

February 15, 2017

The Honourable Charles Sousa
Minister of Finance
c/o Budget Secretariat
Frost Building North, 3rd floor
95 Grosvenor Street
Toronto ON M7A 1Z1

Dear Minister,

On behalf of the Toronto Financial Services Alliance (TFSA), attached please find the 2017 TFSA Pre-Budget Submission.

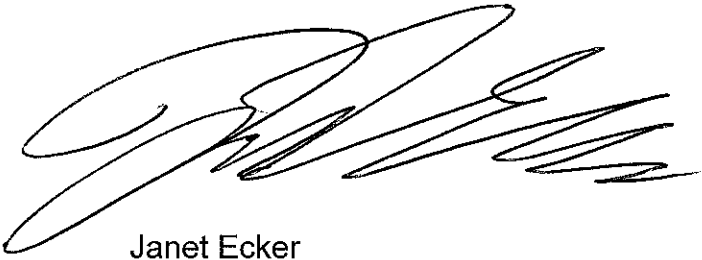
The TFSA is a catalyst for collaboration between the public and private sectors. Our mandate and membership provide us with a valuable perspective on the role the financial services sector plays in creating economic growth, jobs, investment and prosperity. As you are aware, financial services are one of the most vital sectors in the Ontario and Toronto economies. For example:

- In 2015, the sector accounted for almost 400,000 jobs across the province, generating almost 10 per cent of Ontario's GDP.
- The sector directly accounts for more than 13 per cent of the Toronto region's GDP with only the public services sector being larger.
- Toronto's financial services sector generated a combined \$16.1 billion in fiscal benefits in 2015 for the Canadian, Ontario, and City of Toronto governments.

- Toronto is the second largest financial centre in North America by employment and is ranked as a top ten global financial centre by publications such as The Banker.

We look forward to continuing to work with the Government on the issues outlined in this submission. Please do not hesitate to contact me should you have any questions.

Sincerely,

A handwritten signature in black ink, appearing to read 'Janet Ecker', with a large, stylized initial 'J'.

Janet Ecker
President & CEO
TFSA

Enclosure.

Fintech: An Opportunity to make Toronto a Global Leader

Fintech, the convergence of information technology (IT) and financial services, represents a tremendous opportunity for the Ontario economy. Fintech is changing the way financial services consumers transfer, borrow, protect and manage their money and Toronto's potential as a global centre for fintech is very promising. For example, a recent survey of global financial executives ranked Toronto as the 4th leading fintech centre of the future.¹

Fintech has experienced unprecedented growth over the last few years. For 2015, fintech funding has been estimated at \$26.4 billion worldwide, representing growth of 66% over 2014. In Canada, from 2012 to 2014, fintech investment grew at an annual pace of 35%. From 2014 to 2015, investment growth soared by approximately 300%.²

Canadian financial services companies spend more money on IT than in any other sector. By 2018, technology spending by the Canadian financial sector, centered in Toronto, is expected to hit almost \$15 billion.³ In fact, more than half of the total financial sector investment in Canada is related to IT equipment and services.⁴

From ATMs to online banking, Canadians have been early adopters of financial technologies. For example, in the MasterCard Global Mobile Payments Readiness Index, Canada ranks second only to Singapore among countries worldwide.

Toronto is unique among international financial hubs for its combination of global financial firms and leading-edge IT companies. Toronto is the second largest financial centre in North America and the Toronto-Waterloo fintech corridor is the second largest IT cluster in North America and is one of the largest start-up ecosystems in the world.

¹ <http://www.tfsa.ca/storage/reports/TrendsandInnovationsinFinancialServices2017.pdf>

² [http://www.ey.com/Publication/vwLUAssets/EY-Accelerating-development-in-Montreal's-FinTech-ecosystem/\\$File/EY-Accelerating-development-in-Montreal's-FinTech-ecosystem.pdf](http://www.ey.com/Publication/vwLUAssets/EY-Accelerating-development-in-Montreal's-FinTech-ecosystem/$File/EY-Accelerating-development-in-Montreal's-FinTech-ecosystem.pdf)

³ <http://thegfhhf.org/wp-content/uploads/2016/10/Connecting-Global-FinTech-Hub-Review-2016-.pdf>

⁴ <http://www.tfsa.ca/storage/reports/EngineforGrowthFinancialServicesStateoftheSector2016.PDF>

With 50% of the country's approximate 60,000 fintech employees, the Toronto region offers one of the most highly educated workforces in the world. Leading-edge incubators and accelerators such as MaRS, Communitech, DMZ, and OneEleven support the growth, development and innovation of fintech businesses by facilitating partnerships with governments, regulators, large financial institutions and investors.

