Standing Committee on Finance (FINA)

Pre-budget consultations 2012

Canadian Bankers Association

Responses

1. Economic Recovery and Growth

Given the current climate of federal and global fiscal restraint, what specific federal measures do you feel are needed for a sustained economic recovery and enhanced economic growth in Canada?

The Canadian Bankers Association (CBA) is pleased to participate in the House of Commons Standing Committee on Finance's pre-budget consultations in preparation for Budget 2013. The CBA would also appreciate the opportunity to appear before the Committee in order to discuss these recommendations when pre-budget hearings are held this fall. Investment in new physical capital (e.g. equipment, facilities, technology, etc.) is key to sustainable growth. New capital investment improves business productivity and creates sustainable, well-paying jobs. Keeping taxes competitive is a key tool in encouraging new investment. By contrast, higher taxes discourage investment by reducing the return that entrepreneurs and businesses get on new investments. That is why we are pleased with the federal government's commitment to maintain a 15% corporate income tax rate. While governments face difficult decisions in order to return to balanced budgets, we are concerned by proposals to postpone or reverse tax rate reductions. The reductions in the combined federal-provincial tax rate since 2000 have made Canada more competitive without reducing tax revenues. Overall corporate income tax revenues increased by 44% from 2000 to 2010 and remained relatively stable as a percentage of GDP. Recommendation: Encourage the provinces to maintain a 10% target corporate income tax rate. We are concerned by recent trends which reflect a growing lack of neutrality between the taxation of the financial sector and other sectors. In particular, taxes on capital have been widely recognized as a barrier to attracting new capital investment. That is why all general corporation capital taxes were eliminated over the course of the last decade. From a bank perspective, every dollar of bank capital typically translates into business financing that is many times larger than the amount of that capital. However, many provinces retained capital taxes on financial institutions and two provinces increased these taxes in their most recent budgets. Capital taxes are particularly perverse as banks are required to hold large amounts of capital to withstand risks. Taxing capital penalizes these institutions for the type of prudent risk management which served Canada so well throughout the global financial crisis, and it undermines international efforts to strengthen the financial system. Further, as noted above, capital is one of the engines of economic growth because it allows banks to lend to businesses for job creation and expansion. Recommendation: Encourage the provinces to eliminate their existing capital taxes on financial institutions and to refrain from instituting new capital taxes.

2. Job Creation

As Canadian companies face pressures resulting from such factors as uncertainty about the U.S. economic recovery, a sovereign debt crisis in Europe, and competition from a number of developed and developing countries, what specific federal actions do you believe should be taken to promote job creation in Canada, including that which occurs as a result of enhanced internal and international trade?

Despite economic weakness in other countries, the Canadian economy has performed relatively well in comparison to its peers. Employment in Canada has grown faster than any other G-7 country since 2006, with an unemployment rate that currently sits below that of the United States. Canada has had the strongest economic growth over the recession and recovery among G-7 countries. We support efforts to continue to strengthen the federal government's fiscal position, which also lay the groundwork for additional growth and job creation through the broadening of Canada's trade and investment relationships. As has been demonstrated by the European debt crisis, managing public finances in a responsible and sustainable manner is crucial to instil confidence in the overall economy. Because of Canada's sound fiscal fundamentals going into the financial crisis, the federal government had flexibility to respond to its effects. With many of Canada's competitors now seeing their fiscal outlook worsen, this is an opportunity to improve Canada's competitive advantage over other developed countries by further strengthening Canada's fiscal position. The Canadian economy would benefit by creating and attracting jobs, and also enabling lower debt costs for households and businesses as well as more stable government spending in the future. We support the federal government's initiatives to broaden Canada's trade and investment relationships. Over the last several years, the federal government has actively negotiated, signed and brought into force several free trade agreements (FTAs), foreign investment promotion and protection agreements (FIPAs) and other agreements. These initiatives provide an increased level of predictability, certainty and access for Canadian businesses. While pursuing these trade negotiations in the future, the CBA encourages the federal government to consider including measures that would prevent the extraterritorial application of foreign laws to Canadian financial institutions and accountholders. Recommendation: We support efforts by federal and provincial governments to strengthen their fiscal positions by returning to balanced budgets at an appropriate pace. Further, we encourage the federal government to continue to pursue trade negotiations while preventing the extraterritorial application of foreign laws.

3. Demographic Change

What specific federal measures do you think should be implemented to help the country address the consequences of, and challenges associated with, the aging of the Canadian population and of skills shortages?

