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2019 Ontario Pre-Budget Submission

Toronto Finance International



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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 Ontario's economy is unquestionable. The Toronto Region is the second largest financial centre in North America and ranks as a top- ten global financial center. The financial services sector is the second largest contributor to Ontario's GDP and a leading employer, accounting for almost 800,000 direct and indirect jobs in the Province.

The sector's contribution to exports and foreign investment is also 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. Ontario's robust financial sector continues to receive attention on the international stage, providing an unprecedented opportunity for us to continue growing our global prominence and competitiveness as a preferred location for new investment and financial services employment.

We look forward to continuing to work with the Government on the issues outlined in this submission.

A Regulatory Framework that Supports Growth

Market Efficiency and Competitiveness

TFI acts as a hub for Toronto's financial sector and governments and works with our public and private stakeholders on initiatives which drive the growth and competitiveness of the industry. TFI regularly convenes stakeholders to provide insight and perspectives on issues which are critical to the success of the sector and the economy more broadly. Thus, TFI is supportive of the Government's commitment to cut red tape affecting businesses by 25 per cent as part of its multi-year Ontario Open for Business Action Plan. TFI looks forward to helping the Government in meeting this objective, as demonstrated by TFI's prior experience in leading regulatory red-tape reviews for the financial sector.

The financial sector puts great value on the importance of creating and maintaining a high-quality regulatory framework for Ontario's financial sector. The overall approach of Ontario's financial regulators should emphasize principle and evidence-based regulation, and one that is both able and willing to act nimbly. Thus, TFI also applauds the Ontario Government and its financial regulators for recent initiatives to enhance regulatory effectiveness such as:

- The Ontario Securities Commission (OSC) establishing a Burden Reduction Task Force and the OSC's plans to broadly consult Ontario market participants on ways to further reduce regulatory burden and improve the investor experience.
- The commitment by the Financial Services Regulatory Authority of Ontario (FSRA) to focus on "burden reduction and regulatory effectiveness" by conducting a thorough examination of existing guidance documents, data and filing requirements and service standards to ensure that they are relevant and provide value.

Building on these recent initiatives, regulators must always be mindful to control the growth of regulation and improve regulatory efficiency. Controlling the growth of regulation does not involve deregulation, nor does it require a choice between priorities such as investor protection and competitive markets. On the contrary, effective regulation is necessary to maintain both market integrity and a globally competitive financial sector.

The Ontario Government has recognized many of the principles referenced above, as reflected in its last Fall Economic Statement, which prioritize reducing the regulatory burden and considering economic and competitiveness impacts when designing and implementing regulation. The financial industry looks forward to working with the Ontario Government on strategies and creative solutions to enhance regulatory effectiveness such as collaborating with the industry to leverage new technology or explore concepts such as regulatory sandboxes.

Regulatory Cooperation and Harmonization

Cooperation among domestic and international regulators is also an important component of an effective regulatory framework. However, currently, Canada is the only G20 country without a national securities regulator. Instead, the country's capital markets are regulated by a patchwork of 13 different securities regulators with different laws and regulations in each of the provinces and territories. This does not contribute to the goal of making the regulatory system more efficient and more competitive relative to other countries. Ontario and Canadian businesses seeking to raise money to expand and create jobs, as well as global investors seeking to invest in those businesses, must spend significant resources to understand and comply with a fragmented regulatory system. It also impacts Canada's ability to effectively monitor and respond to systemic risk on a national basis, and provide investors timely and uniform protection across jurisdictions.

Thus, it is important that the Ontario Government continue to play a leadership role in the implementation of the Cooperative Capital Markets Regulatory System (CCMR) as this would help Ontario and Canadian businesses raise capital more efficiently and better protect investors.

Ontario as a Hub for FinTech

Technology-led innovation in the financial services sector (FinTech) continues to transform what financial services are, and how they are delivered to consumers. This represents a significant economic opportunity for the Ontario and Toronto financial sector to establish itself as a global hub for FinTech and the Ontario Government has demonstrated strong leadership in this area.

TFI applauds Ontario's financial regulators for recent initiatives such as the OSC LaunchPad, which provides direct support to eligible FinTech businesses in navigating regulatory requirements; and the OSC's participation in the Global Finance Innovation Network (GFIN), a new initiative that aims to help innovative firms seeking to operate in multiple countries by enhancing information-sharing between financial services regulators on innovation-related topics.

While these initiatives are welcomed, it should be noted that other jurisdictions and global financial centres are coordinating strategic plans with respect to FinTech, with the private and public sectors, to ensure they will continue to thrive domestically and internationally. For Ontario to retain North America's second largest financial centre, and top-ten globally, the sector must keep pace with international peers. Canada continues to need a more coordinated strategy around FinTech as identified by updated research from the Competition Bureau of Canada.¹

¹ <http://www.competitionbureau.gc.ca/eic/site/cb-bc.nsf/eng/04392.html>

Investing in Infrastructure

TFI welcomes the Ontario Government's commitment to make long-term investments in infrastructure. World-class infrastructure is one of the critical factors in maximizing economic growth as Ontario competes in an increasingly global economy.

Ontario's financial sector is a leading source of long-term financing for infrastructure (re)development. Policymakers are increasingly turning to public-private partnerships (P3s) as vehicles for leveraging private sector discipline, expertise, innovation and investment. P3 projects are publicly controlled, but the public sector is able to transfer certain risks or responsibilities that the private sector can more effectively manage – such as those related to design and construction costs, schedule, refinancing exposure, and lifecycle maintenance of an asset. P3s provide value for money to taxpayers by delivering infrastructure projects on time and on budget.

Without question, Ontario and Toronto is a leading global financial centre for public-private partnerships (P3s). Where governments require new or renewed infrastructure assets, they turn to the expertise, capital and leadership present in Ontario and Toronto's financial services sector. In Ontario, over 71% of P3 projects are in transportation and new asset classes across Canada are continually being considered for public private partnerships.

Opportunities that will likely enhance Ontario and Toronto's position as an international P3 Hub include the new Canada Infrastructure Bank being located in Toronto, the First Nations infrastructure gap, and other Canadian provinces and potentially the United States embarking on a new wave of P3 activity.²

TFI recommends the Ontario Government continue to utilize P3s in order to expand and accelerate investments in infrastructure, allowing Ontario to modernize its infrastructure and make the economy more productive and competitive.

² <https://tfi.ca/policy-research/knowning-when-to-partner-torontos-world-class-public-private-partnerships-for-infrastructure-financing-and-risk-transfer>

Recommendations

1. TFI applauds the Ontario Government and its financial regulators for recent initiatives to enhance regulatory effectiveness. The financial industry looks forward to working with the Ontario Government on strategies and creative solutions to enhance regulatory effectiveness.
2. The Ontario Government should continue to play a leadership role in the implementation of the Cooperative Capital Markets Regulatory System (CCMR) as this would help Ontario and Canadian businesses raise capital more efficiently and better protect investors.
3. TFI applauds Ontario's financial regulators for recent initiatives to help establish Ontario and Toronto as a global hub for FinTech. The Ontario Government should build on these initiatives and work with the sector and Federal Government on coordinating a strategy to enhance Ontario and Toronto's stature as a global hub for FinTech.
4. TFI recommends the Ontario Government continue to utilize public-private partnerships (P3s) in order to expand and accelerate investments in infrastructure, allowing Ontario to modernize its infrastructure and make the economy more productive and competitive.