Submission to the House of Commons Standing Committee on Finance

2014 Pre-Budget Consultations

Prepared by the Canadian Bankers Association

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ASSOCIATION DES BANQUIERS CANADIENS | CANADIAN BANKERS ASSOCIATION

EXPERTISE CANADA BANKS ON
LA RÉFÉRENCE BANCAIRE AU CANADA

Introduction

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 2015.

The Canadian Bankers Association works on behalf of 60 domestic banks, foreign bank subsidiaries and foreign bank branches operating in Canada. The CBA advocates for effective public policies that contribute to a sound, successful banking system that benefits Canadians and Canada's economy. The Association also promotes financial literacy to help Canadians make informed financial decisions and works with banks and law enforcement to help protect customers against financial crime and promote fraud awareness.

Canadians look to their banks to safeguard their money, help finance a home or business, manage their savings and investments, and plan their retirement. As Canadians have witnessed challenges in banking in other parts of the world, they appreciate the reliability, prudence and stability of Canada's banks. But no less important is the value that customers feel they get from their bank. Banks work to make banking more convenient – extending branch hours, building secure websites for online banking, and introducing mobile payments and the ability to deposit a cheque directly into your account using your smartphone. Overall, these efforts have led to 81 per cent of Canadians having a favourable impression of banks in Canada, with 90 per cent having a favourable impression of their own bank.

Banks are an essential contributor to the Canadian economy, generating over $51 billion or 3.1 per cent of gross domestic product (GDP) in 2013. More broadly, banks act as a key source of credit for businesses. In 2013, total authorized credit reached approximately $940 billion, with approximately $200 billion for small and medium-sized businesses. In fact, banks have steadily increased their financing to businesses by $181 billion since 2008. While banks understand the importance of providing credit to Canadian businesses, they also have a responsibility to protect their depositors' money. Prudent risk management has served the Canadian financial system well, with Canada's banks being ranked as the strongest and soundest in the world for six consecutive years by the World Economic Forum.

Additionally, banks are leading taxpayers and progressive employers. In 2013, Canada's six largest banks contributed $8 billion in taxes to all levels of government in Canada. The banking industry employs 280,000 Canadians, paying approximately $23 billion in salaries and benefits annually. Bank employees work either in the head offices or extensive retail branch networks, which has grown to over 6,300 branches operating in communities across the country.

Banks and their employees are also among Canada's top corporate donors and have a long tradition of community participation. Canada's charities and non-profit community groups receive multi-million dollar support from banks and every year thousands of bank employees at all levels donate their time and talent to charitable initiatives. These contributions help support a broad range of programs, particularly in the areas of education, the arts, youth, the environment, disaster relief and health care.

The comments and recommendations contained in this submission relate to the following broad themes provided by the Committee:

- Balancing the federal budget to ensure fiscal sustainability and economic growth;
- Maximizing the number and types of jobs for Canadians;
- Improving Canada's taxation and regulatory regimes; and,
- Supporting families and helping vulnerable Canadians by focusing on health, education and training.

The CBA appreciates this opportunity to provide our submission to the House of Commons Standing Committee on Finance as part of its pre-budget consultations. We would be pleased to appear before the Committee to discuss our comments and recommendations in more detail once hearings are undertaken later this fall.

Balanced Budgets

Balancing the federal budget to ensure fiscal sustainability and economic growth

The CBA continues to support the federal government's efforts to balance the federal budget. Managing public finances in a responsible manner is crucial to instill confidence in the overall economy and lays the groundwork for continued economic growth and job creation. In that regard, we were pleased to learn that during the first two months of the current fiscal year, the budgetary deficit has been reduced from $2.7 billion to $1.1 billion when compared to the previous year. Moving forward, a key part of any government's efforts to restore fiscal balance is maintaining a competitive tax framework in order to continue stimulating economic growth.

The Canadian economy benefits by creating and attracting jobs, and also by enabling lower debt costs for households and businesses as well as more stable government spending in the future.

Recommendation: We support efforts by federal and provincial governments to strengthen their fiscal positions by returning to balanced budgets, while maintaining a competitive tax environment.

Competitive Taxation

Improving Canada's taxation and regulatory regimes

Keeping taxes competitive is key for encouraging new capital investment, improving business productivity, and creating sustainable, well-paying jobs. That is why we are pleased with the federal government's commitment to maintain a 15 per cent corporate income tax rate. Although governments at all levels in Canada must make difficult decisions in order to return to balanced budgets, 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 57 per cent from 2003 to 2013 and remained relatively stable as a percentage of GDP.

Recommendation: Maintain the commitment to a competitive corporate tax rate and encourage the provinces to maintain a 10 per cent target corporate income tax rate.

