services sector performs its vital economic functions while maintaining overall economic stability. However, many of these reforms are presenting challenges that may hinder the competitiveness and growth of the sector and the economy. As noted by former Governor of the Bank of Canada David Dodge, financial regulators need to balance the goal of creating stable markets with the need for allocative efficiency, a key contributor to economic and income growth.[2]

A recent paper by Jacqueline Coolidge and Jack Mintz discusses the potential value of introducing an improved approach for Regulatory-Impact Analysis (RIA) in Canada based on lessons from Europe and the United States.[3] As cited in the Coolidge paper, the recommendations noted below should be considered to ensure that regulations are developed to minimize administrative and compliance costs as well as unintended effects.

Another example of where other jurisdictions can serve as an effective model for Canada is in the area of regulating financial technology or fintech. Other jurisdictions such as the UK, Australia, Singapore, and Hong Kong are implementing or consulting on the concept of a "regulatory sandbox" for fintech. A regulatory sandbox is "a safe space in which businesses can test innovative products, services, business models and delivery mechanisms without immediately incurring all the normal regulatory consequences of pilot activities."

[2] David Dodge. Financial Regulation and Efficiency: Trade-offs in the Post-Financial Crisis Era. C.D. Howe Institute. January 29, 2015.
[3] Jacqueline Coolidge and Jack Mintz. Getting Financial Regulations Right: Avoiding Unintended Effects. The School of Public Policy, University of Calgary. October 2016.

While the primary purpose of a sandbox is to support product innovation for the betterment of the consumer, it also has the benefit of promoting competition, attracting top talent and generating revenue for the economy. A sandbox is meant to lower costs and time for market entry and reduce risk by reducing regulatory uncertainty.

Recommendations:

- As noted in the Coolidge and Mintz paper, Canada could strengthen the regulatory development process by considering the following:
    - A framework of minimum requirements to assess whether a regulation is beneficial.
    - Consultation with parties to estimate costs, unintended effects and to help understand the benefits of regulation.
    - Transparency, so all can see the entire RIA process, and regulators can hear from all interested stakeholders.
    - Post-evaluation that is made public.
    - A joint federal-provincial approach to RIA to encourage harmonization and improved RIA processes at the provincial level.
    - A requirement for regular "sunsetting" provisions requiring that all regulations be subject to periodic review before being either re-authorized, revised, or eliminated.
- To support Canada's emerging fintech sector, the Federal Government should evaluate the supportive regulatory initiatives undertaken by other international jurisdictions, including the concept of a "regulatory sandbox" for Canada.

Attracting Global Talent

The recruitment of highly skilled international talent contributes significantly to Toronto's stature as a global financial centre but the current structure of the Temporary Foreign Worker Program (TFWP) makes recruitment practices cumbersome, costly, time consuming, and uncertain. The current program is having a negative impact on the ability of financial services firms to recruit senior executives or talent with specialized knowledge.

Current immigration rules do not anticipate or recognize the global nature of some senior organizational roles The ability to attract top quality talent with global experience and/or highly specialized expertise is critical if Canada and Toronto are to maintain and grow its stature as a major global financial centre.

TFSA welcomes the recent announcement of a proposed new Global Skills Strategy which will include a two-week standard for processing visas and work permits for low-risk, high-skill talent for companies in Canada. The introduction of an exemption for a relatively small number of niche, specialized talent could be constructed and identified in an efficient and transparent manner by using simple and readily accessible criteria. Examples of potential criteria are the National Occupational Classification (NOC) system used by the Government of Canada to classify occupations and the level of compensation being paid for a specific position.

The Federal Government should also consider other measures to help streamline the system and make it more effective. For example, the Government should reconsider the decision by the previous government to terminate agreements such as the Canada-Ontario Agreement on Foreign Workers and the Canada-Ontario Immigration Agreement. Those agreements were effective and utilized by the Province of Ontario to attract specialized talent.

