



INSTITUT C.D. HOWE INSTITUTE

POLICY CONFERENCE REPORT

THE FUTURE OF FINANCIAL SERVICES: COMPETITION AND GROWTH

JUNE 17, 2015



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STATEMENT OF MOTIVATION

The financial services sector plays a vital role in the Canadian economy, far more than is measured through the sector's employment and output. Financial services facilitate the flow of savings towards productive uses, intermediate between agents with different liquidity and time preferences, and provide instruments allowing both risk-sharing and risk-mitigation, key components for the good functioning of markets.

Efforts have been made by regulators, both in Canada and abroad, toward building safeguards aimed at ensuring that the financial services sector performs these vital economic functions while reducing the risk that some participants will make decisions that can threaten overall economic instability. However, these safeguards present other challenges that may hinder competitiveness and growth of the industry.

On June 17, 2015, with the support of the Canadian Life and Health Insurance Association, Credit Union Central of Canada, the Toronto Financial Services Alliance, the Canadian Bankers Association,* the Insurance Bureau of Canada, the Investment Funds Institute of Canada, and the Investment Industry Association of Canada, the C.D. Howe Institute organized an invitation-only conference in Toronto entitled *The Future of Financial Services: Competition and Growth*.

The event brought together financial sector executives, senior policymakers, eminent academics, and other financial market participants to address the effects of recent and impending regulations on competition within the sector, and on consumers of these services. While speakers agreed to share their formal presentations in this report, the conversation was held under the Chatham House Rule to encourage frank discussions. This report discusses the content of the conference and provides a list of some follow-up activities for the Institute in the coming months.

* The Institute wishes to note the vital contribution made to this agenda by the late Marion G. Wrobel of the CBA.

CONFERENCE AGENDA

8:30 am – 8:55 am	RECEPTION AND REGISTRATION
8:55 am – 9:00 am	Welcoming Remarks (William B.P. Robson, President and Chief Executive Officer, C.D. Howe Institute)
9:00 am – 9:15 am	Session I – The Emerging Economic and Regulatory Environment <ul style="list-style-type: none"> • <i>What has happened in financial markets since the spring of 2014?</i> • <i>What is the current economic environment?</i> • <i>What legislative and regulatory events have occurred? What have been the resulting trade-offs in complexity and simplicity, and what has been the net impact of regulation?</i> Presenters: <ul style="list-style-type: none"> • David Dodge, Senior Advisor, Bennett Jones LLP and Chair, C.D. Howe Institute's National Council
9:15 am – 10:15 am	Session II – Banking after Basel III <ul style="list-style-type: none"> • <i>How are our banks digesting changes to capital, liquidity and leverage requirements?</i> • <i>What are the tail and default risks? Specifically, we will examine stability policies aimed at the probability of default, at loss given default, recovery and resolution, and the role of deposit insurance.</i> • <i>How big and how safe is shadow banking?</i> • <i>How do we adapt Basel III to accommodate new entrants or existing small entrants?</i> Presenters: <ul style="list-style-type: none"> • Michael King, Assistant Professor, Finance Education, Ivey Business School • James Salem, Group Treasurer and Executive Vice President, Royal Bank of Canada • Rob Stewart, Assistant Deputy Minister, Financial Sector Policy Branch, Finance Canada
9:15 am – 9:25 am	Panel discussion and Q&A (moderated by Finn Poschmann , Vice President, Policy Analysis, C.D. Howe Institute)
9:25 am – 9:35 am	
9:35 am – 9:45 am	
9:45 am – 10:15 am	
10:15 am – 10:30 am	BREAK
10:30 am – 11:30 am	Session III – Capital Markets – The Shifting Regulatory Ground <ul style="list-style-type: none"> • <i>How do we measure systemic risk (under the Capital Markets Stability Act)? What role should securities regulators and the sell-side, and small dealers, have in financial stability?</i> • <i>We will discuss derivatives clearing – what are the collateral requirements, and the segregation and portability options?</i> • <i>What are the specifics and impacts of new platforms? What is the overall market impact of alternative order priorities?</i> Presenters: <ul style="list-style-type: none"> • Wendy Rudd, Senior Vice President, Market Regulation and Policy, Investment Industry Regulatory Organization of Canada <p><i>Presentations and discussions will be closed to media. All will be off-the-record, with the exception of the keynote address which will be posted following the event. This agenda is subject to change.</i></p>
10:30 am – 10:40 am	

CONFERENCE AGENDA

10:40 am – 10:50 am 10:50 am – 11:00 am	<ul style="list-style-type: none"> • Sheryl Kennedy, Chief Executive Officer, Promontory Canada • Monica Kowal, Vice-Chair, Ontario Securities Commission
11:00 am – 11:30 am	Panel discussion and Q&A (moderated by Finn Poschmann , Vice President, Policy Analysis, C.D. Howe Institute)
11:30 am – 12:45 pm	Keynote Session and Luncheon – Away from the Lamppost: Culture, Conduct and the Effectiveness of Prudential Regulation Jeremy Rudin , Superintendent, Office of the Superintendent of Financial Institutions
12:45 pm – 1:30 pm	Session IV – Life Insurance Markets – Life in the Long Run <ul style="list-style-type: none"> • <i>What do market conditions and the regulatory and accounting (IFRS) environment imply for the future of long-duration life products?</i> • <i>What will be the consumer impact of international regulation?</i> Presenters: <ul style="list-style-type: none"> • Neil Parkinson, National Insurance Sector Leader, KPMG LLP • Michel Fortin, Senior Vice President, Group Benefits and Retirement Solutions, Institutional Markets, Manulife
12:45 pm – 12:55 pm 12:55 pm – 1:05 pm	
1:05 pm – 1:30 pm	Panel discussion and Q&A (moderated by Daniel Schwanen , Vice President, Research, C.D. Howe Institute)
1:30 pm – 1:45 pm	BREAK
1:45 pm – 2:45 pm	Session V – Competition, Regulation, Growth, and Market Dynamics <ul style="list-style-type: none"> • <i>How will smaller firms fare in the emergent regulatory environment, and what are the costs and benefits of consolidation among trustcos, credit unions and property and casualty insurers?</i> • <i>What steps are needed to ensure a competitive and productive financial intermediation sector?</i> • <i>What regulatory features should follow institutions, and what features should follow activities?</i> Presenters: <ul style="list-style-type: none"> • Denis Dubois, Chief Integration Officer, Desjardins General Insurance Group • Chris Catliff, President and Chief Executive Officer, BlueShore Financial • Jim MacGee, Associate Professor, Department of Economics, University of Western Ontario
1:45 pm – 1:55 pm 1:55 pm – 2:05 pm 2:05 pm – 2:15 pm	
2:15 pm – 2:45 pm	Panel discussion and Q&A (moderated by Duncan Munn , Senior Vice President and Chief Operating Officer, C.D. Howe Institute)
2:45 pm – 3:00 pm	Rapporteur's Remarks <ul style="list-style-type: none"> • Craig Alexander, Senior Vice President and Chief Economist, TD Bank Group, and incoming Vice President, Economic Analysis, C.D. Howe Institute <p><i>Presentations and discussions will be closed to media. All will be off-the-record, with the exception of the keynote address which will be posted following the event. This agenda is subject to change.</i></p>
<i>Essential Policy Intelligence / Conseils indispensables sur les politiques</i>	

BIOGRAPHIES OF SPEAKERS

Session I – The Emerging Economic and Regulatory Environment



David Dodge

Senior Advisor, Bennett Jones LLP and Chair, C.D. Howe Institute's National Council

A native of Toronto, Mr. Dodge received a bachelor's degree (honours) from Queen's University, and a PhD in economics from Princeton.

During his academic career, he taught economics at Queen's University; at the School of Advanced International Studies, Johns Hopkins University; at the Faculty of Commerce at the University of British Columbia; and at Simon Fraser University. He also served as Director of the International Economics Program of the Institute for Research on Public Policy. Mr. Dodge has been awarded honorary degrees from a number of Canadian universities. In 2009, he was elected a fellow of the Royal Society of Canada.

During a distinguished career in the federal public service, Mr. Dodge held senior positions in the Central Mortgage and Housing Corporation, the Anti-Inflation Board, and the Department of Employment and Immigration. After serving in a number of increasingly senior positions at the Department of Finance, including that of G-7 Deputy, he was Deputy Minister of Finance from 1992 to 1997. In that role, he served as a member of the Bank of Canada's Board of Directors.

In 1998 he was appointed Deputy Minister of Health, a position he held until his appointment as Governor of the Bank of Canada.

Mr. Dodge, appointed Governor of the Bank of Canada, effective 1 February 2001 for a term of seven years, retired on 31 January 2008. From July 2008 to June 2014, he served as Chancellor of Queen's University. From 2009 to 2015, he was a member of the board of directors of Canadian Utilities Limited, ATCO Limited and the Bank of Nova Scotia.

Mr. Dodge is Senior Advisor at Bennett Jones LLP one of Canada's leading law firms. He also serves on the board of the Canadian Institute for Advanced Research, and Chairs the National Council of the C.D. Howe Institute.

* All positions and organization affiliations are as of time of conference.

BIOGRAPHIES OF SPEAKERS

Session II – Banking after Basel III

**Michael King**

Assistant Professor, Finance Education, Ivey Business School

Michael joined the Ivey Business School in 2011 after two decades working in international financial markets. Michael began his career in investment banking and trading working between 1990 and 1998 in New York, London, and Zurich with Credit Suisse and RBC Dominion Securities. After completing his PhD at the London School of Economics in 2001, Michael joined the Bank of Canada in Ottawa where he worked in increasingly senior positions in the Financial Markets and International Departments. From 2008 to 2011, Michael worked for the Bank for International Settlements (BIS) in Basel, Switzerland as a Senior Economist studying financial markets and monetary policy.

Michael's research focuses on banking, international finance, and corporate finance. His research has appeared in the Review of Financial Studies, Journal of Banking and Finance, Financial Management, Journal of International Money and Finance, Journal of Financial Stability, Journal of Applied Corporate Finance and CFA Magazine.

Session II

**James Salem**

Group Treasurer and Executive Vice President, Royal Bank of Canada

As treasurer of Royal Bank of Canada (RBC), James Salem is responsible for the enterprise's capital, funding and liquidity management, as well as for asset liability management of the bank. Under Mr. Salem's leadership, RBC's Corporate Treasury executes term funding and capital transactions to optimize the bank's debt and equity structure, in addition to transactions carried out for managing discretionary fixed income portfolios and executing the bank's asset liability management strategies.

Mr. Salem has been with RBC since 1989.

Mr. Salem is an executive member of The Canadian Treasurers Association. He is the former president of the North American Asset Liability Management Association and of the Canadian Asset Liability Management Association.

