TFSA | TORONTO FINANCIAL SERVICES ALLIANCE

2014 Federal Pre-Budget Submission

Toronto Financial Services Alliance

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About the Toronto Financial Services Alliance (TFSA)

The Toronto Financial Services Alliance (TFSA) is a unique, public–private partnership dedicated to growing the Toronto region's financial services cluster and building it as a 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 with three main objectives:

- To set, drive, and execute cross-sector priorities for the **growth** of jobs and investment in the Toronto region financial sector;

- To promote awareness of the advantages of Toronto region's financial services sector and its importance in order to grow our domestic and **international reputation** as a global financial services hub; and

- To identify and pursue initiatives to sustain and enhance the **competitiveness** of Toronto region's financial sector as an attractive business environment and location for talent.

The financial service sector in Toronto accounts for almost 30 per cent of Canada's total financial services employment and is now the second largest financial centre in North America by employment. The sector in Toronto directly and indirectly supported more than 420,000 jobs across Canada in 2012 and generated a combined $13 billion in fiscal benefits for the Canadian, Ontario, and City of Toronto governments.[1]

The TFSA is a catalyst for collaboration between the public and private sectors. Our mandate and reach provide us with a valuable perspective on the role the financial sector plays in promoting economic growth and prosperity and a deep understanding of the critical success factors for the industry. We look forward to continuing to work with the Government on many of the issues outlined in this submission.

[1] Ensuring the Future: Understanding the Importance of Toronto's Financial Services Sector. Conference Board of Canada. November 2013.

Regulatory Environment

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

The TFSA applauds the federal government for recent initiatives such as the establishment of a cooperative securities regulator. A common regulator will foster more efficient and globally competitive capital markets, strengthen the ability to identify and manage systemic risk, provide better protection for investors, and enable Canada to speak with a single voice on international regulatory initiatives.

Currently there is still a considerable level of regulatory reform underway. While it is important to reform regulation that remains current with global requirements and enhances the financial marketplace for investors, the current pace and volume of regulatory requirements are significantly impacting the sector's capacity to assess and implement regulations adequately and properly.

In a relatively short period of time, the sector has been required to comply with regulatory changes in respect to capital and solvency requirements, liquidity rules, market structure, systemic risk, and investor protection. In addition, the financial sector is also complying with the adoption of new international and domestic tax rules and accounting standards; along with protocols and guidelines for compensation, data protection and privacy.

These changes require that industry and regulators have an opportunity to assess the longer term implications or possible unintended consequences of new requirements on areas such as job growth and capital flows.

Recommendations:

- Regulatory initiatives must be risk based and considered holistically, taking into account the potential unintended consequences and the cumulative impacts of the total regulatory environment for the economy.

- Before introducing or implementing new regulatory requirements, governments and regulators should consult with stakeholders to develop and analyze a cost-benefit analysis.

- Time must be taken to assess new regulatory requirements to ensure that longer term implications are better understood before new rules are implemented.

- New regulatory requirements must include an assessment outlining their impact on job growth and capital flows.

- Future capital, solvency and other regulatory changes should be carefully balanced against the need to provide affordable, accessible and competitive financial services products. Capital and solvency requirements should not disadvantage Canadian financial sector industries in relation to their counterparts in foreign markets.

- All Government regulations impacting the financial services sector should have a mandatory five-year review.

Fostering a Strong Economic Climate

The TFSA strongly supports the current government's ongoing commitment to strong public finances and a competitive tax environment. The government's record on fiscal management has made Canada a recognized leader on the international economic stage. Managing public finances is crucial to fostering a strong economic climate and confidence in the overall economy.

In recent years, governments have also taken important measures to improve the competitiveness of the Canadian tax system, including lowering corporate tax rates, harmonizing federal and provincial taxes, and adopting, in the case of Ontario, a single tax administrator. This tax advantage could also be strengthened by the federal government addressing the tax issues cited below.

Recommendations:

- At a minimum, the federal government should meet its current target of a balanced budget by 2015-16 and its commitment to lowering the debt-to-GDP ratio.

- The TFSA supports the decision by the Canadian and Ontario governments to harmonize the GST/HST. However, the current GST/HST treatment of financial services creates issues ranging from administrative and definitional complexity to economic distortions. The TFSA strongly supports a review of the GST with respect to financial services. The federal government should develop options that will lead to specific reforms to ensure greater tax neutrality, simpler administration, reduced definitional complexity, and increased productivity and competitiveness.