Another useful measure would be the establishment of a “trusted employer program.” Such a program would help accommodate differing needs in the economy, including the needs of internationally oriented companies in Canada’s financial sector that are recruiting specialized talent.

An immigration system that supports the recruitment of top international talent with an efficient and predictable process is a necessary support for Canada’s global financial companies and economy.

Recommendations:

- Canada’s immigration processing system for international talent needs to be more efficient, streamlined, and timely so to help foster growth and innovation. The process also needs to be more flexible to accommodate the varying talent needs of Canada’s economy.

- The Federal Government should also consider other measures such as establishing a “trusted employer program” and reconsidering previous decisions to terminate effective federal-provincial agreements on immigration.

The Importance of International Trade and Investment

Canada’s financial services sector is one of the most globally oriented sectors in the Canadian economy and is standing out on the international stage. A recent study by the C.D. Howe Institute noted Canada’s comparative advantage in financial services trade and that Canada’s share of the global financial services landscape, at 4.5 percent, is now almost twice the share of Canada’s GDP in the global economy, which sits at 2.5 percent. This is all the more remarkable given the substantial drop in the share of the value of financial services firms headquartered in other G7 economies.[4] Other impressive statistics about the global nature of Canada’s financial sector include:

- 53 per cent of Canada’s stock of outward foreign direct investments (FDI) is attributable to the financial services sector, up from 46 per cent in 2005.

- Since 2001, Canadian financial services exports, as a share of total exports, increased more than two-fold.

- International assets of large Canadian banks have grown by 43 percent since 2010.

- International assets belonging to Canada’s three largest life insurers rose by 42 percent between 2009 and 2014. Large life insurers have broadened the number of markets and business lines they participate in abroad, with 50 percent of their total assets residing in foreign jurisdictions.

[4] Daniel Schwanen, Jeremy Kronick, Ramya Muthukumaran. Playing from Strength: Canada’s Trade Deal Priorities for Financial Services. Commentary No. 461. C.D. Howe Institute. November 2016.

Access to international markets increases employment, investment and competitiveness. Canada should continue to pursue new free trade and investment agreements, especially with key emerging markets, as liberalized trade and investment have significant economic benefits to the financial sector and the overall Canadian economy.

Recommendation:

- The TFSA welcomes the recent ratification of free trade and investment agreements such as the Canada-EU Comprehensive Economic and Trade Agreement (CETA). The Federal Government should also continue to pursue new free trade and investment agreements, especially with key emerging markets.

Investing in Infrastructure

Canada has a significant need for construction and renewal of public infrastructure. These infrastructure deficits include unfunded or underfunded public transit and transportation projects, aging legacy infrastructure (i.e. water, wastewater), and trade-enabling infrastructure (i.e. airports, ports). To address this deficit, especially at a time when resources are constrained, it has become important for governments to look at innovative ways of delivering infrastructure.

In this environment, public-private partnerships (P3s) have become a successful method for infrastructure development in Canada, with more than 220 projects worth over $70 billion to date.[5] Canada's P3 models for alternative financing, procurement and delivery (including the model used in Ontario) are particularly ideal for large and complex infrastructure investments, as these types of projects benefit from P3's value for money proposition, their ability to be on-time/on-budget, and the transfer of related risk from the public to private sector. Indeed, Canada's unique approach to P3s has been recognized internationally as best in class, making the country a destination for those interested in P3 infrastructure delivery and investment.

Infrastructure projects require long term financing and capital. Canada benefits in this area from having world-leading pension funds and life insurers that have deep expertise and experience with such investments. For example, the Canada Pension Plan Investment Board (CPPIB), the Ontario Teachers' Pension Plan (OTPP) and the Ontario Municipal Employees Retirement System (OMERS) have all participated with the private sector in global P3 projects. As pension funds have a long investment horizon, they make excellent owners of infrastructure. These funds, and others like them across Canada, are attracting global attention from governments who are trying to encourage them to invest in their domestic infrastructure.