Mr. Salem obtained his honours degree in Business Administration from the Richard Ivey School of Business. He is a Chartered Financial Analyst and is a Certified Risk Professional charter member.

BIOGRAPHIES OF SPEAKERS

Session II



Rob Stewart

Assistant Deputy Minister, Financial Sector Policy Branch, Finance Canada

Rob Stewart became Assistant Deputy Minister of the Financial Sector Policy Branch on June 30, 2014. He has been a public servant in the Department of Finance since 1993. He started in the International Trade and Finance Branch, held a number of positions in the Financial Sector Policy Branch, and was subsequently appointed Assistant Deputy Minister of the International Trade and Finance Branch in August 2010. Before joining the Department of Finance, Rob worked at Export Development Canada and in the Canadian sport system. He holds a BA from Carleton University (1981) and an MBA from the University of Ottawa (1987).

Session III – Capital Markets – The Shifting Regulatory Ground



Wendy Rudd

Senior Vice President, Market Regulation and Policy, Investment Industry Regulatory Organization of Canada

Wendy Rudd is responsible for the management of all of IIROC's market-related activities, including market policy, trading conduct compliance, market surveillance, and trading review and analysis.

With extensive knowledge and experience in the field of equity market structure and electronic trading, Ms. Rudd has been a dedicated securities industry executive for more than 20 years. Past positions include her role as Chief Executive Officer at TriAct Canada Marketplace, and senior management roles in business development at ITG Canada, CIBC World Markets, and the Toronto Stock Exchange. She also served on the IIROC Board of Directors (2008-2009) and was most recently a partner with capital markets consulting firm, Capco.

Ms. Rudd holds a Bachelor of Mathematics degree in Computer Science from the University of Waterloo, and a Masters of Business Administration from Wilfrid Laurier University.

BIOGRAPHIES OF SPEAKERS

Session III



Sheryl Kennedy
Chief Executive Officer, Promontory Canada

As CEO of Promontory Canada, Sheryl advises clients on a wide range of public policy, business strategy, finance, restructuring, governance and risk management issues and leads Promontory's global recovery and resolution planning practice. She assists clients in assessing regulatory impacts, devising business strategies, and managing risk in order to be successful in a rapidly changing and complex competitive landscape. Sheryl joined Promontory after a 28-year career in federal public service and a period as a Senior Adviser for international strategy on executive interchange to Scotiabank in Toronto.

Sheryl served as Deputy Governor of the Bank of Canada from 1994-2008. In addition to sharing collective responsibility for monetary policy and financial system stability as a member of the Governing Council, she held various executive responsibilities including for financial markets, funds management, banking services, and assessment of the Canadian economy in support of monetary policy. Sheryl chaired the Markets Committee at the Bank for International Settlements from 2003-2006. Prior to her service at the Bank of Canada, Sheryl worked for the Department of Finance of the government of Canada, as General Director of the Financial Sector Policy Branch, and as Director of the Economic Policy Branch. She was also Finance Counselor at the Canadian Embassy in Paris.

Sheryl is a Director of the Canadian Public Accountability Board which oversees public company audits and is a member of the Board of Trustees of the General Synod Pension Plan of the Anglican Church of Canada. Sheryl earned a M.P.A., from the Kennedy School of Government, Harvard University, a Bachelor of Environmental Studies, Urban and Regional Planning (with Honors) from the University of Waterloo and also studied finance and financial markets at the London School of Economics.

Session III



Monica Kowal
Vice-Chair, Ontario Securities Commission

Monica Kowal has over 25 years of experience in capital markets law and policy spanning both the public and private sectors. Most recently, Ms. Kowal continues to play a leading role on the Cooperative Capital Markets Regulatory System initiative as well as other major policy initiatives of the Ontario Securities Commission.

Before becoming Vice-Chair, Ms. Kowal was General Counsel of the OSC, building a 15 person in-house legal, policy and risk management resource to the Commission while leading a number of regulatory reform agendas including modernizing derivatives legislation following the 2008 financial crisis. As a trusted advisor to governments and an expert in capital markets regulation, Ms. Kowal was seconded to the Canadian Securities Transition Office where she led the federal derivatives regulatory initiative and co-led the harmonization of provincial securities regulation.

Prior to joining the OSC, Ms. Kowal was a partner at Blake, Cassels & Graydon LLP where, as a member of the Blake securities group, she was involved in extensive securities and corporate law matters.

BIOGRAPHIES OF SPEAKERS

Keynote Session and Luncheon – Away from the Lamppost: Culture, Conduct and the Effectiveness of Prudential Regulation



Jeremy Rudin

Superintendent, Office of the Superintendent of Financial Institutions

Jeremy Rudin was appointed Superintendent of Financial Institutions in June 2014, for a seven-year term. Prior to joining OSFI, Mr. Rudin served for six years as Assistant Deputy Minister of the Financial Sector Policy Branch at the Department of Finance. In this role, he led development of policy measures to support access to credit during the global financial crisis as well as contributing to many other financial sector policy issues. He also represented Canada on standing committees of the Financial Stability Board, including the Resolution Steering Group and the Standing Committee on Standards Implementation.

Mr. Rudin's career in government has spanned more than 20 years. In addition to his role as Assistant Deputy Minister, he held senior roles as the General Director of the Economic and Fiscal Policy Branch from 2001 to 2004 and General Director of the Financial Sector Policy Branch from 2006 to 2008. He also worked for the Bank of Canada as Director, Funds Management in the Financial Markets Department from 2004 to 2006.

Before joining the public service, Mr. Rudin taught economics at the University of British Columbia and Queen's University. As Superintendent, Mr. Rudin serves on the Council of Governors of the Canadian Public Accountability Board and the board of directors of the Canada Deposit Insurance Corporation. He also represents OSFI on the Financial Stability Board. Mr. Rudin holds a B.A. from the University of Toronto, an M.C.R.P. from Harvard University and a Ph.D. in economics from Stanford University.

Session IV – Life Insurance Markets – Life in the Long Run



Neil Parkinson

National Insurance Sector Leader, KPMG LLP

Neil is the National Insurance Sector Leader of KPMG's Canadian insurance practice. He is the chair of the Insurance Auditors Advisory Committee for the Superintendent of Financial Institutions Canada, and is deeply involved in Canadian accounting and regulatory matters for insurers. Neil is a member of the Canadian Accounting Standards Board's Insurance Accounting Task Force and KPMG's global insurance accounting technical committee. He has been very involved in analyzing and commenting on the proposed IFRS standards for insurance contracts, and has delivered presentations on the subject to many conferences and insurance companies in Canada and abroad. Neil has also chaired and co-chaired CICA task forces on audit matters related to actuaries, and served as accounting adviser to the Canadian Institute of Actuaries task force on reinsurance.

Neil has led KPMG's initiatives to help Canadian insurers understand and respond to regulatory and best practice expectations for improved risk management. He has led key projects for leading Canadian insurers on independent assessments of risk management practices, assessment of economic capital practices, and ORSA development and assessment projects. He is a frequent speaker and writer on insurance subjects, and is a contributor to KPMG's global publications and webcasts on insurance regulatory matters and the development of international insurance accounting standards.

BIOGRAPHIES OF SPEAKERS

Session IV

**Michel Fortin**

Senior Vice President, Group Benefits and Retirement Solutions, Institutional Markets, Manulife

Michel Fortin is Senior Vice President, Group Benefits and Retirement Solutions, at Manulife Canada since Manulife has acquired the Canadian operations of Standard Life in February 2015.

Mr. Fortin is responsible for Products, Marketing, Underwriting, Small Business and Business Services for Group Benefits and Retirement Markets.

He joined Standard Life in 1987 as an actuary responsible for retail and pension products. Progressing in leadership positions, he served as Senior Vice-President, Marketing and Customer Solutions for Standard Life Canada beginning in 2012. In that role, he was responsible for the conception, development and management of product, pricing and the overall marketing strategy for group savings and retirement, group insurance and retail investment product lines.

Mr. Fortin holds a Bachelor of Science (BSc) in actuarial science from the Université Laval in Québec City. He is a Fellow of the Society of Actuaries and of the Canadian Institute of Actuaries.

Session V – Competition, Regulation, Growth, and Market Dynamics

**Denis Dubois**

Chief Integration Officer, Desjardins General Insurance Group

Denis Dubois joined Desjardins General Insurance Group (DGIG) in 2003 and has held a number of progressively senior positions since then, including Vice-President of Sales and Business Development, Quebec Operations; Vice-President of Market Development, Vice-President of Acquisitions and Claims National Operations; and General Manager of Ontario, Atlantic and Western Regions.

Over the past three years, he led DGIG's acquisition initiative, which resulted in Desjardins' acquisition of the Canadian operations of State Farm. This transaction closed in January 2015, positioning DGIG as Canada's third largest P&C insurer, with approximately \$4 billion in premium volume.

Mr. Dubois is currently Chief Integration Officer, responsible for planning and leading DGIG's Integration of State Farm Canadian activities. Prior to joining DGIG, Denis held management positions with other insurers including AXA Canada.

Mr. Dubois holds a Bachelor's Degree in Actuarial Science from Laval University. He is a Fellow of the Casualty Actuarial Society and of the Canadian Institute of Actuaries.

BIOGRAPHIES OF SPEAKERS

Session V



Chris Catliff

President and Chief Executive Officer, BlueShore Financial

A 29 year veteran of the financial services industry, Chris Catliff joined BlueShore Financial (formerly North Shore Credit Union) as President and CEO in 2000. The Credit Union currently has \$3.7 billion in Assets under Administration and 40,000 members. It is based in the Vancouver and Whistler areas of British Columbia.

Chris began his career as a policy analyst for the Province of BC. Chris then worked for 14 years in various executive roles at Canada's largest credit union, Vancity. In 1995, Chris was on the Vancity team that purchased Citizens Trust Company; and, as Senior VP and General Manager he led the de novo application to create Citizens Bank of Canada.

Chris served as Chair for five years of the OSFI-regulated, \$450 million revenue, CUMIS Group which included both P&C and life insurance. He also chaired BC-based, Canadian Northern Shield Insurance for five years and sold it to RSA Canada. Since 2002, Chris has been Chair of United Mortgage Group, a mortgage broker collective. He also chaired the \$23 billion Credential Financial Inc., the IIROC and MFDA wealth management, broker dealer to Canadian credit unions.

He has received his Partners, Directors and Officers Certification from the Canadian Securities Institute and his ICD: D. He holds an MA from UBC and has completed executive leadership programs through Harvard and MIT.

A Vancouver native, he currently sits on two North American "think tanks" and is an active member of the World Presidents' Organization.

