

July 17th, 2017

NAFTA Consultations  
Global Affairs Canada  
Trade Negotiations — North America (TNP)  
Lester B. Pearson Building  
125 Sussex Drive  
Ottawa, Ontario  
K1A 0G2

Dear Madam/Sir,

On behalf of the Toronto Financial Services Alliance (TFSA), I would like to thank you for the opportunity to provide the attached comments on the scope of the renegotiation and modernization of the existing North American Free Trade Agreement (NAFTA) with the United States and Mexico.

NAFTA has served as a strong anchor for the Canadian economy. A total of 2.4 million Canadian jobs depend on trade with the United States and more than \$2 billion worth of goods and services crosses the border each day, while Canada and Mexico are each other's third largest trading partner.

Access to international markets increases employment, investment and competitiveness. The Government of Canada should remain committed to a strong economic relationship with its North American partners as liberalized trade and investment have significant economic benefits to the financial sector and the overall Canadian economy.

Please do not hesitate to contact me should you have any questions.

Sincerely,



Janet Ecker  
President & CEO  
Toronto Financial Services Alliance (TFSA)

## The Importance of International Trade and Investment to the Financial Sector

Canada's financial services sector is one of the most globally oriented sectors in the Canadian economy and is standing out on the international stage. A study by the C.D. Howe Institute noted Canada's comparative advantage in financial services trade and that Canada's share of the global financial services landscape, at 4.5 per cent, is now almost twice the share of Canada's GDP in the global economy, which sits at 2.5 per cent.<sup>1</sup> This is all the more remarkable given the substantial drop in the share of the value of financial services firms headquartered in other G7 economies. Other impressive statistics about the global nature of Canada's financial sector include:

- 53 per cent of Canada's stock of outward foreign direct investments (FDI) is attributable to the financial services sector, up from 46 per cent in 2005.
- Since 2001, Canadian financial services exports, as a share of total exports, increased more than two-fold. In fact, financial services are Canada's largest and fastest-growing source of services exports.<sup>2</sup>
- International assets of large Canadian banks have grown by 43 per cent since 2010.
- International assets belonging to Canada's three largest life insurers rose by 42 per cent between 2009 and 2014. Large life insurers have broadened the number of markets and business lines they participate in abroad, with 50 per cent of their total assets residing in foreign jurisdictions.<sup>3</sup>

In the North American market, the U.S. is the primary destination for Canadian financial services foreign direct investment (FDI), accounting for just under 40 per cent of the total outward stock of investments. As with FDI, the U.S. is also the number-one market for Canadian exports of financial services, accounting for 50 per cent of the total.<sup>4</sup> As noted by the Conference Board of Canada, "there are a variety of reasons for the strong growth in financial services exports to the U.S., including the need to facilitate the large volume of trade transactions between the two countries and the use of Canadian equity, debt, and derivative markets by U.S.-based businesses. Moreover, Canadian financial institutions have "followed" clients from Canada into the U.S. market to provide financing and other financial products as their customers engaged in a growing volume of international investment activities."<sup>5</sup>

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<sup>1</sup> Daniel Schwanen, Jeremy Kronick, Ramya Muthukumaran. Playing from Strength: Canada's Trade Deal Priorities for Financial Services. Commentary No. 461. C.D. Howe Institute. November 2016.

<sup>2</sup> Michael Burt. An Engine for Growth: 2016 Report Card on Canada and Toronto's Financial Services Sector. The Conference Board of Canada. November 2016.

<sup>3</sup> Schwanen.

<sup>4</sup> Burt.

<sup>5</sup> Burt.

## **The Financial Services Sector and the Modernization of NAFTA**

NAFTA has benefitted the financial markets and economies in Canada, Mexico and the United States. The agreement has facilitated increased trade, improved customer choice, allowed for the provision of more services and has fostered growth and greater cooperation among government policy makers, regulators and the financial sector.

