



November 2008

# Canadian FIs weathering storm better than most

## Canada's banks deemed strongest in world

While no economy seems immune to the financial storm pounding credit markets this year, Canada's banks and other financial institutions have fared relatively well, requiring less emergency intervention than virtually all others.

Canada's banks and other FIs did experience the same "drying-up" of liquidity that other international banks did – as institution after institution hesitated to advance funds to a counter-party for fear that it would never be repaid – but prompt action by the Bank of Canada and the federal government restored the liquidity and allowed banks to continue extending credit to businesses and consumers.

Steps taken by the Bank of Canada included lowering interest rates, increasing its lending to FIs, and broadening the range of FIs permitted to participate in the Bank's purchase and resale agreements, while the government of Canada boosted liquidity by agreeing to guarantee inter-bank loans and buying high-quality mortgage-backed securities from the banks, leaving them with more funds to on-lend to customers.

The more extreme measures taken by other governments, however – notably the U.S., the U.K. and Germany, which took the extraordinary steps of buying equity stakes in their major banks – has not proved necessary in Canada because of the strength of the Canadian banking sector.

### *Canadian banks "tops" in soundness*

The strength of the sector was highlighted by the findings of the **World Economic Forum** in its Global Competitiveness Report for 2008-2009, published in October. In its measure of "Soundness of Banks," Canadian institutions were unmatched. On a scale of 1 to 7, Canada ranked first in the world with a score of 6.8.

The Canadian banking system has capital standards that exceed international standards, and Canadian banks voluntarily maintain higher capital buffers. They tend to be less leveraged than their international peers. In addition, Canada's largest investment dealers are bank-owned and are therefore regulated on the same basis (and to the same capital standards) as the banks themselves.

## New government sworn in: No change at Finance

Canadians returned the Conservatives to power in a general election on October 14, and on October 30, Prime Minister **Stephen Harper** announced his new Cabinet, which included five new faces and new portfolios for more than half of the ministers.

The prime minister did not, however, change the key financial portfolios – re-appointing **Jim Flaherty** as Minister of Finance and **Vic Toews** as President of the Treasury Board.

In addition to Mr. Flaherty, two other Ontario MPs have been appointed to key economic portfolios: **John Baird** was named Minister of Transport, Infrastructure and Communities, and **Tony Clement** was named Minister of Industry.

Former Industry Minister **Jim Prentice**, one of the most senior and most trusted advisers to Mr. Harper, was named Minister of the Environment, signalling the importance the prime minister will be attaching to this portfolio in the next Parliament.

Canada will be represented internationally by **Lawrence Cannon**, Minister of Foreign Affairs, and Minister of International Trade, **Stockwell Day**.

# Next stop: Chicago

## TFSA and Governments of Canada, Ontario, plan financial services push in U.S. Midwest

Chicago and Toronto have much in common – and it makes sense for there to be even closer ties between the financial services firms in both cities. With that in mind, the Toronto Financial Services Alliance is working again with the federal and provincial governments to arrange a financial services “trade mission” to Chicago in December.

The visit will be modeled after the successful mission to New York earlier this year. Led by Ontario’s Minister of International Trade and Investment, **Sandra Pupatello**, the delegation from Toronto will meet their Chicago-based counterparts on Wednesday, December 10, to explore how Midwest companies can leverage near-shore opportunities in Ontario.

The half-day session will kick off with a keynote address by BMO Financial Group President and CEO **Bill Downe**, and there will be a series of afternoon workshops, including sessions on doing business in Canada and about Ontario’s growing expertise in hedge funds and hedge fund administration, and in software development. A number of firms will also provide first-hand accounts of their success in setting up operations in Toronto and the benefits they have realized from near-shoring.

There is still room on the delegation, but the deadline to get a preferred rate at the conference hotel (The Four Seasons Hotel Chicago) is fast approaching. Please contact TFSA before November 10 if you are interested in participating in this mission, or visit [www.tfsa.ca](http://www.tfsa.ca) for further details on the visit.

# Toronto moves up in ranking of global financial centres

Toronto edged up three positions to 12th place in the most recent Global Financial Centre Index (GFCI), published in September.