Session V



Jim MacGee

Associate Professor, Department of Economics, University of Western Ontario

Jim MacGee is the Bank of Montreal and Associate Professor of Economics at the University of Western Ontario, where he has been a faculty member since 2002. He received his B.B.A. and M.A. (Economics) from the University of New Brunswick and his Ph.D. (Economics) from the University of Minnesota. His research has focused on consumer credit and bankruptcy as well as the Great Depression, and has been supported by the Social Science and Humanities Research Council of Canada. Jim has published in leading academic publications, including the American Economic Review, the Journal of Monetary Economics, and Review of Economic Dynamics.

BIOGRAPHIES OF SPEAKERS

Rapporteur's Remarks



Craig Alexander

Senior Vice President and Chief Economist, TD Bank Group, and incoming Vice President, Economic Analysis, C.D. Howe Institute

Craig Alexander is the Senior Vice President and Chief Economist for TD Bank Group. In that role, he manages a large team of economists that support all of the divisions and clients of TD – the second largest bank in Canada and the eighth largest bank in the United States.

Mr. Alexander has 15 years of experience in the private sector as an economic and financial forecaster. He is also a regular commentator on public policy. He speaks at more than 100 events per year on economic and financial developments, and writes research on a wide array of subject areas.

Prior to joining private sector, he spent four years as an economist at Statistics Canada.

In addition to his role at TD, Mr. Alexander is a strong advocate for the cause of literacy and is a champion of the charitable sector. He also serves on the Board of Directors for several non-profit groups. He is a Trustee of two pension plans and is on the editorial board for the quarterly journal *Canadian Public Policy*.

A former two-term President of the Canadian Association for Business Economics, he holds a graduate degree in economics from the University of Toronto.

BIOGRAPHIES OF HOST & MODERATORS

Welcoming Remarks

**William B.P. Robson**

President and CEO of the C.D. Howe Institute

Bill Robson took office as President and CEO of the C.D. Howe Institute in July 2006, after serving as the Institute's Senior Vice President since 2003 and Director of Research since 2000. He has written more than 200 monographs, articles, chapters and books on such subjects as government budgets, pensions, healthcare financing, inflation and currency issues. His work has won awards from the Policy Research Secretariat, the Canadian Economics Association, and the Donner Canadian Foundation. He is a Senior Fellow at Massey College, holds an ICD.D designation from the Institute of Corporate Directors, and is a member of the Big Picture Panel on the CBC's The Exchange. Bill taught public finance and public policy at the University of Toronto from 2000 to 2003, and currently teaches a Master's level course in public finance at the University of Toronto's School of Public Policy and Governance.

Introducer: Session I

**Jeremy Kronick**

Senior Policy Analyst at the C.D. Howe Institute

Jeremy holds an undergraduate degree in economics and mathematics from Queen's University, a master's in financial economics from the University of Toronto, and a PhD in International Economics and Finance from Brandeis University. His PhD research areas focused on the international transmission of monetary policy shocks from the developed to the developing world, as well as the Canadian housing market and the effects of macroprudential regulation.

Jeremy previously worked in the international tax department at Deloitte & Touche LLP, as well as in both the financial stability and international departments of the Bank of Canada. Most recently, he was a lecturer at Brandeis University where he taught both macroeconomics and microeconomics while completing his PhD studies.

* All positions and organization affiliations are and of time of conference.

BIOGRAPHIES OF HOST & MODERATORS

Moderator: Session II & III



Finn Poschmann

Vice President, Policy Analysis at the C.D. Howe Institute

Finn Poschmann graduated in economics from Carleton University in Ottawa in 1986 and is Vice President, Policy Analysis at the C.D. Howe Institute, where he has held a variety of positions since January 1998.

For more than a decade previous, he was at the Parliamentary Research Branch in Ottawa, where he held a number of research positions principally involved with providing economic analysis and advice to Parliamentarians and Standing Committees.

He has worked in numerous areas within the field of economics, but has primarily been concerned with public finance and taxation and federal-provincial relations. He is particularly interested in the distributional impact of taxation and in the use of microsimulation tools in the design of tax policy, but has also worked on monetary policy issues and disparate public policy questions. Recent publications have dealt with public-private partnerships, federal and provincial tax and fiscal issues, the tax treatment of retirement savings, and Canada's exchange rate policies.

Moderator: Session IV



Daniel Schwanen

Vice President, Research at the C.D. Howe Institute

Daniel Schwanen is an award-winning economist with a passion for international economic policy. He is spearheading Institute programs focused on the link between Canada's international trade and investment policy and Canadians' standards of living.

Having earned degrees in economics from the Université de Montréal and Queen's University, Daniel began his career in the financial services industry, becoming International Economist at the CIBC in 1986. He first joined the C.D. Howe Institute in 1990, producing widely-cited research on international trade, Canada's economic union, climate change policy, and the economics of cultural policy. His work in the 1990s earned him foreign visitorships in the United States, Japan and Australia.

After joining the Institute for Research on Public Policy in 2001, Daniel earned the Policy Research Initiative's Outstanding Research Contribution Award for his paper "A Room of Our Own: Cultural Policies and Trade Agreements," and produced, with co-editors Thomas Courchene and Donald Savoie, a major series of papers on North America after NAFTA. In 2007, he co-wrote the independent review of Australia's Progress to Achieve APEC Goals, presenting the report at APEC's Senior Officials meeting as part of APEC's peer review process.

Daniel joined the Centre for International Governance Innovation (CIGI) in Waterloo, Ontario in 2005, serving in a number of senior research and executive positions. Most recently, his work there focused on the G20 and international economic policy coordination.

Daniel returned to the C.D. Howe Institute in March, 2011 as Associate Vice President, Trade and International Policy. He was promoted to Assistant Vice President, Research in January 2013, and currently holds the position of Vice President, Research, as of June 2014.

BIOGRAPHIES OF HOST & MODERATORS

Moderator: Session V



Duncan Munn

Senior Vice President and Chief Operating Officer of the C.D. Howe Institute

Duncan Munn is Senior Vice President and Chief Operating Officer of the C.D. Howe Institute. He joined the Institute in 2000, holding increasingly senior roles culminating in his appointment as Sr. VP and COO in 2008. He oversees the daily affairs of the Institute as well as initiatives and special projects, and plays a leadership role in the strategic direction of the entire organization. He has participated in the Institute's Financial Services Research Initiative since its launch. Duncan is also the Chair of the Board at Primero Financial, a nonbank lender focused on Trade Finance, and is a Director of Lendified Inc., an innovative marketplace lender focused on the sme sector. He is also Director and immediate past Chair of the Alterna Saving Groups, a full service financial services firm with almost \$3.5 billion in assets under management. He has previously served a number of organizations in a voluntary leadership capacity including Youth Challenge International (Director), Etobicoke Easters Seals (Chair) and George Hull Centre for Children and Families. Apart from his work in at the Institute and in the financial services sector, he has interests in a real estate investment firm.

CONFERENCE SUMMARY

The Future of Financial Services: Competition and Growth

INTRODUCTION

On June 17, 2015, financial services practitioners and other experts in the private and public sectors gathered at the C.D. Howe Institute to discuss the future of the industry, as it relates to regulation, competition and growth. The formal presentations, as well as the lively question and answer periods that followed, identified some key issues.

First, there was general agreement that Canada has a robust financial system, which benefits from strong principles-based regulatory oversight and open channels of communication between market participants and regulators. Second, while the Canadian financial system fared better than most other jurisdictions during the 2008/09 financial crisis, it is being deeply affected by the wave of global and domestic regulatory changes in the wake of the crisis.

There was, however, a strong consensus among participants that the challenge in this respect is finding a way to not stifle growth and efficiency in the process of promoting financial system stability.

Some participants felt the post-financial crisis formal regulatory changes may be cresting. Nonetheless, some members of the private sector are concerned about the unknown, potentially unintended, consequences of certain regulatory changes, and anxious about the implications of potential un-level international playing field.

This implies that the search for the optimal regulatory setting that promotes stability as well

as competition and economic growth, and helps businesses and individuals achieve their goals, will not be an easy one.

SUMMARY OF CONFERENCE DISCUSSION AND PRESENTATIONS

The conference comprised five major sessions and a keynote luncheon. The proceedings began with a discussion on the emerging economic and regulatory environment. The second session analyzed banking after Basel III. The third session discussed the shifting ground of capital markets regulation. The fourth session looked at the impact of regulation on life insurance markets. The final session of the day investigated the impact on overall financial sector growth dynamics of new competitive and regulatory developments. The keynote session discussed culture, conduct, and the effectiveness of prudential regulation. The conference closed with a review of the main themes that emerged over the course of the day.

Session I – The Emerging Economic and Regulatory Environment

This session began with a review of policies undertaken in Canada in the midst of, and following, the financial crisis.¹ The goal of all policy during and after the crisis was to revive economic growth as well as create increased stability in the

1 This session updated some of the themes developed in “Financial Regulation and Efficiency: Tradeoffs in the Post-Financial Crisis Era,” C.D. Howe Institute Verbatim, January 29, 2015.

global financial system. Monetary policy was very active, both at the beginning of the crisis from 2008-2010 and in the period from 2011 on. Fiscal policy, while strongly stimulative in 2008-2010, tapered off relatively quickly, raising the question of whether attempts to return to fiscal balance were initiated somewhat too rapidly.

Looking to the future, participants were of the view that risks still prevail in financial markets. The world appears trapped in a slow economic growth environment, compounded in the advanced economies by population aging. Monetary and regulatory policy has sustained a very low interest rate environment, which may be distorting asset prices and could ultimately threaten financial stability. Financial regulatory changes have increased capital requirements and imposed considerable compliance costs, but a key question is to what extent the cost will be borne by individuals and businesses.

Going forward, a critical issue will be to find a way for the three principal authorities concerned – namely monetary, fiscal, and regulatory/supervisory – to work together in alignment to promote economic growth and financial stability.

Session II – Banking after Basel III

The post-financial crisis world spurred a nuanced discussion among participants on ideal bank stability ratios within the Basel framework. For example, under Basel III, capital ratios will be phased in to create an increase in the quantity and quality of bank capital. Similarly, liquidity coverage ratios will be phased in with the intention of withstanding large cash outflows in stressful periods. If we look at how banks have been doing in implementing some of these new measures since 2009, as of the 2014 Bank for International Settlements (BIS) annual report, retained earnings have grown strongly, there has been a sharp reduction in risk-weighted assets, and lending has not fallen – it has increased by 13 percent.

Despite these positive developments so far, there are open-ended questions including how to model risk for individual banks both within and across borders. How do we coordinate across borders (while addressing “ring fencing”) within the current framework or if we move to Basel IV, where the focus would be on a more cohesive approach to measuring risk across banks? Many banks have simplified their models and ring-fenced various functions to deal with regulations, which was one of their intended consequences. So, the impact on the financial sector is still being played out.