The banking industry welcomes the passage of Bill C-25, the Pooled Registered Pension Plans Act. We support the government's goal of establishing Pooled Registered Pension Plans (PRPPs) to help Canadians meet their retirement objectives. The PRPP will be particularly useful for people who do not now have access to a private sector pension plan, which we know is common among employees of small and medium-sized businesses and self-employed individuals. These groups have typically faced barriers to private pension schemes given that the current options are too costly, administratively complex, and contain some risks that smaller employers are simply not prepared to take. Banks are well-placed to deliver a low-cost pension savings vehicle to Canadians. Banks are able to leverage their relationships with almost 1.6 million SMEs across the country to provide them with information about PRPPs and how they work. This broad reach ensures that the federal government's objectives for PRPPs can be achieved quickly and cost-effectively. Moreover, the banks can rely on the skills, resources and the experience of their broader financial group to effectively deliver PRPPs. To make the PRPP successful, provincial governments must adopt companion legislation to enable the PRPP to be provided to provincially-regulated businesses. This is a crucial step in honouring the commitment that provinces, territories and the federal government made in 2010 to implement a national framework. We believe it is important to move the PRPP file forward on a national level and not allow it to be delayed by continuing debates about other elements of Canada's retirement savings system. Recommendation: We urge the federal government to continue working cooperatively with the provinces to implement the PRPP model.

4. Productivity

With labour market challenges arising in part as a result of the aging of Canada's population and an ongoing focus on the actions needed for competitiveness, what specific federal initiatives are needed in order to increase productivity in Canada?

Canada's productivity is closely tied to the efficiency and effectiveness of its financial system. Whether it is a small to medium-sized enterprise or a large corporation, firms rely on banks and other financial sector participants to provide financing, raise capital in public markets, etc. Canada's banking system has been recognized by the World Economic Forum as the soundest in the world for the fourth year in a row, and that strength is rooted in an efficient, effective and streamlined national regulatory system, with consistent rules applicable across the country. We cannot take this strength for granted and allow our regulatory system that is modelled around the world to be fragmented. In recent years, we have seen attempts by some provinces to regulate aspects of Canadian banks' operations that fall firmly within the federal government's jurisdiction over banking. This potential for proliferation of provincial regulation of Canada's banks undermines the national character and regulatory structure of the industry. Regulatory fragmentation weakens the strength of our national banking system, causes confusion for consumers by necessitating different standards of service across the country, and ultimately decreases the productivity of Canada's banks. Accordingly, we commend the federal government for introducing a preamble to the Bank Act that affirms the federal government's jurisdiction over the business of banking. For the same reasons, we continue to support the federal government in its efforts towards creating a common securities regulator in cooperation with the provinces. Moving to a national system is consistent with the strengths of the effective and streamlined national regulatory system in place for Canada's banks. There are significant benefits to having a national system of securities regulation – a stronger international voice for Canada, better fraud prevention, stronger enforcement, and a streamlined process for investors. With increasing globalization, Canadian companies are competing against those in foreign jurisdictions with one securities regulator. Recommendation: We encourage the federal government to continue to work with the provinces and territories to achieve the objective of a common securities regulator.

5. Other Challenges

With some Canadian individuals, businesses and communities facing particular challenges at this time, in your view, who is facing the most challenges, what are the challenges that are being faced and what specific federal actions are needed to address these challenges?

Some of the challenges that Canadian individuals, businesses and communities are facing stem from the global financial crisis that began in the U.S. in 2007-08. While the crisis did not begin here, Canada was not immune. Fortunately, the soundness and strength of our national banking system – rooted in effective management, regulation and supervision – played a role in ensuring that the Canadian economy was better able to withstand the impacts of the global recession than many other countries. Since the financial crisis, there has been an immense effort by international bodies – the G20, the Basel Committee, the Financial Stability Board, and other institutions – to revamp and restructure the international financial regulatory system in order to build a global financial system more stable and less prone to shocks. There were lessons to be learned in Canada as well, and we are helping to craft the rules and implement domestic versions of international standards. Because of this, Canada's banks are presently facing the biggest regulatory implementation exercise in Canadian banking history. We view this exercise as an opportunity for the Canadian banking sector to ensure that it retains our reputation and position as the strongest and the soundest in the world. In implementing these reforms in Canada, we must also be aware of the law of unintended consequences affecting competition and innovation. While the regulatory implementation exercise we are going through is significant enough for large banks, it has a disproportionate effect on smaller institutions. This should not lead to a two-tiered, fragmented regulatory system – rather, we need to ensure that the regulatory environment can be managed effectively by all institutions. Otherwise, there could be implications for consumers resulting from less competition in the marketplace. In addition, it is equally important that, in the effort to take risk out of the system, we be conscious of the balance that is needed between stability and innovation for the benefit of consumers. Recommendation: We encourage policymakers and regulators to be mindful of the balance between the need for a safe and stable banking system with the benefits of competition and innovation when implementing financial reforms.