[5] X-X Yuan & J. Zhang, "Understanding the Effect of Public-Private Partnerships on Innovation in Canadian Infrastructure Projects", Ryerson Institute for Infrastructure Innovation, Prepared for PPP Canada, 2016: http://www.ryerson.ca/content/dam/riii/ryerson-construction-innovation-2016.pdf

P3 financing has also become a specialty for other Canadian financial institutions. Following the recent global financial crisis, organizations (such as RBC Capital Markets, CIBC Capital Markets, TD Securities, Scotiabank, etc.) developed specialized solutions for P3 infrastructure ventures. Also, as long-term investors serving the long-term financial protection needs of Canadians, Canadian life and health insurers such as Sun Life Financial and Manulife Financial are natural and active participants in P3 projects, both in Canada and internationally. Canada's work in P3 bond financing over the last few years has been impressive and demonstrated that it is an effective and value-enhancing source of financing. The bonds are designed to be low risk, stable long-term investments that offer premium yields when compared to traditional government or quasi-government debt issues. Toronto's legal, investment and advisory firms have participated in P3 bonds involving more than $7 billion, making Toronto a global hub for this type of infrastructure financing.[6] Toronto's bond market for P3s is unique and not found in many other cities, making it another key feature of the Canadian model.

While the Canadian private sector has been at the forefront of P3 development, government support is critical to their success. Provincially, governments like Ontario and Saskatchewan have been driving P3 projects and procurement forward as they benefit from ventures being on-time and on-budget. Federally, PPP Canada manages the $2.5 billion P3 Canada Fund – the first national infrastructure program dedicated to supporting P3 projects – and the Building Canada Plan has previously encouraged greater involvement by screening projects with capital costs over $100 million with a P3 lens to determine whether better value for money can be obtained.[7] These efforts have spurred on the P3 industry in Canada and demonstrate the significant benefits of government continuing to support P3 development.

[6] Toronto Financial Services Alliance, "Toronto: A Centre for P3 Excellence", p8.
[7] The Federal Government eliminated the requirement for P3 screening in 2015: http://www.theglobeandmail.com/report-on-business/liberals-drop-public-private-requirement-for-infrastructure-funding/article27322884/

Recently the Federal Government announced the new Canada Infrastructure Bank (CIB) with a stated objective “to provide innovative funding and financing for infrastructure projects and help more projects get built in Canada.” The financial sector is supportive of initiatives by government to increase the number and breadth of infrastructure investments, including through the CIB, but it is very important that the new entity compliment the P3 sector and not hinder it.

It is important that the CIB be structured and employ tools to draw in more private capital and grow the overall pipeline of P3 projects and avoid any policies that will crowd out the existing private capital in the market. The CIB should focus on financing where there is no private sector capital available or incentivizing further risk-taking from the private sector.

Also, smaller and medium institutional investors play an important role in the financing of infrastructure as infrastructure projects vary in size. Thus, the Bank should also be structured to accommodate different types of investors and projects.

Finally, the CIB should also work in collaboration with existing P3 agencies at the provincial level, as opposed to competing with them, and adopt best practices from these successful agencies.

Governments around the world have turned to Canada for support in their own P3 infrastructure projects as they find new ways to deliver much needed infrastructure while maximizing government investment. Canada should take advantage of the ecosystem of P3 experts in law, finance, tax, accounting, development, and risk assessment that it has generated.

Recommendations:

- In light of Canada's status as a global hub for P3 development, the Federal Government should expand and leverage the use of P3 models, notably those already employed in provinces such as Ontario. Using P3 models will help to ensure that infrastructure projects are delivered on-time and on-budget, and transfer the risks to Canadian private sector entities best equipped to manage and minimize such risks.

- The new Canada Infrastructure Bank (CIB) should be structured and employ tools to draw in more private capital and grow the overall pipeline of P3 projects and avoid any policies that will crowd out the existing private capital in the market. If structured properly, the CIB should reduce the infrastructure deficit, bring in more private capital into Canada, and result in long-term savings to government.

- The CIB should also accommodate different types of investors and projects and collaborate with existing P3 agencies at the provincial level.