

# **2012 Ontario Pre-Budget Submission**

**Toronto Financial Services Alliance**

**March 2012**

The Toronto Financial Services Alliance (TFSA) welcomes the opportunity to submit our views regarding the 2012 Ontario Budget. We represent approximately 55 major organizations including domestic and international financial institutions, national industry associations, supporting law firms, IT specialists, accounting firms, and educational institutions.

The financial services sector is one of the largest contributors to the Ontario economy, directly accounting for approximately nine per cent of Ontario's gross domestic product while employing more than 360,000 people and supporting almost 300,000 ancillary jobs<sup>1</sup>. The TFSA's mandate and reach provides us with a valuable perspective on the role the financial sector plays in promoting economic growth and prosperity for all of Ontario, and a deep understanding of the critical success factors for the industry.

Toronto is quickly becoming a prominent global financial services centre. The city has managed to move into the top 10 of both indices responsible for reporting on global financial services centers as noted by both *The Banker* and the *Global Financial Center's Index*. A recent report by Moody's predicts that Toronto will surpass London in financial services employment by 2017<sup>2</sup>. Among its assets, Toronto currently boasts:

- Two of the 15 largest global life insurers;
- Five of the world's 50 largest banks;
- The third-largest stock exchange in North America and the eighth-largest in the world;
- Four of the top 100 global pension funds;
- Operations of seven of the top 10 largest global hedge fund administrators; and
- Four of the five largest investment management firms in Canada.

The financial services sector in Toronto is also supported by a critical mass of legal, accounting, technology, and other support services that come together to finance projects in and outside of the province, contributing to Canada's GDP across multiple sectors.

The TFSA strategy for growing the industry, involves a multi-year, multi-pronged approach that relies upon effective integration and on-going support between various government bodies and the private sector. Specific tactics include an increased focus on international marketing, shared intelligence across economic development agencies, a more targeted jobs attraction effort, the establishment of an expanded investment attraction team and a renewed focus on cross-industry policy issues.

The strategy provides direct support for those areas or hubs where it has been identified that Canada has a competitive advantage over other jurisdictions:

- Risk management;
- Metals, mining, energy and clean-tech financing;
- Retirement financing and asset management; and
- Skilled financial services IT and operations.

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<sup>1</sup> 2010 Ontario Budget

<sup>2</sup> Moody's Analytics, Regional Financial Review, November 2011

An important part of the TFSA strategy also involves the attraction of professional talent. The TFSA's Centre of Excellence in Financial Services Education (CoE) hosted "Destination Toronto" this fall in New York where more than 100 people working in New York's financial services sector came to learn about opportunities in Toronto. Also, the CoE has been singled out by the World Economic Forum as a global model for its adoption of a multi-stakeholder collaboration approach to sector development and talent mobility.

In order to deliver on all of its strategic goals, partnering with the government is critical in assisting our mandate to grow the Toronto region as a global financial services hub, thus attracting investment and more highly-skilled jobs for Ontarians. Working with a consortium of our members, we have outlined some of the key success factors for the continued growth of the industry. We look forward to working with the government on many of the issues outlined in this submission.

### **Debt Reduction and a Competitive Tax System**

An economic climate that includes sustainable public finances and a predictable tax system is an important component in creating jobs, attracting investment, and maintaining an international brand. While we do not underestimate the current challenges posed by Ontario's fiscal situation, it is important for the Province to remain vigilant in meeting its current expenditure targets and schedule for corporate tax reductions, as the Ontario market is impacted by the current uncertainty in the global economy.

At a minimum, the provincial government should adhere to its current target of a balanced budget by 2017-18 and begin lowering the debt-to-GDP ratio in the medium term fiscal plan. Moody's recent revision of Ontario's outlook noted that "*Ontario's net direct and indirect debt, at roughly 200% of consolidated revenues, was at the high end of the spectrum for Canadian provinces...and that increased fiscal discipline will be required to sustain debt affordability*".<sup>3</sup>

In addition to strong public finances, it is vital that Ontario adhere to its current tax plan to create jobs and investment. As noted by Professor Jack Mintz, Ontario's current tax plan will cut the effective tax rate on new investment by half, increase capital investment by \$47 billion and create almost 600,000 new jobs<sup>4</sup>. A competitive and stable tax advantage has been key in marketing the Toronto region as a global financial hub. Any deviation to the current tax plan will compromise that brand and damage Toronto's strong international reputation.

In addition to the current schedule for corporate income tax reductions, there are other tax issues that are having a significant impact on the sector – namely the HST and special tax incentives for international financial centres.