- The federal government should continue to oppose the introduction of a financial transaction tax (FTT) in Canada and actively advocate against the European Union FTT proposal on account of its extraterritorial application.

- Canada is the only major country in the world to levy a capital tax on its financial sector and the tax rate has not changed since its introduction in 1990. It is counterproductive for Canada to impose a tax that penalizes financial institutions for strengthening their capital to protect customers without taxpayer bail-outs. Eliminating, or reducing the capital tax burden to align it with the Government's reductions in the corporate income tax rate, will foster growth and strengthen Canada's financial sector.

Role of Foreign Trade and Investment in the Financial Services Sector

Doing business in international markets not only benefits the Canadian financial services sector but it also benefits the Canadian economy as a whole. Like the exports of goods, exports of financial services directly contribute to economic growth and job creation in Canada. Canada's financial industry, much of which is headquartered in Toronto, is a growing global player and many of our firms are growing their operations in international markets. Some recent statistics clearly point to the growing global nature of the sector:[2]

- Canadian exports of financial services more than doubled over the past decade. This was the best performance of any sector over this period;
- Exports account for one-quarter of sector revenues, well above the average for all service sectors;
- Canada is a major net exporter of financial services capital. Roughly half of the Canadian stock of outward foreign direct investment originates in the financial services sector. Outward foreign direct investment has risen by 70% over the last decade;
- Canadian banks and life insurers especially generate a significant portion of their revenues from their operations outside of Canada. Our five big banks have over 100 operations that span Asia, Europe, the Americas and the Caribbean. In 2012, Canadian life and health insurers held $597 billion in assets for their operations outside Canada, accounting for half of their global total while three insurance companies make the list of top 20 global insurers;[3] and
- Three major pension funds based in Toronto now have offices in cities such as New York, London, Sydney and Hong Kong and are global leaders in infrastructure projects.

Recommendations:

- The TFSA applauds recent initiatives such as the Canada-European Union Comprehensive Economic and Trade Agreement (CETA). The federal government should continue its efforts to pursue and complete international trade and investment agreements, especially in emerging markets such as Asia.

[2] Ensuring the Future: Understanding the Importance of Toronto's Financial Services Sector. Conference Board of Canada. November 2013.
[3] Canadian Life and Health Insurance Association.

Partnering With the Sector to Develop Infrastructure

Investment in infrastructure is a key driver of economic growth and job creation and is critical to maintaining a competitive advantage for any country or region. Quality infrastructure allows goods and services to get to market quickly and efficiently and raises the quality of life for all citizens, thus helping to attract the best talent from around the world.

Recently, the federal government has made significant investments such as the $53.5 billion Building Canada Plan, but a significant infrastructure deficit still remains and all governments must do more to support investments in key areas such as transportation. Also, at a time of increasing frequency and severity of extreme weather, infrastructure improvements are also a critical tool in mitigating financial costs to Canadian communities and governments.

One of the most effective ways to facilitate infrastructure is through the use of public-private partnerships (P3s). P3s benefit all participants. For instance, they limit the upfront investment required by governments by using private capital to build public infrastructure. The private sector capital is subject to substantial oversight and financial controls by lenders and investors. The public sector typically pays only when the infrastructure is available and performs, with costs essentially spread over the life of the asset. Governments are not responsible for cost overruns, delays or performance issues.

It is also important to recognize the important role played by institutional investors. The long-term nature of P3s matches the unique long-term investment needs of institutional investors, such as life insurers and pension funds, which can have investment horizons lasting more than 50 years. This, for example, allows insurers to continue to provide effective retirement saving and prudent long-term risk mitigation solutions to Canadians while the long-term revenue streams provided by P3s prudently match the nature of life insurance and pension liabilities. In this regard, insurers and pension funds have an appetite for making more infrastructure investment.

Recommendations:

- Funding long-term infrastructure investments through properly structured P3s will maximize outcomes through a combination of public-sector governance and private-sector capital and efficiency. The federal government should expand the P3 Canada Fund and thus enable increased long-term private infrastructure investments.