The Canadian position following the financial crisis was relatively better than most due to a combination of strong fiscal positions when the downturn began, and early adoption of accommodative monetary policy. Furthermore, having a principles-based regulation and supervision regime served well during the crisis and will help the Canadian economy.

However, new regulations also bring complications, noted participants. Banks with the same assets as each other can have different risk-weighted assets, because the latter can depend on internal models. Regulators are ring-fencing their jurisdictions (for example, even branches can almost be treated as stand-alone entities with respect to both capital and liquidity requirements), due to lack of trust in others, and the aggregate impact of all these rules is not well-understood. Inefficiencies from these new regulations, should they materialize, will likely have a large impact on the real economy and this question needs to be studied in greater detail. Current experience provides examples of these issues. Canadian banks are holding twice as much resolution capital as needed and, thus, are not supporting the real economy to the full extent possible.

The major question, then, is whether we have swung too far in the direction of stability at the expense of efficiency.

Another issue revolves around the notion of regulatory level playing fields. Canadian banks

keep many things on balance sheet that banks in other jurisdictions can keep off balance sheet. This distorts stress-testing among other things. The rules are often generalized, and not well suited to dealing with idiosyncratic institutions and circumstances.

Despite the positives and challenges of regulation, Canada's effective and principles-based regulation has been strengthened. Many reforms have been discussed, agreed on, and implemented to a degree: what remains is the need to refine them. The full implementation will not be complete until 2019, giving time for financial institutions to make adjustments.

Despite this late date for implementation, Canadian banks, due to their strong financial positions both before and after the crisis, were able to adopt many of the Basel III changes early. The return on equity of the major six banks has recovered, averaging between 15-21 percent in 2010-2014. Much of that growth is coming from the domestic economy, specifically in retail and commercial banking.

These positive developments do not justify complacency. Potential vulnerabilities remain, according to the Bank of Canada's latest Financial System Review. Household debt remains a concern, international risks from Greece, China, and emerging markets are still present, cyberattacks are a reality, and large negative shocks to the market are always possible.

The world banks face is not static. The compliance burden is rising and competition is coming in the form of financial technology and new mortgage finance competitors. Banks will need to adapt. They have room to take on more risks (for example, by increasing lending to small and medium-size enterprises, SMEs), and they may look abroad for revenue growth, turning them from domestic systematically important banks (D-SIBS) into global systematically important banks (G-SIBS). The question remains: is regulation able to deal with the resulting cross-border issues? And while regulation for the chartered banks has shifted significantly, there is some question about whether

regulation for non-federally regulated financial institutions has kept pace.

Moreover, while Canada was an early adopter of a Non-Viability Contingent Capital Approach (NVCC), the capacity of the markets to absorb these securities has been an issue, as Canada's contractual regime approach (in contrast to a statutory regime approach in other jurisdictions) may have made it difficult for investors in the rest of the world to become familiar with domestic products. And there is debate around how some macro-prudential policies will be implemented, such as the trigger for bail-in capital.

More broadly, there is some debate about whether the regulatory actions taken to date are addressing the last financial crisis, rather than addressing the potential financial crisis of the future. In any event, the experience of the last crisis, which unfolded where it was not expected, suggests that it is hard to know whether the latter is possible. And if there are unintended consequences with the current reforms, it will be difficult to know why, as we are "moving all the dials at the same time."

Session III – Capital Markets – The Shifting Regulatory Ground

The first part of this session discussed the Canadian regulatory landscape for debt, equity, and other forms of financial investments. While equity trading plays a large role in the Canadian market, it is dwarfed by the size of the debt market, which has historically been less transparent. Under the new framework, dealers have to disclose all transactions involving debt. The benefit of this new framework is it will allow for improvement in our data collection and therefore our ability to analyze this part of the market. This data will be shared with, among others, the Bank of Canada and the Canadian Securities Administration.

Session participants noted there are difficulties from an analysis standpoint, as regulators face difficulty finding and hiring data scientists, in part because they are competing with better funded

dealers. A similar hiring difficulty is present on the monitoring and supervision side, thus requiring a set of centralized regulation and better data sharing among groups.

The session next discussed system risk. Despite no agreed upon model for systemic risk, making it hard to define, there are a set of attributes risk must have in order for it to be considered systemic. The negative effects of the shock must be widespread, there must be clear contagion, and it must impact the entire real economy. With this definition one must think about which markets must stay functioning to keep the real economy from going into crisis. Some examples include the core funding markets and liquidity markets. Some markets that may have originally been secondary have perhaps risen to the forefront including the derivatives market, and debt and equity markets discussed above.

Once the important types of markets have been identified, one must think about how to measure this systemic risk. Some tests include size, which would look to the transaction value of the financial institution relative to the entire market, interconnectedness, asking who are the counterparties, and are there a lack of substitutes should this institution fail. Once there are established measurement techniques, the question becomes how to address this risk. The focus should be on mitigation, resolution planning, restructuring, insurance, and continued lender of last resort operations.

The final part of this session looked at Over-the-Counter (OTC) derivatives clearing. The three goals of regulation in this space include collecting information, protecting investors, and reducing systemic risk. Any regulator must have a mandate that includes the managing and mitigating of large risks. Given the international nature of this market, regulation needs to be shared globally. Unfortunately, the data are not as developed as they need to be, making global standards difficult to achieve. Furthermore, global standards always

run the risk of not addressing the uniqueness of individual markets.

Porting is going to be a big part of the future for all institutions as it helps in the event of default or insolvency of a clearing member. Furthermore, one issue that has been resolved – and was key for institutions – was the ability for foreign agents to clear in Canada. Canada has begun the centralization of regulation in this space by creating a single regulator, the Capital Markets Regulator Authority (CMRA) between five provinces (B.C., Ontario, Saskatchewan, New Brunswick, and P.E.I.) and the Yukon.

As for the session as a whole, the tone was hopeful and positive. The origin of the financial crisis lay in capital markets and so regulatory process on this front is particularly important.

The session included a substantial discussion on new data and its use in analyzing and addressing potential risk, especially as it relates to the securities being bought and sold in the market. The key will be to identify what should be regulated, reduce the arbitrage opportunities, and coordinate on any shocks to the system.

Keynote Session and Luncheon – Away from the Lamppost: Culture, Conduct, and the Effectiveness of Prudential Regulation

The keynote speech from OSFI Superintendent Jeremy Rudin is here: <http://www.osfi-bsif.gc.ca/Eng/osfi-bsif/med/sp-ds/Pages/jr20150617.aspx>; the summary that follows touches on key points or themes.

When it comes to regulation of going concern institutions, OSFI is of the view that it has crested. The focus should now turn to the effectiveness of these regulations as measured by outcomes. One of the keys to ensuring positive outcomes will come through the evolving culture of boards and management at financial institutions. This new culture should encourage refraining from risk that is in excess of the public interest since such risk

not only damages public trust, it can also stifle economic growth. By creating rules that are not excessively complicated – as the latter often lead to gaps – the goal is to create prudent risk taking in the economy.

Given the vast set of rules now in place, OSFI believes it is vital that regulators actually go out in the trenches and see what these institutions are in fact doing. Despite these official rules, the “unwritten” rules are often where issues can arise, and it is here that culture can encourage better behaviour.

Analyzing culture, and for that matter sub-cultures in large institutions, can be done through board conversations with management, conversations between management and risk departments, promotions of management, and other similar areas. By spending time building the culture in these institutions, it is possible to reinforce the idea that conduct issues are prudential issues, and they end up being important economic issues as well through, among other things, reputational risk.

One of the strengths of the Canadian system has been the honest, open discussions between regulators and financial institutions. Trust has been the key to this success. In order to maintain this trust and continue to identify potential issues in our prudential management, we need to always be looking away from the obvious and think outside the box.

In terms of potential vulnerabilities, one question from the room was whether Canada is facing pressures from other countries that are more rules-based in their regulation. The answer was that we in Canada have not felt foreign pressures to turn our principles-based approach, where it applies, into a rules-based one, except for international level-playing field issues (e.g. capital ratio), which is normal and where we also lean on others. At the same time, we do have some rules-based regulation where we see fit. One potential issue is that we have to be careful that when financial institutions want clear rules in certain areas, we provide it to them despite a desire to stay away from this rules-based

approach. However, given that we have been largely successful on the conduct front, there is hesitation to provide any rules in this area.

Session IV – Life Insurance Markets – Life in the Long Run

The next session dealt with life insurance markets and the effects of the new International Financial Reporting Standards (IFRS). Under the new set of rules, discount rates will be lower, which will lead to unrealistic profit recognition and liability valuation. Volatility of profits will increase as well, which will make certain products less likely to be sold, both because suppliers are less willing to sell them, and buyers, who do not like volatility when it comes to long-term products such as life insurance, will stop buying. This means that the products on the market will be altered and more of the risk will be shifted toward consumers.

Another issue is that US life insurers are not on IFRS standards, which include mark-to-market rules, and this creates a potentially significant un-level playing field across borders, as US life insurance company assets appear less volatile but do not reflect the latest market information.

The next part of the session focused on two areas: the value provided by Canadian life insurers, and concerns over the rules changes. The goal of any life insurer is to provide long-term benefits and stability, in this case to Canadians, at reasonable consumer prices, while at the same time making a profitable business for shareholders. The ability to pool risk is good for consumers. The issue with generalized accounting standards like IFRS is that most of the businesses they are looking at are not life-insurers with long-term provision needs.

The concerns mentioned above were reinforced at this point in the discussion. The new rules will create a loss of product choice or higher product prices, as investing in long-term assets will be discouraged, thereby lowering profits and creating a higher cost threshold to keep products on market. There will be an increase in prices, as the ability

of life insurers to hedge risk will diminish as long-term investments are avoided. These shorter term assets are usually safer assets, however they come with lower return leading to a reduction in profitability and an increased cost to consumers.

Lastly, volatility becomes an issue. Life insurers are selling stability in their products and they have to appear this way. Consumers may stay away if the products appear more volatile, especially if prices increase for them as well. Life insurers are not arguing for the removal of standards, but are trying to reinforce that they need to be addressed more idiosyncratically.

During the question and answer period it was agreed that the new rules have been particularly hard on life insurers, pension funds, etc., due to the mismatch between assets and liabilities timing, and it is not clear that the private sector is going to be able to provide the needed products as a result. The challenge then is to provide an annuity-type product that pools risk and gives Canadians what they need under these new rules. If the private sector cannot do it then the only way will be to socialize costs and issue these products through the public sector. One final point was made in this session that it is fine to blame IFRS, but on top of these new rules there are other material challenges – a sustained exceptionally low interest rate environment is making returns hard at a time that mortality rates are going down. There is no easy fix to be had.

