

Remarks to  
The 3<sup>rd</sup> Annual Global Financial Services Centres  
Conference  
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by  
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Good afternoon.

It is a pleasure to attend this conference again this year – to meet new people from around the world who take an interest in the trends affecting global financial centres, and to re-connect with those I have met at previous conferences. And of course, any excuse to visit Dublin again, is always gratefully accepted!

When I spoke at this conference last May, there was a lot of buzz about Canada – why our banks were “still standing” in the midst of the financial crisis, when others were not, and what were we doing that others apparently, were not.

Canada, at the time, was faring very well during the financial crisis, both in relative terms, certainly, but also in absolute terms. Our banks had experienced some losses triggered by the crisis, but they were still generating healthy profits and they remained well capitalized. Their Tier 1 capital

ratios were over 10 per cent, while, by contrast, some of the biggest financial institutions in the rest of the world were relying on government bailouts just to stay in business.

In my remarks last year, I attributed Canada's success to several factors: Structural differences that produced diversification and stability; cultural differences that coloured our approaches to regulation and to risk management; and differences with regard to the state of our macroeconomic situation – Canada was simply in a stronger position – although our Finance Minister likes to say we were better prepared – than most nations to withstand a downturn in the overall economy.

I was cautiously optimistic when I spoke last year, but quite aware of the risks of complacency. I used the analogy that as Canadians, we know from experience, winter after winter, that even though we might miss the storm this time, another

one is coming, so it would be a mistake to put our snow shovels away.

(And despite the fact that my part of Canada just did not have winter this year – thank you Al Gore – the analogy is still relevant.)

One year later, “cautious” is still the word I would use to describe our optimism about Canada and the state of our financial sector. And we still haven’t put the snow shovel away.

We are on track to be atop the OECD this year in terms of GDP growth, and all the leading indicators are once more, in positive territory.

Our banking sector continues to do well. Together, the six major Canadian banks had profits of \$4.3 billion in their first quarter, up nearly 40 per cent from a year ago – and that, by

the way, is in Canadian dollars, but it could just as easily be in U.S. dollars, since the Canadian loonie is now trading basically at par with the greenback again (another sign of Canada's relative strength).

But there are concerns. There are issues. And I would like to briefly mention some of them, and the challenges they present for organizations such as ours, that concern themselves with the health of financial services centres around the world.

The first challenge is the high cost of addressing the financial crisis. Governments the world over, poured billions of dollars into bail-outs for their financial institutions, and stimulus packages for their economies. And while Canada did not have to ride to the rescue of our banks, we joined common cause with other countries in infrastructure spending to keep our economy moving.

It was the right approach, but now, how do we disengage and more importantly, how do we pay for it? Like everyone else, we are confronting the issue of government debt. The IMF predicts that public debt in the advanced economies is going to grow by 35 per cent by 2014, which will bring our collective debt levels to about 110 per cent of gross domestic product – in other words, we will owe more than we produce.

IMF chief Dominique Strauss-Kahn rightly says, "Reversing this increase will be a tremendous challenge – let alone reducing debt to below pre-crisis levels, which may be needed to leave enough fiscal space to tackle future crises."

As a former finance minister, I know that deficits are economically unsustainable; but I also know how tough it will be to wrestle government spending down. The political consequences of cost-cutting aren't very palatable to politicians in democratic societies, at the best of times. And

the painful choices – even in Canada, where again, we are in relatively good shape – will not be welcomed by an understanding populace. I have never been so happy not to be on a ballot!

I heard a recent news report from Greece – where the phrase “economic basket case” is taking on a whole new meaning – in which one earnest Greek citizen vowed to fight any government cuts because he hadn’t caused the problem and it was simply unfair that he was expected to pay a price for the solution.

It is tough to make the case to citizens that they have to pay for something they believe they had no hand in creating. And even if you could make the link – and accepting, using and demanding more public services than your economy can afford is a root cause, a problem shared by many countries – they are not prepared to listen.

