

BCG

NOVEMBER 2009

Partnership and Action

Mobilizing Toronto's
Financial Sector for Global Advantage



An Action Plan by The Boston Consulting Group for
The Toronto Financial Services Working Group

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Introducing the Toronto Region Financial Services Strategy

As a nation, Canadians can be reticent about claiming global success until others point it out. Whether it was the survival of our financial sector when the global system was near meltdown, or the opinion of the World Economic Forum that we have the safest and soundest financial system on the globe (for two years running), or the sobering recognition by governments that one of our traditional foundations - manufacturing - may not be a source of significant job growth in the foreseeable future - there is now a newfound awareness of the strength of our financial sector, its growing contribution to high value jobs and its own ability to serve as a foundation for broader economic growth. The question now is, how best to capitalize on that strength? How best to leverage its success to create even more urgently needed jobs in financial services and in the sectors that support them?

In the following pages, you will find answers to these crucial questions. Recommendations that will help our successful global players become even more so, driving international growth that can be serviced here; initiatives that will attract other global players to locate operations here and take advantage of our value proposition as a financial hub, thereby making their own contributions in jobs and economic revenue.

Our goal is quite simply for the Toronto Region to become one of the two leading financial clusters in North America and one of the top ten global hubs. For those who doubt, consider this – Toronto is already recognized as 13th by the Global Financial Centres Index. And while banks around the world had to be bailed out by taxpayers, Canadian banks continued to generate revenue without a government-supplied life raft. We have also seen financial services annual job growth of 4.3%, a fortuitous occurrence given the simultaneous decline in manufacturing employment of 3.5% annually.

It is an impressive accomplishment that should not be taken lightly because the winds of global competition have not eased. These are the kind of high value jobs that more city regions around the world are chasing, jobs that can, through the wonders of technology and innovation, be located almost anywhere. We must work to keep the ones we have, and push hard to generate new jobs.

There will be those who question the wisdom of governments expending effort on a sector that is not struggling. With so many sectors of our economy in trouble, why focus on our banks and insurance companies, our securities and investment firms? But that is precisely why we should. They have weathered the storm. They have proven their value to our economy in a time of need. When other sectors are shrinking, they are able to grow. If we expect to sustain future economic growth and the quality of life that flows from it, if we want to be able to replace the employment we are losing, then it is a trend that needs to be accelerated, not taken for granted. The recommendations offered here can ensure that happens.

Like any major project, it took the work of many to complete. Discussions between the Ontario Finance Minister Dwight Duncan and a group of financial CEOs launched this process. And we would like to offer our sincere thanks to them, to the individuals who served on the Toronto Financial Services Working Group, and to the many senior financial executives and leaders from our education and our government sectors who provided their advice. We also want to offer a special thank you to the organizations who contributed not only their labour and wisdom but their resources as well; and to the team at Boston Consulting Group who co-invested their own resources in a project they consider crucial to our city's success.

But a report is one thing. Successful implementation is another. The record is quite clear, other financial hubs who successfully strengthened their global presence benefitted from a strong public-private partnership - between government and the people who run financial companies. So this report is also about building a new relationship between the sector and our governments, one that if it is successful, will contribute greatly to effectively carrying out the strategy that follows.

It has been a pleasure working with so many individuals who see the possibilities, who recognize that a strong and growing financial sector matters to us all. From our jobs to our mutual funds, from our RRSPs to our RESPs, from our pensions to our mortgages, we can't succeed without a strong financial sector. We look forward to continuing to work with all of you, to continue that success.

Sincerely,



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Executive Summary

The financial services industry has acted as a critical economic engine for Toronto, Ontario and Canada, driving employment growth, creation of high-value jobs, and GDP. The Toronto Region is the heart of Canada's financial services (FS) engine, housing 29% of FS employees, an impressive concentration of world-class FS company headquarters and operations, and the world's 7th largest financial exchange. In 2008, financial services contributed over 12% of employment in the Toronto Region and over 20% of GDP, including indirect effects. This contribution to the economy has increased significantly in importance for the region over the past five years, as the growth in financial services has more than offset the loss of GDP attributable to the decline in the manufacturing sector.

Defending, strengthening and growing Toronto's FS industry are paramount for the region's economy. And as financial services world-wide have become increasingly internationally traded and competitive, it has become an imperative for Toronto's financial services industry to be even more globally competitive. Enhanced global competitiveness will drive increased economic benefits for the region and country by fostering further growth of Canadian FS players and by attracting foreign investment and activity.

While recognition for Toronto as an international financial centre has been building slowly, there is significant potential to enhance its competitive position. The overarching goal of the strategy presented in this report is to increase Toronto's competitiveness as an international financial centre, and in doing so, accomplish the following objectives:

- Create more financial services jobs in the Toronto Region
- Increase the industry's GDP contribution and overall economic impact
- Enhance the conditions for domestic financial services players to grow and succeed internationally
- Attract international investment and financial services to the Toronto Region
- Strengthen Toronto's position as a financial services capital and maintain FS headquarter jobs

An ambitious but achievable target has been set: for Toronto to become one of the two most important financial centres in North America and among the top 10 globally by 2015, perhaps even among the top 5-7.

The Toronto Region has several competitive assets that position it well to be a top tier international financial centre. These assets include access to a diverse, multi-lingual and educated FS talent base, excellent international accessibility, proximity to U.S. markets, a highly stable and well-regarded banking system and regulatory framework, and an existing cluster of large, respected players across multiple FS sectors. Along with these assets, there are a few notable gaps compared to other major international financial centres where competitiveness can be significantly improved. While there are several major financial services companies based in the region, the city lacks global profile that comes with being recognized as a world-leader in any specific area. In addition, in other major international financial centres, governments and financial services industry leaders have worked hand-in-hand with a purposeful strategy and mandate to set conditions for the industry to thrive; that shared purpose and spirit of partnership between government and industry has been lacking for the Toronto financial services industry. Other strengths and gaps of the Toronto Region have been identified, and are described in the report.

For the Toronto Region, enhancing competitiveness will require a focused strategy targeted both at leveraging our strengths and addressing the gaps. Three themes for action have emerged from our analysis, with nine corresponding strategic initiatives.

FIRST THEME FOR ACTION: BUILD LEADING HUBS

To raise Toronto's global competitiveness, focused strategies must be put in place to strengthen and promote the areas where there is existing or potential competitive advantage and legitimate claim to a global leadership position. Actively creating world-class hubs in these areas will drive significant impact and economic benefits. Four priority opportunities have been identified. Together, these four priority opportunities have potential to create a projected incremental 25,000-40,000 jobs and \$4-5 billion in annual GDP over a five-year time horizon. This economic impact will be a net benefit to Canada – this is not about shifting jobs between provinces.

- 1. Establish a global institute for integrative risk management.** The financial crisis has raised to the surface a critical need to re-evaluate how risk is recognized, analysed and managed. The establishment of new global regulatory standards and processes has been called for. Aside from this new regulatory function, governments, risk experts and industry practitioners alike see the need for ongoing international dialogue and collaboration on forward-looking thinking and research, education and dissemination of best practices and leading edge ideas. Canada and the Toronto Region in particular are distinctly well suited to act as a location for a global Institute for Integrative Risk Management as a centre of this activity. The focus would be to provide integrative research and education across multiple risk management disciplines (including but not limited to regulation, governance, actuarial science, asset and liability management, leadership behaviour and accountability). An independent institute with a virtual core in Toronto is recommended, governed and managed by a joint board of directors from industry, academic institutions and regulators.
- 2. Entrench our position as the leading global hub for mining, metals, and energy financing.** The world-leading concentration of expertise required to finance Mining, Metals and Energy companies has developed in Canada. The activity associated with financing these sectors is the source of an estimated 7,000 financial services jobs in Canada today, including investment bankers, research analysts, traders, corporate lenders and other support and professional services. Core to this activity is the leadership position of the TMX Group exchanges (both Toronto Stock Exchange and TSX Venture Exchange) in listing Mining, Metals and Energy companies. While our current position is strong, there is significant opportunity to enhance and entrench that leadership position further through a more concerted effort amongst political leaders and industry to proactively promote the region's expertise. A target of achieving 70% market share of global energy, mining and metals listings by 2015 is proposed, up from 43% (energy) and 55% (mining) today.
- 3. Become a global leader in retirement financing solutions.** The issues of pension coverage and retirement income security have become a priority focus area for governments in recent years. In Canada, there remain significant and broad questions about retirement financing that merit more exploration and innovation. Many have called for a holistic Canadian strategy that articulates the principles of our retirement system and clearly prescribes the role of each of the three retirement income pillars (Government assistance – i.e. , Old Age Security, Guaranteed Income Supplement; public pension plans - i.e. CPP and QPP; and registered private pension plans and personal savings). The third pillar of registered private pension plans and personal savings will likely continue to play an important role in such a strategy. Canada and the Toronto Region in particular house a unique presence of important players and thought leaders suited to establish a leading hub of expertise on the questions of how best to optimize use, efficiency and effectiveness of this third pillar; this will not only benefit individual Canadians but also maximize job and investment growth in the Toronto Region. First, a public-private partnership should be launched to develop a set of recommendations, policy proposals and action plans. This partnership should evaluate opportunities to (a) better optimize use of personal savings/insurance and (b) enhance efficiency and effectiveness of private registered pension plans, coalescing a point of view on optimum future pension models. Second, Toronto should continue to be developed as the leading centre of pension management expertise world-wide, particularly through continued support of the Rotman School of Management's International Centre for Pension Management. Establishing a hub of expertise for retirement financing in the Toronto Region will have significant and far reaching benefits. Aside from benefiting the population, there is significant potential for Toronto-based FS companies to develop new and innovative services and offerings and participate in untapped growth, both domestically and internationally.
- 4. Grow skilled FS activity clusters.** Over the past ten years, numerous foreign financial services companies have selected the Toronto Region as the location for high skills-based support, administration and servicing operations. The range of activities is

broad, from fund administration, to asset and liability processing, to expert servicing for high-value clients to production support for front-office sales. The Toronto Region possesses a noteworthy set of distinct advantages that make it an excellent location candidate for these types of operations, including access to skilled talent, high quality of life, diversity of languages, proximity to U.S. markets, ease of international access and very strong supporting technology and communications sectors. However, firms that have chosen the Toronto Region to date have done so primarily based on their own internal analyses and investigations and in spite of relatively few promotional efforts and incentives on behalf of the region itself. There is a significant opportunity to further grow the base of FS operations in the Toronto Region and create a leading hub of activity through a proactive and strategic effort. The benefits of such an effort would include attracting more financial services jobs to the region while protecting valuable jobs that are here today but susceptible to being moved elsewhere over time.

SECOND THEME FOR ACTION: ALIGN FOR SUCCESS

Proactive, aligned and focused efforts led by governments and industry leaders have been critical for most successful international financial centres. Three recommendations for aligning for success are proposed:

5. Designate a dedicated function within governments to work with industry to resolve issues and facilitate growth.

Historically the focus of both federal and provincial governments has been primarily on regulating the financial services industry. Other industries (e.g. manufacturing, agriculture, tourism, etc.) have had an economic development agenda within different orders of government. It is recommended that each order of government designate functions with dedicated resources to actively work on an agenda to support economic development of the financial services industry. These functions should be distinct from the regulatory functions within governments, with an explicit mandate to support the growth of the industry. At this point in time, there is openness and significant momentum among all orders of government to embrace a new focus on development for FS.

6. Develop a government-industry partnership body to own and drive the financial services strategy.

Execution of the strategy will require common goals and vision shared by governments and industry, and a coordinated and collaborative approach. An independent partnership body involving government participation and industry membership is recommended as the most effective structure to drive a coordinated strategy for the Toronto Region's financial services industry. In 2001 the Toronto Financial Services Alliance (TFSA) was created with the mandate of actively promoting and advocating for growth of Toronto's FS industry as a North American centre. It is recommended that TFSA be re-conceptualized and rebuilt, including new funding and resourcing models, to enable it to take on the Secretariat mandate for delivering the Toronto Region Financial Services Strategy.

7. Actively market and promote the Toronto Region and Toronto financial services sector.

The Toronto Region has a unique set of strengths and advantages that make the region attractive for international investments and talent. However, the region's story is not well known and is generally undersold internationally. A coordinated and proactive international marketing and promotion strategy for Toronto as a global financial centre is needed.

THIRD THEME FOR ACTION: FORTIFY COMPETITIVE FOUNDATIONS

Aside from building world-leading hubs and aligning governments and industry to drive a growth agenda, it is important that Toronto continues to build upon and entrench foundational elements that make the region competitive.

8. Enhance the environment for business.

Two key opportunities to address areas of disadvantage in the Toronto Region business environment surfaced in interviews with industry leaders. The first was to recognize and address several specific rules and regulations that impede financial services growth. Examples were cited from every FS sector and have been provided to governments for consideration. A key concern is the difficulty companies face in dealing with multiple government agencies to effectuate a change to these policies. It is recommended that immediate efforts be launched within the respective provincial and federal governments to evaluate the specific policy obstacles cited through this study, and to work with industry associations and leaders to drive to some quick wins and longer term action plans.

