



November 2007

Financial Services a growing priority for Ontario government TFSA agenda gaining converts in political circles

Both major parties in the Ontario election last month had adopted a number of policy proposals into their platforms that had been advocated by the Toronto Financial Services Alliance. The recognition of the importance of these policy initiatives is an encouraging sign, according to TFSA President Janet Ecker.

The Liberals, who formed a majority government after the October 10 vote, included a pledge in their election campaign to “create a centre of excellence for education in financial services, to keep this job-creating sector of our economy strong.” The idea for such a centre originated as a recommendation in “Talent Matters,” TFSA’s ground-breaking report on the future human resources needs of the sector, which was published this spring.

The Liberal platform also said \$30 billion would be spent on infrastructure programs in the province. TFSA has regularly called for additional infrastructure investment to make Toronto and Ontario more desirable locations for foreign financial services companies to relocate.

In a candidates meeting organized by the TFSA prior to the election – a unique forum where only financial services issues were discussed – then-Finance Minister Greg Sorbara re-committed the government to removing all capital taxes by 2010, and he acknowledged industry participants’ desire that the taxes be eliminated even sooner. When it came to taxes on insurance premiums, however, neither he, nor the Progressive Conservative spokesman, Oakville candidate Rick Byers, were prepared to commit to any change at this time because of the impact such a change would have on government revenues.

Based on the overwhelming success of the candidates forum, TFSA plans a similar debate with federal candidates in the next federal election campaign.

With the re-election of a Liberal government, the TFSA expects to continue the work it began with Economic Development Minister Sandra Pupatello on a financial services strategy for the province. TFSA is working with the ministry to develop initiatives that will boost the sector and enhance its competitiveness.

Few new faces at Queen’s Park from Toronto region – and fewer still from financial services

Despite the surprise resignation of Greg Sorbara from the finance portfolio (he was succeeded by Dwight Duncan), the October 10 provincial election yielded very few changes in the representation of Toronto-area ridings, and only two of the local candidates elected have experience in the financial services sector.

Cabinet minister Mary Anne Chambers, who had been a senior vice-president in a large Canadian bank, decided not to run again in this election. High-profile Conservative candidate Rick Byers, an investment banker, was defeated in his bid for office, as was Ajax Pickering candidate Kevin Ashe, a pension consultant. Also defeated was Liberal incumbent Mario Racco in Thornhill who had worked at a large accounting firm prior to entering politics.

The one new face at Queen’s Park from the financial services sector is Charles Sousa, from Mississauga South, who was a long-time banker. He joins Michael Chan of Markham-Unionville, who owned an insurance brokerage, as the sole local candidates with industry backgrounds.

Two U.S. firms beef up their Toronto presence

Merrill Lynch, State Street announce expansions

Two U.S. financial institutions that have been steadily growing their presence in Toronto have both announced further expansions in recent weeks.

State Street Global Advisors (SSgA), the investment arm of State Street Corporation of Boston, which opened in Canada in 1991, cut the ribbon on new premises in Toronto's financial district in October, and said that it represents an increased global commitment to Canada. The number of professional and support staff will grow from 60 to more than 200 persons over the next two to three years. In Toronto, the number of personnel supporting the company's Canadian and worldwide operations is expected to expand from 7 persons to approximately 140 persons, with 90 expected to be in place by mid 2008.

SSgA is the world's largest manager of institutional investment assets with total assets under management of more than \$2 trillion. Since opening here, SSgA has grown to become the fifth largest manager of pension assets in Canada with assets under management of more than \$42 billion.

Merrill Lynch, meanwhile, announced in October that it has selected Toronto as the site of a new technology centre.

Several hundred highly-skilled professionals in the financial services and technology fields will be employed at the Centre, many of whom will be chosen from Canada's extensive pool of talent in the fields of technology and financial services.

"To expand and maintain our competitive edge we need constant access to the world's best pools of talent," said Lynn Patterson, country head for Merrill Lynch Canada, "which is why we have selected Toronto as the location for our new Technology Centre."