As noted, Canadian financial institutions have been expanding their international operations. Free trade agreements such as NAFTA are an important way to address some of the challenges associated with international expansion and are an important component of Canada's international trade strategy. Thus, establishing cohesive, transparent and effective international trade rules is critical.

Canadian financial services firms are supportive of NAFTA and attempts to maintain and modernize rules in several key areas such as regulatory cooperation, e-commerce, and the temporary movement of business professionals across the borders. As the Government of Canada enters discussions on the modernization of NAFTA, below are some of the issues that are vital for the financial services sector:

- The three markets have differences in regulation and supervision but NAFTA has facilitated a vibrant mechanism for improved dialogue among regulators and has created an environment which has allowed the markets to grow and increase their competitiveness. An important component of the agreement's success has been the NAFTA Financial Services Committee. The committee provides a forum for government policy makers and regulators from Canada, Mexico and the United States to meet annually to discuss regulatory developments in their respective countries and focus on issues of concern. The NAFTA Financial Services Committee should be maintained as it has served as a valuable mechanism to resolve trade issues through consultation and education instead of lengthy and costly disputes.
- The current labour mobility provisions in NAFTA for business persons, professionals, intra-company transferees, and other groups should be expanded and strengthened. A streamlined and timely system for attracting highly-skilled workers and global talent is critical as recognized by the recent federal announcement of a new Global Skills Strategy.<sup>6</sup>
- Maintain the existing levels of openness and integration in financial services and implement mechanisms that bind future services liberalization.

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<sup>6</sup> Government of Canada launches the Global Skills Strategy. Immigration, Refugees and Citizenship Canada. June 12, 2017.

- The global economy has fundamentally transformed over the quarter century since NAFTA was signed, with the internet and related e-commerce being leading examples of technologies that were only nascent in 1993 and therefore not fully or adequately incorporated into the original agreement. Businesses of all sizes, across all sectors, rely on digital technologies and the free flow of data across borders to conduct their business and access new markets.
  - Canadian financial services firms with international operations operate on a 24/7 business model and many rely on the secure flow of data across borders for various commercial and back-office functions. The ability of companies to move business data quickly and securely across jurisdictions is vital to their international competitiveness.
  - Some of the provisions from Chapter 14 of the Electronic Commerce Chapter in the Trans-Pacific Partnership (TPP) agreement may serve as a template for the NAFTA discussions. That TPP chapter commits member states to liberalize cross-border flows of information and data, and in other ways promotes the growth of digital trade in goods and services.
  - Digital trade provisions developed with input from stakeholders in all three countries could also strengthen cooperation on critical issues such as cybersecurity.
  - Any digital trade initiatives should be premised on an appropriate protection of personal information on the basis of the legal framework applicable in each country, taking into account principles and guidelines of relevant international bodies.
- International trade and investment rules provide for a “prudential carve-out” which allow governments the flexibility to regulate the financial sector for prudential reasons.<sup>7</sup> This flexibility should remain in place as it ensures that countries have the ability to protect investors, policyholders and depositors while ensuring the sound regulation of the financial services sector.

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<sup>7</sup> The prudential carve out enables signatories to a trade agreement to adopt or maintain measures for prudential reasons. These reasons include the protection of depositors, of financial market participants or of “persons to whom a fiduciary duty is owed by a financial institution,” the safety and integrity of financial institutions and the stability of the financial system.

## **About TFSA**

The Toronto Financial Services Alliance (TFSA) is a unique, public–private partnership dedicated to growing the Toronto region’s financial services cluster and building it as a “top ten” global financial services centre. Established in 2001, TFSA is a collaboration involving three levels of government, the financial services industry and academia. Working collaboratively with industry and government, we build international awareness of the advantages offered by the Toronto region and we work with financial services companies from around the world that are exploring business opportunities in Toronto. TFSA leads an integrated strategy focusing on the areas of growth, international reputation, and competitiveness.