The second opportunity cited was to improve the city's transit infrastructure to world-class levels, and in particular, high-speed transit options between Pearson airport and the downtown core.

9. Entrench and build on our talent advantage. The existence of a deep, educated, multi-lingual talent base is a critical strength and source of competitive advantage for the Toronto Region. In order to maintain and enhance this advantage, we must continue to invest in and grow our talent base. The creation of a Centre of Excellence in Financial Services Education (CoE) has been proposed by the Toronto Financial Services Alliance earlier this year to perform several important functions to this end. These include facilitating collaboration between FS employers and educators to enhance the quality and focus of educational offerings and attracting top local and global talent to the industry. Another opportunity related to building our talent base relates to enhancing the ease of integration of international talent to the Toronto Region. Today international FS professionals looking to locate in Toronto often face significant challenges in navigating the disparate organizations and administrative processes to enable working and living in Canada. A special "FS Talent Office" is recommended to facilitate the process for international FS talent entering the region.

MOVING FORWARD: A CALL FOR PARTNERSHIP AND ACTION

There is a powerful case for a focused agenda to enhance the Toronto Region's global competitiveness as a financial centre. This study has shown that Toronto has a strong competitive premise in several distinct areas – and in the absence of an explicit agenda this potential will remain untapped, and the benefits to the economy under-realized.

The current timing is particularly compelling. The global financial crisis has put Canada and Toronto under a temporary spotlight of attention which is sure to wane unless purposefully seized. The region's economy needs the financial services engine more than ever. Importantly, this study has taken place through the combined will and participation of three governments and multiple FS industry stakeholders.

Stakeholders consulted in this process all agree – the most significant challenges in moving the needle on Toronto's global competitiveness will be in execution. Key imperatives for success include focus, aligned leadership, coordination, and accountability for and measurement of progress. An execution framework to seize this window of opportunity, mitigate challenges and optimize probability of success is proposed. Key elements include:

- **The creation of the Toronto Region Financial Services Leadership Council, a body comprised of top Toronto-based financial services CEOs as well as senior elected officials from each of the three orders of government.** The mandate of this Council would be to set the direction, publicly champion the strategy, oversee implementation and commit resources to drive execution.
- **The establishment of a secretariat to ensure governance, coordination and program management discipline across the strategy initiative efforts.** The secretariat role should be the key mandate of the government-industry partnership body recommended under the second theme for action, Align for Success.
- **Immediate mobilization and institution of measures of success.** In order to capitalize on the current momentum and maximize economic benefits, it is recommended to concentrate immediate efforts on launching initiative teams to develop and execute the strategies. Concrete measures of progress and success should be defined and explicit targets and milestones need to be established by the Leadership Council, secretariat and initiative teams.

Translating the themes for action into results needs to be a priority of the financial services industry and all three orders of government. It will take leadership, resources and focus. It will require political will from the most senior elected officials to make this initiative a top priority. It will require the collective vision and belief of industry leaders to align efforts and resources. There is considerable support at this time within the industry and all orders of government in carrying this initiative forward. It is imperative that support is turned into action so that good intentions yield real results.



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Context And Objectives

The global economic crisis has put the financial services industry under a microscope. A few realities are now more clearly evident and broadly understood than ever before: The financial sector, by providing access to funding, often acts as an important driver of other industries. Secondly, and related, the health of overall economies depend heavily on the soundness and health of the financial system.

Through this microscope, the Canadian financial services industry has fared relatively well. While Canadians have certainly not been immune from the impacts of the current global crisis, the impacts have been much less severe than in other developed economies, and there is wide-spread global recognition for both the soundness of our financial system as well as the management practices of our industry leaders.

At this defining moment in time, the world's government and industry leaders are immersed in exercises of self-examination and repair. Canadian leaders are by no means exempt from this exercise, but do have the luxury of a much more stable platform on which to stand. The global financial services landscape will be reshaped and look different in the near future. Several major players have disappeared, some will change radically, others will emerge stronger. Global market share is in flux, and up for grabs. **Now, more than ever, is the time to take stock of the strengths and weaknesses of our financial services industry, develop a strategy to ensure its ongoing health and capitalize on opportunities for growth.**

The centre of the financial services industry in Canada is the Toronto Region, housing a significant concentration of the country's financial services activity and employees. A full 28.6% of the nation's financial services employees are located in the Toronto Region¹. Toronto is home to the vast majority of Canada's largest financial services companies:

- 2 of the largest 10 global life insurers, plus a third with significant operations in Toronto²

- 3 of the world's largest 25 banks³ and Canada's 5 largest banks
- The 3rd largest exchange in North America, and 7th largest in the world⁴
- 3 of the top 50 global pension funds⁵
- 4 of the 5 largest investment management firms⁶ in Canada
- 3 of the 4 largest property and casualty insurers in Canada⁷
- Operations of 7 of the top 10 largest global hedge fund administrators

This cluster of activity and strength across so many financial services sectors is unusually broad, even among the leading international financial centres. It is supported by a critical mass of legal, accounting, technology and other support services, along with a strong base of academic institutions continually building a talented workforce.

Recognition of Toronto as an important international financial services centre has slowly and steadily increased. Notable indicators of this importance include the prominence of the Toronto Stock Exchange and the World Economic Forum's ranking of Canada's financial system as soundest in the world. In the City of London's Global Financial Centres Index (GFCI), Toronto has been ranked among the top 15 in the past two years, with consistent increases in key scores⁸. While the methodology, inputs and criteria used for this index pose questions about the rankings, the GFCI does highlight strengths of Toronto as a global financial centre, and provides some important lessons for areas where Toronto can improve⁹.

Given the strengths and inherent advantages there remains significant opportunity to build on a strong foundation and enhance the global competitiveness of the Toronto Region as a major international financial centre.

1 Statistics Canada labour force survey; Toronto Region defined as the Toronto Census Metropolitan Area; Financial services defined as NAICS code 52.

2 Global market data; As of August 31st, 2009; measured by market capitalization

3 Ibid

4 World Federation of Exchanges; measured by market capitalization and volume traded 2008

5 P&I/Watson Wyatt World 300 as of year end 2008; measured by assets under management

6 Top 40 Money Managers report, November 2008; measured by assets under management

7 AXCO Insurance Market Report; measured by premiums written, 2007

8 Global Financial Centres Index, March 2007 to September 2009

9 Questions regarding methodology were largely based on ideological differences between the creators of the index and Canada's social policies. One area in which Canada receives consistently low grades is the category of "Freedom from Government", where Canada is heavily penalized for high levels of government expenditure. While there may be as much ideology as science to these assessments, this approach does point to the need for consistent and accurate measurement of government size.

The overarching goal of the strategy presented in this report is to increase Toronto's competitiveness as an international financial centre, and in doing so, accomplish the following objectives:

- Create more financial services jobs in the Toronto Region
- Increase the industry's GDP contribution and overall economic impact
- Enhance the conditions for domestic financial services players to grow and succeed internationally
- Attract international investment and financial services to the Toronto Region
- Strengthen Toronto's position as a financial services capital and maintain FS headquarter jobs

An ambitious but achievable target has been set for raising the Toronto Region's profile as a global financial centre: become one of the two most important financial centres in North America and among the top 10 globally by 2015 – potentially among the top 5-7. With a focused strategy and disciplined execution, this goal is well within reach.



Methodology

The methodology used to develop the strategy and recommendations contained in this report included the following steps:

1. Global benchmarking

An assessment of many leading international financial centres was conducted to draw lessons for Toronto. This included an understanding of strategies, tactics, implementation structures and key success factors critical for creating a vibrant international financial centre.

2. Competitive assessment of Toronto

An analysis of Toronto's relative strengths and weaknesses versus top global financial centres was completed. This included a review of key data sources and existing reports on factors related to the existing leadership base, business environment, talent, accessibility and infrastructure. Key opportunities to improve competitiveness were synthesized based on the data review and perspectives of industry players.

3. Expert interviews and industry consultations

Over 130 interviews with industry executives and experts were conducted to help shape ideas, test hypotheses, assess barriers and gain buy-in and support. These interviews included representatives from an array of relevant constituencies:

- 20 Canadian financial services firms
- 10 international financial services firms
- 10 academic institutions and non-profit institutes
- 8 industry associations
- 7 professional services firms
- 4 technology providers
- 11 government departments representing three orders of government
- Boston Consulting Group financial services topic experts and databases (various, worldwide)

A complete list of individuals consulted is listed in Appendix III.

4. Evaluation and prioritization of opportunities

Through the course of the internal analysis and interviews, a list of hypotheses for opportunities for the Toronto Region was generated. Each of these opportunities was evaluated and prioritized through an assessment of strategic feasibility, potential impact, and likelihood of success.

5. Development of mobilization plan

A proposed mobilization plan was developed based on the understanding of different models employed worldwide as well as the Toronto Region's starting point. Follow-up industry and government consultations were conducted to discuss and enlist support for the mobilization model presented.

An Imperative for Toronto to Enhance Competitiveness in Financial Services

IMPORTANCE OF FINANCIAL SERVICES TO THE TORONTO REGION ECONOMY

The financial services industry is a critical engine of the Toronto Region's economy. In 2008, financial services (FS) directly employed 220,000 people in the Greater Toronto Area (GTA). Including indirect effects, FS employed a total of 350,000 people, accounting for over 12% of employment in the GTA¹⁰. Financial services jobs have above average wages and are inordinately valuable to the economy, driving on average almost two times the amount of direct GDP creation as jobs from other sectors. In 2008, FS contributed 21.1% of the Toronto Region's GDP, including direct and indirect contributions. [Figure 1]

Aside from measurable GDP contributions, the financial services industry has played a vital role in building our community, by proactively leading and contributing to community-enhancing causes. In addition to volunteering time on boards of directors and leading fundraising campaigns, financial services companies and their employees are major charitable contributors.

In 2008, financial services companies and their employees accounted for 24% of all corporate fundraising at the Sick Kids Foundation¹¹ and nearly 40% of all donations to the United Way of Greater Toronto¹².

Financial services and manufacturing have historically acted as the twin engines of the Toronto Region economy - in fact, the Toronto Region is one of the few in North America where both these sectors have thrived. From 2003 to 2008, however, the manufacturing employment base in Toronto Region has declined by 3.5% annually, driven at least partially by enhanced global competition. In that same time period, FS jobs in the Toronto Region grew by 4.3% per annum, contributing an incremental \$6.2B in GDP - more than offsetting the \$3.8B in GDP lost from manufacturing [Figure 2].

THE IMPERATIVE OF GLOBAL COMPETITIVENESS IN TRADED INDUSTRIES

Traded goods and services are critical drivers of economic growth. These are goods or services that draw new wealth

Figure 1
Financial services contribution to the Toronto Region's economy

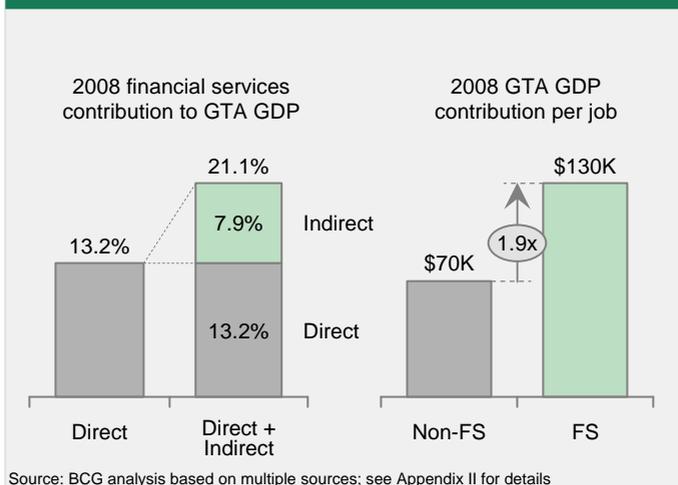
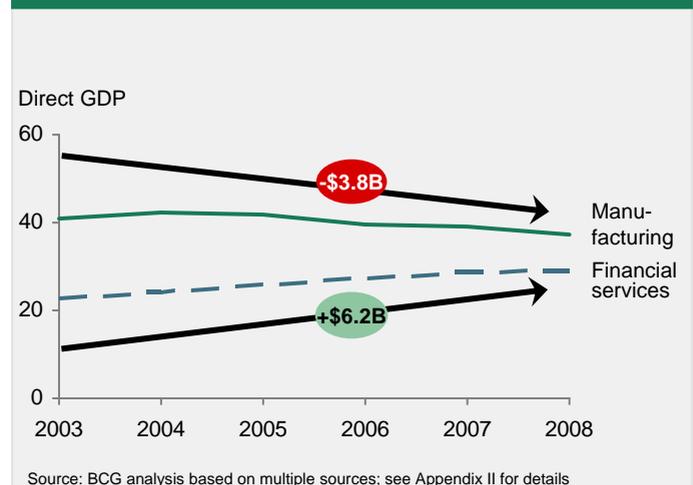


Figure 2
Toronto region financial services and manufacturing direct GDP from 2003 to 2008



¹⁰ Statistics Canada labour force survey; Toronto Region defined as the Toronto Census Metropolitan Area; Financial services defined as NAICS code 52; Indirect job multiplier estimated by TD Economics
¹¹ Sick Kids Foundation
¹² United Way of Greater Toronto

into the regional economy through export or by replacing imports. Products or services in traded industries are sold across economic areas. Providers choose to locate in a particular region due to competitive advantages afforded by these locations. For example, manufacturing is almost always traded. An automotive manufacturer typically sells its goods on a world-wide basis and chooses to produce its wares in locations of its choice. It returns substantial wealth to its centre of origin through the creation of jobs and the re-investing of profits.