For those of us who seek to build our financial centres, a strong macro economy is paramount and unsustainable government debts will undermine our success. But we also have an important role to play in helping governments confront the challenge – by using the expertise of our financial institutions to develop options; by using the public platform we can command, to keep the public eye focused on the challenge and its consequences if not dealt with; and by expressing strong public support for those political leaders with the courage to try and wrestle with the problem.

Organizations such as ours, charged with a mandate to grow our financial sectors and the good jobs that come with it, have a credibility that needs to be put to good use in this cause.

If the first challenge is the cost of the financial crisis, then the second and related challenge is paying for it. Clearly, the money to repay those debts has to come from somewhere.

Even with the most optimistic forecasts for economic growth and the most successful cost-cutting programs, some countries may well come up short. And that raises the spectre of new taxes.

And unfortunately, financial services companies are the most popular targets. It is not hard to understand – “greedy” bankers are the villain “du jour” for the cause of our misfortunes. And some of them have also had the absolute temerity to successfully bounce back from the brink of financial ruin, all the while sprinkling hefty bonuses over their executive teams.

So there is much talk of taxing our financial sector. Taxes on bonuses, taxes on forex and other global transactions; taxes on derivatives; the talk about taxing FIs – whether to recoup monies already advanced, or to prepare for some day down the road when another institution, “too big to fail,” is teetering

on the brink once again – the talk about tax is becoming louder than the talk about regulatory reform.

Our view in Canada – one that is shared by Australia, Switzerland and Japan, based on news from this weekend's meeting of G-20 finance ministers – is that we need to stop talking about tax proposals and get back to the fundamental issue: fixing the regulatory and supervisory shortcomings that got us into trouble in the first place.

Taxing banks may feel good, it may play well to an angry populace but it is not going to fix our problems and may well have unintended consequences as many of our financial leaders have pointed out.

Our third challenge – which touches on one of our conference themes – is financial reform and what it will mean for financial centres like Toronto.

As I said earlier today, we need to fear two things – the first is the rule of unintended consequences; and the second is the danger of a government determined “to do something”. We now face a whole globe’s worth of government’s determined “to do something” to fix financial services.

They are on a mission, and that mission, to reform financial services, leads us straight to the upcoming G20 meeting in Toronto. In two months, the debate around how to regulate our globally inter-connected financial system will come to a head.

The name “Toronto” may well become synonymous with financial reform. Whether the connotation is positive, in the same way “Rio” is associated with the environment or negative in the way “Copenhagen” is associated with climate change will depend on whether the G20 leaders who gather in Toronto are successful in their deliberations.

The Toronto Summit is supposed to bring world leaders together to agree on a concerted approach to financial regulatory reform. A common approach is essential because, without one, experts agree, we will be doomed to another round of so-called regulatory arbitrage – where financial institutions locate in jurisdictions with the most favourable – read, “lightest” or “least burdensome” – set of rules or level of supervision.

If a common approach is achieved, it follows that it should then become apparent, in relatively short order, which of the global financial centres, if any, exist solely for their “regulatory convenience,” if I can call it that, and which of them thrive for more fundamental reasons, i.e., the size, quality, breadth and depth of their financial services sector. We can then focus on the key to sustainable global hub strategies, to build on our relative strengths as Michael Mainelli would advise.

Without taking anything away from his presentation tomorrow, I want to note that the latest edition of his organization's Global Financial Centre Index, GFCI 7, has continued to advance the research model.

This is helpful as it has proved an invaluable tool for us, not only as another way to assess and identify our strengths, but also as a rallying cry for the public-private partnership we have built in this space. And the information within the index has provided practical insight into how financial centres like ours can achieve stronger global positioning, by focusing on developing our niche.

The latest report, GFCI 7, looks at global financial centres not just in terms of their scores on a variety of measures – rolling them up into one overall index, as before – but it also considers centres along three important dimensions: their “connectivity” to the rest of the world; the “diversity” of financial services that exists within the centres, i.e., the

richness of their business mix; and their degree of “speciality,” i.e., the quality and depth of certain industry sectors in the centres.