Merrill Lynch is one of the world's leading wealth management, capital markets and advisory companies, and has operated in Canada for more than 50 years.

Ottawa promises tax cuts

Federal Finance Minister Jim Flaherty presented an economic update on October 30 and announced a range of cuts to income tax and the Goods and Services Tax.

The most welcome development was a \$14.1 billion cut over five years in the federal corporate tax rate, a move long advocated by TFSA and its members. The federal Conservative government, which is sitting on another major budget surplus, has promised to reduce the corporate tax rate to 19.5% in 2008 (one percentage point more than scheduled) and to 15% by 2012, which would give Canada the lowest corporate tax rate among major industrialized economies, the government said.

Industry News:

The **Ontario Expert Commission on Pensions** (OECPC) is holding a dozen public hearings in cities across Ontario in October and November to hear suggestions on ways to improve the province's pension regime, which has not been substantially changed in 20 years.

The urgent need for pension reform was a major issue raised by the Association of Canadian Pension Management (ACPM) at a TFSA-sponsored meeting with government representatives earlier this year.

The presenters at the OECPC hearings include the Pension Investment Association of Canada, ACPM, OMERS, the Ontario Teachers' Pension Plan, the Canadian Institute of Actuaries, and the Ontario Pension Board.

The five-member panel is chaired by Commissioner Harry W. Arthurs.

The final report is expected next summer.

The funded ratios for Canadian pension plans are the highest they have been in five years, according to a recent survey by **Watson Wyatt Worldwide**.

The survey indicated that the ratio of assets to liabilities in the typical defined benefit plan was 105% at the end of September, up from 89% a year earlier.

While pension plans haven't been this well funded since April 2002, the report cautions that market swings or interest rate shifts could still have an impact. However, the plans will be able to weather the volatility better because they now have a cushion in place.

New and Noteworthy

Great-West Lifeco has completed its acquisition of Putnam Investments from March and McLennan Companies. The deal is worth about US\$3.9 billion. "This acquisition allows Lifeco to achieve, with a single transaction, a major presence in the mutual fund and institutional asset management industry in the United States," said Raymond L. McFeetors, Great-West Lifeco's CEO. "This acquisition also broadens our operations in Europe and gives us an entry into Japan."

Jim Leech, senior vice-president, Teachers' Private Capital, will be the new president and CEO of the **Ontario Teachers' Pension Plan**, effective December 1, 2007. He will succeed Claude Lamoureux, who plans to retire later this year. Lamoureux is Teachers' inaugural CEO. In 1990, the fund's \$19 billion of assets all were in Ontario government bonds. Under Lamoureux's leadership, the fund has grown to a well-diversified \$106 billion as of year-end 2006.

Canada's **Interac Association** recently completed Canada's first debit card transaction at the point-of-sale using chip technology, which is being introduced nationwide to permit more secure debit transactions. A computer chip will replace the magnetic strip on debit cards. The transaction was processed by TD Merchant Services using a BMO Bank of Montreal chip debit card at a grocery store in downtown Toronto. The chip debit card transaction was conducted in preparation for the Kitchener-Waterloo, Ontario, market trial of chip technology which begins soon.

BCE's shareholders overwhelmingly approved the privatization of the firm by an investment group led by Ontario Teachers' Pension Plan. More than 97% of votes cast by holders voted in favour of the deal at a special meeting in September, greatly exceeding the required 66.7% approval. Valued at more than \$50 billion, the BCE deal was the largest privatization in Canadian history.

Scotia Capital and Scotiabank's Global Transaction Banking unit have announced new U.S. based services including core cash management and payment services. Scotiabank described the initiative as being part of its strategy to provide comprehensive, integrated business banking solutions to corporate and commercial clients across the NAFTA region.

The Canada Pension Plan Investment Board has confirmed it will invest in an alternative trading system that will compete with the Toronto Stock Exchange. The board will pay \$17.5 million for a 10% interest in **Alpha**, an ATS backed by BMO Capital Markets, CIBC World Markets, National Bank Financial, RBC Capital Markets, Scotia Capital, TD Securities and Canaccord Capital.