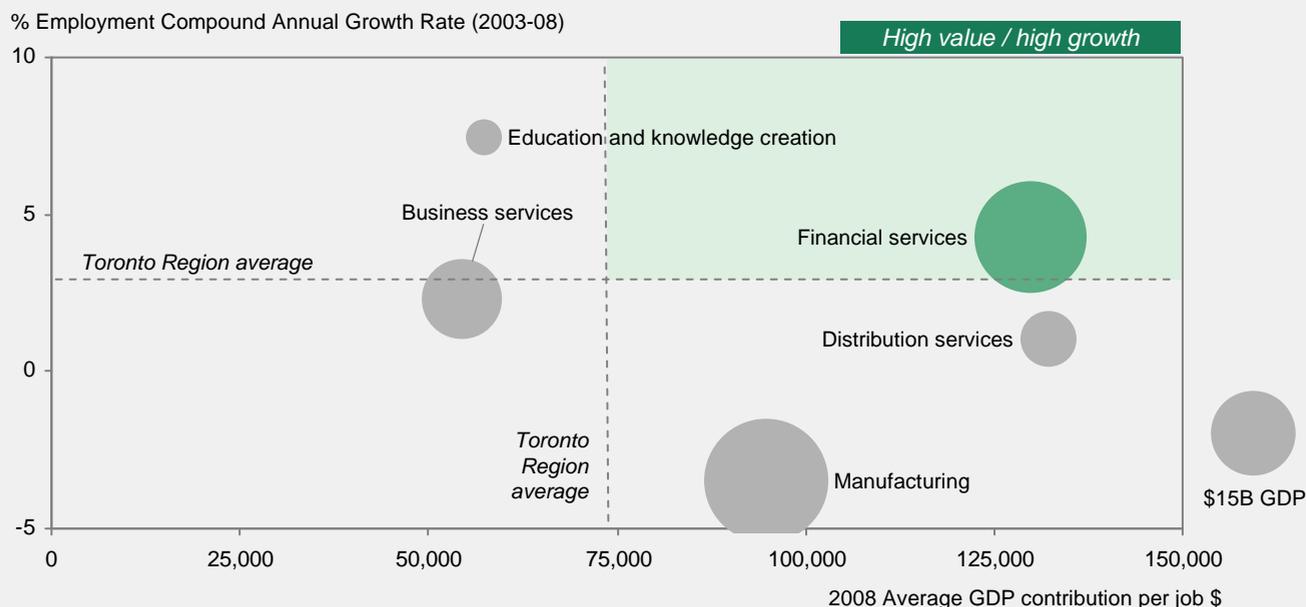
Non-traded, or "local" industries are industries that provide goods and services almost exclusively for the area in which they are located. Examples of local industries include retail stores, construction, plumbing, and local transit. Employment levels and economic impacts of local clusters are largely dependent on local market dynamics and population levels. However, jurisdictions must compete for traded industries, leveraging their competitive advantages to achieve growth not dependent on the domestic economy.^{13,14,15}

Over the past ten years, there has been a dramatic increase in the percentage of industry traded world-wide, driven by

advancements in technology, wide-spread consumer and business adoption, innovation in business models, and opening markets. Like many other industries, financial services have become increasingly traded in nature. The rise of internet and call-centre sales and service transactions, the broad adoption of business process outsourcing, major advancements in information and imaging technologies, and the drive for growth by the leaders in the sector have created a world where much of financial services is competed for on a regional, national, or global rather than local basis. Today, industry experts submit that practically all financial services activity is to some degree susceptible to traded competition.

In the 1997 report "Financial Services at the Crossroads", BCG conducted an in-depth economic analysis that showed that 55% of the GDP generated by Greater Toronto Area's financial services was traded, or competed either nationally or internationally. The report recognized that an additional 18% that was then not traded had the potential to become traded in the subsequent five years. This projected direction has proven to have held true - aside from some face-to-face advisory and physical branch banking, virtually all of Toronto's financial services are today open to some form of traded competition.

Figure 3
Top five "traded" industries economic impact indicators for the Toronto Region



Source: BCG analysis based on multiple sources; see Appendix II for details

13 Financial services at the Crossroads report by the Boston Consulting Group, 1997
 14 Harvard Business School Institute for Strategy and Competitiveness
 15 Institute for Competitiveness and Prosperity, Toronto

Within this context of increasing traded activity, the financial services industry has proven to be one of the largest, fastest growing and highest-value traded clusters in the Toronto Region [Figure 3]. Among the largest traded industries, financial services represent the only cluster that has shown above average job growth and above average GDP contribution per job in the past five years. The combination of these two factors has made financial services the most substantial engine of economic development for the region.

While the increasingly traded nature of the financial services industry creates opportunities for the region to attract incremental activity and growth, it also poses a significant threat. As traded competition increases, the Toronto Region is increasingly at risk of losing traded activity to other jurisdictions, unless competitiveness is maintained or improved. Toronto-based financial institutions face choices on an ongoing basis as to where to locate their key functions and operations. Similarly, foreign firms who have set up shop in Toronto face ongoing choices as to whether to maintain or grow these operations, or to conduct their business from other locations. As more and more functions become commonly traded, technologies further enable remote business operations

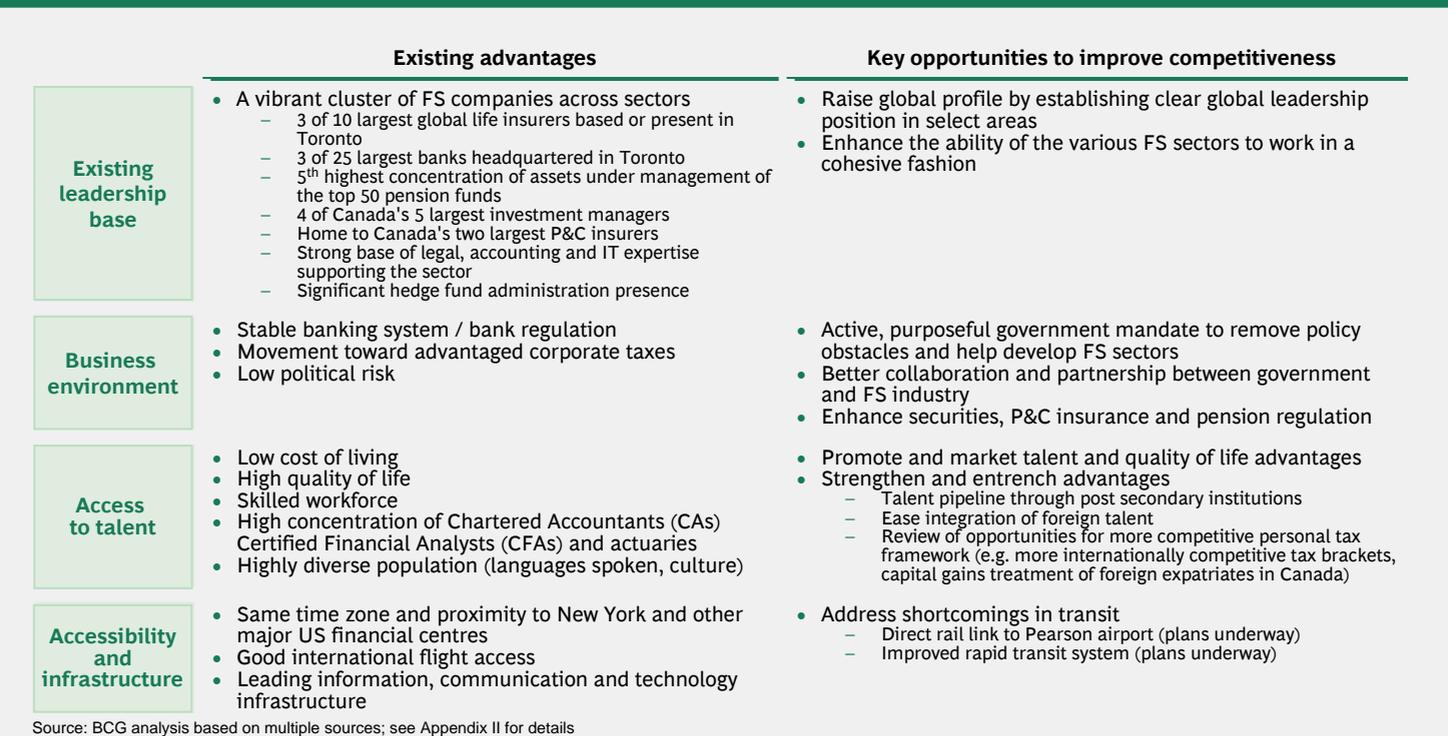
and other cities develop competitive platforms and incentives, it becomes even more imperative for the Toronto Region to compete to keep or acquire these jobs. This will require both leveraging Toronto's unique competitive advantages such as its talented workforce, and ensuring competitiveness on dimensions such as taxation and infrastructure.

REALIZING TORONTO'S POTENTIAL: THEMES FOR ACTION

The relative strengths and weaknesses of the Toronto Region have been described in detail in multiple reports, studies and rankings. Overall, it is clear that the Toronto Region has several merits and has a well-deserved place among international cities as an attractive place to conduct financial services business.

Figure 4 summarizes areas of existing advantage as well as the key opportunities to enhance competitiveness. This summary is based on a thorough review of the existing data and sources as well as a synthesized perspective of financial services industry leaders as to which criteria matter most for global competitiveness.

Figure 4
Assessment of Toronto vs. Top 10 financial centres



The comparison set for this summary is the top ten global financial centres as ranked by the March 2009 GFCI index (London, New York, Singapore, Hong Kong, Zurich, Geneva, Chicago, Frankfurt, Boston, and Dublin).

Relative to this notable set of important global cities, the Toronto Region has multiple strengths to leverage and is well positioned to rise higher in the ranks. Several cities have succeeded in purposefully enhancing their competitiveness and stimulating greater FS activity through proactive and targeted strategies. Several success factors have been identified and should be leveraged (see sidebar on "Lessons Learned from other International Financial Centres"). For the Toronto Region, enhancing competitiveness will require focused strategies targeted both at leveraging our strengths and addressing the key gaps noted. Three *themes for action* emerge.

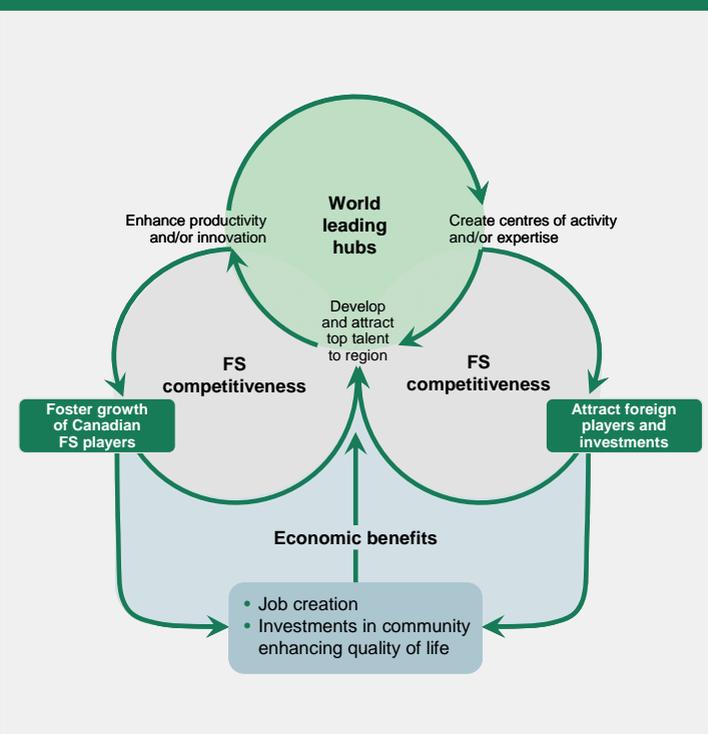
THEME 1:

Build Leading Hubs. While the Toronto Region is home to several globally well respected financial institutions, today the region is not widely recognized as the world leader in any specific area. Recognition and profile for leadership globally has been raised as an important gap by industry leaders, particularly as it pertains to being able to attract the top tier of global financial services talent. While the region's strongest financial institutions have steadily improved their brand recognition and respect globally, too often it remains a long and difficult process to convince a top-caliber financial professional that Toronto is a destination on the global scene.

To bridge this gap, Toronto Region must identify and claim leadership - i.e. be seen as #1, 2 or 3 in the world - in one or more areas. Hubs play a crucial role in globally competitive financial services centres. For almost all major international financial services centres that have succeeded in raising their global competitiveness, establishing a world-class hub of specific expertise or activity was fundamental to the strategy. Hubs attract activity, investment and talent to the region, which in turn foster enhanced productivity and innovation. These in turn serve to reinforce and strengthen the hub.