- All governments should work collaboratively to explore mechanisms to pool smaller projects to streamline P3 governance and create economies of scale and long-duration investments for large institutional investors. Permitting pooling of multiple small projects within larger portfolios will reduce costs, enhance market efficiencies and open more local projects for investment.

- It is critical that regulatory, tax, and accounting reforms recognize and support the unique role of long-term and institutional investors in providing funding for infrastructure and avoid any disincentives to invest.

Retirement/Pension System

Ensuring adequate levels of retirement saving is important to the future economic security of all Canadians. Canada's pension system is among the strongest in the world and its foundation has been built on effective programs such as the Canada Pension Plan, Old Age Security, Guaranteed Income Supplement, registered and individual savings plans, and workplace pension plans.

The enactment of federal legislation for Pooled Registered Pension Plans (PRPPs) was an innovative initiative aimed at enhancing our retirement system. Toronto's world-leading private-sector financial expertise can contribute significantly to meeting the need identified by government to provide affordable retirement options for all Canadians. Canadian financial institutions, 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.

When considering any potential modifications to our retirement system, it is important that the government consider and analyze the economic impact of such potential measures, how such modifications would interact with existing components of the retirement system, and any potential benefits to the overall system. It is also key that the government review other potential areas of improvement in the retirement system, as it is important that stakeholders and all levels of government work together to ensure high participation rates in all retirement savings vehicles and pension models.

Recommendations:

- When considering any potential modifications to our retirement system, it is important that the government consider and analyze the economic impact of such potential measures, how such modifications would interact with existing components of the retirement system, and any potential benefits to the overall system.

- The federal government should also work with all provinces and stakeholders on issues such as improvements to the tax rules governing Group Registered Retirement Saving Plans (GRRSPs) and other pension models, the transferability between PRPPs and Registered Retirement Saving Plans (RRSPs), incorporating advice/financial literacy in retirement savings options, and the simplification of federal/provincial pension-related administration.

Attracting Global Talent

The attraction and retention of quality professional talent plays an essential role in the competitiveness of Toronto as a global financial hub. A key advantage in attracting businesses and jobs to the Toronto region is our highly educated and diverse talent base. However, for the financial services sector to thrive and continue to grow, the talent pipeline into the sector must be streamlined as financial services have been identified as one of the major economic sectors facing a skills gap[4].

To address this challenge, we need to work with all levels of government to maximize our collective resources. As part of its mandate to enhance the talent advantage of the region, the TFSA established the Centre of Excellence in Financial Services Education (CoE) in 2009. The CoE acts as a catalyst to strengthen and expand Toronto's talent pool and elevate the region's global stature as a financial services capital. The CoE:

- Aggregates research and information on Toronto's talent and educational strengths, and identifies talent needs for the benefit of educators, employers and job seekers;

- Works with employers and educators to improve the focus and quality of education programs; and

- Encourages cross-sector dialogue on talent and education-related issues, and showcases the sector's strengths and career opportunities.

Our financial industry is becoming a truly global industry and to successfully run and grow international operations requires the availability of top talent in the region and the ability to recruit globally. It also depends on the sector's ability to bring in specialized executive talent from around the world, and to move executives from country to country for business and professional development reasons.

It is within a changing global workforce landscape that our companies need to attract individuals with unique expertise and experience. Canadian employers are committed to our country's prosperity and focus on recruiting Canadians first for jobs in the country, and use programs such as the Federal Skilled Worker Program (FSWP), the Investors' and Entrepreneurs' class, the Temporary Foreign Worker Program (TFWP) and the Provincial Nominee Program only to bring in talent when a unique expertise is not found in Canada.

However, at a time when Canadian financial companies can attract, and need to attract, specialized global executive talent, the government's recent changes and its proposals for further change to the labour market opinion process and intercompany transfers are negatively impacting the sector.

[4] The Need to Make Skills Work: The Cost of Ontario's Skills Gap. Conference Board of Canada. June 2013.

The increased competitiveness of our financial institutions locally and abroad hinges heavily on having the right talent at the right time in our global operation – and that includes Canada. Our financial industry is now a global success story for the country. We need to work collaboratively to ensure that our labour market mobilization activities proactively boost the local and global competitiveness of the region and continue to attract the "best and brightest".