Financial centres may score highly on one or another of the three dimensions, but only eight centres, according to the study, score highly on all three – and GFCI calls these the “Global Leaders.” As you might expect, London, New York, Hong Kong and Singapore – the big four – are on that list. But in addition, from Europe, you have Frankfurt and Zurich, and, from North America, you have Chicago and Toronto.

And I do think, with all due respect to the organization I represent, that this is a fair assessment of Toronto’s current position in the world of financial services, and it reflects some important developments taking place, which we believe are important to building and maintaining that strength.

I will briefly share some of them with you today because it touches on another challenge we face as global hubs.

A major development for us in the past year was reaching consensus on what we call our “global hub strategy.” As a result of conversations between our political and financial sector leaders aimed at identifying ways to work more effectively together, we were tasked with coming up with a strategic plan for the sector to continue building Toronto as a premier financial services centre.

A cross-sector industry working group was established to give serious thought to our relative strengths and the opportunities to grow the sector in terms of jobs and investment.

We settled on four initiatives.

First, we recognized the Canadian industry's reputation for solid risk management. We believe this knowledge is exportable, and we have undertaken, with the government's support, to create a Global Integrated Risk Management Institute, to attract the best and brightest in this field to conduct applied research, to develop and monitor best practices and to encourage the development of talent in this area, for the benefit of financial institutions, regulators and policy makers.

Second, we believe Canada's asset managers and, in particular, our major pension funds are acquiring both the size, global perspective and expertise for Toronto to become a leading centre for retirement financing – something that will be of crucial importance given the demographic profile of our advanced economies.

Third, we want to continue to build and leverage our established position as a world leader in mining, metals and

energy finance. The Toronto Stock Exchange already has listings for about half of the world's public mining and energy companies. We think this position can be enhanced and leveraged to build a stronger business support cluster.

The fourth theme is to build, and strategically leverage our overall value proposition as an excellent place to locate financial services jobs, particularly our strengths in our very strong talent pool in Toronto – the kind of expertise that financial services firms are looking for; the kind of expertise that is relevant for all manner of activity, from fund administration, to asset and liability processing, to expert servicing for high-value clients; that is highly educated and that comes from a diverse and highly connected multicultural environment with strong business and cultural ties around the globe.

Already, many international firms have discovered these advantages and chosen to expand or locate in Toronto.

This, in broad strokes, is our current strategic direction. But what is relevant is not so much what it is, as how it happened.

At a time when politicians around the world are demonizing the financial sector as the cause of all of our economic ills, our political and financial leaders were sitting around a table together, approving a plan to go forward.

Attending were the Premier of Ontario, Dalton McGuinty and his provincial finance minister, our federal finance minister Jim Flaherty, whom many of you have met, and the Mayor of Toronto – all three levels of government sitting at the same table as the CEOs of our major banks, insurance companies, pension funds, investment firms and the stock exchange – in essence the leaders of the financial services industry in Canada.

All in the same room, at the same time, on the same page. Not a common occurrence to say the least.

It was not always this way in Canada. Relations between governments and the financial sector were not always this strong. It was not this way in 1998, for instance, when the government of the day turned thumbs down on bank mergers.

Looking back at those days now, business leaders and government leaders recognize that there was a huge gulf of misunderstanding between them at the time and that it was undermining the development of good public policy and sound business strategies. It was dysfunctional. It was not conducive to getting things done; to getting things done that were in the best interests of the nation's economy.

My point is this: It appears that a similar gulf of misunderstanding is arising now in various countries around the world – exacerbated no doubt by the tensions of the financial crisis. The polarization of views between regulator

and regulated that we have seen, notably in the U.K. and the U.S. and on the Continent, is not healthy, in my view, and it is not in the long term interests of a strong financial services industry.

The Toronto Financial Services Alliance – which was born out of a desire to build a better relationship between governments and the sector – now promotes Toronto as a financial services centre. It was modeled in many ways after the IFSL, International Financial Services London, so we are quite interested to hear tomorrow from John Ingamells about IFSL’s evolution into TheCityUK, how they are dealing with the new dynamic in the U.K., and whether or not it will still be the model of collaboration it has been over the past few years.