Establishing world-leading hubs of activity and/or expertise in Toronto will be the core driver of enhancing global competitiveness. Particularly for regions whose economies are small on a global scale, competitiveness stems from the ability to take a disproportionate share of global activity in specific areas.

Figure 5
Effects of creating hubs of FS expertise and activity



Ultimately, the global competitiveness of the Toronto Region will be gauged by two key barometers:

- The global success of Toronto-based financial services companies (i.e. their share of internationally traded activity), and
- The amount of foreign activity and investment attracted to the Toronto Region

Both these barometers feed off the productivity, innovation and talent in the region created through specialized hubs. The virtuous cycle of hub effects, financial services competitiveness and economic benefits is illustrated in Figure 5.

Enhancing the Toronto Region's competitiveness will require focused strategies and proactive, coordinated efforts of both government and industry to grow the highest potential hubs of activity.

THEME 2:

Align for Success. Canada is generally recognized as having a sound and healthy regulatory environment. There is a stable economy, a sound banking system, sound payments and securities clearing and settlement systems, low risk of

disruption and corporate taxes are progressing towards levels that are amongst the lowest of the top global financial centres¹⁶. However, to create an environment that truly fosters the success of financial services in the region, governments must play a more active, purposeful role in partnership with the industry to alleviate key obstacles and drive industry growth. In all other major international financial centres, governments have recognized financial services as a priority for economic development and have focused dedicated efforts to create strategies and policies to help grow the industry. They have proactively engaged in dialogue and partnership with industry leaders, and aggressively promoted the region's advantages to the rest of the world. Historically this has been a gap, as governments have long looked to the manufacturing and particularly automotive sectors in Ontario as the poster children of economic development. Any attention to the FS industry has primarily been focused on regulating it.

Addressing this gap, by aligning governments and industry leaders in a shared growth agenda, represents a major opportunity to enhance competitiveness. There has been notable recent positive momentum in this direction from provincial, federal and civic orders of government. The recommendations of this report are aimed at capitalizing on this momentum and catalyzing further action.

THEME 3:

Fortify competitive foundations. Aside from building leading hubs in select sectors and aligning governments and industry to drive a growth agenda, it is important that Toronto continues to build upon and entrench foundational elements that make the region competitive. This includes continual review and upgrades to policies, ensuring world class levels of infrastructure, and maintaining a robust pipeline of talent which today represents the region's biggest advantage.

* * *

Global competitiveness in financial services is an imperative for the region. *Building leading hubs, Aligning for success and Fortifying competitive foundations* are the broad actions that will enable the Toronto region to mobilize for global advantage. Global advantage will help to retain and attract greater share of international financial services activity and investments to the region — but it is also necessary to defend and enhance platforms for sustained success and growth of Toronto-based financial institutions. These companies create jobs, GDP and other benefits critical for the region's economy. Strengthening the conditions for Toronto-based financial institutions to compete and thrive internationally should be a top priority for the region as more financial services become traded internationally.

Building world-class hubs will attract the world's finest financial services professionals to the region, nurturing the talent pool, stimulating innovation and increasing productivity for local players. Greater alignment and partnership between governments and industry will have a profound and vital impact on the ability of the sector to productively engage and act on issues relevant for growth. Enhancing the underlying business environment — through policies, infrastructure and talent — is critical to ensure the Toronto region remains attractive as a location for financial institutions.

Specific initiatives to *Build Leading Hubs, Align for Success and Fortify Competitive Foundations* are recommended in the next section.

Lessons learned from other international financial centres

	Key lessons	Selected examples
Leverage inherent advantages	Leverage existing qualities favourable to financial centre growth <ul style="list-style-type: none"> E.g., proximity to market, existing talent pool, stability, non-financial services economic strengths 	 Singapore: stable country with close proximity to the Asian market  Boston: surrounded by globally leading universities
Establish areas of focus	Develop specific areas or niches for strategic focus for international leadership <ul style="list-style-type: none"> Few financial centres can lead across multiple major dimensions 	 Zurich/Geneva: Global leaders in private banking  Chicago: leader in commodities trading
Build competitive foundations	Consciously invest in ways to create a more favourable business environment <ul style="list-style-type: none"> E.g., regulatory simplification, quality of life, tax incentives 	 Dublin: Zero tax rate and turnkey solution to establish operations  Singapore: financial incentives to attract international asset managers
Apply top-down governance to execute strategy	Deploy governance model including strong coordination among gov't entities and with industry, ensure a clear and comprehensive mandate to execute strategy	 London: Industry-gov't partnership (IFSL) leads international FS efforts  Dublin: Strategy originally driven out of the Prime Minister's office

Source: BCG analysis based on multiple sources; see appendix for details

16 KPMG Corporate and Indirect Tax Survey; Government of Ontario

A Strategy To Enhance Competitiveness

Figure 6 outlines the nine initiatives that make up the proposed strategy for Toronto Region to enhance global competitiveness. The initiatives are focused on the three themes for action emerging from the assessment of Toronto's current strengths and areas for improvement, *Build leading hubs*, *Align for success*, and *Fortify competitive foundations*.

First Theme for Action: BUILD LEADING HUBS

In order to raise Toronto's profile globally as a recognized world leader, it is imperative to identify the areas where there is existing or potential competitive advantage and legitimate claim to a global leadership position. Focused strategies must be put in place to strengthen and promote these positions and actively create world-class hubs. Over twenty potential opportunities for leadership surfaced through the course of the

analysis and interviews, and these were each strategically evaluated. The fundamental question that was sought to be answered through the assessment was: "Can the Toronto Region reasonably aspire to claim and sustain number 1, 2 or 3 leadership positions in the world in this area?" Primarily two strategic criteria were used in the assessment:

Advantage: An assessment of the ability for Toronto Region to realize a defensible competitive advantage globally. This includes factors such as: starting position - i.e. existence of current leaders or strong players; differentiated advantage based on factors unique to Toronto (e.g. location, talent, expertise, etc.); few existing strongly advantaged global competitors.

Figure 6
Toronto Financial Services Strategy

Build leading hubs

Integrative Risk Management Institute

Energy, mining and metals financing and trading

Retirement financing

Growth of skilled FS activity clusters

Align for success

Designated Government functions focused on FS growth

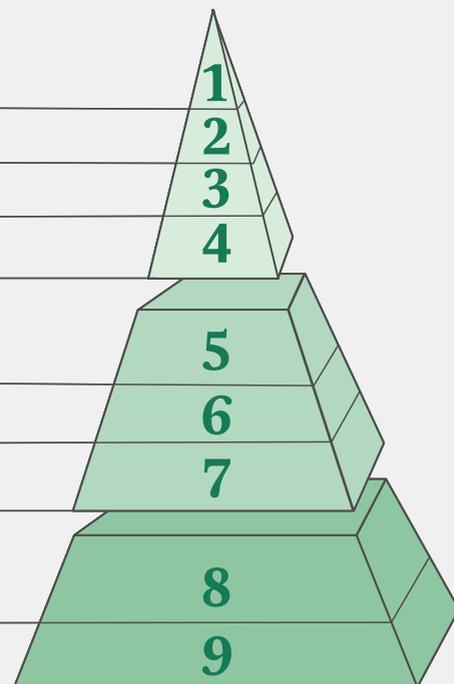
Industry-Government Partnership

Concerted promotion of Toronto Financial services

Fortify competitive foundations

Enhance business environment

Entrench talent advantage



Actionability: An assessment of the ability for governments or industry to drive a clear actionable agenda to increase the Toronto Region's position. This includes factors such as: the evidence of clear actions that would help accelerate development; existing momentum and consistency with the region's socio-political framework; degree of self-determination - i.e. limited external dependencies or barriers to overcome.

The list of key opportunities considered, assessment criteria and prioritization analysis are further described in Figures 7 and 8.

Four key areas emerged through the analysis as the top opportunities for Toronto Region to Build Leading Hubs: Integrative Risk Management Institute; Energy, Mining and Metals Financing; Retirement Financing; and Skilled Financial Services Activity Clusters. Together these represent the core initiatives for the Toronto Region Financial Services Strategy.

A second cluster of important latent opportunities emerged through the analysis. These are areas where Toronto has some latent competitive premise, but the ability to establish a world leading hub in the next 3-5 years is limited by current

conditions. These include Infrastructure finance, Carbon finance, Private equity, and Venture Capital. Each of these areas has the potential to finance highly valuable future industries for the region. It is therefore recommended that governments and industry leaders continue to seek ways to develop the Toronto Region's capabilities in these areas (see Appendix I: Other Latent Opportunities for Toronto Financial Services).

The four top opportunities to Build Leading Hubs in the Toronto Region are described in the following section.

Figure 7
Many ideas identified and assessed against objectives

Many potential opportunities identified

- Establish the leading global centre for integrative risk management
- Entrench Toronto's position as a leading global hub for energy, mining, and metals trading and financial activity
- Become the global leader for financial management for retirement
- Grow skilled FS activity clusters
- Establish hub for infrastructure finance
- Create a vibrant venture capital industry
- Enhance private equity activity
- Build a carbon economic hub
- Create a clearing house for derivatives
- Establish a global regulatory body in Toronto
- Become an international wealth management destination
- Become a North American leader in infrastructure finance
- Become a North American Islamic finance centre
- Become a centre of excellence for financial services technology
- Become a leading centre for offshore operations
- Become a leading global custodian centre
- Export expertise in environmental risk assessment
- Lead the market in fixed income product innovation and a more secure securitization market
- Build international centre of legal and accounting expertise for financial services
- Create a number of utilities for banks and insurance companies and export
- Create a multi-lingual multi-currency common core banking platform for Canadian FIs

Opportunities prioritized using assessment criteria

Key question

Can the Toronto Region reasonably aspire to claim and sustain number 1, 2 or 3 leadership position in the world in this area, and in doing so impact the overall objectives of the strategy:

- Create more financial services jobs in the Toronto region
- Increase the industry's GDP contribution and overall economic impact
- Enhance the conditions for domestic financial services players to grow and succeed internationally
- Attract international investment and financial services to the Toronto region

Two key assessment criteria

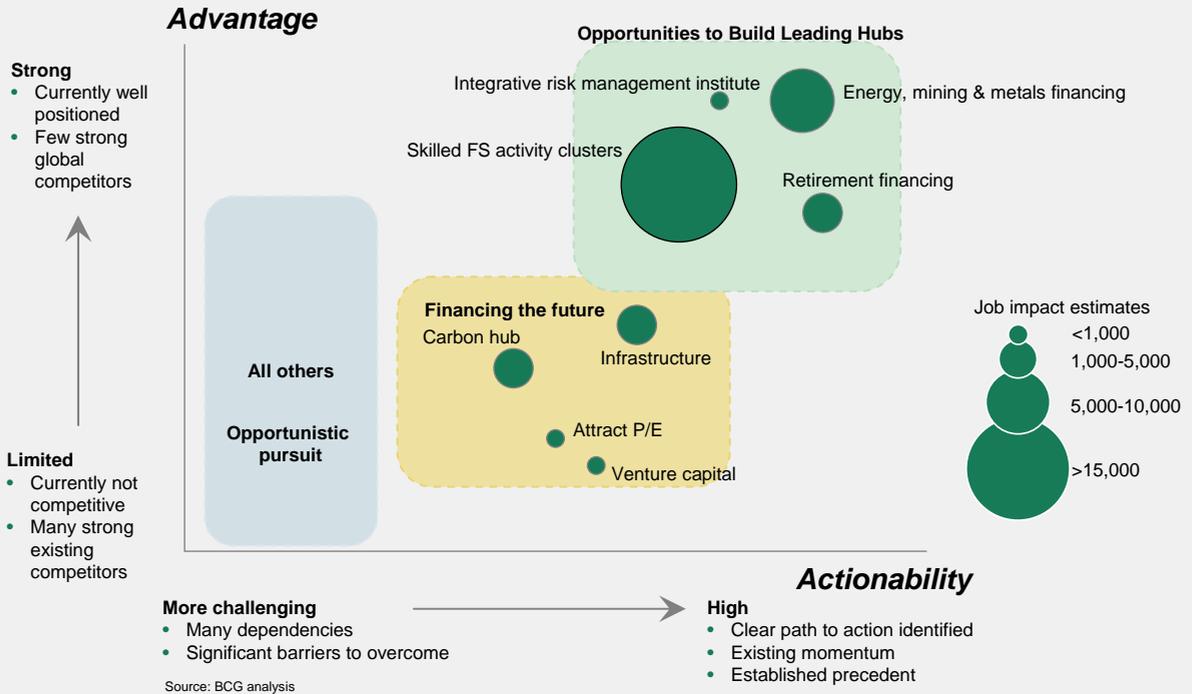
Advantage

- Is Toronto currently competitively positioned globally?
- Does Toronto have competitive strengths to leverage to increase global position?
- Are there existing global competitor regions that are strongly advantaged and well established?

Actionability

- Are there clear actions that can be undertaken by governments or industry to enhance the Toronto region's global position?
- Are potential actions consistent with existing momentum and socio-political framework?
- Are there significant dependencies or barriers to overcome?

