Canadian Finance & Leasing Association
Association canadienne de financement et de location

August 4, 2016

# CANADIAN FINANCE AND LEASING ASSOCIATION
# SUBMISSION TO THE HOUSE OF COMMONS STANDING COMMITTEE ON FINANCE
# PRE-BUDGET CONSULTATIONS – AUGUST 2016

The Canadian Finance and Leasing Association (CFLA) represents over 230 firms active in the asset-based equipment and vehicle financing industry in Canada. This industry finances over C$350 billion of consumer vehicles, commercial equipment and vehicles across the country and is active in the agricultural financing sector. Our member companies cross the financial services spectrum from manufacturers' finance companies and independent leasing companies, to banks, insurance companies and suppliers to the industry.

The Parliamentary Budget Officer has expressed concern over the explosive growth of off-balance sheet government liabilities to the taxpayer, largely held through Canada's large and growing Crown Corporations. Farm Credit Canada (FCC), a federal Crown Corporation, has a portfolio of loans approaching $30 billion in value. This makes it the single biggest agricultural lender in Canada. Since its last mandate review almost 15 years ago in 2001, its size, scope, and the breadth of its business activities have all grown rapidly.

FCC's rapid growth has been fuelled by access to a low cost of capital guaranteed by the taxpayer. This is a significant concern to members of the Canadian Finance and Leasing Association. Crown Corporations play an important role in Canada's economic landscape, but they must complement – not compete with or crowd out – private players in the markets they serve. Recent history tells us this is not the case with FCC.

Unlike other Crown financial institutions such as the Business Development Bank of Canada (BDC) and Export Development Canada (EDC), FCC's governing legislation does not require it to complement the activities of private sector lenders. Rather, the Farm Credit Canada Act only states that FCC has "…the power to provide business services and products that complement those available from the public and private sectors." In short, FCC may choose to operate in a manner that complements private sector lenders but there is no requirement for it to do so. In reality, FCC has disregarded any notion of complementarity expected to govern Crown Corporations' market behaviour, effectively bypassing private lenders, and assumed substantial liabilities on behalf of taxpayers.

Furthermore, the FCC's mandate does not undergo a regular review. Parliament last took a look in 2001 when the FCC's ability to expand its reach was enhanced. It was allowed to offer a broader range of financial products and services. Unsurprisingly, its portfolio grew very rapidly as a result, and its share of total farm debt issuance rapidly increased from less than 20 to more than 30 per cent, the largest single lender to the agricultural sector.

FCC has an important role to play in agricultural financing, however, the market has changed considerably since its last mandate review almost 15 years ago. The FCC's governing legislation should be reviewed on a regular schedule to account for ongoing market evolution in the space that it occupies.

**RECOMMENDATION: Initiate a mandate review – the first since 2001 – of FCC's business practices and scope of business to ensure its activities are consistent with the Crown's obligation to complementarity with private actors. This review should be completed by the House of Commons Finance Committee. Also, implement a sunset clause to trigger a regular review process for the FCC's governing legislation as with the Bank Act.**

15 Toronto Street, Suite 301, Toronto, ON, Canada M5C 2E3
tel: 416.860.1133 toll free: 1.877.213.7373 fax: 416.860.1140 e-mail: info@cfla-acfl.ca website: www.cfla-acfl.ca
15 rue Toronto, Bureau 301, Toronto (ON), Canada M5C 2E3
téléphone: 416.860.1133 sans frais: 1.877.213.7373 télécopieur: 416.860.1140 courriel: info@cfla-acfl.ca site web: www.cfla-acfl.ca