The GFCI is prepared for the City of London Corporation by Z/Yen, a U.K.-based think-tank. The Index is published in March and September, and the most recent report is the fourth of its kind.

In ranking Toronto 12th in the world in the most recent survey, the report noted the growing importance that people in the industry are attaching to the “quality of life” offered by financial centres. “It is notable that centres that score well in quality of life measures seem to be doing well in the GFCI,” the authors observed.

London and New York continue to rank first and second in the survey, although both centres seem to have suffered from recent market events. While their lead over other centres is still significant, the gap between the two leaders and the number three centre has narrowed considerably.

Among North American centres, Toronto was ranked fourth after New York, Chicago and Boston in the latest survey.

## First ever hedge fund awards brings out the stars

Toronto’s hedge fund industry applauded the best of the best in September, at the inaugural Canadian Hedge Fund Awards in Toronto.

Top performers honoured were **Creststreet Energy Hedge Fund**, **CI Trident Global Opportunities Fund**, **Sextant Strategic Opportunities Hedge Fund** and newcomer **IMFC Global**, winning for “Best New Fund Performance.”

**Eric Sprott** (CEO of Sprott Asset Management) was awarded the “Most Significant Industry Development in the Last Year” prize, and **Jim McGovern**, CEO of Arrow Hedge Partners Inc., accepted an award for “Best Contribution to the Canadian Hedge Fund Industry.”

## IFIC holds 22<sup>nd</sup> annual conference

The Investment Funds Institute of Canada (IFIC) held its annual meeting in September, and reflected on a challenging year for investors and the industry as a whole.

In her address, IFIC President **Joanne De Laurentiis** remarked that the industry now manages more than 30% of Canadians’ financial wealth and over half of their accumulated savings in registered plans. She also noted that Canadians are more diversified now than heading into the last financial downturn, with nearly 36% invested in balanced funds.

“This increased level of diversification has helped investors weather the volatility witnessed over the last 12 months,” Ms. De Laurentiis said, “and will help them deal with whatever the market has in store for us over the next 12 months.”

# New and Noteworthy

**Scotiabank** has significantly increased its presence in the wealth management business with the acquisition in October of Sun Life Financial's 37 per cent stake in **CI Financial Income Fund**, Canada's third largest mutual fund company (in terms of assets under management). The transaction, which is expected to close in November upon regulatory approval, was valued at \$2.3 billion. The announcement, combined with Scotiabank's investment in DundeeWealth, "further cements the Bank's strong position in the mutual fund industry," the bank said in a release.

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**Manulife Financial** has appointed a successor to retiring CEO **Dominic D'Allesandro**. The insurance giant announced that **Donald A. Guloien**, a 28-year veteran of the firm, will take over as president and CEO next May. Mr. Guloien is currently senior executive vice-president and chief investment officer for the firm, as well as chairman and CEO of MFC Global Investment Management. Manulife also announced that senior executive vice-president **John D. DesPrez III** would become chief operating officer, responsible for insurance and wealth management operations in Canada, the United States, Asia and Japan. He will remain president and CEO of John Hancock Financial Services.

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**Alpha ATS**, an alternative trading system backed by Bay Street's largest players, received regulatory approval from the Ontario Securities Commission (OSC) and the Investment Industry Regulatory Organization of Canada (IIROC) this summer, and was scheduled to launch the trading platform in September. Some problems were encountered during testing, however, and the launch was postponed. **Greenwich Associates**, meanwhile, has reported that electronic trading is taking off in Canada. The research firm estimates that electronic trading systems captured 20% of institutional equity trading volume in Canada from 2007 to 2008, up sharply from 14% in the prior year.

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Two high-level appointments were announced at the **Canada Pension Plan Investment Board (CPPIB)** in recent weeks. **Robert Astley**, a former president of Sun Life Financial Canada, was appointed chair of the board of directors, succeeding founding chair **Gail Cook-Bennett**, whose term expired in October. CPPIB has also named a new head of investment risk management. **Joseph Masri** joins CPPIB from Barclays Global Investors, where he was global head of investment risk management.

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**Advocis**, the Financial Advisors Association of Canada, has a new president and CEO. **Greg Pollock** joins the association from the Ontario English Catholic Teachers' Association, where he had served as General Secretary since 2001.