Figure 8
Opportunity assessment summary



1 Establish the leading global institute for integrative risk management

The financial crisis has raised to the surface a critical need for governments, regulators and financial services managers world-wide to re-evaluate how they recognize, analyze and manage risk. That re-evaluation is occurring at multiple levels – from choices managers make based on metrics and information from quantitative models; to the accountability and incentive models at top levels of firm governance; to the understanding of susceptibility to systemic risks inherent in an economy.

The March 2009 G20 Working Group Report called for the Financial Stability Board to play a central role in the global coordination of a set of changes required to reform the regulatory framework of the financial sector¹⁷. Aside from establishing and operating a new globally agreed regulatory process, governments, risk experts and industry practitioners alike see a need for an ongoing globally coordinated effort for forward-looking thinking and research, international dialogue, dissemination and education on best practices and leading edge ideas.

There is a unique and timely opportunity for Toronto and Canada more broadly to play a major role in this emerging global risk management arena, particularly as a centre for leading edge research and education. Such a body can stand separate from the global regulatory body, with a focus on developing ideas at the forefront of salient issues faced by industry and governments, and unencumbered by the mandate for negotiating and enforcing standards.

A novel model for an institute is proposed, designed to serve a distinct need emerging in the world financial services forum. The focus of such an institute would be to provide integrative thinking across multiple risk management disciplines, including (but not limited to) regulation, governance, actuarial science, asset and liability management, leadership behaviour and accountability. The institute would function both as the world's leading think tank (i.e. conduct, commission and publish leading edge research; convene global conferences), as well as a destination for education and training (for academics, industry managers, executives, boards of governors, and regulators).

Canada and the Toronto Region in particular are uniquely well suited to act as a location for such a centre for several reasons:

• **Concentration of well-respected industry leaders**

Toronto houses the headquarters of globally well respected banks, insurance companies, pension funds, and a major global exchange. There is a concentration of executives who can actively participate in identifying issues salient to the industry and setting the institute's agenda. In particular, the Toronto-based banks have been recognized for their sound risk management practices, and the participation of key Canadian financial services executives would be a significant asset for the Institute.

• **Recognition of the Canadian regulatory framework as a model around the world**

An institute housed in Canada would have added credibility drawn from the recognition of the soundness of our own practices and expertise. Participation of our regulators in guiding the agenda for the Institute would be a unique asset.

• **International accessibility**

Key to establishing a globally recognized centre of excellence is the ability to draw international expertise and to host international conferences and training missions. The Toronto Region's international accessibility is an important advantage, as is Toronto's high quality of life in attracting top international experts.

• **Existence of a strong academic and expert community**

A Canadian institute could draw upon several academic institutions with expertise in a variety of risk management disciplines. In addition, the Institute should draw upon the leadership and contributions of a number of Canadian experts and practitioners who have been widely recognized for the significant roles they have played in the recent global dialogue.

The proposed model for an International Institute for Integrative Risk Management leverages each of the advantages listed above. An independent institute housed in Toronto is recommended, governed and managed by a joint board composed of members from industry, academic institutions and regulators.

Such an institute would have a large virtual component, led by a small, high-calibre permanent staff and leverage the offerings, physical settings and faculty of member institutions. It would drive an independent research and academic agenda, fund independent research and academic chairs, and provide focused executive and regulatory education.

¹⁷ <http://www.londonsummit.gov.uk/en/summit-aims/communique-explanation/>

Benefits of the International Institute for Integrative Risk Management would accrue to the Toronto Region and to Canada more broadly. While the number of direct jobs created through this strategic initiative would be limited (academic and administrative jobs), the establishment of a clear global centre of excellence in integrative risk management would significantly raise the profile of the Toronto Region and Canada on the global scene, and as such create significant indirect benefits. These include increasing our ability to attract and retain top international talent to Toronto in all financial services fields; the ability for Canadian financial services firms to recruit talent with superior risk management qualifications; supporting the attraction of foreign investment and financial services activity; generation of spillover effects in retail and hospitality industries from hosting international conferences and forums.

2 Entrench our position as the leading global hub for energy, mining, and metals trading and financial activity

Natural resources have long been tied to the development of the Canadian economy. Our geological richness in metals, oil and gas has led historically to the presence of strong Canadian enterprises in these fields, which in turn has spawned a vibrant pool of expertise related to the financing and development of these industries.

In spite of recent takeovers that have seen some of Canada's most esteemed mining players bought by foreign interests, Canada remains home to a distinguished pool of mining, metals and energy expertise. The world's largest annual mining industry conference is hosted by the Prospectors and Developers Association of Canada in Toronto. In 2009, the conference attracted over 18,000 participants from 120 countries with more than 550 exhibiting companies¹⁸. The TSX and TSX Venture exchange (TSXV) list approximately 55% of all global publicly traded mining companies. The Toronto Stock Exchange is also the leading exchange for energy companies; 43% of the world's publicly traded energy companies are listed on the TSX and TSXV¹⁹.

The world-leading concentration of the expertise required to finance mining, metals and energy companies has developed in Canada, housed both in Toronto and Calgary. An estimated 7,000 financial services jobs in Canada - including investment bankers, research analysts, traders, corporate lending, other support functions and professional

services - exist to support the mining and metals and energy sectors²⁰. The majority of these are highly-skilled, high-value jobs.

While our current positioning is strong, there is a significant opportunity to enhance and entrench our position as the world leading hub for mining, metals and energy financing. Entrenching this position requires attracting more listings to the TSX and TSX Venture Exchange. Listings on the exchanges drive offerings and issues that in turn drive local corporate finance activity, legal and tax advice, research, trading and investment activity.

Government can play a vital role in attracting international listings and investment. Senior political leaders are able to create access to foreign business leaders for Canadian firms in a way not possible for an individual company. We recommend a focused effort to promote Canada as a centre for resource finance and attract listings and investment. These promotion efforts must be strategically coordinated amongst leaders of the exchange, governments and other industry sectors (e.g. investment bankers, accountants) and should market both the strength of the exchange as well as the multiple advantages of the deep sector expertise resident in Toronto and Calgary.

The ambitious objective of achieving 70% market share of global energy, mining and metals listings by 2015 is proposed. Meeting this milestone will create high-value jobs in Canada, both in financial services and within resource companies themselves as many companies set up incremental infrastructure to manage investor relations and other corporate activity. Toronto's expertise and scale in resource financing and an investor base that drives liquidity position Toronto and Canada very well to capitalize on this opportunity. There is a particular window of opportunity to promote the strength of the TMX in light of the weakening of competitor exchanges around the world, most notably London's AIM exchange.

An increase in activity will drive additional hub effects - i.e. attracting additional international financial services firms to locate in Toronto Region and generate incremental activity. The exchange is a vital asset in Toronto whose importance spans beyond resources. Other opportunities - growing cleantech, physical and venture trading to name a few - are potential areas of future growth.

¹⁸ Prospectors and Developers Association of Canada (PDAC)

¹⁹ TMX Group

²⁰ BCG Analysis based on industry interviews, annual reports, TMX data, Bloomberg

3 Become a global leader in retirement financing solutions

By 2030 more than 1 billion of the earth's inhabitants will be over the age of 65²¹. The aging population in most developed nations will create a range of challenges, not the least of which is funding retirements and ensuring financial security for retirees. This will put tremendous pressure on both public and private pension plans and other retirement savings vehicles. Nations around the world including Canada are grappling with the policy and fiscal implications of this issue.

The issues of pension coverage and retirement income security have been an important focus area for federal and provincial governments in Canada in recent months. The Ontario Finance Minister has raised this as a priority issue for Ontario on several occasions. The Finance Ministers have held discussions on this topic in May and July of 2009. At the Council of the Federation in August 2009, the Premiers called on the Finance Ministers to provide options for consideration at the Finance Ministers' meeting in December of this year.

Several research efforts and working groups have been launched leading to the recent Pension Commission Reports by Alberta/British Columbia, Ontario and Nova Scotia. While important recommendations and actions are currently being considered, there remain significant and broad questions about retirement financing that merit more dialogue and innovation. Many have called for a holistic Canadian strategy that articulates the principles of our retirement system and clearly prescribes the role of each of the retirement income pillars (government assistance – i.e., Old Age Security, Guaranteed Income Supplement; public pension plans - i.e., CPP and QPP; and registered private pension plans and personal savings). It is clear that whatever this strategy may be, the third pillar of registered private pension plans and personal savings will continue to play an important role. There remain several opportunities to enhance use, efficiency and effectiveness of this pillar to support job growth and additional investment.

The Toronto Region in particular is uniquely positioned to stand tall and take the lead in proposing policies and actions addressing these opportunities. **The Toronto Region houses a unique and synergistic presence of important players and thought leaders across a variety of relevant retirement financing fields:**

- **World-recognized pension management and expertise.** Toronto is home to 3 of the world's 50 largest pension funds²². Toronto's large pension funds have a reputation

world-wide for excellent governance, risk management and innovative approaches to pension asset management.

- **Leading-edge thinking and research on pension management.**

Toronto is home to the International Centre for Pension Management (ICPM), a global institute at the Rotman School of Management that has been building a unique positioning in the world as a centre of expertise and forward-looking thinking in pension management.

- **Global strength in life insurance and presence of several asset managers.**

Three of the world's largest life insurance companies are based in or have major operations in Toronto. In addition, Toronto is home to an impressive cadre of competitive banks and asset managers who are active players in the field of creating solutions for the retiring population.

- **Leadership in actuarial science.**

The Toronto Region's academic institutions - notably the University of Waterloo, the University of Toronto, York University and the University of Western Ontario - are recognized leaders in the field of Actuarial Science²³.

This is an opportune time to leverage these distinct Toronto Region strengths to create a world-leading hub of expertise in the field of retirement financing. There is momentum building among governments to engage in new strategies and policies to address the challenges. In Toronto, the breadth and strength of financial services players and the resident expertise and talent base create unique fertile ground to develop essential ideas for optimizing use, efficiency and effectiveness of registered private pension plans and personal savings. At the same time, as leading-edge ideas and a new robust framework develops, there is significant potential for Toronto-based FS firms to develop new and innovative services and offerings and participate in so-far untapped growth, both at home and potentially internationally. Two actions are proposed:

- a) **A public-private partnership should be launched to develop a set of recommendations, policy proposals and action plans that will optimize use, efficiency and effectiveness of registered private pension plans and personal savings.** While significant study has been undertaken recently to evaluate pension and retirement issues, the private sector – i.e. firms that are engaged in creating and distributing investment, savings and protection solutions to Canadians – have had limited involvement in the dialogue to date. The proposed

21 Why Population Aging Matters - A Global Perspective - report by the National Institute on Aging, National Institutes of Health, U.S. Department of Health and Human Services and U.S. Department of State
22 Global market data; P&I/Watson Wyatt World 300
23 Industry interviews; Toronto Region universities combined for >10% of global citations in High-impact journals from 1991-2009. Source: ISI Expanded Science Citation Index

partnership should be comprised of two working groups charged with evaluating two distinct sets of questions.

The first working group should explore issues related to private/voluntary savings and address the following questions:

- What additional policy will encourage segments of the population to invest for retirement?
- What can be done by governments and wealth managers to enhance financial literacy (building on recommendations from the Government of Canada's Task Force on Financial Literacy)?
- What are the shortcomings of current retirement savings/investment/insurance offerings for individuals, and what government/industry actions and innovations are needed to help optimize these offerings?
- How can financial services companies realize the untapped opportunities for growth by better serving retirement financing needs of individuals?

The second working group should explore ways to enhance the overall efficiency and effectiveness of Canada's private registered pension plans. There is a compelling opportunity for many of Canada's thousands of smaller funds to leverage the scale and capabilities afforded by the world-class providers that operate in the Toronto Region (e.g. direct investing; asset management; governance; administration).

In addition to this opportunity, the group should leverage the findings of the various recent studies to propose provider innovations in pension models that will address noted issues (including under-funding, liabilities, solvency amongst others) and enable further effectiveness. Enhancing the efficiency and effectiveness of Canada's pension system will enable access to greater opportunities for pension managers and ultimately yield benefits to all contributors.

A partnership involving experts, government representatives and industry representatives from all relevant financial services sectors (asset managers, investment managers, insurers, pension managers) is proposed to develop a concrete set of recommendations.

While coalescing stakeholders across these groups can be a challenge, the potential and effectiveness of this approach is evidenced through the recent progress among Toronto-based stakeholders to complete this Toronto Region FS Strategy as part of the Toronto Financial Services Working Group.

- (b) Toronto should continue to be developed as the leading centre of pension management research and expertise world-wide.** The mandate of ICPM to continue to establish itself internationally and remain at the forefront of the thinking on pension management issues should continue to be supported both by industry and government, as an important core of retirement financing expertise in the city.

The benefits of establishing a world-leading hub of expertise for retirement financing in the Toronto Region would be significant and far-reaching. Benefits to the population in terms of securing retirement funding and alleviating the burden on tax-payers are clear. Establishing a hub of expertise in this field would attract international talent and activity to the region. Proactively driving innovation and productivity in the field of retirement management will create platforms for growth both domestically and internationally for Toronto Region-based banks, asset managers and insurance companies. Ultimately, as the Toronto Region and players establish themselves as the centre of leading edge practices, there is an opportunity to increasingly attract investments of foreign wealth to the region.