The final challenge for financial centres, therefore, is restoring this constructive relationship to dealing with the

issues. Certainly, in my view, collaboration is the more productive approach.

In fact, I think it is a key success factor. People were asking last year and they are asking again this year, “Why is Canada doing as well as it is,” and the answer in large part, is because we have cultivated a healthy dialogue between the public and private sectors.

Dialogue is essential, but what is even more important than the dialogue itself is the mutual understanding that evolves from that conversation – the ability to appreciate the other’s perspective, and to be sensitive to the things that drive the other party.

Should there have been any doubt how government would react when an investment banker said he was doing God’s work? Or how the financial community would react when one

of their own was described as the “unacceptable face” of banking and “socially useless”?

Politicians and our financial sector have had our spats, but even at its most coolest, the relationship between government and the financial community in Canada has never become so cold.

So our experience in an environment that promotes dialogue has reinforced our belief in the value of building a strong public-private partnership between ourselves and government.

We have concluded that we need to ensure that the political class understands the financial services sector and its importance, which frequently they did not. We also need to ensure that our private sector members understand what it means to work with government – some did, some didn’t and some still don’t.

Building relationships between government, the industry and regulators is not much different than building business relationships – the pay-off may not materialize right away, but it is still a wise investment. You need to build up that store of goodwill – everybody’s been talking about the importance of capital; well, building political capital is important too – it helps you get through difficult periods like this.

Not surprisingly, open communication – dialogue – was also one of the key ingredients in Canada’s successful navigation through the financial crisis. This dialogue existed on two levels – among regulators and supervisors, on the one hand, and between government and industry on the other.

Ongoing communication among the Department of Finance, the Superintendent of Financial Institutions and the Bank of Canada headed off the silo mentality that has bedevilled

regulators elsewhere. Ongoing communication between government and the industry ensured not only that the industry understood the rules to the letter, but also the intent behind them. This “rules-based-in-principles” approach is a major strength of the Canadian regulatory and supervisory regime – and one, I submit, that sets us apart from many other jurisdictions.

As the host and co-chair of the G20 Summit in Toronto, the Canadian government has an opportunity to put some of these ideas on the table.

In the end, I hope that our sector’s results in Canada are the proof of the pudding. When you get down to it, three issues precipitated the financial crisis: excessive leverage in the banks and investment dealers; a lack of common standards for the quality and level of capital; and weakness in risk and liquidity management – and these just happen to be three

issues that were not permitted to jeopardize Canada's financial institutions.

Our results in Canada suggest it would make sense to ensure that any new rules – all rules – be firmly rooted in a set of principles that allow market participants to make the right choices when applying the rules.

It would make sense to build a more cooperative relationship between regulators and regulated, without ceding any of the supervisor's power to enforce its policies, to cajole or to use moral suasion or, ultimately, to enforce its rules.

It would make sense to adopt a capital regime similar to Canada's, with similar definitions, a strong reliance on common equity, and similar standards when considering deductions.

As the CEOs of our largest banks wrote in the Financial Times last week, “Regulators do not need to specify which businesses banks should enter, but they must get the right level of capital for the risks taken, as well as robust risk and liquidity management systems.”

The financial crisis has taken a toll on many financial centres around the world. In Canada, it has had the opposite effect. The crisis has highlighted the strengths of our system, and enhanced Toronto’s reputation as a financial services centre.

It is true, I believe, as the materials for this conference put it in setting the context and the theme for this conference, that many financial centres are rewriting their strategies to deal with the new reality.

We are not. We are pushing forward with our strategy to make Toronto’s brand better known, and to develop global partnerships around the world between our sector and yours,

for our mutual benefit. And we will continue to lend our voice to the critical debate on regulation and tax policy.

We think we have something of value to offer, we think our experience can help other jurisdictions deal with the issues of reform, but we are also under no illusions about the challenges that continue to face us all – and we will continue to keep the snow shovel at hand.

Thank you.