UPDATE:

Federal Finance Minister pushes for common regulator

In a major policy speech recently, federal Finance Minister Jim Flaherty told an industry audience that he intended to be "persistent" in his attempt to persuade the provinces and territories to embrace the idea of a common securities regulator.

Noting that Canada remains the only developed country without a national securities regulator, the Minister stressed that he wants a common regulator – not a federal regulator. The ten provincial governments, the three territorial governments and the federal government would participate equally, he said.

The Minister said he will meet with the provinces and territories again over the next six months.

ABCP restructuring should be complete by mid-December

The pan-Canadian investors committee overseeing the restructuring of third-party asset-backed commercial paper (ABCP) expects to have the problem resolved by mid-December, said the committee's chairman.

"We expect to be able to provide investors with definitive restructuring proposals for each affected conduit prior to the expiry of extended standstill agreement," Purdy Crawford said, following an announcement that the standstill agreement had been extended 60 days to December 14.

New and Noteworthy (continued)

RBC Financial Group is expanding its presence in the Caribbean with the acquisition of RBTT Financial Group, headquartered in Trinidad and Tobago. The US\$2.2 billion transaction will create one of the most expansive banking networks in the Caribbean, with a presence in 18 countries and territories across the region. The transaction, which RBC described as “transformational” for RBC in the Caribbean, is expected to close by the middle of next year.

TD Bank Financial Group made another move south of the border with the acquisition of New Jersey-based Commerce Bancorp Inc. in a cash and stock transaction valued at US\$8.5 billion. “The combination of Commerce with TD Banknorth doubles the scale of our US banking business and accelerates our transformation to a leading North American financial institution,” said TD President and CEO Ed Clark. TD said the acquisition makes it the first bank with “critical mass” in both the Canadian and U.S. markets.

Manulife Financial President and CEO Dominic D’Alessandro visited Vietnam in September for the official opening of Manulife Plaza, the insurance company’s first real estate development in Asia. The seven-storey building, which will house Manulife’s eight-year old Vietnam operations, was completed in May.

CSI (formerly the Canadian Securities Institute) completed a successful partnership with the Securities Association of China recently as 28 employees of one of China’s top securities firms, **Guangfa Securities**, graduated from a CSI training program. The program was the longest and largest training program ever held for a Chinese securities company outside of their home country. TFSA President Janet Ecker was the guest speaker at the graduation ceremonies at Toronto City Hall.

BMO Capital Markets, the investment and corporate banking arm of BMO Financial Group, has established a foreign exchange sales and trading desk in London, England. The office provides BMO’s growing base of FX clients with improved access to information and increased liquidity during European trading hours.

Scotiabank has taken an 18% stake in **DundeeWealth Inc.**, one of Canada’s fastest growing wealth management companies. Under the terms of the arrangement, Scotiabank also acquired Dundee Bank of Canada. The transaction was valued at \$608 million.

Upcoming events

November 5, 2007

“The Toronto Forum for Global Cities: The Infrastructure Challenge,” a conference sponsored in part by TFSA, in Toronto.

November 6, 2007

“Toronto Financial Services – How do we compare,” featuring Roger Martin, Rotman School of Management, and James Milway, Institute for Competitiveness and Prosperity. Luncheon hosted by TFSA and Toronto Board of Trade, in Toronto.

November 14, 2007

Mark Yakabuski, President & CEO, Insurance Bureau of Canada, speaks to Economic Club of Toronto on “Insurance in a Climate of Change.”

November 19, 2007

“What makes a financial centre competitive?” A roundtable discussion with Michael Mainelli of Z/Yen, co-author of the Global Financial Centres Index, sponsored by MEDT and TFSA, in Toronto.

November 27, 2007

“Dialogue with the OSC 2007.” Conference hosted by Investment Funds Institute of Canada, in Toronto.

November 28, 2007

Lord Peter Levene, Chairman, Lloyd’s of London, addresses Empire Club of Canada on “Terrorism and Political Risk,” in Toronto.

January 24-26, 2008

Conference Board of Canada, 84th Canadian Conference, in Quebec City.