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## UPDATE:

### Toronto takes steps to "Invest" and "Build"

The **City of Toronto** has created two high-powered, distinct corporations to boost the City's competitiveness and improve its position as a major international destination for business, investment and job creation.

The first corporation, "**Build Toronto**," responsible for real estate development in the City, will focus on unlocking value in under-utilized and surplus City real estate.

The second, "**Invest Toronto**," will market Toronto as an investment opportunity and will do so by working closely with the private sector.

Top calibre CEOs will be recruited to lead each corporation and, for the most part, the boards will comprise directors drawn from the private sector, chosen for their accomplishments in fields related to the mandate of each corporation.

### Everything "on track" for Centre of Excellence project:

Deloitte has begun work on completing a "skills matrix" to identify the major skills and professional designations required by the financial services sector for sustainable growth.

The matrix is one of the first deliverables expected, as the TFSA works with the provincial Ministry of Training, Colleges and Universities to establish a centre of excellence for education in financial services.

Details of the centre of excellence project are available at [www.tfsa.ca](http://www.tfsa.ca).

## New and Noteworthy (continued)

Financial institutions are beginning to gear up for the introduction next year of Tax-Free Savings Accounts – created in the 2008 federal budget and billed by some as the most significant change in Canada’s savings system since the introduction of registered retirement savings plans. In a report, **CIBC**’s economics department estimated that Canadians will contribute \$20 billion to the accounts next year and that the market will grow to \$115 billion within five years. CIBC predicts that the accounts – which allow contributors to shelter a portion of their savings from income tax – will prove as popular as Individual Savings Accounts in the UK, where the market has grown to \$530 billion in less than a decade.

Canada’s credit union system took an important step toward becoming a national system this summer with the combination of the Ontario and British Columbia organizations. Credit Union Central of British Columbia and Credit Union Central of Ontario combined as **Central 1 Credit Union** on July 1. With more than \$7.5 billion in assets, Central 1 now provides services to 196 member credit unions in B.C. and Ontario, having a combined membership of 2.8 million. The long-term vision is for other provincial centrals to join later to create a single entity serving credit unions from coast to coast.

The world’s 300 largest pension funds grew by over 14% in 2007 to approximately \$12 trillion, according to research by **Watson Wyatt**, in conjunction with *Pensions & Investments*. The U.S. and Japan, together, have more than half of pension assets, and Canada is in third place (tied with the Netherlands) with a 6% share of the market. Canadian funds showed slightly higher-than-average growth from 2002 to 2007, according to the study, with compound annual growth rates of 22%.

The **Investment Industry Association of Canada** (IIAC) has appointed **Kirby Gavelin** as chair and **Ian Bruce** as vice chair of the association’s board of directors. Kirby Gavelin is managing director and head of equity capital markets at RBC Capital Markets. Ian Bruce is Peters & Co. Limited’s chief executive officer.

The Financial Services Commission of Ontario (FSCO) has chosen **Seneca College** as the only provider of education for anyone wanting to become a licensed Mortgage Broker in Ontario. Under the terms of the contract awarded in October, Seneca will be responsible for the development and provision of a new mortgage broker education program at the college. The program will satisfy the educational requirement for a mortgage broker license under the new Mortgage Brokerages, Lenders and Administrators Act.

## Upcoming events

### November 7, 2008

“An Afternoon With Dr. Alan Greenspan,” presented by TD Financial Group, in Toronto

### November 19, 2008

Investment Industry Association of Canada Fall Symposium: Leading Edge Issues in the Securities Industry, in Toronto

### November 25, 2008

WXN’s Canada’s Most Powerful Women: Top 100 Awards and Summit, presented by Scotiabank and the Ivey School of Business, in Toronto

### December 10, 2008

Financial services “trade mission” to Chicago, presented by TFSA in collaboration with the governments of Canada and Ontario, in Chicago.

### January 26, 2009

121<sup>st</sup> Annual Dinner, Toronto Board of Trade, in Toronto

## We want your input.

Please contact us if you have comments or questions about TFSA. If you have a news item or information about an upcoming event that we should know about, please submit your contributions by email to [info@tfsa.ca](mailto:info@tfsa.ca) and put “TFSA Update” in the subject line.

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