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<sup>3</sup> Moody's Investors Services. Global Credit Research. December 15, 2011

<sup>4</sup> 2010 Ontario Budget

While the TFSA supports the decision by the Ontario government to adopt the HST, the historical decision by the federal government to treat financial services differently from other goods and services causes significant concern. Specifically, the current structure of the HST as applied to the financial sector does not meet the tax objectives of efficiency, productivity, and neutrality. The current structure creates economic distortions that reverberate through the economy and make tax administration challenging, thus having a direct impact on growth and investment.

Secondly, other jurisdictions such as Quebec and British Columbia have been aggressive in offering targeted and generous tax incentives to attract employment to financial centres such as Montreal and Vancouver. These incentives are in addition to special federal tax incentives that are only available to Montreal and Vancouver. Toronto is clearly recognized globally as the leading financial centre in Canada and one of the top centres internationally. However, these special tax incentives may place Toronto at a comparative disadvantage and have an impact on growth and employment in the sector.

### **Recommendations:**

- The provincial government should maintain the current schedule for reducing the corporate income tax rate and, at a minimum, meet current targets for balancing the budget.
- In cooperation with the financial sector, the current HST treatment of financial services should be formally reviewed to ensure greater tax neutrality, simpler administration, reduced definitional complexity, and increased productivity and competitiveness.
- In recognition of Toronto's status as a global financial centre, the impact of provincial tax incentives for international financial centres offered by other jurisdictions should be reviewed to ensure that Toronto is treated consistently in comparison to other municipalities and thus not put at a competitive disadvantage.

### **Single Securities Regulator**

The Ontario and Federal government are to be congratulated for their strong leadership and its significant efforts to resolve this long standing issue. Unfortunately, the Supreme Court's recent decision leaves Canada as the only major developed country without a unified approach to securities regulation. The decision was a significant setback to a proposed scheme that would have delivered a workable framework. The lack of a single securities regulator puts Canada at a competitive disadvantage in a world where financial regulation is becoming more harmonized and increasingly global. The multiplicity of securities regulators in Canada and the resulting costs to businesses are tangible impediments to attracting international businesses to Canada.

## **Recommendations:**

- The Ontario and Federal government should continue their leadership and work with the provinces to establish a cooperative national securities regulatory framework.

## **Pooled Registered Pension Plans (PRPPs)**

The TFSA is supportive of federal legislation that would permit the creation of Pooled Registered Pension Plans (PRPPs) in Canada. Canada's pension system is already among the strongest in the world and the introduction of PRPPs will help to ensure that this advantage does not erode. In particular, PRPPs will offer new retirement savings options for self-employed Canadians and individuals who work for smaller companies.

Toronto's world-leading private-sector financial expertise can contribute significantly to meeting the need identified by government to provide affordable pension options for all Canadians. Canada's pension funds, the largest of which are headquartered in Toronto, and the Toronto financial sector's recognized strength in asset management have been identified among the top reasons that Toronto stands out as a global financial services hub. If implemented appropriately, PRPPs will be beneficial for both consumers and the financial industry.

The federal, provincial and territorial governments should work closely with the industry, employers, and other stakeholders to ensure that PRPPs are introduced in a way that will encourage widespread adoption, which is in the interests of all Canadians as they approach retirement age.

## **Recommendations:**

- The Provincial government should consult with the financial services sector prior to the introduction of provincial PRPP enabling legislation and should introduce it in a timely manner so Canadians may utilize this retirement tool as soon as possible.
- In order to reduce compliance costs and maximize participation, the federal government and provinces should work together to ensure uniformity, integration and portability between provinces.
- Effective protection rules for investors, employers, and providers need to be incorporated into the PRPP framework; however these rules should be flexible enough to encourage innovation, efficiency and affordability.
- The PRPP should remain a voluntary offering so that Canadians may choose to contribute to the pension or retirement savings vehicle that is best suited for their individual needs.

## **Attracting/Retaining Investment in the Financial Services Sector**

Over the past year, the Province has provided tremendous support in the efforts to promote the Toronto financial services sector internationally and attract foreign firms to invest in the Province. Among the key activities has been participation by Ontario officials in direct investment attraction initiatives, the sponsorship of very successful business missions, the on-going support for global media relations, the development of financial services sector-specific brochures, the secondment of a full-time resource to assist the TFSA, and the expansion of the International Business Development Representative (IBDR) teams in international markets.

The results of this work are starting to be seen in many areas including attracting new jobs, critical rankings that confirm that Toronto is now globally recognized as one of the global top ten financial services centres, greatly increased media coverage outside of Canada and improved attendance at Toronto events held globally.

### **Recommendations:**

In order to continue building on the momentum of the joint Ontario-TFSA marketing efforts we need to:

- Maintain and renew the funding commitment for business missions;
- Maintain and renew the funding for expanded IBDR teams;
- Continue to drive alignment between the sales efforts of the City of Toronto, DFAIT and the Province through shared intelligence gathering and reporting; and
- Ensure that the financial services sector receives adequate coverage in the Province's marketing collateral used to promote the region's competitive advantages.

