



2018 Federal Pre-Budget Submission
Toronto Financial Services Alliance

February 2018

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 “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.

The financial services sector has been a strong source of growth for the Canadian economy over the past decade and also facilitates growth for other businesses in the economy. For example:

- The sector’s employment, financial results, and international trade and investment performance outpaced the average for **all** sectors over the past decade.
- The sector directly accounted for 4.5 per cent of Canadian employment in 2016 (over 800,000 jobs) and for 7.2 per cent of Canadian GDP. Employment in the sector has risen by more than 10 per cent since 2006.
- The sector accounts for almost half of the stock of outward Foreign Direct Investment (FDI) undertaken by Canadian firms. At \$505 billion in 2016, Canada’s stock of financial services outward FDI more than doubled since 2006.
- Canada is ranked among the top 4 countries in the world in terms of access to public equity, private equity, and venture capital. Access to credit is also strong with business credit growing more quickly than business investment.

The TFSA is a catalyst for collaboration between the public and private sectors. Our mandate and membership provide us with a valuable perspective on the role the financial services sector plays in creating economic growth, jobs, investment and prosperity.

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

Fintech: An Opportunity to make Canada and Toronto a Global Leader

The financial sector is entering a new period of innovation which needs to be supported and encouraged by government policy. The recommendations and comments below are focused on strengthening the ecosystem for financial technology and are supported by a 2017 report released by the TFSA titled [Seizing the Opportunity: Building the Toronto Region into a Global Fintech Leader](#).

Finance Canada's consultation paper on the review of federal financial services legislation noted that fintechs have identified greater coordination between federal, provincial, and territorial authorities as a means to advance innovation in financial services. The paper also noted that Federal Government and federal regulatory agencies are committed to working with provincial and territorial regulatory authorities to better coordinate and share information, and to provide fintechs with more detailed information such as better regulatory contact information.

The lack of a single point of entry or source of regulatory guidance has a number of adverse consequences for new entrants and thus should be addressed by governments and regulators. The need for more effective coordination of regulatory policy was also recently cited in a study by the Competition Bureau of Canada:

“Policymakers should identify a FinTech policy lead for Canada to facilitate FinTech development. This would give FinTech firms a one-stop resource for information and encourage greater investment in innovative businesses.”

The Ontario Government has demonstrated leadership in supporting the financial technology ecosystem by announcing initiatives such as:

- The Ontario Securities Commission (OSC) LaunchPad,
- An expert panel on fintech,
- A Regulatory Super Sandbox, and
- An Ontario FinTech Accelerator Office.

The TFSA encourages the Federal Government to follow the example of jurisdictions such as Ontario by also providing a leadership role to support Canada's financial technology ecosystem. One way in which the Federal Government can demonstrate this leadership is to help address the issue of regulatory fragmentation and coordination in Canada.

One solution to help address the issue of regulatory fragmentation would be to establish a “regulatory concierge” service to help fintechs navigate the regulatory maze. A regulatory concierge service could provide guidance across a wide range of subject areas and would have a particular expertise in fintech business models and technology and broad access to a wide spectrum of legislation, regulation and regulators.

A regulatory concierge service could provide all fintech companies, whether working independently or in collaboration with an existing financial services provider, with a single source of contact through which to engage all relevant regulators in Canada. It could not only act as a gateway but could be tasked with actively helping fintech companies engage with federal and provincial regulators.

A regulatory concierge service could also serve as a national “fintech champion” to help promote and grow the sector and could serve as the centerpiece for a broader fintech innovation hub that could include partnerships with private incubators and academic institutions.

Other international jurisdictions have demonstrated similar types of support and leadership and thus it is important that the Federal Government help support a strong and effective policy framework for financial technology.

Recommendations

- The Federal Government should establish a “regulatory concierge” service to help fintechs navigate the federal and provincial regulatory process. Such a service would provide fintechs with a single source of contact through which to engage all relevant financial regulators in Canada.
- Certain restrictions on the investments and powers of federally regulated financial institutions make it difficult for them to partner with fintechs or offer innovative financial services without ministerial approval. The Federal Government should revise these provisions to provide incumbent financial institutions with greater flexibility in both collaborating with fintech firms or providing fintech services themselves.
- Other jurisdictions such as the UK, Australia, Singapore, and Hong Kong have implemented or are consulting on the concept of a “regulatory sandbox” for fintech. Building on the establishment of the OSC LaunchPad, other Canadian financial sector regulators should look to implement similar mechanisms.
- The regulatory framework for financial services, including services offered by fintech companies, should apply based on the nature of the product or service being provided rather than the nature of the entity delivering the product or service.
- The legislative and regulatory framework for the financial sector should be reformed to be technology-neutral so that it remains relevant as technology and consumer needs continue to evolve.

Further details on the recommendations referenced above can be found in [TFSA's submission to the Finance Canada review of federal financial services legislation](#).

Tax Reform to Promote Growth

The financial services sector is proud of its significant contribution to Canada's economy and revenue base. The financial sector is a significant contributor to Canada's public finances with the sector accounting for 23.5 per cent of corporate tax revenue on average, and this does not even include capital taxes and insurance premiums.¹

However, it is very important that Canada's business tax rates be competitive by international standards, especially in comparison to our major trading partners. The recent adoption of a comprehensive tax reform package in the United States will significantly impact the competitiveness of the Canadian economy. The marginal effective tax rate on new business investment is now lower in the United States in comparison to Canada.

Across North America and around the world, companies in every sector are currently assessing the impact of the U.S tax changes and making decisions on where to locate jobs and investment. It is imperative that Canada respond quickly to ensure our economy remains competitive.

Recommendation:

- The Federal Government should adopt the recommendation by the Advisory Council on Economic Growth to create an independent expert panel to "consider changes to corporate and personal tax rates, the balance between types of taxes, and the use of tax instruments designed to support investment."

¹ Jack Mintz and Angelo Nikolakakis. Tax Policy Options for Promoting Economic Growth and Job Creation by Leveraging a Strong Financial Services Sector. University of Calgary School of Public Policy and EY. January 2016.