The fintech industry in Toronto is thriving and expanding in areas such as digital banking, mobile payments, cybersecurity, machine learning/artificial intelligence, quantum computing, and trading analytics. For example, a recent report by Deloitte ranked Canada as the 4th largest cybersecurity hub in terms of deal flow with Ontario leading the country and noted that Ontario is well positioned to access some of the largest domestic and international cybersecurity markets and sources of capital.⁵ Current estimates place the size of the global cybersecurity market at \$106 billion in 2015 and predict an average compound annual growth rate of approximately 10% through 2020. This area is also promising when one considers a recent survey of global financial executives which ranked cybersecurity as the most significant area of fintech.⁶

If Toronto and Ontario are to capitalize on the opportunities in fintech, it is important that the Ontario Government work with all stakeholders to ensure that a supportive regulatory and policy environment are in place. Other jurisdictions such as the UK, Australia, Singapore, and Hong Kong are implementing a framework for fintech that both protects consumers and fosters innovation. The TFSA welcomes the recent announcement by the Ontario Securities Commission of a "LaunchPad" which is meant to provide tailored support to fintech businesses and help them navigate Ontario's securities regulations. This initiative is a positive, first step in the right direction and should be built upon based on the experiences in other jurisdictions. Also, increasing collaboration between various national and provincial financial services regulators towards a common fintech framework would be beneficial in growing the fintech sector.

⁵ <http://www.tfsa.ca/storage/reports/CyberInnovationReport2016.pdf>

⁶ <http://www.tfsa.ca/storage/reports/TrendsandInnovationsinFinancialServices2017.pdf>

Recommendations:

- To support Toronto’s emerging fintech sector, the Ontario Government should evaluate the supportive regulatory and policy initiatives undertaken by other international jurisdictions and continue to increase collaboration with industry and stakeholders.
- Ontario is well positioned to access some of the largest domestic and international cybersecurity markets and sources of capital. Cybersecurity should be one of the specific areas of strategic collaboration between governments and the financial services sector. The Ontario Government should partner with the sector and other stakeholders in supporting industry directed research on cybersecurity.

Other Key Issues

Financial Services Regulatory Authority

The TFSA welcomes the establishment of the Financial Services Regulatory Authority (FSRA). The establishment of the FSRA represents an important step towards modernizing and strengthening the regulation of financial services and pensions in Ontario.

It is important that the FSRA be an independent and flexible regulator with a modernized governance and accountability framework. The FSRA should include supporting growth of the financial sector as one of its cores principles and it should benchmark itself against other domestic and international regulators. The new regulator should also adopt a “principles-based” and “risk-based” approach in exercising its responsibilities. Allocating resources and costs based on the degree of risk achieves more effective outcomes than approaches that rely on rigid rules and directives.

It is also important that the new regulator have the capacity to monitor trends, undertake practical research and gather ongoing intelligence on markets and consumers; including a cost benefit analysis of proposed regulations and active consultation with consumers and industry.

Investing in Infrastructure

Canada has a significant need for the construction and renewal of public infrastructure, especially at the provincial and municipal level. These infrastructure deficits include unfunded or underfunded public transit and transportation projects, aging legacy infrastructure (i.e. water, wastewater), and trade-enabling infrastructure (i.e. airports, ports). To address this deficit, especially at a time when resources are constrained, it has become important for governments to look at innovative ways of delivering infrastructure such as public-private partnerships (P3s).

Infrastructure projects require long term financing and capital. Canada and Ontario benefit from this requirement as it has a world-leading financial services sector that have deep expertise and experience with P3s. The resulting cash flows from infrastructure investment match the predictable, long term, consumer obligations of financial services, particularly in the pension and insurance sectors.

In light of Toronto and Ontario's status as a global hub for P3 development, the Ontario Government should expand and leverage the use of P3 models. Using P3 models help ensure that infrastructure projects are delivered on-time and on-budget and transfer risks to the private sector who is best equipped to manage and minimize such risks.

Public Finances

Sustainable public finances are an important element in ensuring a strong and vibrant Ontario economy. According to the Financial Accountability Office (FAO) of Ontario, Ontario's net debt is expected to rise by \$64 billion over the next five years to \$370 billion by 2020-21, about \$20 billion higher than forecast in the FAO's spring outlook. This increase in net debt is the result of cumulative deficits, capital spending and an accounting change. Ontario's net debt-to-GDP ratio is now expected to plateau at about 41 per cent, significantly above the 39.6 per cent peak projected in the FAO's spring report.⁷

The Ontario Government should ensure it meets its previous commitment to reduce the net debt-to-GDP ratio to 27 per cent and should outline specific details on when and how it plans to achieve this goal.

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.

⁷ [http://www.fao-on.org/en/Blog/Publications/EFO_Fall_2016_032678#Executive Summary](http://www.fao-on.org/en/Blog/Publications/EFO_Fall_2016_032678#Executive_Summary)