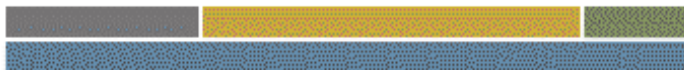




**THE REBRANDING OF THE CANADIAN  
ECONOMY**  
**Pre-Budget Submission to the House of  
Commons Standing Committee on  
Finance**

**Toronto Financial Services Alliance**

**August 13, 2010**



The Toronto Financial Services Alliance (TFSA) welcomes the opportunity to once again submit our views regarding this Pre-Budget Consultation. We are a public/private initiative representing approximately 40 major organizations involved in the financial sector with a mandate to enhance and promote the competitiveness of Toronto as a global financial services centre. This gives us a valuable perspective on the role the financial sector can play in promoting economic growth and prosperity for all of Canada.

Canada has traditionally viewed itself, and been viewed by others, as a commodities and natural resources-driven economy, with some manufacturing in central Canada. Until recently, it has not been regarded as a centre of a dynamic and internationally competitive financial services sector. Indeed, when the first Global Financial Centres Index (GFCI) was published, the authors expressed surprise that Toronto ranked as high as 12<sup>th</sup> in their global standings. But today, Canada has three cities (Toronto, Montreal and Vancouver), in the top 32 ranked global financial centres, a performance topped only by the United States and China.

We believe Canada is, and should be in the process of establishing a new brand based on financial services, with its origins in our human capital advantage, our quality of life and business environment, our risk management and sound prudential regulation and management practices.

Creating a national brand requires cooperation amongst a wide range of stakeholders. As Kevin Lynch noted recently, "The countries that project national brands globally do so in different ways, but all involve strong partnerships between government and business and often universities."<sup>1</sup> This is precisely the foundation for the TFSA's "Global Hub Strategy." Launched last year with the release of the report "Partnership in Action – Mobilizing Toronto's Financial Sector for Global Advantage", the TFSA is helping to create a new Canadian brand through the cooperation of three levels of government, a wide range of financial sector institutions, associations, professional organizations, suppliers of professional supporting services and educational institutions.

It is these initiatives that we wish to speak about in this submission. They are designed to lever the financial sector's strong global reputation for risk management, stability and soundness and to enhance its role as an engine of economic growth. Broadly speaking, these initiatives involve the creation of new institutions, engaging in cooperative ventures, creating new economic opportunities, supporting good public policy and promoting and supporting the sector.

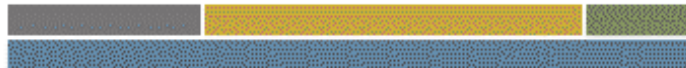
## **1. Creating New Institutions: the Global Risk Institute (GRi)**

The financial crisis has highlighted a critical need for governments, regulators and financial institutions to re-evaluate how they recognize, analyze and manage risk. There is a unique and timely opportunity for Toronto, Ontario and Canada to play a major role in this emerging global risk management arena, particularly as a centre for leading-edge, applied research and education.

To this end, the financial sector, in cooperation with the federal and provincial governments, is creating a global, integrated risk management institute. Named the Global Risk Institute (GRi), it is funded by Canada's largest financial institutions with financial support from Canada and Ontario. It will be launched in early 2011 and will focus on five key activities to build upon and enhance the existing strengths of the Canadian financial sector. It will be unique in that it will take an overall, integrative, multi-discipline approach to risk management.

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<sup>1</sup> Kevin Lynch, "Canada's brand advantage," **National Post**, June 15, 2010.



Associated with leading Canadian universities, GRi research chairs will head teams engaged in leading edge, applied research that will support the work of government policy makers and regulators, financial services risk practitioners and educators. This will enable Canadian financial institutions to employ best practices and develop talent, and will provide more broadly-based advice to regulators, helping them to more effectively manage and understand systemic risk issues.

