



January 2019

2019 Federal Pre-Budget Submission

Toronto Finance International



Table of Contents

Toronto Finance International and the Financial Sector as an Engine of Growth	3
A Regulatory Framework that Supports Growth.....	4
Skills Development.....	5
Canada as a Hub for Sustainable Finance	6
Recommendations.....	7

Toronto Finance International and the Financial Sector as an Engine of Growth

TFI is a not-for-profit partnership between Canada's three levels of government, the Financial Services sector and academia. TFI is in a unique position to lead collective action that drives the competitiveness and growth of Toronto's Financial Services sector and establishes its prominence as a leading international financial centre.

The significant contribution of the financial sector to Canada's economy is unquestionable as the financial services sector has been a major source of growth for the Canadian economy over the past decade. The sector's employment, GDP, and international trade and investment performance all outpaced the average for all sectors. In 2017, the sector directly accounted for over 831,000 jobs and was the second largest contributor to national GDP.

The sector's contribution to exports and foreign investment is extremely impressive. Financial services are Canada's largest and fastest-growing services export category. The sector's exports have more than doubled in the past decade and were largely driven by "other financial services," which include items such as securities issuance and trading and asset management services.

The sector also accounts for about half of all of Canada's stock of outward foreign direct investment. At \$537 billion in 2017, Canada's stock of financial services outward FDI has more than doubled since 2007 and is now nearly twice as large as our inward stock. In other words, Canada is a large and growing net exporter of financial services capital.

TFI's mission is to drive the growth and competitiveness of Toronto's financial services sector and establish its prominence as a leading global financial centre and thus we look forward to continuing to work with the Government on the issues outlined in this submission.

A Regulatory Framework that Supports Growth

Developing an Innovative and Nimble Financial Regulatory System

Regulations are an essential part of protecting consumers, ensuring the health and safety of Canadians, and safeguarding the natural environment. However, regulations can accumulate, become outdated, and result in unnecessary barriers to innovation and economic growth thus impacting Canada's ability to attract investment and growth-oriented businesses. Thus, TFI is very supportive of the new steps in the Government's 2018 Fall Economic Statement to reform and modernize federal regulations, while continuing to protect Canadians' health and safety and the environment. TFI specifically supports the new measures to:

- Exploring making competitiveness a permanent part of regulatory mandates;
- Introducing an annual modernization bill to keep regulations up-to-date;
- Establishing a dedicated External Advisory Committee on Regulatory Competitiveness;
- Launching a Centre for Regulatory Innovation;
- Enhancing Government's capacity to develop and implement effective regulations; and
- Taking immediate action in response to business recommendations.

TFI also specifically welcomes the commitment that the new Advisory Committee and the Centre for Regulatory Innovation will champion the use of regulatory sandboxes and supports the concept being utilized in the federal financial regulatory framework. Many of the regulatory commitments in the Fall Economic Statement outlined above, including the use of regulatory sandboxes, should be applied to federal financial regulators and the regulatory framework for financial services.

Finally, technology-led innovation in the financial services sector (FinTech) continues to transform financial products and services, and how they are delivered to consumers. This represents a significant economic opportunity for the Canadian financial sector to establish itself as a global hub for FinTech and the Federal Government can play a leadership role. TFI applauds the Federal Government for recent changes to better enable innovation in financial services such as allowing greater flexibility for financial institutions to undertake and leverage broader FinTech activities. However, Canada continues to need a more coordinated strategy around FinTech as identified by updated research from the Competition Bureau of Canada:

“A common characteristic of successful FinTech hubs, in terms of talent, funding, government policy and consumer demand, is a unified approach to FinTech. It is easier to understand how to enter the market, when there's a one-stop shop for policy and information. Finance Canada and provincial regulators, in particular, have advanced a

number of initiatives to support changes to Canada's financial regulatory framework, but there remains no clear policy lead in Canada.”¹

As noted in an article in Policy Options last year, “to nurture coordination in the sector and incentivize innovation, Canada needs a national fintech strategy to identify trends, areas of opportunity, regulatory obstacles and challenges, and investment priorities. A distinct national fintech strategy with its own budget and strategic leadership would propel the coordination among the fintech players in Canada needed to drive the sector to become more competitive globally.”²

Lastly, the Federal Government should follow the lead of foreign markets and establish formal “FinTech Bridges” with jurisdictions such as the UK, Australia, Hong Kong, and Singapore. This would enable closer and stronger collaboration on Fintech between governments, financial regulators and the industry; and encourage Fintech firms to use the facilities and assistance available in the other jurisdiction to explore new business opportunities and reduce barriers to entry.