4 Grow Skilled FS Activity Clusters

As financial services have become increasingly traded in nature, many activities are being performed in locations distant from customers and from the headquarters of the provider firms. Jurisdictions from around the world - from Dublin, to Bangalore to Omaha - are competing to house FS activities based on distinct advantages, either inherent or proactively created.

Over the past ten years, numerous foreign financial services companies have selected the Toronto Region as the location for highly skilled support, administration and servicing operations. The range of activities and functions is broad, from fund administration, to asset and liability processing, to expert servicing for high-value clients to production support for front-office sales. The activities have potential to apply across all financial services sectors including banking, insurance, and asset management [see Figure 9]. One of the most prevalent areas today is in administration for alternative asset management firms (e.g. hedge fund administration). In this area alone, foreign companies have established an estimated 1,500+ jobs in the Toronto Region²⁴.

Until now, companies who have located their operations in the Toronto Region have done so primarily based on their own internal analyses comparing the region to other location candidates, often without the benefit of proactive organized

marketing. Toronto has fared well in the internal analyses of these firms based on a set of distinct advantages:

- **Access to skilled talent**

The Toronto Region has a very competitive financial services talent pool. Toronto has a higher percentage of post-secondary graduates than New York or Chicago and is on par with Boston²⁵. There are three universities and four colleges in the City of Toronto, and an additional 16 publicly funded universities and 20 publicly funded colleges in Ontario all serving the Toronto market. The Toronto Region is home to more than 7,000 Chartered Financial Analysts (CFAs), the second highest concentration of CFAs in any city, after New York²⁶.

- **Quality of life**

The Toronto Region's quality of life makes it an attractive place to recruit and retain a base of high quality skilled employees.

- **Diversity of languages spoken**

Over one hundred languages are spoken in the Toronto Region; in addition to English, ten of these languages are each spoken by over 100,000 people.²⁷

- **Proximity and shared time zone with major U.S. markets**

A shared time zone with New York-based exchanges and major U.S. markets advantages the Toronto Region for North American operations as compared to several other international destinations.

Figure 9
Selected examples of skilled FS activity clusters that could be located in the Toronto Region

	<u>Retail Banking</u>	<u>Commercial Banking</u>	<u>Capital Markets</u>	<u>Wealth / Asset Management</u>	<u>Insurance</u>
Back office	<ul style="list-style-type: none"> • Fraud management • Multi-lingual servicing • Credit decision • Mortgage underwriting 	<ul style="list-style-type: none"> • Financial spreading/ forecasting • Portfolio analytics 	<ul style="list-style-type: none"> • Fund admin • Risk analytics • Credit analysis • Equity analysis • Economics research • Pitch book preparation 	<ul style="list-style-type: none"> • Fund admin • Fund accounting • Performance analytics • Portfolio execution support • Asset management • Web/phone channel customer service/sales 	<ul style="list-style-type: none"> • Risk mgmt. analytics • Premium calculation • Claim adjudication • Fraud analysis • Statistical risk calculation • Web/phone channel customer service/sales
Middle office	<ul style="list-style-type: none"> • Legal reviews • Web/phone channel customer service/sales 				
Front office					

24 KPMG: A Tax Primer for Fund Administrators; industry interviews
 25 Talent Matters
 26 Toronto CFA Society
 27 Statistics Canada

- **Easy international access**

Toronto Region is easily accessible from most major North American and international locations through Pearson International and Toronto City center airports.²⁸

- **Strong communications and technology sector**

The region's excellent availability of technology and communications specialists provides an important foundation needed for most technology-based financial services activities.

- **Stability and low risk of disasters**

The Toronto Region's stable business environment and low risk of natural disasters are important assets when compared to traditional alternative locations for offshore operations (e.g. risk of hurricanes in Caribbean).

- **Cost of doing business**

While factor costs are not a primary basis of competitive advantage for the Toronto Region, the region does have a highly competitive cost of doing business relative to many other major financial centres.²⁹

Taken together, these advantages position Toronto Region as a strong contender as a destination for highly skilled financial service activities, for both international and domestic firms.

Most jurisdictions that are globally competitive in building international FS activity clusters have deployed concerted efforts to create attractive incentives and promote their regions externally. **There is a significant opportunity to grow the base of FS operations in the Toronto Region and create a leading hub of activity through a proactive and strategic effort.**

The following actions are recommended to capitalize on this opportunity, building on existing efforts underway today:

- **Establish a coordinated effort amongst orders of government.**

Identify key accountabilities within governments; manage coordination effectively in terms of roles and responsibilities.

- **Develop a focused set of messages and playbook articulating the advantages of the region targeted explicitly at attracting financial services firms.**

- **Identify list of priority target companies - both international and Canadian firms.**

There are various attractive prospects to pursue. There is a distinct opportunity to leverage Canada's extensive

expatriate network specifically targeting decision makers in foreign firms already inclined towards the Toronto Region. Toronto-based firms seeking to grow or consolidate their operations as they expand should be targeted with a compelling case to keep and/or grow those operations in the region.

- **Create a turnkey process for establishing operations in the Toronto Region.**

Remove obstacles and issues that make setting up in Toronto difficult by creating a rapid way to process permits, paperwork and fulfill any legal requirements, for example:

- Provide assistance with tax issues
- Explore opportunities to provide temporary (or permanent) facilities at low cost
- Provide assistance with recruitment and identification of talent to fill necessary positions
- Ensure seamless entry and transition of international talent

- **Evaluate economic case for providing targeted financial incentives**

There are significant benefits to be gained from this strategic initiative. Attracting foreign financial service companies to the region will create direct jobs, as well as ancillary jobs through the services required for these operations (e.g. audit, legal, maintenance, etc.).

If Canadian firms are convinced to consolidate or build operations in the Toronto Region, this will both defend against loss of jobs and create new jobs for the region. The magnitude of job creation potential driven by this initiative is significant, but it is dependent on focused, proactive execution.

* * *

Potential impact: build leading hubs

Together these four priority opportunities to establish leading global hubs are projected to drive significant benefit and economic impact for the Toronto Region. High level estimates suggest a potential increase of 25,000-40,000 direct and indirect jobs and \$4-5 billion annual incremental GDP over a five year time horizon. These impacts are summarized in Figure 10 on the next page.

²⁸ <http://www.cvent.com/destination-guide/toronto/transportation.shtml>

²⁹ Every other city in the GFCI top 10 international financial centre rankings is more expensive than Toronto (except Boston which was not analyzed) according to a UBS report released August 22, 2009

Figure 10
FS strategy will create jobs and benefit the Toronto Region

Leading Hub	Est. Direct Job Creation	Other benefits
1. Global Integrative Risk Management Institute	<250 jobs	<ul style="list-style-type: none"> • Raise Toronto's international profile and solidify Canada's reputation as a stable financial centre • Bolster the research of risk management and define best practices for both policy and industry practice • Increase risk management talent base
2. Energy, mining and metals trading hub	4,000 – 6,000	<ul style="list-style-type: none"> • Enhance Canada's resource sector • Attract international investors and capital • Create jobs in other professional services
3. Expert hub for financial management for retirement	TBD*	<ul style="list-style-type: none"> • Raise Toronto's profile • Attract international experts • Secure retirement income for Canada's aging population • Foster creation of innovative products that can be exported
4. Growth of skilled FS activity clusters	10,000-20,000	<ul style="list-style-type: none"> • Create jobs in other professional services and technology

	New Jobs	Annual GDP
Direct Impact	15,000-25,000 jobs	\$3-3.5 B
Indirect Impact	10,000-15,000 jobs	\$1-1.5B
Total	25,000-40,000 jobs	\$4-5B

* Will depend on further analysis by recommended public – private partnership
Source: BCG analysis based on multiple sources; see appendix for details

Second Theme for Action

ALIGN FOR SUCCESS

Proactive, aligned and focused efforts led by governments and industry leaders have been critical for most successful international financial centres. Three recommendations are proposed:

5 Designate a dedicated function within governments to work with industry to resolve issues and facilitate growth

A stark difference between Toronto and other jurisdictions where financial services are a major contributor to the economy is the role played by government. For most international financial centres, governments play a dual role of both regulating the sector and supporting its growth and development. In Singapore both these roles fall under the same body, the Monetary Authority of Singapore. In other jurisdictions the roles are housed in separate agencies or departments.

Historically in Canada, the focus of both federal and provincial governments has been on regulating the financial services sector. Other sectors - for example manufacturing, agriculture, tourism, media and film, oil and gas - have had an economic development agenda within different orders of government.

Currently in all orders of government there is an openness and willingness to expand the agenda to include financial services as a greater component of economic development strategy. There are several indicators of recent momentum in this direction including: a Federal Finance Minister-led trade mission to China in August 2009 focused on promoting the Canadian financial services sector; capital tax and corporate tax reforms by the Province of Ontario that will significantly benefit the sector; creation of a "Centre of Excellence in Financial Services Education" to help maintain and build the Toronto Region's financial services talent pool; publicly stated intent of City of Toronto's Invest Toronto to grow financial services as a top priority³⁰.

It is recommended that each order of government designate functions with dedicated resources to actively work on an agenda to support economic development of the financial services industry. These functions should be distinct from the regulatory functions within government, and their explicit mandate should be to support growth of the industry. This mandate should include:

- Drive efforts to promote the industry internationally and attract international investment
- Develop policy that supports industry growth, competitiveness and innovation; create a more streamlined, clear process to address key policy issues and dialogue with industry
- Continue to invest in building the talent base required to fulfill the needs of the industry
- Publicly support and champion the industry at the highest political levels

Coordination between various orders of government and different government departments is often a challenge. Successful international financial centres have managed this coordination through a clear governance structure and by ownership and accountability for success by senior elected officials.

Role of Governments

"In the past, the predominant focus of the Federal and Provincial Governments has been to regulate the financial services industry. This has to go hand-in-hand with economic development. The industry's important role in the economy has long been taken for granted."

"If any one of Toronto's major financial institutions relocated it would be a devastating blow; but nothing is being done to encourage us to stay."

"It has felt like the importance of this sector was not recognized [by governments] up until the economic meltdown."

- Industry Executives

³⁰ National Post, June 19, 2009

6 Establish a government-industry partnership body to own and drive the Financial Services strategy

Execution of the strategy to raise the Toronto Region's position as a global financial centre will require pulling a mix of levers by both governments and financial services companies. Common goals and a vision shared by governments and industry are essential, as well as a coordinated and collaborative approach to implementation. An independent partnership body involving government participation and industry membership is recommended as the most effective structure to drive this coordinated strategy for the Toronto Region. The best known example of such a partnership structure is in London, England — the International Financial Services London (IFSL) (see sidebar).

An alternative model to execute a financial services sector strategy for a region would be for the government to play the lead role in defining and executing the strategy, while actively soliciting input and participation of industry heads. This type of model has worked well for regions such as Singapore, Dubai and Dublin. However in the Toronto Region, given the importance and strength of our domestically-based financial services players, the historically limited government

engagement in developing the industry and the need going forward for significantly enhanced communication and understanding, a fuller partnership structure is recommended.

A need for such an industry-government partnership body was recognized in the Toronto Region in 2001 and the Toronto Financial Services Alliance (TFSA) was created with the mandate of actively promoting and advocating for growth of the financial services industry as a North American centre. This group has members from about 40 Toronto-based financial services companies, academic institutions, industry associations and professional services firms and has been supported by the City of Toronto since inception and more recently, provincial and federal governments. It operates with two part time staff and focuses mainly on advocating on behalf of the industry on policy issues and on initiating studies to serve the industry. In order to drive the focused and coordinated effort required to seriously change Toronto Region's global competitiveness, a partnership body with dedicated resources with high calibre strategy implementation, marketing and business analysis capabilities is required. A recommendation of this report is to build on the TFSA partnership to be able to fulfill the mandate of executing the strategy on behalf of its industry and government constituents.

Overview of International Financial Services London

Overview

- **International Financial Services London (IFSL) focuses on promoting UK's financial services industry globally, influencing trade policy and regulation and publishing research on the sector**

Resources

- **IFSL employs approximately 24 people and is led by a former senior British diplomat**

Funding

- **50% from its >100 members**
- **33% from the Bank of England**
- **17% from the City of London**

Board of Directors

- **Chair: Senior industry executive**
- **Senior industry leaders (7 positions)**
- **Government: UK (3 positions), City of London (2 positions)**
- **Industry associations: British Bankers Association (1 position), Association of British Insurers (1 position)**

7 Actively execute a campaign to promote and market Toronto Region and the financial services strategy

Nearly all other important global financial centres are being aggressively promoted and marketed as such internationally. The Toronto Region has a unique set of strengths and advantages that make the region attractive for international investments and talent - however the region's story is not well known and is generally undersold internationally.

A concerted, proactive international marketing and promotion strategy for Toronto as a global financial centre is needed, building on existing efforts.