Finally, the institute will contribute to the general understanding of integrated financial risk and risk management issues. By training university graduates, hosting international forums and conferences, and contributing to research on risk, GRi will expand the body of knowledge, Canadian specific as well as general, regarding risk issues in the financial sector and will position Canada and its financial sector as global thought leaders. Given the large economic costs associated with the recent global financial turmoil, a better understanding of financial sector risk issues will ensure that our institutions and financial system can continue to avoid such turmoil.

Ultimately the GRi will raise Toronto and Canada's reputation and profile in financial services, increase research in risk management, create a larger risk management talent pool, and enhance our influence in the global regulatory arena.

## **2. Engaging in Cooperative Ventures: Promoting Mining, Metals, Energy and Cleantech Financing Hub**

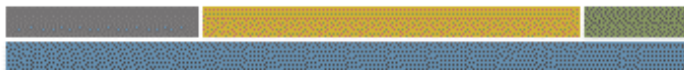
The TMX – comprising the TSX and TSX Venture Exchange – has a strong global reputation as a location to access financing for large and small resource companies looking to grow. It is the most important stock exchange for mining companies in the world, with more mining issuers listed than any other exchange, and more new listings, more financings and more equity capital raised in 2009 than any other exchange. One reason for its importance is that Canada is the only country in the G8 to have a fully developed, credible and active public equities marketplace dedicated to small cap financing. Listing and financing activity supports 7,000 financial services jobs in Canada.

While the exchange has clear strengths and a strong value proposition, there is low international recognition and thus a substantial growth opportunity to be exploited. Increasing market share of global mining, metals and energy listings will support increased jobs. A more concerted marketing approach, closely integrated with the efforts of Canada's trade and investment promotion activities will improve its visibility and reputation among investors. We encourage the federal government to work in collaboration with the TMX, the TFSA, and the provincial and city economic development departments to exploit this substantial growth opportunity.

Similarly, there are opportunities in the area of cleantech financing that the TSX and Canada's capital markets could help finance. Cleantech financing comes with a very different set of risks that do not exist in other markets; the business case for many of the products is driven by government policy decisions as opposed to pure market decisions. Consequently, participants in these markets need to understand both political and market developments, as well as the regulatory environment.

## **3. Creating New Economic Opportunities: Growing the Retirement Financing and Asset Management Hub**

The adequacy of Canadians' retirement income has recently become a major public policy concern for the federal and provincial governments. While Canada has a retirement system that overall earns high marks compared to our global peers – it was rated fourth overall by the Melbourne Mercer Pension Index in 2009 – there are concerns that demographic and labour market trends will increase the difficulty and cost for younger Canadians to save for their retirement.



Governments have responded positively to the suggestion that structured pension plans be de-linked from the employment relationship. This would enable individuals to participate in large-scale, cost efficient retirement plans even if their employer has not established a pension plan. It would enable all Canadians to enjoy the benefits of economies of scale and could enable the many subscale registered pension plans (RPPs) to be consolidated. And it would open the pension field to greater competition and innovation. All of this is important as it is estimated that Canadians will need to amass another \$400 billion in assets by 2020 to meet their retirement needs.

The delinking of structured pension plans from the employment relationship not only provides new options for individuals wishing to meet their retirement needs, it also provides new opportunities for Canada's financial institutions to develop and expand their asset management capacities which would strengthen their global stature and increase their ability to manage international assets. Canada, and the Toronto financial services cluster, already have the core strengths to be a global retirement financing and asset management hub. The combination of the largest banks, life insurance companies, pension funds and fund companies, coupled with strong leadership in actuarial sciences at the region's universities and the global thought leadership provided by the International Centre for Pension Management at the University of Toronto's Rotman School of Management, all provide the core inputs needed to create a global financing hub in this area. A change in public policy defining what constitutes an RPP could be one catalyst to do so.