Recommendations:

- The Accelerated Labour Market Opinion (LMO) process should be reinstated and the process should recognize that there are different "tiers" of roles. A fast-track process should be implemented for senior and/or niche roles, similar to the "premium processing" service offered by US Citizen and Immigration Services, which guarantees 15 calendar days for processing or fees are refunded while a case continues to receive expedited treatment.

- The requirements for employers to advertise available positions should be streamlined and more flexible.

- Enhance the National Occupational Classification (NOC) codes for the financial services sector so that you are able to identify the areas of growth for the sector and where the demand for skills is projected.

Positioning Toronto as the North American Centre for Islamic Finance

The Islamic financing market represents a significant opportunity for Canada's financial sector. The global market for Islamic financial services is estimated to have increased by 20% in 2012, to a record $1.46 billion, and could top $2 trillion in assets by the end of 2014[5].

Canada and Toronto offer many opportunities for investors in the regions where Islamic Finance is growing - a diverse population base (including a prominent and growing Canadian Muslim community), a sound economy, a stable political environment, a wealth of physical assets, traditionally strong risk management skills, and a highly effective regime of regulation and supervision.

There are also several educational ventures that are helping to develop the Islamic finance knowledge base in Canada. For example, the Rotman School of Management within the University of Toronto is a globally ranked Canadian business school and continues to provide a leadership role in Islamic finance education. It has introduced Canada's first MBA course in Islamic Finance.

The growing and strengthening economic relationship between Canada and regions such as the Gulf and parts of Asia represent an opportunity for Toronto to have a first-mover advantage and become a North American hub for Islamic Finance. For example, Sun Life Financial is one of the few North American life insurers to offer Islamic-compliant savings and insurance products.

Recently, other jurisdictions have been very proactive in attempting to establish themselves as centres for Islamic Finance. For example, the UK recently undertook several initiatives such as their government establishing a high-profile Islamic Finance Task Force, becoming the first non-Muslim nation to issue an Islamic bond ("sukuk"), creating a new Islamic index on the London Stock Exchange, and the recent hosting of the World Islamic Economic Forum.

Government and the private sector should follow the example of jurisdictions such as London and look to work cooperatively to build Canada and Toronto as a centre for Islamic Finance. Recent developments such as the development of a Canada-U.A.E strategic partnership, the Ontario Government's commitments through the *Open for Business* process, and the signing of a MOU between the TFSA and the Dubai International Financial Centre are all welcome steps, but more can be achieved.

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[5] UK Islamic Finance Secretariat (The CityUK). October 2013.

Recommendations:

- Following the example of other jurisdictions, the Ontario and federal governments should work together to build and market Toronto as the North American centre for Islamic finance.

- The Federal Department of Finance should accept the invitation of the Ontario Ministry of Finance to form a joint working group with the objective of developing specific proposals to ensure that Islamic finance (alternative finance) has a similar tax treatment to conventional financing. Before the end of 2014, the joint working group should prepare and deliver to both Ministers of Finance the relevant enabling legislation and regulations for adoption with respect to alternative finance.

Financial Services as a Priority Area

As the global economy, and in particular the financial services sector, continues to recover from the 2008 financial crisis, the Toronto region needs to continue to compete in an increasingly competitive market where other financial services centers are trying to attract global investors. Canada's effective management throughout the global crisis, its stable regulatory environment, and strong banking and insurance sector continues to be revered around the world. However it is important to identify, develop and promote other more discreet areas such as financial services technology where the Toronto region has a comparative advantage. In collaboration with its partners, TFSA has already achieved some success in convincing a growing number of financial services technology companies to consider expanding into the Toronto region; however it is important that this work continues.

Aside from business attraction, growth and retention; another important engine of growth for the Toronto region and Canada is through international trade. A key element of TFSA's growth agenda moving forward is working with partners such as the federal government to support domestic financial services companies seeking to expand into overseas markets.

It is important to note that financial services and specific areas such as financial services technology are highly mobile industries that have the ability to move jobs easily across borders at relatively short notice. It is therefore vital that the TFSA continue to work closely with various departments in the federal government in both marketing and economic development initiatives.

Recommendations:

- Financial services and specific areas such as financial services technology should continue to be a priority area in terms of government marketing and economic development initiatives.

- Continue to provide dedicated resources aimed at promoting financial services and specific areas such as financial services technology and ensure that these resources are well integrated with the marketing and economic development efforts of the provinces and regions.