Taxes on capital have been widely recognized as a barrier to attracting new capital investment. From a bank perspective, every dollar of bank capital typically translates into financing for individuals and businesses that is many times larger than the amount of that capital. Furthermore, 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.

Recommendation: Encourage provinces to eliminate existing capital taxes on financial institutions and to refrain from instituting new capital taxes.

Internal / International Trade

Maximizing the number and types of jobs for Canadians

Reducing trade barriers between jurisdictions, both domestic and international, is an important part of making Canada competitive. The banking industry supports efforts to liberalize domestic and international trade. The largest Canadian banks have solid domestic operations from which to grow internationally. Indeed, one-third of Canadian banks' revenue is generated by divisions in the United States and worldwide. Similarly, there are 54 foreign banks (24 foreign bank subsidiaries, 27 full-service foreign bank and three foreign bank lending branches) operating in the Canadian market, financing Canadian businesses, providing high-quality jobs to Canadians, and increasing competition in the Canadian marketplace. More broadly, banks serve the economies in which they operate, and can only succeed if those underlying economies are successful as well. Greater trade and investment expands the economy which means jobs and increased wealth for individuals, households, small and medium-sized businesses, large corporations, governments, institutional investors, and non-profit organizations.

Domestically, trade and investment between provinces and territories are important to Canada's prosperity. By removing barriers to the free movement of workers, goods and services, and capital within Canada, the country is able to take full advantage of our human and natural resources. This will improve the efficiency of the domestic economy by providing greater choice to consumers and reducing costs for businesses.

Internationally, the federal government has undertaken initiatives to expand free trade to contribute to Canada's economic growth. Over the last several years, the federal government has negotiated, signed or brought into force several free trade agreements (FTAs), foreign investment promotion and protection agreements and other agreements. Notable among them are FTAs with the Trans-Pacific Partnership, the European Union and South Korea. These initiatives increase predictability, certainty and access for Canadian businesses.

Recommendation: We encourage federal, provincial and territorial governments to continue to work towards the reduction of trade barriers between jurisdictions, both within Canada and internationally.

Financial Literacy

Supporting families and helping vulnerable Canadians by focusing on health, education and training

Financial literacy is a priority for the CBA and its members. Banks are an active and important part of the daily life of most Canadians – 96 per cent of Canadians have an account with a financial institution, so millions of people turn to banks every day for services and advice to help them save, plan for retirement, start businesses and buy homes. This is where banks' financial literacy work ultimately begins – in their daily interactions with their customers, providing a wealth of educational material, information, tools, services and advice geared to helping them make the best financial choices. But banks go well beyond this and are leaders in financial literacy activities and initiatives in communities across Canada.

For its part, the CBA has provided financial literacy in high schools over the past 15 years, reaching over 225,000 students across Canada through our non-commercial Your Money Students seminar program. Your Money Students involves local bankers volunteering their time and expertise to teach young people the basics on budgeting, saving, investing, using credit wisely and avoiding fraud. The CBA is also currently developing a Your Money program for seniors to assist those who are entering retirement with managing their finances and avoiding financial abuse and fraud. Your Money Seniors is being developed in partnership with the Financial Consumer Agency of Canada (FCAC) and seminars are expected to begin in the fall of this year.

It is important to continue to strengthen the financial knowledge of Canadians, particularly young people and seniors. We encourage the government to work with provincial and territorial governments to include financial literacy in school curricula and to work with the many partner organizations delivering financial literacy programs to people who have weak financial skills and knowledge. The federal government has taken a leadership role with the creation of a Financial Literacy Leader and we applaud and welcome this appointment and look forward to working closely with the Leader in the weeks, months and years ahead as she develops and implements a national strategy on financial literacy.

Recommendation: We encourage the federal government to continue its efforts to promote financial literacy in Canada.

Cooperative Capital Markets Regulator

Improving Canada's taxation and regulatory regimes

The CBA has long supported the creation of a national securities regulator for Canada. The current regulatory system of rules and regulations administered by 13 different provincial and territorial securities regulators creates a significant degree of regulatory duplication, inefficiencies and complexity. This system also puts us out of step with the rest of the world. Canada is the only industrialized country without a national securities regulator and lacks a national voice on the international stage.

In September 2013, we applauded the announcement by the governments of Canada, British Columbia and Ontario that they would be entering into an agreement to establish a Cooperative Capital Markets Regulator (CCMR). We were also very encouraged by the recent announcement that Saskatchewan and New Brunswick have decided to join in the initiative. We understand that the jurisdictions establishing the CCMR intend to introduce draft securities legislation by fall 2015.

Recommendation: We encourage the federal government, and all provincial governments, to put in place legislation enacting the CCMR as soon as possible.