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November 15<sup>th</sup>, 2016

The Canadian Services Coalition (CSC) is pleased to submit its comments to the Department of Finance's review of Canada's federal financial sector legislative and regulatory framework. This consultation is particularly timely given the magnitude and pace of change impacting the sector. Our members are hopeful the current review will provide an opportunity to reinforce the sector's stability, efficiency and utility while ensuring that regulation keeps pace with globalization.

The CSC is Canada's leading voice in promoting the importance of services, including financial services, to the Canadian economy and advocating for sound public policy aimed at encouraging innovation, growth and competition in the services sector. Trade liberalization through the removal of trade and investment barriers that impede services growth is also a key element of the CSC's mandate.

The services sector represents over 70% of the Canadian economy, employs four in five working Canadians, and perhaps most importantly is responsible for 90% of new job creation. Services jobs are often high-level, value added and many are among highest paying in Canada. Services are also a growing contributor to Canadian exports and trade. Over the past decade, three out of the five fastest-growing Canadian export sectors were financial services, computer services and management services. Canada's export of services increased in 2014 for the sixth consecutive year, reaching \$99.2 billion in 2015. Total services value-added share of growth exports was almost 45% in 2011 (Last year available). Also, overlooked and not identified in official statistics are the Canadian-based services jobs that are directly linked to, or the multiplier effect from, exports and companies' international operations.

In terms of financial services, Canadian financial institutions maintain a significant and increasing presence in global markets. Their international operations capture economies across the Americas, Europe and the Asia-Pacific. As the Department's consultation document notes, between 2009 and 2014, the international assets of Canada's three largest life insurers grew by 42 per cent, faster than their Canadian assets. Canadian banks have also expanded significantly abroad, with international assets growing by 43 per cent between 2010 and 2015.

However, as the consultation also notes, while internationalization offers tangible economic and social benefits, the financial crisis highlighted the complexity of cross-jurisdictional stability risks and the need for Canada to continue its engagement with the G20, the Financial Stability Board and international standard and regulation-setting bodies such as the Basel Committee on Banking Supervision and the International Association of Insurance Supervisors. Canada participated actively in developing standards set by these institutions and others, and has led in implementing key stability-focused reforms for financial institutions, as well as supervisory reforms in line with international standards and best practices. Cross-jurisdictional reforms such as these must also be supported by a robust and enforceable international trade framework.

Canada is indeed fortunate to have supportive conditions necessary to meet the core policy objectives of stability, efficiency, and utility that guide financial sector policy. Yet these supportive conditions must evolve to ensure the continued ability of our institutions to operate and expand internationally and derive economic and social benefits for Canada. Economic growth requires a financial services sector that is able to attract, retain, and deploy capital efficiently to be able to compete internationally. An effective regulatory framework is one that will support the long-term ability of Canadian financial institutions to allocate their scarce capital productively.

Given the importance of this support, consideration should be given to formalizing it in the financial sector legislative and regulatory framework and ensuring it is well-established in related governmental processes, such as through possible expansion of the Canada U.S. Regulatory Cooperation Council first established in 2011 by President Obama and Prime Minister Harper. Such measures would be a large step forward in addressing the consultation document's question: "How can the benefits of an internationalizing financial sector best be obtained while ensuring the safety and soundness of the sector?"

There is a direct link between the domestic legislative and regulatory framework and the ability of Canadian financial institutions to contribute to economic growth and successfully compete abroad. Canada's consolidated approach to regulation, where standards capture all of an institution's domestic and international operations, ensures that oversight of world-wide operations can be assessed by the primary (home country) regulator in an appropriate risk-based manner. Canada's effective oversight regime also provides foreign regulators comfort that our financial institutions are sound and can be relied upon to meet their regulatory obligations and not put their customers' financial situation at undue risk. For these reasons, it is no coincidence that the Canadian sector was recognized for its resiliency during the financial crisis and that our financial institutions continue to be regarded as amongst the safest in the world.