This would include:

- **Coordination across orders of government to drive a proactive effort.** Willingness of senior government officials to play a lead role is essential.
- **Collaboration between industry leaders and government for execution.**
- **Focused messages that clearly convey the many benefits Toronto Region has to offer.**
- **A marketing strategy specifically focused on attracting investment and creating jobs.**
- **A prioritized list of companies and regions to target.**
An understanding of the needs of each company - and the development of customized pitches.
- **A defined set of marketing and promotion actions.**
Campaigns supported by impact-based metrics that define success.

Promotion

"Toronto has a lot to offer - we do not tell the world."

"Toronto needs a focused, coherent marketing strategy. What we have today is not enough."

"If all of us in Toronto were selling with a focused message, we would have a big impact."

- Industry Executives

Third Theme for Action FORTIFY COMPETITIVE FOUNDATIONS

In concert with executing strategies to drive leadership positions in advantaged areas, industry and government leaders must also work together more proactively to recognize and build on the foundational elements of competitiveness for the region. These represent the table stakes for competing in a global league, and the areas highlighted below represent both areas of disadvantage that need to be addressed as well as competitive strengths that need to be defended and fortified rather than taken for granted.

8 Enhance the environment for business

Two major opportunities to address areas of disadvantage in the Toronto Region business environment surfaced in the interviews with industry leaders.

- (a) **Address key policy obstacles.** A central theme consistently conveyed by industry leaders speaks to the existence of multiple specific rules and regulations that impede companies' ability to execute growth strategies. Examples of these policies were cited from every sector and have been compiled for governments to consider. A key concern was the difficulty companies face in dealing with the multiple government agencies to effectuate a change to these policies. With the creation of dedicated government functions mandated to help resolve issues central to sector growth, the future process for addressing these issues should be streamlined, more direct and much improved. **An additional recommendation of this report is to launch immediate efforts within the respective Provincial and Federal governments to evaluate the specific policy obstacles cited through this study, and to work with industry associations and leaders to drive to both quick wins and develop longer-term action plans.**

An important example that was cited by a majority of executives is the resolution of the outstanding issue of fragmented securities regulation. Canada is the only major industrialized country without some form of a national securities regulator. This patchwork arrangement puts this country at a competitive disadvantage internationally and makes doing business in domestic markets more complicated and more expensive for all participants. A

single regulator will enhance Canada's competitiveness in global capital markets and make capital market regulation more consistent and efficient across the country. A common regulator will also facilitate enhanced compliance and enforcement which will reinforce Canada's otherwise strong reputation for excellence in financial regulation. The federal government has made an important step in the creation of the Securities Regulator Transition Office, supported by many provinces. Given the proportion of securities activity that occurs in Toronto, the need to work actively with industry players and the expertise required to prudently regulate activity, there is a strong and compelling rationale for a Canadian securities regulator to be headquartered in Toronto with presence across the country.

Another important example of a policy obstacle widely cited by industry executives and contained in the Annex relates to the harmonization of sales tax. The move to harmonization by Ontario and BC presents an important opportunity to undertake a review of the treatment of financial services under the federal GST rules. The rules governing the application of the GST to financial services were put in place in 1990 when the GST was first implemented. Since then, business models and processes have changed, and important advances have been made in other countries on how to treat financial services under value-added taxes that could be beneficial in Canada. As the question is complex and impacts financial services sectors in different ways, a multi-stakeholder review should be considered, with representation from various FS industry sectors and both federal and provincial governments. An improved sales tax regime will enhance the efficiency of the financial industry and strengthen Toronto's competitiveness. By virtue of its agreement to harmonize, Ontario now has a voice in the sales tax policy issue and should take the opportunity to support and participate in such a review.

(b) Improve transit infrastructure. One of the most prevalent frustrations voiced by industry executives regarding the Toronto Region's competitiveness as a global financial centre relates to lack of world-class transit infrastructure. Lack of high-speed transit options between Pearson airport and the downtown core was cited as a main concern, and a reason not to hold important meetings or locate key functions in the region.³¹

Improving Transit Infrastructure

"The single biggest black eye on Toronto is our public transit system."

"The island airport is an incredible asset...but we absolutely need a direct rail link to the Pearson airport."

"We should be massively investing in transportation infrastructure now — it would change the face of the city forever."

- Industry Executives

9 Entrench and build on talent advantage

The existence of a deep, educated, multi-lingual talent base is the critical strength and source of competitive advantage for Toronto Region as a global financial services centre. It forms the underlying premise of the strategic initiative identified to grow Toronto Region's Financial Services skilled activity clusters. In order to maintain and enhance this advantage, we must continue to invest in and grow our talent base.

The needs and proposed tactics for continuing to develop the region's financial services talent pool have been discussed in the "Talent Matters" report (2007) and Centre of Excellence in Financial Services Education and Innovation (CoE) proposal (2009) both commissioned by the Toronto Financial Services Alliance³².

The CoE aims to act as a catalyst for sector-wide collaboration to strengthen the industry's talent pool by performing several key functions:

- **Acting as a research and information aggregator**
- **Facilitating collaboration between financial services employers and educators to enhance the quality and focus of educational offerings**

- **Creating a cross-sector voice focused on building talent**
- **Attracting top local and global talent to the industry by partnering with local organizations to undertake local and international marketing campaigns**

The CoE will include an advisory board with representatives from industry, academia and government³³.

Another important opportunity related to building our talent base relates to enhancing the ease of integration of international talent to the Toronto Region. Today, financial services professionals looking to locate in Toronto often face significant challenges in navigating the disparate organizations and administrative processes to secure the right to work and live in Canada. A special office focused on streamlining the process for international FS talent entering Ontario is recommended. This "FS Talent Office" would provide a targeted service to help qualified financial services professionals and their families enter and integrate into Ontario. It would provide a single point of navigation and guidance on issues related to a move into the region - e.g. taxation, personal finance (setting up bank accounts), housing, school systems, etc. Such a service would significantly support efforts of Canadian financial services firms in recruiting and on-boarding top international talent. Timing is particularly opportune for the Toronto Region to build on its attractiveness for top-tier financial services professionals as entry into the United States is becoming increasingly difficult.

³¹ Industry interviews

³² A copy of the report is available at: <http://www.tfsa.ca/coe/index.php>.

³³ Centre of Excellence in Financial Services Education and Innovation, February 18, 2009 - Deloitte



Moving Forward: A Call for Partnership and Action

SEIZING THE OPPORTUNITY

There is a powerful case for a focused agenda to enhance the Toronto Region's global competitiveness as a financial centre. This study has shown that Toronto has a strong competitive premise in several distinct areas. In the absence of an explicit agenda this potential will remain untapped, the benefits to the economy will be under-realized, and the risk of losing existing business will be increased.

The current timing is particularly compelling. The global financial crisis has put Canada and Toronto under a temporary spotlight of attention which is sure to wane unless purposefully seized. The Region's economy needs the financial services engine more than ever. Importantly, this study has taken place through the combined will and participation of three governments and multiple financial services industry stakeholders. Momentum for a continued concerted effort is building, and is key for taking action.

Stakeholders consulted in this process all agree - the most significant challenges in moving the needle on Toronto's global competitiveness will be in execution.

Key challenges are summarized below:

- Focus: Identification of the highest priority areas to focus efforts, and most important messages to promote globally
- Unified leadership: Direction agreed and committed to by leaders both in government (all orders) and industry -i.e. "singing from the same song sheet"
- Coordination: Initiatives and action plans that are managed and coordinated across the multiple stakeholders and governments
- Measurement of and accountability for progress: explicit goals set out, progress actively monitored

An execution framework, which capitalizes on this opportunity, mitigates the noted challenges and enhances chances of success, is recommended below.

MOBILIZING FOR SUCCESS

Identifying the priority areas of focus is the explicit purpose of the Toronto Financial Services Strategy presented in the preceding pages. Taken together the opportunities to "Build leading hubs", "Fortify competitive foundations" and "Align for success" describe the highest priority opportunities for enhancing the Toronto Region's competitiveness globally. It is recommended that this strategy serve as the focal point for a concerted, structured implementation effort.

The proposed structure to govern and implement the Toronto Financial Services Strategy is depicted in Figure 11. This structure and its components have been designed explicitly to ensure unified leadership, coordination, measurement and accountability. Three key elements are described below.

1. Financial Services Leadership Council

The creation of The Toronto Region Financial Services Leadership Council, a body comprised of top Toronto-based financial services CEOs as well as senior elected officials from each of the three orders of government, is proposed. The mandate of this Council would be to set the direction, publicly champion the strategy, oversee implementation and commit resources to drive execution. This group is anticipated to convene twice a year to discuss progress towards the agenda, reconfirm alignment on the issues and provide any redirection or adjustments necessary to the implementation plans. The Council would represent the critical unified leadership front that is needed to set the priority and urgency of the strategy execution.

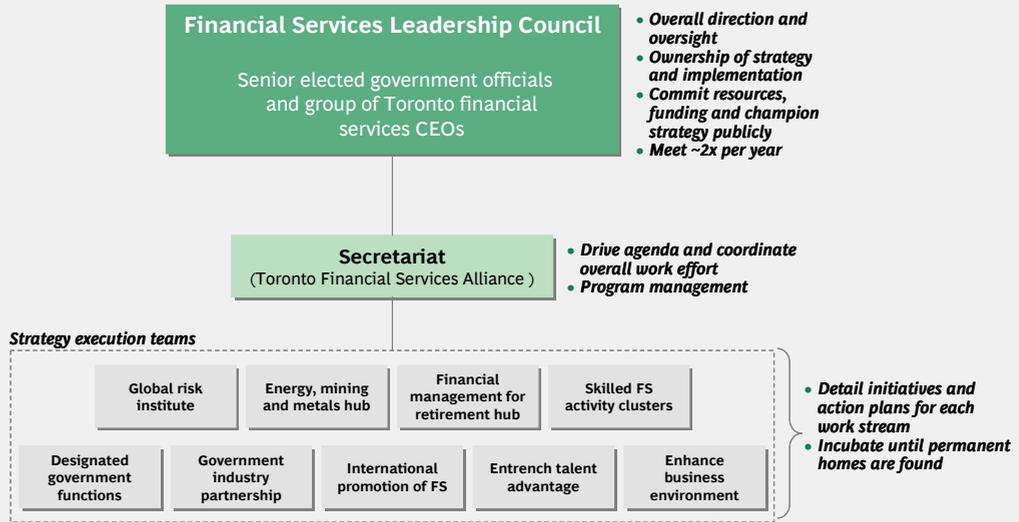
Implementation

"Implementation is everything. This cannot be allowed to get lost in government bureaucracy, or slowed down by lack of coordination across the industry contingents."

"We need a set of clear milestones that define success. If we meet the milestones, we are successful. If we don't, we aren't. There is no compromise."

- Industry Executives

Figure 11
Recommended Implementation Structure



Ultimately, this Council would hold accountability for the results of the strategy.

2. Secretariat body

Executing the multi-initiative, multi-stakeholder Toronto Region Financial Services Strategy will require a robust governance structure, execution resources and rigorous program management. Taskforces with representatives from government, industry, and the academic community will be needed to take each strategic opportunity and drive their further development and implementation. To ensure governance, coordination and program management discipline across these efforts, a secretariat body is needed. This secretariat role should be the key mandate of the government-industry partnership body recommended in this report under "Align for Success" (i.e. a rebuilt TFSA). Important functions for the secretariat would be to help launch and mandate the initiative teams, ensure coordination of actions and milestones, facilitate communication across teams and up to the Leadership Council, and to identify, resolve and/or escalate issues as they arise. Essentially this secretariat body would be accountable for managing the program execution effort on behalf of the Leadership Council.

3. Mobilizing and Measures of Success

The strategic initiatives outlined are actionable immediately and several tangible impacts and results are realizable within the near to mid-term. In order to capitalize on the current momentum and maximize yield of economic benefits, it is

recommended to concentrate immediate efforts on launching the initiative teams to develop and execute the strategies.

Critical to sustaining momentum and securing the continued engagement of the Leadership Council will be some early signs of progress and quick wins. To this end, it is recommended that concrete measures of progress and success be defined and that explicit targets and milestones be committed to by the Leadership Council, Secretariat, and initiative teams. A draft set of milestones and targets are proposed in the table on the next page - these should be reviewed, adjusted and confirmed by the Leadership and Secretariat as part of their mandate as the execution effort is launched.

Gaining early traction and demonstrating progress at the six month timeframe will be critical to build confidence and continued support and commitment of key stakeholders.

Translating the strategic areas of focus into action needs to be a priority of both the financial services industry and all three orders of government. It will take leadership, resources and focus. It will require political will from the most senior elected officials to make this initiative a top priority. It will require the collective vision and belief of industry leaders to align efforts and resources.

There is considerable support at this time within industry and all orders of government in carrying this initiative forward. It is imperative that support is turned into action, that good intentions yield real results.