Skills Development

For Canadians to succeed in the global economy we need to support new and innovative approaches to skills development. To that end, the Federal Government has already invested in a number of important initiatives to enhance Canada’s future talent pool.

Investment in Students

One of the most efficient and effective ways to prepare Canada’s youth for the coming skills revolution is to embrace a national work-integrated learning (WIL) strategy - one that focuses the efforts of employers, educators and government on ensuring that 100 per cent of post-secondary students have access to a meaningful WIL opportunity before they finish school. WIL opportunities enable students to apply their skills and knowledge in the workplace and introduce young people to potential new career paths, while providing businesses with access to new talent, energy and ideas.

TFI joins the Business/Higher Education Roundtable in recommending a series of actions to make Canada the world leader in WIL, beginning with the launch of a National WIL Strategy, and the creation of a National Taskforce to implement it, with the support of federal funding.

To help achieve this goal, TFI is leading a WIL pilot in financial services, in partnership with 17 employers, and 28 post-secondary institutions across Canada.

¹ <http://www.competitionbureau.gc.ca/eic/site/cb-bc.nsf/eng/O4392.html>

² <http://policyoptions.irpp.org/magazines/august-2018/helping-canadian-fintech-reach-its-full-potential/>

Canada as a Hub for Sustainable Finance

Sustainable Finance can be defined as capital flows, risk management activities, and financial processes that assimilate environmental and social factors as a means of promoting sustainable economic growth and the long-term stability of the financial system.³

Currently there is a concerted focus by several jurisdictions to translate climate goals into transformative economic policies and practices. These jurisdictions are working with financial industries and businesses to accelerate sustainable finance in an aggressive bid to stake out a competitive standing. A number of countries have established sustainable finance strategies and initiatives including China, the EU, the UK, Italy, France, Australia, New Zealand, the Netherlands, Norway, Singapore, and Sweden. Thus, TFI applauds the Federal Government on the establishment of the Expert Panel on Sustainable Finance. The Federal Government should work with the financial sector and other stakeholders on a national strategy to develop Canada into a global hub for sustainable finance.

Globally, it is estimated that the Paris Agreement on climate change will require over \$100 trillion in global investment over the next decade. The total necessary investment for Canada in that time could be more than \$2 trillion. Thus, the financial sector has an important role to play in Canada meeting its climate change objectives. Canada has one of the healthiest financial systems in the world with a well-earned reputation for good governance, risk management, and sound regulation. This system has a critical role to play in delivering the financing ingenuity and capital flows required to execute Canada's climate change objectives. In fact, the financial sector could benefit significantly from achieving these objectives. For example, a report by TFI estimates that, by 2025, the annual revenue attributable to the sustainable finance opportunity for Canada's financial sector could be between \$27 billion and \$110 billion.⁴

TFI is also proud of its leadership role in trying to establish Canada as a hub for sustainable finance. It is important that Canada's perspective be represented in international discussions and forums on sustainable finance. Hence, TFI joined the International Network of Financial Centres for Sustainability (FC4S), which was launched in September 2017 with a vision of facilitating "...rapid global growth of green and sustainable finance across the world's financial centres, supported by strengthened international connectivity and a framework for common approaches."

TFI and the financial sector look forward to the final report of the Expert Panel on Sustainable Finance and working with the Federal Government on developing a national strategy to establish Canada as a global hub for sustainable finance.

³ http://publications.gc.ca/collections/collection_2018/eccc/En4-350-1-2018-eng.pdf

⁴ <https://tfi.ca/news/sustainable-finance-report-capitalizing-on-sustainable-finance-a-growth-opportunity-for-torontos-financial-sector>

Recommendations

1. Many of the regulatory commitments outlined in the 2018 Fall Economic Statement, including the use of regulatory sandboxes, should be applied to federal financial regulators and the regulatory framework for financial services.
2. The Federal Government should establish a clear policy lead for FinTech that can nurture coordination in the sector and incentivize innovation.
3. TFI joins the Business/Higher Education Roundtable in recommending a series of actions to make Canada the world leader in work-integrated learning (WIL), beginning with the launch of a National WIL Strategy, and the creation of a National Taskforce to implement it, with the support of federal funding.
4. TFI and the financial sector look forward to the final report of the Expert Panel on Sustainable Finance and working with the Federal Government on developing a national strategy to establish Canada as a global hub for sustainable finance.