Session V - Competition, Regulation, Growth, and Market Dynamics

This session began with a discussion on the current state of regulation within the property and casualty insurance space. Some of the new products on the market were introduced, such as, in the auto insurance industry, an app that provides much in the way of information. This includes letting drivers know how they are doing with a score that could lead to savings on their insurance rates. The major issue for insurers in this space is that regulation has

not caught up to innovation. For example, the pink card that is standard for auto insurance has to be in hard copy form and cannot be on your smart phone.

The session then turned to the credit union sector. Credit unions are generating competition in the industry, because they provide services where traditional banks may not. Furthermore, they also help mitigate pro-cyclicality, a key goal of most of the regulation post-financial crisis. They have a different business model as they focus more on customer service, and are not concerned with profit for shareholders. Their strength is they understand local sensitivities, which is the key for their growth because they cannot compete on scale and efficiency with large financial institutions. The industry needs proportionality in the application of regulations accounting for these differences of size, location, etc. The credit unions feel that they are heavily regulated and thus should not be considered part of shadow banking.

There is concern for credit unions with regard to Basel III because these types of financial institutions were not considered in the framework. While they have tried to follow as many of the rules as possible, some just do not make sense in their setting. Going forward, whether or not regulation continues to fall more on the provincial side, or gets moved federally – a move not supported by a number of credit unions – the key message from some of them is that there is a low likelihood that they will have to draw upon deposit insurance, or that consumers will lose uninsured deposits, in contrast to a high probability that there will be continued need for financing for economic development in places lacking funding supply from large federally regulated financial institutions.

The last part of the session dealt with the tradeoff between competition and stability and what the data tell us on this front. Competition is good for economic growth and for consumers and should be encouraged, including in the financial system. However, evidence regarding the tradeoff between competition and stability in financial services has been mixed, and one need only compare

the Canadian and Iceland/Ireland financial systems during the financial crisis to see similar institutions but vastly different effects on stability. However, if you control for the quality of regulation then the data suggest that an increase in competition will increase stability, implying the need for prudent regulatory oversight.

The discussion then turned towards housing finance and CMHC. Product innovation is a good thing and it leads to more people being able to enter the housing market. Securitization from more places, including credit unions, has led to additional products getting to market and being purchased by more consumers, thereby enhancing stability. Additional competition, whether or not in the shadow banking system, has led to increased innovation. However, if actors in the shadow banking system are left unregulated for a long period of time, competition tends to lead to excess riskiness. We need more data in this area to help us determine appropriate regulation. While the focus was on the CMHC, other crown corporations could be included in this discussion from the point of view of system-wide regulation.

Rapporteur's Remarks and Conclusions

The conference ended with a discussion of the major themes of the day. The first theme was that Canada has a robust financial system and sound

regulation, and in that sense, we are well-prepared for the future in a global marketplace. The second theme was that a balance needs to be struck between the financial industry's drive for continued growth, innovation, and profitability, and regulators' concerns over public safety. The key for any good regulation is to create the right incentives for stability and growth.

Given the extensive regulatory changes that have taken place or are in the pipeline, there is a strong need for more research on the trade-offs between stability and efficiency in the financial system, the potential impact of un-level playing fields globally, and an assessment of some of the unintended consequences from the recent and ongoing regulatory overhaul. Fundamentally, we are not yet sure of all the linkages and effects of new regulation on the real economy, and we need to keep a close eye on these going forward. If both the private sector and regulators are doing what they believe is best, any inefficiencies or gaps should be addressed along the way. The main lesson learned from the financial crisis was a healthy economy cannot exist without a healthy financial system.

PRESENTATIONS

Michael King, Assistant Professor, Finance Education, Ivey Business School



SESSION II – BANKING AFTER BASEL III

PROF. MICHAEL R. KING
IVEY BUSINESS SCHOOL

C.D. Howe | The Future of Financial Services
June 17, 2015 Toronto

GLOBAL REGULATIONS TARGETING BANKS

Regulation (implementation)	Purpose	Status	Comments
Basel 2.5 (2012)	Securitization, trading book	Done	Increased RWAs, impact on securitization?
Basel III Capital (CET1) (2013)	Higher quantity, better quality, harmonization	Done	Reduced dividends, reduce RWAs
Liquidity Coverage Ratio (LCR) (2015)	Withstand cash outflows during stressful period	Done	Increase HQLA; reducing NIM → increase risk-taking for other assets?
Leverage Ratio (2015)	Backstop to RWAs	Done	Moved from OSFI to Basel III definition
Net Stable Funding Ratio (NSFR) (2018)	Reduce maturity mismatch	Monitoring; phase-in	
Global-SIB + D-SIB frameworks (2016)	Higher loss absorbency	Effective 2019	Recover subsidy for TBTF banks
Non-Viability Contingent Capital (NVCC) (2013)	“Going-concern” recapitalization	Effective Jan 2013	Shareholders bear losses, not taxpayers

PRESENTATIONS

Michael King, Assistant Professor, Finance Education, Ivey Business School

(Continued)

STRUCTURAL REFORMS TARGETING BANKS

1. **Functional separation**: deposit-taking vs. trading
2. **Geographic**: subsidiarization of domestic ops of foreign banks

Where	Regulation	Description
US	Volcker Rule (Dodd-Frank)	Spinoff prop trading, hedge funds
US	Foreign Banking Organization (FBO)	Foreign banks must set up stand-alone intermediary holding company
UK	Banking Reform Act 2013 (Vickers report)	Ring-fence retail deposits in a stand-alone subsidiary
EC	Draft proposal mid-2015	Ban prop trading, separate trading from deposit-taking
FR, DE	Liikanen report 2012	Spinoff prop trading, hedge funds
CH	TBTF Banking Act 2011	Tough rules for D-SIBs

2

WHAT IS “BASEL IV”?

Name (acronym)	Purpose	Comments
BCBS Regulatory Consistency Assessment Program (RCAP) (2012)	Consistency; link standardized and internal ratings-based (IRB) approaches	Restrict arbitrage; reduce differences; reduce reliance on ratings; increase RWAs significantly
Contingent convertible capital instruments (CoCos)	“Going-concern” recapitalization	Address forbearance Who will buy it?
Bail-in debt	“Gone-concern” recapitalization	How to avoid cross-default but respect hierarchy of claims?
FSB Total Loss Absorbing Capacity (TLAC)	Reduce scope and impact of G-SIB failures	Cover 16-20% of RWAs, >33% LT bail-in debt
Living wills / Resolution regimes	Allow bank to be wound up over weekend	Complex; identify powers and tools needed (i.e. bail-in)
Legal powers to restructure and cancel equity	Provide supervisor ability to recapitalize in crisis	Discourage private sector from investing
BCBS consultation on structure interest rate risk		

3

PRESENTATIONS

Michael King, Assistant Professor, Finance Education, Ivey Business School

(Continued)

IVEY OPEN QUESTIONS

- **Global vs. domestic banking:** coordination? info sharing? cross-border resolution? ring-fencing?
- **Credit risk:** where will the floor be linking standardized approach to advanced IRB approach?
- **Operational risk:** pressure to move away from Advanced Measurement Approach (AMA)?
- **Structural interest rate risk:** push to introduce capital requirement for this risk?
- **Models and risk weights:** do we want all banks to have the same models? Concern with herding?
- **Bail-in debt:** how to make it work without discouraging investors from buying equity of distressed bank?

PRESENTATIONS

Rob Stewart, Assistant Deputy Minister, Financial Sector Policy Branch, Finance Canada




 Department of Finance Canada
 Ministère des Finances Canada

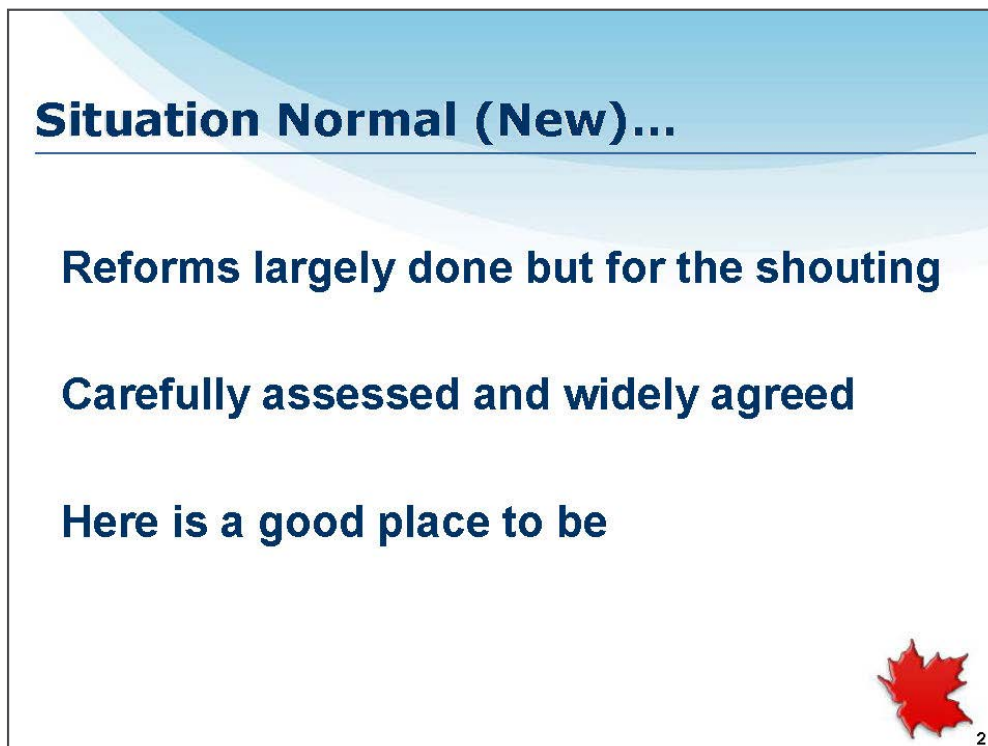
Banking after Basel III

The Future of Financial Services: Competition and Growth
 June 17, 2015

Rob Stewart,
Assistant Deputy Minister, Financial Sector Policy Branch
Department of Finance


Canada 

1



Situation Normal (New)...