Another major strength of the Canadian system is its diversification among the pillars, as recognized by Ed Whitehouse of the OECD. We strongly recommend that the Finance Committee endorse the value of the current mix of public sector, private sector and individual responsibility to prepare for retirement and support initiatives that support this diversity. In addition, retirement financing is a core strength in Canadian asset management offering additional opportunities to develop our capabilities through more focused marketing and attraction of jobs and investment. Again, we encourage the federal government to partner with the sector to do this.

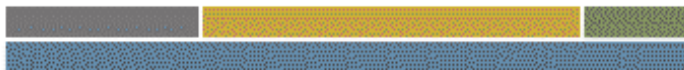
#### **4. Supporting Good Public Policy: A National Securities Regulator**

The Canadian securities industry plays a vital role in the national economy by enabling businesses to access capital and by providing investment opportunities for the Canadian public. Effective regulation of capital markets is crucial. Canada is the only major industrialized country without some form of a national securities regulator.

Moreover, the recent financial crisis made very clear that the various parts of the financial system do not operate in isolation from each other. They are closely intertwined as capital markets products can be close substitutes for many of the products offered by financial institutions. The recent crisis showed that risks spread quickly from unregulated financial firms to capital markets to regulated financial institutions and back again, within countries and internationally. A national securities regulator, working closely with other financial regulators, can play an important part in contributing to the soundness and macro prudential stability of the financial sector more generally.

In this regard, the TFSA welcomes the recent initiatives of the Canadian Securities Transition Office (CSTO) and we are very pleased to see that ten of the 13 provinces and territories are participating in its work. We hope that a year from now those jurisdictions as well as the non-participating jurisdictions will be prepared to sign memoranda of understanding with the federal government to create a Canadian Securities Regulatory Authority.

Securities regulation deals with a wide range of market participants and activities, from the investment advisor in the local community, the large investment bank, the issuer of securities, the activities of stock exchanges, and the cooperation with other financial regulators in Canada and



abroad. Some of these functions require that the regulator have a presence on the ground across the country while others require more specialized expertise and concentrated presence.

We understand that the model envisaged for the Canadian Securities Regulatory Authority is one in which the distribution of human resources across the country would largely mimic that of the existing regulatory bodies. As we noted above, there are good reasons for such a distribution of staff. But it should also be recognized that Toronto is the heart of the Canadian capital market and the home of the Toronto Stock Exchange. It is not surprising that the Ontario Securities Commission is currently the largest of the securities bodies in Canada and of the 10 participating provinces and territories in the CSTO, the OSC constitutes 60% of regulatory staff.

Toronto is also the location of the largest systemically important institutions, the largest investment banks, retail banks, life insurance companies as well as some of the largest pension plans and mutual fund companies. Consequently, there is a strong and compelling rationale for the bulk of the regulatory expertise and senior decision makers to be located in Toronto. It seems only logical, therefore, for the Toronto office to also be the headquarters.

The benefits of a national securities regulator come from the enhanced efficiency, better investor protection, and stronger capacity to deal with systemic risk. The location of the regulator's resources and expertise should contribute to those benefits and enhance its credibility.

## **5. The GST/HST Treatment of Financial Services**

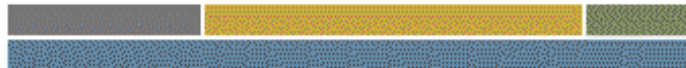
The TFSA supports an efficient tax system that supports productivity enhancement. Such a tax system is both neutral in its treatment of different sectors of the economy, different suppliers and different financial instruments and services and does not distort economic and financial decisions. Consumer decisions should be based on price and quality, not on differential tax treatment. Business decisions with respect to the way in which production is organized or the inputs that are purchased should not be distorted by the tax system.

Unlike other sectors, most services provided by the financial sector are exempt from GST, creating economic distortions that reverberate through the economy and make tax administration challenging. GST embedded in the price of financial products and services becomes a source of cascading that affects all sectors of the economy, including exports. Because GST input tax credits are not available for capital goods, their relative price is effectively higher for the sector.