### **Attracting Professional Talent**

One of the key strengths Ontario currently offers as an attraction to locate jobs here is our diverse talent base. In order to ensure that we maintain this advantage, we need to both grow the talent base domestically and work to continue to attract foreign skilled workers into Ontario.

Ensuring an on-going pipeline of talent is critical to both growing and maintaining the industry, as research has shown that there will be a shortage of talent in key parts of the financial services sector in the coming years.

To deliver on this challenge, we need to work with all levels of government to maximize our collective resources and utilize all key sources of talent.

As part of its mandate to build and maintain the talent pipeline, the TFSA established the Centre of Excellence in Financial Services Education (CoE) as a result of a 2008 Ontario Budget commitment. Funding was flowed from the Ministry of Training, Colleges and Universities and private sector funding is also now contributing.

Through collaborating with key stakeholders such as employers and educational institutions, the CoE is working to strengthen the talent pipeline for the domestic industry and is pursuing strategies to attract internationally-educated professionals.

There are significant opportunities to attract talent both domestically as well as internationally. However, there are a few barriers that need to be addressed if we are to maintain our success in this area:

- Internationally-trained individuals and career shifters have the potential to transition into work in the financial services sector; however their ability to do so is often curtailed by limited relevant workplace knowledge and access to professional networks.
- College and university graduates hold great promise for the sector. Employers have identified a broad range of technical and soft skills that are needed for in-demand roles identified by the sector. Recent graduates also identified the importance of receiving training in both technical and soft skills to build their readiness for work in the financial services sector. A more explicit and targeted approach may be needed to meet graduates and sector employer needs for these skills in the short and long-term.

### **Recommendations:**

- The Provincial government should continue to support initiatives that enable talent growth, particularly internationally-trained individuals, to transition rapidly into areas where skill shortages exist in Financial Services and dependent sectors such as Information and Communication Technology (ICT). Initiatives that include a combination of workplace preparation, mentoring and work placements are of particular value.
- Include financial services as an eligible sector/category for provincial training funding/programs such as the Second Career Program.
- The Provincial government should explore opportunities to encourage specific curricula that are focussed on the right balance of technical and soft skills development of students at the post-secondary level and provide educators with the skills/capability to deliver the appropriate training.

## **Positioning Toronto as the North American Centre for Islamic Finance**

The Islamic financing market represents a tremendous opportunity for Canada's financial sector with Islamic banking assets reaching US\$1.1 trillion in 2012, a significant jump of 33% from their 2010 level<sup>5</sup>. Toronto is well positioned to become the North American centre for Islamic finance.

Asian economies such as Malaysia and Indonesia and the countries of the Gulf Co-Operation Council (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the UAE) are at the forefront of the development of Islamic finance. Many of these jurisdictions are of strategic importance to Canada from a trade and investment standpoint, and a willingness to accommodate structures that are widely utilized in Islamic finance will facilitate attracting additional trade and investment opportunities for Canada.

Other Western jurisdictions, including the U.K., Ireland, France, Singapore and Australia have taken steps or are in the process of making changes to their respective legislative and /or regulatory frameworks to create a level playing field between conventional and Islamic finance. London, U.K has already successfully positioned itself as a global centre for Islamic finance and attracted significant investment as a result.

The TFSA has created an Islamic Finance Working Group (IFWG) and the IFWG has done some of the initial policy work to identify issues and options to level the playing field with conventional finance. There are a number of proposed changes to federal and provincial legislation that would help level the playing field, thus allowing governments and private sector participants to take full advantage of Islamic finance in Canada.

### **Recommendations:**

- In order to remove impediments and create a viable framework for Islamic Finance, the Ontario government should review possible amendments to the:
  - *Financial Administration Act* (issues related to the issuance of securities by way of sale, lease and repurchase of personal and real property);
  - *Public Lands Act* (issues related to the repurchase of public lands in the future);
  - *Proceedings Against the Crown Act* (issues related to the proceedings of various forms against property with respect to any claim against the Crown); and
  - *Land Transfer Act* (issues related to exemptions for intermediate transfers as part of Islamic finance transactions)
  
- The Government of Ontario should work with the federal government on potential complementary changes to income tax and GST/HST requirements.

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<sup>5</sup> Ernst & Young World Islamic Banking Competitiveness Report 2011



## **Conclusion**

The TFSA congratulates the Ontario government on their strong leadership in helping the Toronto region become a global financial services centre. The Ontario government has provided a strong foundation and partnership for our strategy of growing the financial services sector and attracting new investment and jobs to Ontario. The TFSA and the financial services sector continue to look forward to working closely with the provincial government to ensure a strong and global financial services sector.