Reforms largely done but for the shouting
Carefully assessed and widely agreed
Here is a good place to be

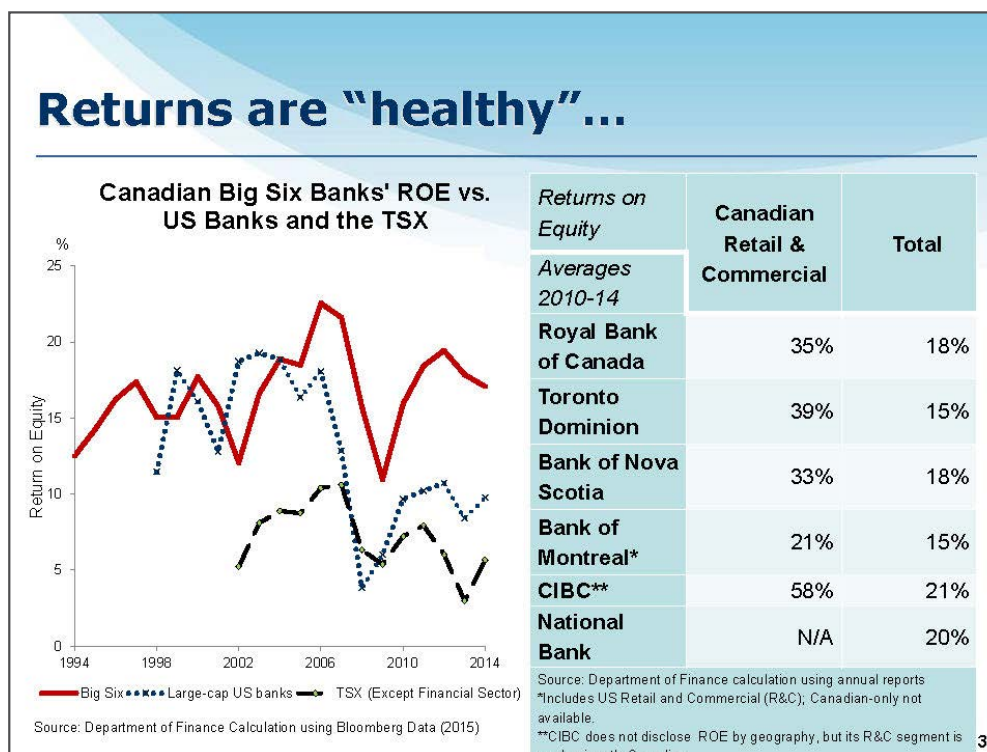
 2

2

PRESENTATIONS

Rob Stewart, Assistant Deputy Minister, Financial Sector Policy Branch, Finance Canada

(Continued)



Nevertheless...

There are no grounds for complacency

Risks are manifold and multiple

People are coming for lunch



PRESENTATIONS

Rob Stewart, Assistant Deputy Minister, Financial Sector Policy Branch, Finance Canada

(Continued)

And there is work to be done.

Adapting to the evolving world

Protecting collective interests

Banking for the Good of the People



5

5

PRESENTATIONS

Jeremy Rudin, Superintendent, Office of the Superintendent of Financial Institutions



Office of the Superintendent of
Financial Institutions Canada

Bureau du surintendant des
institutions financières Canada

***Away from the Lamppost: Culture, Conduct and the
Effectiveness of Prudential Regulation***

**Remarks by Superintendent
Jeremy Rudin
to the
C.D. Howe Institute
Toronto, Ontario
June 17, 2015**

CHECK AGAINST DELIVERY

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PRESENTATIONS

Jeremy Rudin, Superintendent, Office of the Superintendent of Financial Institutions

(Continued)

Remarks by Superintendent
Jeremy Rudin to the
C.D. Howe Institute
Toronto, Ontario
June 17, 2015¹

It is nearly seven years since the failure of Lehman Brothers and its aftermath opened eyes around the world to weaknesses in the regulation and supervision of financial institutions. This led to a wave of global regulatory and supervisory initiatives.

In Canada, this wave is cresting.

For us at OSFI, this is the time to increase our focus on the *effectiveness* of the measures we have taken. To do this, we will be obliged to look not only at the direct evidence that financial institutions are meeting our expectations about risk management and oversight, but also at the indirect and unwritten indicators of how risk outcomes are really determined. This will take us into the important, but for OSFI largely uncharted, area of culture.

The role of culture in effective risk management

In our approach to prudential regulation, we like to emphasize that it is the boards and senior management of financial institutions, and only they, who are responsible for taking risks and managing those risks.

That said, one of our most important roles is to restrain risk-taking by financial institutions that would be excessive from the public's point of view.

This is designed to prevent disruptions in the provision of financial services and to protect individuals and businesses who have entrusted their funds to financial institutions.

Given the nature of financial services, we can only accomplish this goal by being proactive, by acting well before a situation becomes dire. We cannot rely much, if at all, on backward-looking indicators of risk management. A book of business that is performing well in a benign economic environment can quickly start generating large losses when circumstances change. At that point, there is usually little that can be done to staunch the bleeding.

To that end, we have instituted new or reinforced guidance on risk management in the years following the financial crisis, as have many other countries. This includes a new requirement for boards of directors of financial institutions to establish a risk appetite statement and risk limits, and to set out the roles and responsibilities of management in implementing these.

¹ These remarks were delivered to the C.D. Howe Institute during an off-the-record event. OSFI is posting these points with the permission of the organizers.

PRESENTATIONS

Jeremy Rudin, Superintendent, Office of the Superintendent of Financial Institutions

(Continued)

We also expect financial institutions to design their compensation schemes to encourage responsible risk management and avoid rewarding excessive risk taking. And we expect financial institutions to support their risk limits and risk-based compensation schemes with up-to-date and accurate data about their own risk positions.

Having set those expectations, we start by looking for direct evidence that financial institutions are meeting them. We examine their risk limits. We read the fine print in their bonus schemes. And we read the risk reports that their management information systems generate.

This is valuable information, but it is only part of the picture. In any organization, written rules and procedures exist alongside unwritten rules, norms and expectations. These unwritten rules, which we can call an organization's "culture", for want of a better word, can reinforce the written rules. Or they can undermine, or at times even supplant, the written rules.

Boards and management have a strong interest in the very broad range of cultural issues that exist in their organization. They will want to understand and influence the customer service culture, the learning culture, and so on.

At OSFI, our interest in culture is more narrow. It focuses specifically on the institution's norms, attitudes and behaviours related to risk awareness, risk taking and risk management and how these reinforce, or undermine, responsible risk management.

What we are looking for is a culture that consistently supports risk awareness, and prudent behaviours and judgments about risk-taking. A culture that reinforces the risk governance framework. A culture that values the recognition of emerging risks and risk-taking activities that are beyond a financial institution's risk appetite and sees that these are assessed, escalated and addressed in a timely manner.

Even with this relatively narrow focus, culture can be an elusive issue. Culture, by definition, cannot be observed directly. Moreover, the unwritten rules, norms and expectations can vary significantly across an organization of any size, so there can be many subcultures in any given financial institution.

As always, our first stop is to ask boards and management for their own assessment of the interaction between the institution's culture and its risk management. Of course, we do not stop there, particularly when there is any other evidence that sound risk management does not have adequate traction at the bank.

PRESENTATIONS

Jeremy Rudin, Superintendent, Office of the Superintendent of Financial Institutions

(Continued)

Some of the indicators of a culture that supports responsible risk management include:

- the “tone from the top” about risk,
- the independence and stature of the risk and internal audit functions,
- the nature of communication between senior management and the board on risk issues, and
- how promotions are determined and the messages those promotions send about risk management throughout the organization.

While these issues are not entirely new ground at OSFI, we are very aware of just how challenging it is to observe what is only implicit. By keeping our focus on assessing the effectiveness of risk management, and by keeping our expectations principles-based, we will avoid turning culture into a compliance exercise and avoid placing ourselves as the arbiters of culture.

Effective boards and their culture

Let’s turn to another area where cultural issues can be very important: boards of directors and their roles.

Expectations for the boards of directors of Canadian financial institutions have been rising for many years. This is part of a much larger trend that extends well beyond financial services, well beyond risk management, and well beyond Canada.

It was not that long ago that a typical major bank in Canada had a board of well over thirty members, many of them corporate clients of the bank, few of them with knowledge of the inner workings of large financial institutions or the broader financial services industry. This approach to board membership was already seen as outmoded by the time that OSFI issued its first Corporate Governance Guideline in 2003.

We issued a revised Corporate Governance Guideline in 2013. This one heightened the focus on the board and its effectiveness. It codified the expectation that the board would approve the overall strategy and risk appetite, and would exercise oversight of senior management and internal controls.

OSFI has taken a principles-based approach to corporate governance guidance, leaving boards with the flexibility they need to organize their work as they see fit. We recognize that boards have responsibilities that go well beyond those set out in the corporate governance guideline. We also recognize that financial institutions vary in size, complexity, and the issues that they face, and that board members will vary in their approaches to oversight.

The question of “culture” is as important at the board level as it is within the institution itself. Every question that a board member poses to senior management both reflects and shapes the culture of that board. Moreover, those questions will transmit to senior management how the board sees its oversight responsibilities and how it wants to exercise them.

PRESENTATIONS

Jeremy Rudin, Superintendent, Office of the Superintendent of Financial Institutions

(Continued)

Let's take as our example the information flow between senior management and their boards. Some board members, perhaps many board members, think that the material they receive for board and committee meetings is too voluminous, too detailed, and arrives too late.

There may, in fact, be a written policy somewhere in the institution that board materials should be concise, written at a high level, and sent well ahead of the meeting. But if the board does not assert itself with management about the volume and timeliness of board material then excessively detailed and late-arriving board material will become part of the culture. A culture where it is accepted that the board appreciates voluminous material, or that the board is inclined to let management manage them.

At times OSFI is seen as part of the problem in this regard, so let me be part of the solution. Yes, our expectations for boards have risen. Yes, those expectations are demanding. No, we have no explicit or implicit requirements about the volume or detail of the material that should go to boards. What we do expect is effective oversight. When boards believe that they are not receiving the information they need to ensure effective oversight, they need to task management to do things differently. Boards should not accept "regulatory requirements" as a reason for receiving inadequate board material.

Culture, Conduct and Prudential Regulation

To this point, I have been speaking about how the culture of a financial institution can support or impede sound risk management. In the Twitterverse, the discussion of culture in financial institutions is dominated by concerns about cultures that tolerate misconduct.

As you know, OSFI is a prudential regulator. Our focus is squarely on safety and soundness. Conduct – that is, the way an institution interfaces with its clients, customers and counterparties -- is regulated by other bodies. So we could conceivably leave conduct, and misconduct, issues aside. But like so many things in prudential regulation, it's not that simple.

Rather, there are a number of ways that misconduct can become a prudential issue.

The first is through direct financial losses. Major misconduct can lead to significant fines, penalties, legal settlements and restitution payments. One study has found that post-crisis misconduct costs and provisions at 15 large international banks (none of them Canadian) totalled the equivalent of over 300 billion Canadian dollars, and this was only up until 2013.²

Repeated major misconduct can lead to financial losses indirectly as well, by impairing an institution's reputation and so damaging its relationships with customers and clients.