Outsourced services obtained from unrelated third parties attract GST whereas services performed by in-house employees do not – which may result in many outsourced arrangements becoming uneconomic and hampering the development of clusters of specialized suppliers. In the nearly twenty years since the Canadian GST regime was implemented, financial products have evolved considerably and other countries have developed a variety of policy approaches aimed at reducing economic distortions. The recent harmonization of Ontario and British Columbia's sales taxes with the GST was a positive step for the economy overall. It is now an opportune time to undertake a broadly based review of how the GST treats financial services and we would encourage the federal government to do so, in close cooperation with the financial sector. We believe that there are opportunities to reduce economic distortions and simplify tax administration without negatively impacting tax revenues.

## **6. Promoting and Supporting the Sector: Attracting Professional Jobs and International Talent to Canada**

A focussed outreach and targeted promotional campaign that “tells the Canadian financial services story” could create an additional 15,000 professional financial sector jobs by 2015 by better



coordinating the work of the various governments involved in economic promotion, and the use of business and executive networks.

While it is of benefit to increase the number of jobs in Canada, it is also important to ensure that the requisite skills are available here. A shortage of talent in certain key parts of the financial sector has been identified, and drawing upon international talent could be a solution to the shortage. A number of barriers have, however, been identified as they relate to reliance upon Canadian and non-Canadian international talent.

Two areas of concern related to the attraction of non-Canadian international talent have been identified. These involve the recognition of international education and experience and the facilitation of approvals of visas and work permits. In both cases the problems are well known but potential employers in Canada have little control over remedies. In the case of recognition of international education, the ownership of the issue rests with the Department of Foreign Affairs and International Trade and while certain sectors such as information technology have been better prepared to facilitate the process of recognition, this is not the case as it pertains to financial services. In addition, there are long delays in processing visas and work permits and while this is recognized as a serious barrier to the attraction of talent, the causes of the delay have not been well articulated.

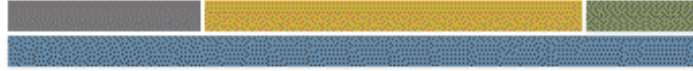
An important source of international talent for Canada consists of the ex-patriot community that has left Canada but who may be looking to return to Canada for personal or economic reasons. Repatriating Canadians to fill the need for skilled talent has several obvious advantages. These individuals tend to have credentials that are recognized in Canada, they do not need to be acclimatized to our culture, they have the needed language skills and they bring international experience with them.

The fact that employment prospects in some other countries like the United States and the United Kingdom have diminished just as prospects in Canada or within Canadian financial institutions have grown should make it easier to attract these Canadians. But focused and coordinated efforts are required by the federal government, in cooperation, with the sector, to reach out to these ex-patriots to ensure that they are aware of the growing economic opportunities back in Canada and that they can easily access the information they need to take advantage of our growing talent needs here. It is important that the financial services message be clearly conveyed in these efforts.

## **Conclusion**

The TFSA appreciates this opportunity to elaborate on how the sector is collaborating to enhance the competitiveness of the financial sector in Canada and enable it to be an engine of growth. This is an opportune time to tell the story of Canadian financial institutions and capitalize on opportunities for growth.

The TFSA welcomes the partnership we have with the Government of Canada and appreciate very much the government's support for the Global Risk Institute and its leadership, domestically as it pertains to securities regulation and internationally as it pertains to global regulatory issues. We also encourage the government to develop innovative pension arrangements that would help Canadians to better prepare for retirement while also enabling the sector to build on its expertise and capacity to undertake large-scale asset management activities, domestically and internationally. We recommend that the government move as quickly as possible in this regard.



The government has been very supportive of the sector on the international stage. We invite the government to continue to work with the sector to market the Canadian financial services brand so as to maximize the economic advantages to Canadians.

Finally we invite the government to work closely with the sector to ensure that it can act as an engine of growth, and to ensure that government policies that affect the sector achieve their objectives.