Summary of Proposed Milestones

Strategic Theme	Six month milestone	Two Year Milestone	Five year milestone
1. Global integrative risk management institute	<ul style="list-style-type: none"> Program fully defined Governance and funding model defined Interim board of directors and leader in place Launched and funded by 2010 G8 summit 	<ul style="list-style-type: none"> Institute fully up and running fulfilling its mandate 	
2. Energy, mining and metals trading hub	<ul style="list-style-type: none"> A playbook for attracting listings and trading activities to Toronto Identification of a prioritized set of targets A multi-stakeholder 3-year implementation plan with key actions, roles and responsibilities of industry and each order of government Agenda for 2010 trade missions defined 	<ul style="list-style-type: none"> 60% share of global listings for energy and mining companies Corresponding increase in # of analysts covering the sector 	<ul style="list-style-type: none"> 70% share of global listings for energy and mining companies Corresponding increase in # of analysts covering the sector
3. Expert hub for financial management for retirement	<ul style="list-style-type: none"> <i>Personal savings efficiency and effectiveness</i> Multi-stakeholder industry-government partnership established and working on enhancing personal savings levers <i>Private pension efficiency and effectiveness</i> Recommended actions and policy changes identified to improve pension efficiency and effectiveness 	<ul style="list-style-type: none"> Recommended actions and policy changes identified Recommended actions and policy changes implemented 	<ul style="list-style-type: none"> Toronto established as a leading global hub for retirement income
4. Growth of skilled FS activity clusters	<ul style="list-style-type: none"> A step-by-step promotion playbook that will be used to attract investment and create jobs A prioritized list of target companies and approach to attracting investments – initial contact made Assigned leadership and resources within governments in place beginning implementation 	<ul style="list-style-type: none"> 5,000 new jobs created 	<ul style="list-style-type: none"> 15,000 new jobs created
5. Designated government functions focused on FS growth	<ul style="list-style-type: none"> Plan for dedicated resources announced with many positions filled / teams in place and functioning Roles, responsibilities and approach to coordination specified 	<ul style="list-style-type: none"> Functions in place and fully operational 	
6. Establishment of industry government partnership	<ul style="list-style-type: none"> First and second Leadership Council meeting successfully completed New TFSA structure defined and in place Memberships confirmed and resources in place Program milestones and metrics in place and tracking for strategy Identification and momentum of quick wins on policy obstacles 		
7. Promotion of Toronto financial services	<ul style="list-style-type: none"> A completed marketing strategy focused on attracting financial services activity to Toronto 	<ul style="list-style-type: none"> Marketing activity fully operational 	
8. Enhance business environment	<ul style="list-style-type: none"> Quick win policy enhancements identified and agreed on in principle with appropriate orders of government 	<ul style="list-style-type: none"> New / refined policies in-place 	
9. Entrench talent advantage	<ul style="list-style-type: none"> Centre of Excellence milestones on track Model and functions of FS Talent Office defined 	<ul style="list-style-type: none"> CoE milestones on track FS Talent Office established 	<ul style="list-style-type: none"> CoE milestones on track
Overall			<ul style="list-style-type: none"> All economic targets met Achieved status as #2 Financial centre in North America, top 10 globally

APPENDIX I:

Other Latent Opportunities for Toronto Financial Services

Multiple other opportunities for Toronto to grow its financial services activities were assessed through the course of this work. While these were not determined to be the highest priority focus areas for near to mid-term global competitiveness, several have significant potential and deserve mention and the attention of sector leaders.

Establish hub for infrastructure finance

There are several ingredients that could position the Toronto Region to become a future hub for infrastructure finance. In the coming decade, Ontario and Canada more broadly will be required to spend billions of dollars on infrastructure; projects will include investments in power generation and transmission, roads, mass transit, hospitals, schools and water systems. These projects will require financing of some form, and this prospect has already drawn the attention of several global infrastructure financiers to the region. In addition, the large Toronto-based pension funds (CPP, OTPP, OMERS) are active investors in infrastructure assets globally, and represent strong potential anchors of expertise for infrastructure investment and management.

To create a hub for infrastructure finance there would need to be a significant increase in public-private partnerships (PPPs) for infrastructure projects in the region, with partially funded debt or equity through the private sector. This would drive a range of benefits. The increase in financing expertise in the region - both among domestic firms and through the attraction of foreign players - would spawn more opportunities for needed infrastructure projects through innovative financing solutions. Infrastructure projects drive a breadth of jobs from corporate lending, investment banking, asset management, tax and legal, to engineering and construction.

Public-private partnerships have been well established in several other jurisdictions in the world, but are relatively nascent in the Toronto Region. While Toronto is currently not strongly positioned as a leading hub in this space, a continued purposeful direction towards increasing public-private partnerships could build the Toronto Region as a leading infrastructure financing hub in the near future.

Create a vibrant venture capital industry in the Toronto Region

The venture capital (VC) industry in Toronto is underdeveloped compared to leading U.S. centres in terms of access to capital, returns and overall VC activity.³⁴ The Toronto Region has a strong base of leading edge research but has been less successful in commercialization. This is an issue that has been identified many times by different constituencies beyond financial services. Governments have taken steps to resolve this issue - the Ontario Government's creation of the Ontario Venture Capital Fund is one such example.³⁵

However, more is needed in order to build a broader investor base that combines sufficient capital, a long term investment horizon and investors who have the management capability, business networks and willingness to actively support the growth and development of their investments. Targeted tax incentives aimed at investors have been employed in other jurisdictions.

A vibrant venture capital industry would create jobs in financial services by attracting international investors and creating a cluster of domestic investment companies. More important than financial services, however, are the benefits to the broader economy. Commercial success of start-ups ensure that innovation and job growth occurs in other industries where Toronto is trying to compete globally - technology, healthcare, biotech and many others.

The Toronto Region is not positioned to be a global leader in venture capital today but there is significant opportunity and upside to develop this sector further. It is recommended that creating a stronger VC industry continue to be an important part of the agenda for governments, universities and businesses.

Enhance Private Equity activity in Toronto Region

Private equity (PE) is another financial services sector that is relatively under-developed in the Toronto Region vs. leading global centres today. Proposed changes to legislation in the United States may create opportunities for the Toronto Region to attract PE firms and create an international hub.

³⁴ Industry association interviews

³⁵ <http://www.mri.gov.on.ca/english/news/VCF111407.asp>

A budget proposal introduced by United States President Barack Obama would close the so-called "carried-interest" tax loophole for PE firms and hedge funds by 2011.

Under current U.S. tax law, management fee income earned from profitable asset sales (typically 20% of profits) in PE firms and hedge funds is taxed as capital gains, which is much lower than ordinary income tax rates. The President proposes to tax these earnings at ordinary income tax rates³⁶.

Canadian tax law also treats management fees earned from profitable asset sales as capital gains and this is currently not set to change. If the U.S. proposal is enacted, PE firms funds located in Toronto would be at a significant tax advantage. Coupled with the region's other advantages of proximity to major U.S. markets, access to skilled FS talent, and high-quality of life, there is a strong premise for Toronto to become a leading destination for Private Equity activity.

If U.S. law changes, there is an opportunity for Toronto to actively seek U.S.-based PE firms to locate in the Toronto Region. This would create a cluster of very high-paying jobs in Toronto, stimulate investments in other industries, and help incubate a PE hub that could grow significantly over time.

Build a carbon economic hub in Toronto

The "carbon value chain" is continuing to evolve as markets develop, particularly in Europe. There are opportunities for value creation in carbon credit origination, adjudication, trading, fund development, pricing and the technology, accounting and legal aspects of all pieces of the value chain. Although North American trading regimes are likely to develop primarily in New York and potentially in Chicago and Montreal, Toronto can play a role in many other aspects of the carbon economy. Toronto has distinct strengths to leverage including a leading concentration of lawyers, accountants and engineers with capabilities in credit adjudication. Toronto also has more than 120 cleantech and renewable power companies listed on the Toronto Stock Exchange³⁷.

In February 2009 the Greening Greater Toronto initiative announced the creation of a Canadian emissions offset fund. The **Greening Canada Fund** will allow corporate and individual investors to offset their carbon footprints³⁸. Credits purchased will be utilized to reduce emissions of non-profit and public sector entities in Canada. This innovative fund is unique in Canada and is one prominent example of how

Toronto's expertise in finance, accounting, engineering and technology will be deployed in support of developing the Carbon economy.

Government and industry alike could choose to invest in enhancing and building capabilities in the carbon value chain through education, incentives and other policies and programs in order to build Toronto into a major North American carbon hub.

The full-fledged development of the carbon market in North America will likely not occur until a new regulatory regime is in place. In advance of new regulations, governments, along with the private sector including financial services firms, can take steps to position Toronto for success - and be ready to act when a new regulatory regime is in place.

³⁶ Reuters, April 3, 2009: US bill would boost hedge fund, private equity tax

³⁷ TMX Group; Industry interviews

³⁸ http://www.greeninggreatertoronto.ca/about_emissions.asp

APPENDIX II:

Sources and Notes for Figures and Sidebars

Chart	Assumptions, notes and sources used
Figure 1	<ul style="list-style-type: none"> • GDP multiplier estimated by TD economics (1.6) to calculate indirect effects • Utilized GDP per job data based on Ontario employment and Ontario GDP <ul style="list-style-type: none"> – Employment data source: Statistics Canada Labour Force Survey – GDP data source: Statistics Canada Table 379-0025 • Toronto Region and GTA defined as the Toronto Census Metropolitan Area (as per Statistics Canada); • Financial services employment includes NAICS code 52 (Finance and Insurance); • All GDP figures represent real GDP in chained 2002 dollars
Figure 2	<ul style="list-style-type: none"> • Utilized GDP per job data based on Ontario employment and Ontario GDP <ul style="list-style-type: none"> – Employment data source: Statistics Canada Labour Force Survey – GDP data source: Statistics Canada Table 379-0025 • Toronto Region and GTA defined as the Toronto Census Metropolitan Area (as per Statistics Canada); • Financial services employment includes NAICS code 52 (Finance and Insurance); Manufacturing includes NAICS codes 31-33 • All GDP figures represent real GDP in chained 2002 dollars
Figure 3	<ul style="list-style-type: none"> • Utilized GDP per job data based on Ontario employment and Ontario GDP <ul style="list-style-type: none"> – Employment data source: Statistics Canada Labour Force Survey – GDP data source: Statistics Canada Table 379-0025 • Toronto Region and GTA defined as the Toronto Census Metropolitan Area (as per Statistics Canada) • All GDP figures represent real GDP in chained 2002 dollars • Traded clusters approximately map to clusters defined by Michael Porter and The Harvard Institute for Strategy and Competitiveness; cluster mapping to 4 digit NAICS codes completed with assistance from the Institute for Competitiveness and Prosperity • Financial services employment includes NAICS code 52 (Finance and Insurance); Manufacturing includes NAICS codes 31-33; Business services are based on NAICS code 54; Distribution services are based on NAICS codes 411, 413, 414, 418 and GDP per job is calculated using NAICS code 41; Education and knowledge creation includes NAICS codes 6112, 6113, 50% of 6116, 6117 and GDP per job is calculated using NAICS code 6113
Figure 4	<ul style="list-style-type: none"> • Comparison conducted vs. top 10 cities as rated in the 2009 Global Financial Centres Index study; cities include London, New York, Singapore, Hong Kong, Zurich, Geneva, Chicago, Frankfurt, Boston and Dublin • Sources include KPMG corporate and indirect tax survey; Global markets data; World Economic Forum; Transit commissions of top 10 GFCI cities; Industry interviews; P&I/Watson Wyatt global 300; World stock exchanges; World Bank; Talent Matters Deoitte Report; TFSA; Institute for Competitiveness and Prosperity; Statistics Canada, Economist Intelligence Unit; Mercer Worldwide Cost of Living Survey; BCG proprietary data and analysis
Figure 9	<ul style="list-style-type: none"> • BCG experience and analysis; Industry interviews
Figure 10	<ul style="list-style-type: none"> • Risk management institute job impact estimate based on initial estimates • Energy, mining and metals estimated utilizing data from industry interviews, annual reports, TMX group and Bloomberg • Skilled FS activity clusters estimated utilizing proprietary BCG research data, industry interviews and annual reports
Sidebar Key Lessons	<ul style="list-style-type: none"> • Based on BCG experience and analysis
Sidebar IFSL	<ul style="list-style-type: none"> • Source data from IFSL, TFSA, BCG data

APPENDIX III: Consultations and Briefings Completed*

Ahmed, Riaz (TD Bank Financial Group)
Ambachtsheer, Keith (International Centre for Pension Management)
Baillie, Charles (TD Bank Financial Group)
Bean, Diane (Manulife Financial)
Bernstein, Michael (Macquarie Group)
Brindamour, Charles (Intact Insurance)
Bryant, Michael (Invest Toronto)
Campbell, Alister (Zurich)
Cameron, Mark (Prime Minister's Office)
Caplan, Mark (Bank of Canada)
Carney, Mark (Bank of Canada)
Chauvin, Mark (TD Bank Financial Group)
Clark, Ed (TD Bank Financial Group)
Comerford, Gary (RGA)
Connor, Dean (Sun Life Financial)
Cooke, George (The Dominion of Canada General Insurance Company)
Cooper, Sherry (BMO Financial Group)
Courtois, Bernard (Information Technology Association of Canada)
Courville, J-F (Manulife Financial)
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