However, the financial crisis demonstrated other regimes were not as robust, despite the high level of integration across major market economies. With the crisis now almost a decade behind us and many global reforms fully implemented or well underway, questions have begun to arise as to how well these reforms interact across nations and in aggregate. In recent years, policymakers, regulators, standard-setters and industry leaders have expressed a need to assess the cumulative impact of post-crisis reforms on the global financial system and economic growth. Rules are not always well-coordinated or contradict one another, while others are duplicative or produce unintended consequences. Such outcomes fragment the global regulatory structure, impose inordinate cost and inefficiencies on market participants, and often limit consumer access to affordable products and services. The resulting migration of some activities across borders or to the shadow banking sector could make them costlier for traditional institutions to offer, and may raise financial-stability concerns should certain of those activities (or their providers) escape prudential regulation.

There have been occasions where jurisdictions have applied their rules to foreign institutions, even where the operations of those institutions are located outside the regulating jurisdiction. In these cases, those operations may have little to no connection with the regulating jurisdiction and, consequently, are unlikely to pose risk, prudential or otherwise, to the regulating jurisdiction. This extraterritorial application of law results in conflicting and inconsistent requirements for institutions operating in multiple jurisdictions, and undermines the fundamental principle that governments should only regulate within their borders.

Implementation deadlines and expectations for global reforms can also differ by jurisdiction, which creates compliance challenges for internationally-active institutions, causes confusion for their clients and investors, and leads to market disruption and uncertainty. The industry has lost confidence that global standards will be harmonized across jurisdictions and implemented in a coordinated manner. Jurisdictional requirements that are substantially more onerous or out of sync with international standards create disadvantages for Canadian financial institutions relative to their foreign competitors. A balance needs to be struck so as not to constrain Canadian institutions from operating efficiently or compete on a level playing field in international markets.

In concluding the recent G-20 Summit, world leaders cited a need to address unintended consequences in establishing financial stability and promoting economic growth, through closer partnership and action by G-20 members, calling for a strengthening of financial reform policy coordination, and noting that consistent implementation of the agreed reform agenda is necessary to achieving an open and resilient financial system that supports sustainable growth and development.

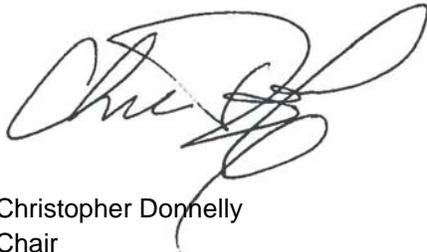
One approach which has proven successful is for jurisdictions to defer to one another's oversight in cases where another jurisdiction's regulatory framework is substantively equivalent in meeting the same regulatory expectations. Fostering mutual recognition on a wider-scale would enable Canadian financial institutions operating in more than one jurisdiction to avoid having to implement varying compliance programs for their same business activities to meet the expectations of multiple regulators in multiple jurisdictions. To be effective, however, the conditions for mutual recognition must be transparent, predictable, and consistent across jurisdictions to allow for the ongoing competitiveness of global financial markets.

Many trade agreements recognize the principle of national treatment where parties treat foreign financial institutions and investors no less favorably than their own domestic institutions and investors. There have been instances, however, where foreign jurisdictions have enacted regulations that appear to contravene this principle. When these problems arise, they are typically resolved through the dispute resolution mechanisms of the applicable trade agreements. While these mechanisms are important, particularly as a fallback, they are not ideal as they can delay resolution. Future trade agreements or other international regulatory frameworks for financial services therefore should explore the inclusion of other dispute resolution options at the regulator-to-regulator level.

A well-regulated and globally integrated financial system is essential for promoting trade and achieving sustainable economic and employment growth. Advancements in financial technology, movement of people, and expansion of trade reform, all point to the continuing need for a unified global economy. While international bodies have undertaken to assess the overall coherence and calibration of global reforms, it is incumbent upon us to undertake the same exercise to facilitate consistency and collaboration of global reforms with the aim of promoting financial integration and greater economic prosperity.

It would greatly benefit the efficiency and utility of the Canadian financial sector if the legislative and regulatory policy framework could be enhanced to accommodate a more direct process for facilitating consistency in the recognition of comparable regulatory approaches and greater co-operation across borders. As suggested earlier, this could be accomplished by establishing initiatives with other jurisdictions to address matters of regulatory conflict/overlap, supplemented by periodic assessments of the effects of financial reforms and other market factors on financial stability, consumer outcomes, and broader economic growth (including an examination of unintended consequences). The federal financial sector statutes could establish the foundational framework for these actions going forward.

Yours truly,

A handwritten signature in black ink, appearing to read "Chris Donnelly", with a stylized flourish at the end.

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