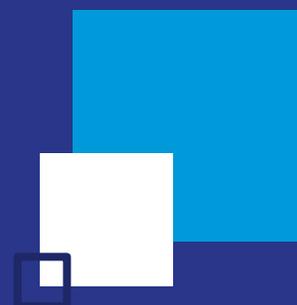


2021

Federal Budget Submission

**Presented to
The House of Commons
Standing Committee on Finance**



Toronto Finance International (TFI)
August 2020

Recommendations

Recommendation 1: The federal government should continue to work with the financial sector to support innovation, including implementing the fintech reforms that were previously announced by the federal government.

Recommendation 2: The federal government should maximize the unique potential of Canada's public capital markets to help our economy recover.

Recommendation 3: The federal government should leverage the capacity of the financial sector to support increased investments in infrastructure, including implementing reforms to allow more investment by Canadian insurers.

Recommendation 4: The federal government should continue to work with TFI and the financial sector in developing and promoting Canada's sustainable finance market, as it can play an important role in Canada's economic recovery.

About Toronto Finance International (TFI)

Toronto Finance International (TFI) is a public-private partnership between Canada's three levels of government, the financial services sector and academia. TFI's mission is to lead collective action that drives the competitiveness and growth of Toronto's financial sector and establishes its prominence as a leading international financial centre. For more information, please visit: www.tfi.ca

Introduction

TFI would like to thank the House of Commons Standing Committee on Finance for the opportunity to provide this submission on measures the federal government could take to restart the Canadian economy, as it recovers from the COVID-19 pandemic.

During the pandemic, the financial sector has played an important role by both helping to administer government support programs for Canadian individuals and businesses and by responding to relief requests from its own customers.

A few examples of the support provided by the financial sector include working with the federal government and crown corporations to provide interest-free loans and lending and loan guarantee programs for small businesses; offering mortgage payment relief to customers and payment deferrals on existing small business loans, credit cards and credit lines; cooperating with financial regulators and the central bank, and offering assistance to vulnerable customers in areas such as auto insurance.

The financial sector can also play an important role as the federal government looks to restart the Canadian economy and thus the initiatives in this submission should be given consideration. TFI would be pleased to provide further details on any of the recommendations listed in this submission.

Enhancing the Innovation Ecosystem

Recommendation 1

The federal government should continue to work with the financial sector to support innovation, including implementing the fintech reforms that were previously announced by the federal government.

Recommendation 2

The federal government should maximize the unique potential of Canada's public capital markets to help our economy recover.

Toronto's innovation ecosystem has an important role to play in supporting Canada's economic recovery. This ecosystem is underpinned by Toronto being the second largest financial sector in North America and having a technology sector that has added almost 67,000 jobs over the past five years, the second-most of any North American city in the past five years.¹ Toronto's stature as a financial and technology hub is also demonstrated by the recent decision by the Bank for International Settlements (BIS) to locate its first North American Innovation Hub in Toronto.²

Innovation is accelerated by the adoption of technology and digital processes. During the pandemic Canada's financial sector has shown its commitment towards innovation by being flexible and adaptive in terms of how it delivers products and services. Canada's six largest banks spend more than \$13 billion annually on technology (representing their second-largest and fastest-growing expense)³ while many leading Canadian financial services firms are adopting the FDX technical standards for secure financial data sharing.⁴

The federal government and regulators have also demonstrated support for financial innovation which includes the Department of Finance's ongoing review of Open Banking and the Bank of Canada's research on digital currencies.

Another important measure taken by the federal government to support financial innovation was the 2018 Budget announcement to allow greater flexibility for financial institutions to undertake and leverage broader fintech activities that enable the delivery of financial services in new and innovative ways. The financial sector welcomed this announcement but these reforms have not come into force as the regulations have not yet been finalized and passed.

The current environment has increased the need for financial institutions to adopt new technologies to enhance service delivery. Financial institutions would greatly benefit from increased flexibility to partner with and invest in fintech firms to better leverage and scale fintech innovation and talent. Thus, Canada's COVID-19 economic recovery plan should prioritize finalizing and bringing into force the fintech reforms that were announced in the

¹ <https://www.cbre.ca/en/about/media-center/torontos-tech-mentum-reaffirms-the-citys-global-status-according-to-cbres-tech-talent-report>

² <https://www.bankofcanada.ca/2020/06/bank-canada-partners-bank-international-settlements-launch-innovation-centre/>

