

**2013 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 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 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

Regulatory Environment

Canada's financial services sector, headquartered in Toronto, is well regulated and offers many examples of global best practices. The financial services sector recognizes that regulatory stability and certainty are important and will continue to work with governments and regulators to find the appropriate balance between risk management and international competitiveness and innovation.

Currently, there is a considerable level of regulatory reform underway. While it is important both to reform regulation and to keep current with global regulatory requirements, the current pace and volume of regulatory requirements are significantly impacting the sector's capacity to assess and implement regulations adequately and properly. In a relatively short period of time, the sector has been required to comply with many regulations dealing with capital and solvency requirements, liquidity rules, market structure, systemic risk, and investor protection. In addition, the financial sector is also complying with the adoption of new international tax rules and accounting standards; along with protocols and guidelines for compensation, data protection and privacy.

The volume of these changes 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 flow. Increased compliance burden and regulatory uncertainty could be impacting on the sector's ability to grow at precisely the time when Canadian institutions have an opportunity to make major global gains.

Recommendations:

- Regulatory initiatives must be risk based and considered holistically, taking into account the many other regulatory initiatives.
- Time must be taken to assess new regulatory requirements to ensure that longer term implications are better understood before new rules are layered on top.
- Future capital and solvency regulatory changes should be carefully balanced against the costs of increasingly stricter requirements to guarantee the affordability, availability and competitiveness of essential financial services and products.
- New requirements must be also be assessed according to their impact on job growth and capital flows.
- Given the additional regulatory requirements on the sector, all government regulations impacting the financial services sector should have a mandatory five-year review.

Fostering a Strong Economic Climate

Managing public finances in a responsible and sustainable manner is crucial to fostering a strong economic climate and confidence in the overall economy. Canada's fiscal position is one of the strongest in the world and it is vital that the federal government continues to maintain its solid fiscal advantage. In light of the current global economic uncertainty, Canada must ensure it has strong public finances to provide the flexibility to respond to new economic developments. At a minimum, the federal government should adhere to its current target of a balanced budget by 2016-17 and reiterate its commitment to lowering the debt-to-GDP ratio. To meet these goals, the federal government should continue to place a particular emphasis on expenditure management.

In addition to continuing to strengthen the federal government's fiscal position, the TFSA supports the government's efforts to broaden Canada's trade and investment relationships. Currently, Canada is actively negotiating or exploring several free trade agreements (FTAs), foreign investment promotion and protection agreements (FIPAs), and other agreements. Canada's financial industry, headquartered in Toronto, is a growing global player and many of our companies are growing their operations in international markets. Measures to enhance trade with these markets and creating business opportunities there for Canadian companies will naturally benefit Canada's financial services industry. While pursuing these agreements in the future, the TFSA also encourages the federal government to consider including measures that would prevent the extraterritorial application of foreign laws to Canadian financial institutions.

Recommendations:

- At a minimum, the federal government should adhere to its current target of a balanced budget by 2016-17 and reiterate its commitment to lowering the debt-to-GDP ratio.
- The federal government should continue its efforts to pursue and complete international trade and investment agreements, while preventing the extraterritorial application of foreign laws.

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.² 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:

- **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 government 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.
- **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.

² 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.

- **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 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.

Attracting Professional Talent

Talent plays a critical role in economic growth and development. A key advantage in attracting businesses and jobs to Canada, and to the Ontario region, is our highly educated and diverse talent base. However, for the financial services sector to thrive and to grow the talent pipeline into the sector must be strengthened and there are a number of areas in which skills gaps must be closed.

To address this challenge, we need to work with all levels of government to maximize our collective resources. As part of its mandate to enhance the talent advantage of the region, the TFSA established the Centre of Excellence in Financial Services Education (CoE) in 2009. The CoE works to build the talent base through liaising with diverse stakeholders such as employers, educational institutions, professional associations and settlement agencies to:

- collect and aggregate data on the educational qualifications and skills sets of new graduates and newcomers;
- ensure courses and programs offered by educational institutions are aligned to the needs of the industry;
- provide job seekers with deeper insights into the career opportunities and required skill sets for the financial services sector; and

- make it easier for internationally-trained financial professionals to integrate into the financial services sector (newcomers and expatriates have the knowledge and skills but do not have access to current networks).

Recommendations:

We encourage the federal government to work with Ontario 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. 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.³

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.

³ September 21, 2012 GulfNews

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.”⁴

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.

Recommendations:

- The Federal Department of Finance should form a joint working group with the Ontario Ministry 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 federal and Ontario governments should work together to market Toronto as the North American centre for Islamic finance.

Financial Services as a Priority Area

The aftermath of the global crisis has created a window of opportunity for Toronto and its financial industry to attract and grow jobs and businesses here. International financial services firms are maximizing their resources by locating jobs in the most attractive regions, from both a talent and cost perspective. Canada’s effective management through the crisis and the attention we are receiving on the global stage provides an unprecedented opportunity to market the country as a preferred location to set up operations.

Financial services are a highly mobile industry, with the ability to move jobs easily across borders. The need to both attract new jobs, as well as retain those that we have, should continue to be a priority for all levels of government.

The TFSA continues to work closely with various departments in the federal government in marketing, economic development initiatives, and identifying the latest sector trends and key areas for growth.

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 the provinces and the regions.

⁴ September 21, 2012 GulfNews

- To maximize job attraction efforts, we need not only to focus on attracting new companies from outside of our borders, but also work to ensure that those companies that already have a presence in the region are incented to stay and expand their local labour force. To help realize this goal, we are very supportive of the efforts of DFAIT's trade commissioner service to make domestic sales calls (investment aftercare) a formal part of their investment attraction mandate. We recommend broadening this effort as much as possible.
- Continue to strengthen and formalize the ties between DFAIT and TFSA to ensure that there is a proactive sharing of information such as market intelligence and the identification of potential investment leads.

Conclusion

The federal government has provided a strong framework for growing the financial services sector and attracting new investment and jobs for Canadians.

The TFSA and the financial services sector continue to look forward to working closely with all levels of government to support a strong and global financial services sector in Canada.