² Retrieved from: <http://conductcosts.cpresearchfoundation.com/conduct-costs-results>

PRESENTATIONS

Jeremy Rudin, Superintendent, Office of the Superintendent of Financial Institutions

(Continued)

For these reasons, we have come to see conduct as a prudential issue. More than a decade ago we issued guidance on what we then called “legislative compliance management.” This had its origin in our statutory responsibility to see that financial institutions were conforming with the provisions of the *Bank Act*, the *Insurance Companies Act*, and so on.

In 2014, we revised the guideline and reissued it under the title: *Regulatory Compliance Management*. In that guideline we note that financial institutions are exposed to prudential risks arising from potential non-conformance with the laws, rules, regulations and prescribed practices in every jurisdiction in which they operate.

And we set out our expectation that an effective and enterprise-wide regulatory compliance management framework should be included as part of a financial institution's overall risk management program.

I want to raise some more subtle, but nonetheless important, ways in which repeated major misconduct can raise prudential issues.

One links back to our earlier discussion of the impact of culture on responsible risk management. Significant misconduct anywhere in a financial institution is almost certainly evidence of an important gap between the institution's written rules or stated policies, and the way things really work. As I put it earlier, it is evidence of a culture that undermines, or even supplants, the written rules.

So if we saw repeated major misconduct in a particular institution, we would have to ask ourselves how many areas of that institution suffer from leadership that is unable, or unwilling, to create a culture that supports its stated objectives. And that would raise questions about the effectiveness of risk management throughout the institution.

For principles-based regulators like OSFI, there is yet another way in which conduct can become a prudential issue.

As a principles-based regulator, we endeavor to set high-level principles and allow flexibility in how financial institutions meet those expectations. This holds the promise of maximizing the effectiveness of prudential regulation (which is one of our goals), while minimizing the costs of complying with those expectations (which is good for financial institutions, and arguably for the economy as a whole).

In my view, we are fortunate that we have, in Canada, the preconditions that allow for effective principles-based prudential regulation. One of those preconditions is clear, honest, open and reliable two-way communication between us and the individual financial institutions. For principles-based prudential regulation to work well, we need to be able to rely on the information that we receive from institutions.

PRESENTATIONS

Jeremy Rudin, Superintendent, Office of the Superintendent of Financial Institutions

(Continued)

We do a lot of checking, to be sure. We are guided by the old Russian proverb, famously translated by Ronald Reagan as: "Trust, but verify." Just as important as the verification is the trust. If we saw repeated major misconduct in the institutions that we supervise, we would have to ask ourselves if our "trust but verify" approach was really reliable.

We would be drawn toward, and perhaps ultimately obliged to implement, a rules-based approach characterized by detailed and inflexible requirements and independent verification of every item on the checklist.

And that would be a real loss for us, for the financial services industry, and, most importantly, for the public interest.

Fortunately, I see no reason to believe that there are such significant misconduct issues in Canadian financial services at present.

We keep close track of episodes of misconduct in the banks and insurers that we regulate, and they are typically proactive in bringing any issues to our attention.

Of course, the record is not spotless, much as we might like it to be.

But I am happy to report that we have seen nothing in recent years that even approaches a significant prudential issue.

Conclusion

Many speeches start with a joke: this one ends with one.

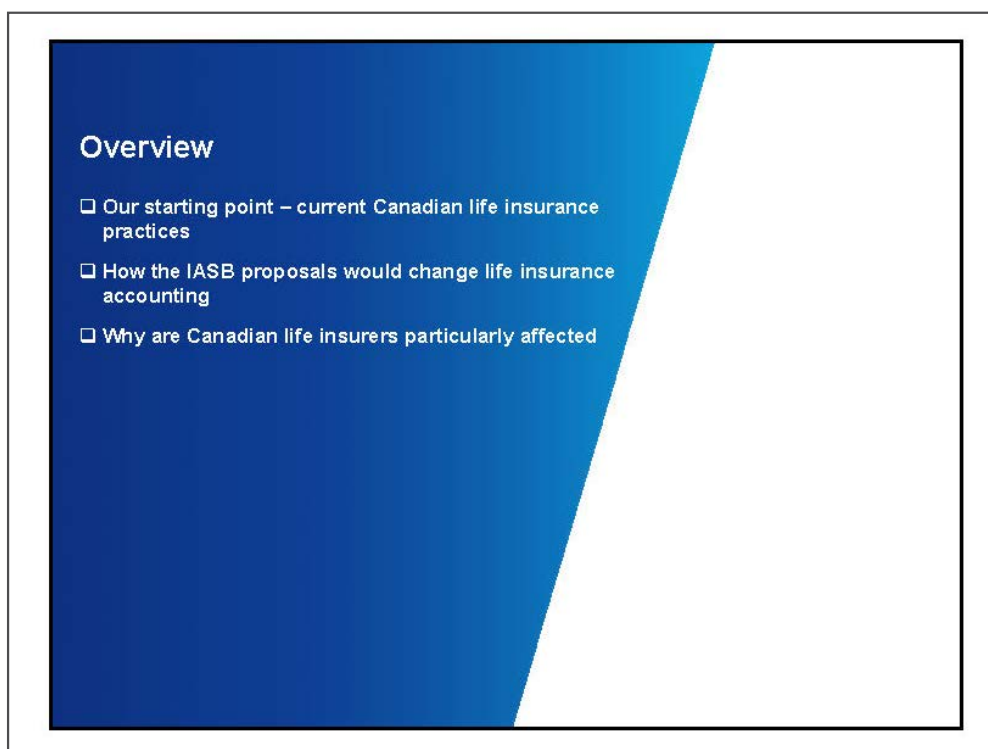
A man is walking down a dark alley where he comes across a second man. The second man is on his hands and knees, crawling around underneath the only lamppost in the alley. "Can I help you?" says the first man. "Please," says the second man, "I lost my car keys." The first man also gets down on his hands and knees and together the two men crawl around under the lamppost for several minutes, looking for the keys. Finally, the first man gives up and says to the second: "I don't see your keys. Are you sure you dropped them here?" "Not at all," says the second man, "I dropped them at the other end of the alley." "So why are we looking here!?" asks the first man. The second man replies, "Because the light is so much better here!"

Supervisors are used to looking where the light is shining: at organizational charts, at risk limits, at quantitative models, and so on. And we find a lot of interesting things when we do that. But to be effective, we also have to look at things that won't be found under the lamppost, including how culture reinforces or impedes responsible risk management.

Thank you.

PRESENTATIONS

Neil Parkinson, National Insurance Sector Leader, KPMG LLP



PRESENTATIONS

Neil Parkinson, National Insurance Sector Leader, KPMG LLP

(Continued)

□ Our starting point – current Canadian life insurance accounting practices

2

Features of current Canadian life insurance accounting

- Fundamentally, Canadian life insurers use a “prospective cash flow” measurement model, rather than a more conventional “historic cost”, “defer and match” model which is more common in other countries
- Canadian practice links the valuation of insurance liabilities to the assets that are held to support them
- Canadian life insurance accounting is based on the “CALM” actuarial method (Canadian Asset-Liability Method), adopted in 2002 as a refinement of a previous method. Under CALM, an insurance liability reflects:
 - *all expected future outlays* (claims, benefit and investment payments, cash values, commissions, expenses), and
 - *all expected future income* (premiums, fees, investment)
 - the valuation of the assets needed to match the above cash flows

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ED Information Canada 3

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PRESENTATIONS

Neil Parkinson, National Insurance Sector Leader, KPMG LLP

(Continued)

How has IFRS already affected life insurance reporting?

Insurers adopted IFRS in place of old Canadian GAAP in 2011, but with little change to reported income

- IFRS 4 allowed insurers to continue with their previous basis of accounting for insurance contracts
- Canadian insurance liability standards were considered to be compatible with IFRS 4 with only minor differences

Canadian GAAP incorporated greater market volatility in 2007, with the adoption of "financial instruments" accounting rules that were substantially the same as IFRS (and US GAAP)

- For life insurers, most market volatility has been managed by reflecting asset-liability matching in the accounting model; valuation of insurance policies is closely linked to the assets used to support the insurance business
- Volatility has been an income event for products with guarantees above current market returns – eg. guaranteed withdrawal products, segregated funds

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How does current US GAAP compare for life insurers?

- US GAAP has broadly similar rules for asset accounting (fair values for financial instruments)
- US GAAP for life insurance products is much less market-related than Canadian basis under IFRS
 - Use of pricing assumptions rather than best estimates
 - Use of "locked in" actuarial assumptions, rather than updating for current information immediately
 - Investment guarantees in insurance contracts are "smoothed in" over the life of a contract rather than marked to market

US GAAP is "less volatile" - but also far less up to date in reflecting current estimate changes – good or bad

- US GAAP avoids short term market swings ("noise") that may not persist
- However, US GAAP for insurance liabilities does not reflect current market inputs and best estimates

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PRESENTATIONS

Neil Parkinson, National Insurance Sector Leader, KPMG LLP

(Continued)

How does insurance accounting compare in other IFRS jurisdictions?

- Current IFRS broadly allows continuation of the pre-IFRS basis of accounting for insurance, resulting in a wide range of insurance liability practices are followed in other countries
- US GAAP practices are sometimes used for insurance liabilities within IFRS
- Regulatory practices are also commonly used, and heavily influence actuarial liability practices, in much of the EU and elsewhere
- Discounting of non-life claims liabilities is uncommon currently – principal exceptions being Australia and Canada
- Future - the IASB has been advancing proposals for a common global insurance accounting standard
 - New standards would be applicable in 2019 or (likely) later
 - US opted out of this and other IFRS projects

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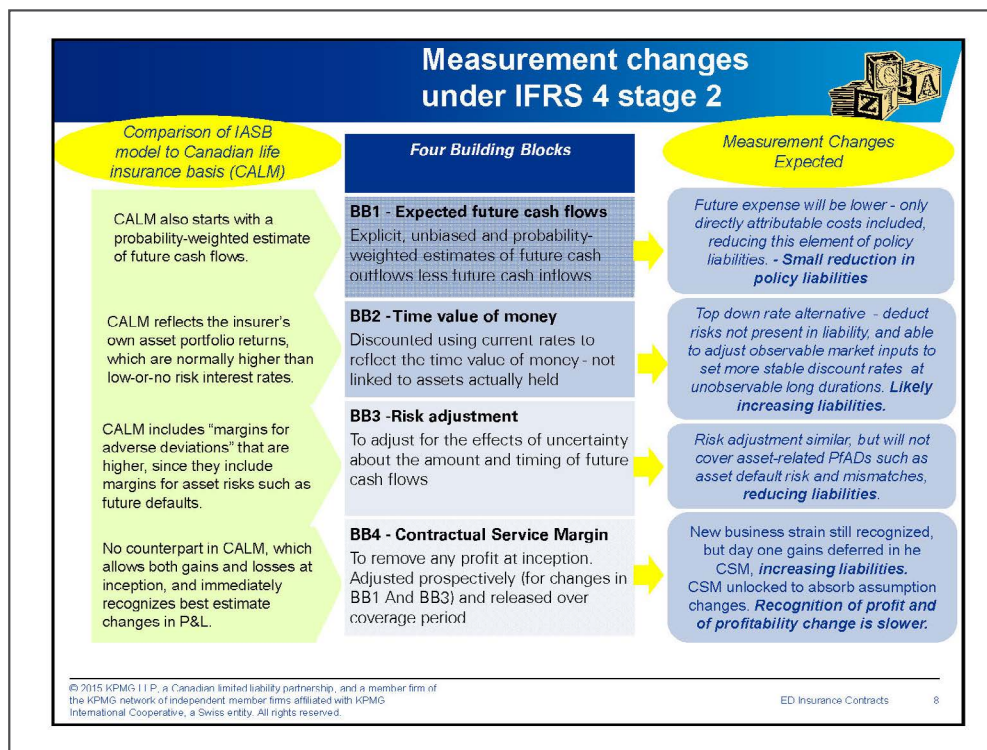
□ How the IASB proposals would change life insurance accounting