³ <https://www.bloomberg.com/news/articles/2020-04-22/canadian-banks-71-billion-for-tech-pays-off-during-pandemic?sref=qkAxWgFr>

⁴ <https://www.newswire.ca/news-releases/leading-canadian-financial-services-firms-moving-to-adopt-the-fdx-technical-standards-for-secure-financial-data-sharing-859396367.html>

2018 Budget as this will support investment in the fintech ecosystem and the digital delivery of financial services.

Finally, in addition to the existing short-term stimulus investments, Canada's long-term recovery will require job creation through the establishment of new companies and the growth of existing Canadian firms. The public markets have played a critical role in growing many of Canada's most important and innovative companies that support our economy. The federal government expanded the Canada Emergency Wage Subsidy (CEWS) to include public companies, and any further support measures targeted at SMEs should consider maintaining this approach.

Partnering with Sector to Invest in Infrastructure

Recommendation 3

The federal government should leverage the capacity of the financial sector to support increased investments in infrastructure, including implementing reforms to allow more investment by Canadian insurers.

As Canada's economy continues to re-open, a priority for federal and provincial governments will be pivoting from programs such as income supports to investments in areas such as infrastructure.

The federal government has already taken some positive steps such as accelerating the \$2.2 billion in annual federal infrastructure funding for communities through the Gas Tax Fund. This funding will help communities quickly move forward with infrastructure projects that will improve our quality of life and help restart local economies. The financial sector also commends the federal government's other investments to date to provide much needed long-term support for public infrastructure. Effective long-term investments will benefit Canadian productivity and competitiveness and help drive economic growth.

Financing mechanisms that draw together both public and private capital are critical to funding extensive infrastructure projects that are aligned with Canada's transition to a low-emissions, climate resilient and energy efficient economy.

Canada's financial sector can be further leveraged to be a key partner with governments to get infrastructure projects built across the country. For example, with over \$780 billion in long-term investments, Canada's life and health insurance industry is already a significant investor in Canada's economy. Canadian life and health insurers have invested over \$45 billion in domestic infrastructure and have a strong desire and capacity to invest more.

The financial sector welcomed the 2018 Budget announcement that would allow life and health insurance companies to invest more in public infrastructure projects. The federal government should work with the insurance sector to enact the 2018 Budget changes as soon as possible as permitting more investment by Canadian insurers in Canadian infrastructure will potentially spur billions of dollars in investment.

Recommendation 4

The federal government should continue to work with TFI and the financial sector in developing and promoting Canada's sustainable finance market, as it can play an important role in Canada's economic recovery.

The current pandemic has helped to put a focus on economic growth and recovery that is sustainable. The financial sector has an important role to play in the transition to a low-carbon economy and sustainable or green finance plays an important role in that transition.

Sustainable finance is viewed as capital flows (as reflected in lending and investment), risk management activities (such as insurance and risk assessment), and financial processes (including disclosure, valuations, and oversight) that assimilate environmental and social factors as a means of promoting sustainable economic growth and the long-term stability of the financial system.⁵

Sustainable finance is playing an important role in the economic recovery of other jurisdictions, such as the European Union, and Canada should also embrace this opportunity. For example, the federal government could consider expanding the use of flow-through shares to spur private sector investment in areas such as Cleantech and renewable energy.

Canada's financial sector supports the transition to a sustainable economy as many Canadian financial institutions have expressed support for the final recommendations of Canada's Expert Panel on Sustainable Finance.⁶ In April of this year, a survey of Canadian institutional investors found that 74 percent believe the pandemic will have a positive impact on ESG investing (representing C\$2.3 trillion in assets under management).⁷

The federal government has also taken some positive steps in embracing sustainable finance during the pandemic. Two recent examples include requiring large companies that receive federal emergency loans to publish annual climate-related disclosure reports and the announcement by the Department of Finance and Environment and Climate Change Canada to create a private-public Sustainable Finance Action Council (SFAC). The SFAC is aimed at developing a well-functioning sustainable finance market in Canada and TFI looks forward to working with the federal government on the implementation of the Council.

⁵ <https://www.canada.ca/en/environment-climate-change/services/climate-change/expert-panel-sustainable-finance.html>

⁶ <https://www.unepfi.org/news/regions/north-america/canadian-members-of-unep-fi-sign-statement-of-support-to-the-final-report-of-the-expert-panel-on-sustainable-finance/>

⁷ https://f01c8ee6-cac3-40ff-a0e4-8bfb54f2b88b.filesusr.com/ugd/66e92b_63052dd7dad469e97dcae88e15af262.pdf