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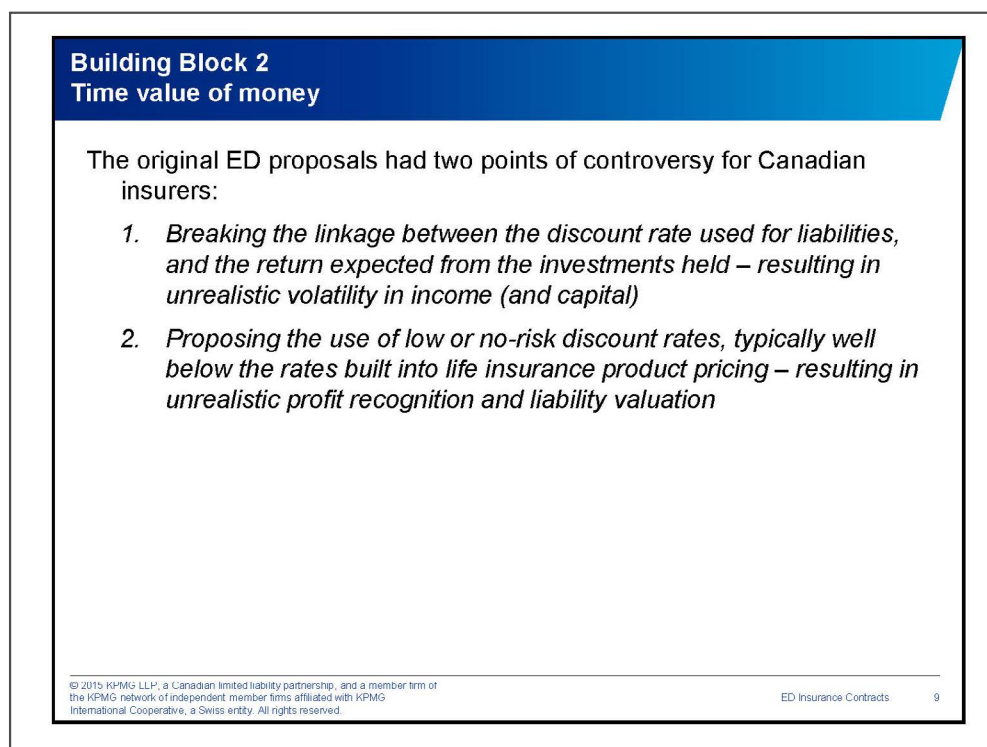
PRESENTATIONS

Neil Parkinson, National Insurance Sector Leader, KPMG LLP

(Continued)



8



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PRESENTATIONS

Neil Parkinson, National Insurance Sector Leader, KPMG LLP

(Continued)

Building Block 2
Discount rate – alternative approaches

2010 ED:
"Bottom up"
approach

- Tentative decisions of the IASB:
 - Reflect the characteristics of the liability; no linkage to assets
 - Allow a "top down" approach as an alternative, starting with an asset rate
- The "top down" alternative
 - Deducts risks not present in the liability, e.g. investment risks that can't be passed to the policyholder (expected and unexpected credit defaults)
 - IASB: bottom up and top down "should" get to the same place – but in practice?
 - Might reduce but not eliminate problems of volatility and losses at inception
- Methods for long durations?
 - Need other approaches where insurance contracts have durations beyond those that are reliable and observable. E.g. moving average, mean reversion for interest rates, and use of non-fixed instruments.

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Impacts of IFRS 4 stage 2 for different product types				
Product characteristics	Examples	Impact on equity at transition	Impact on income emergence Timing	Impact on income emergence Volatility
Products with gains at inception	Term insurance	Decrease – deferral of initial gains into CSM will increase liabilities at transition	Slower – initial gains deferred into CSM rather than immediate – effects of growth and profitability changes spread over time	Lower for assumption changes (deferred in CSM) Higher for interest rate changes
Products with losses at inception) but little interest sensitivity		Minimal	Minimal – losses at inception still recognized in income immediately	Minimal – assumption changes still recognized in income immediately, until a CSM is established
Products with significant interest sensitivity	Annuities	Decrease – lower discount rates and deferral of initial gains into CSM will increase liabilities at transition	Slower – initial gains deferred into CSM rather than immediate – effects of growth and profitability changes spread over time	Lower for assumption changes (deferred in CSM) Higher for interest rate changes
Products with participating features, "mirroring" approach available	Segregated funds	None or minimal	None or minimal	Unchanged – relates to market guarantees
Other products with participating features		Unknown – standard incomplete	Unknown – standard incomplete	Unknown – standard incomplete
Fee-based products	ASO, investment contracts	None or minimal	None or minimal	None or minimal

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PRESENTATIONS

Neil Parkinson, National Insurance Sector Leader, KPMG LLP

(Continued)

IFRS 4 Phase II

Key impacts on life insurance

BB1 – expenses as defined may be lower for some

Future expenses will be lower for some, reducing this element of policy liabilities. Also need to consider changes in acquisition expenses. Discounted future tax liabilities will be excluded from insurance liability measurement. Overall impact – perhaps mildly reducing policy liabilities.

BB2 – lower discount rate could overwhelm all other changes

Overall, expect that a “top down” discount rate will still be lower than current valuation rates, and below the rates typically priced into many products – resulting in potentially large increases in liabilities for some products, possibly with losses at inception.

Disconnect between liability and asset rates will result in greater volatility.

BB3 – risk margins would not cover some areas of current actuarial margins (PfADs)

Risk margins similar for some elements, but will not cover asset-related PfADs such as asset default risk and mismatches, reducing policy liabilities. (Note that some asset default provisions will reappear in assets under IFRS 9.)

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IFRS 4 Phase II

Key impacts on life insurance (2)

BB4 – contractual service margin precludes day 1 gains for new business

CSM would soak up any reserve reductions from BBs 1 and 3. If not overwhelmed by the effect of lower discount rates, CSMS represent a new liability component. Where we have had day 1 gains in the past, the CSM moves those profits out of retained earnings.

Disclosures

Risk margin – need to disclose confidence level inherent in the risk margin, even if that is not the method used.

Revenue – change from “premiums due” to the new definition will be complex and require significant changes to reported revenue.

Volatility from discounting

Without CALM’s asset-liability valuation linkage, volatility from discount rate changes will be much greater. The use of then OCI option would reduce interest rate volatility in the P&L, but it would still exist in equity through Accumulated OCI.

Volatility from other liability measurement changes

Other re-measurements, favourable and unfavourable, will be smoothed out through adjusting (“unlocking”) the Contractual Service Margin, rather than immediate recognition in income. Capital impacts would be both positive and negative, but regulators might be inclined to focus on adverse changes.

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PRESENTATIONS

Neil Parkinson, National Insurance Sector Leader, KPMG LLP

(Continued)

IFRS 4 Phase II
Key impacts on life insurance (3)

Emergence of income	<p>Profit from new business will be lower – new business strain (losses at inception) might be lower for some products, but for other products there will be no profits at inception. Similarly, no immediate gains from reinsurance ceded. On balance, the new CSM may result in slower recognition of <i>changes</i> in profitability.</p>
Transitional impact on capital expected to be significant for life?	<p>Lower discount rates (BB2) and CSMs (BB4) could significantly exceed other measurement changes and result in a significant reduction in retained earnings on transition.</p>
Taxation	<p>Will taxation authorities continue to follow accounting reserves? Will measurement changes be transitioned in over several years? Deferred tax balances may be created.</p> <p>Deferred tax assets may increase and result in valuation concerns for IFRS accounting, and may not count fully for regulatory capital purposes.</p>

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□ Why are Canadian life insurers particularly affected

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PRESENTATIONS

Neil Parkinson, National Insurance Sector Leader, KPMG LLP

(Continued)

Why Canadian life insurers are much more exposed

- **Different product profile** - Canadian life insurers offer more long duration insurance products, reflecting more explicit and implicit investment performance guarantees
 - Such products are much less prevalent in many developed countries with greater use of government social security/retirement income systems; eg. most of the EU, Australia, NZ
 - Where long duration products are offered in some of those countries (eg. Germany, France), more of the investment risk is held by the policyholder through "participation" features
 - Countries where similar products are common (e.g. US, Japan) seem to be becoming more vocal
- **Regulatory capital regime based on accounting:** current Canadian regulatory capital requirements for insurers are based on their shareholder IFRS basis financial statements, rather than statutory bases of accounting as is the approach in most other countries

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Why Canadian life insurers are much more exposed, cont'd

Many in the industry believe that the proposals would report unrealistic volatility and lead to an unrealistic short term view of a long term business, particularly when effectively hedged through sound asset-liability matching.

Volatility in both income and capital could also affect the fundamentals of the business.

- Possible effects on the cost or availability of long term insurance products
- Possible effects on desirability of long-term investments for life insurers
- Possible effects on competitive balance with other financial institutions in Canada and abroad
- Possible effects on raising capital in public markets

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FOLLOW-UP ACTIVITIES

The C.D. Howe Institute is committed to furthering the awareness of policy issues facing participants in the financial services sector. We will continue to hold more events and publish research examining these issues. Our activities planned for the near- and medium-term include:

Planned Publications on Financial Services

Venture Capital Policy – Choices and Consequences

Author: **Richard Remillard**, President of the Remillard Consulting Group and former Executive-Director of Canada's Venture Capital and Private Equity Association

This paper intends to inform debate on the role of the state in venture capital. Are there market failures, and will there always be? How much involvement is too much? How effective have the various policy tools proven to be? As the Government of Canada rolls out its Venture Capital Action Plan, this work explores the possibilities for an improved policy outcome.

Moving the Canadian Payment System Forward

Author: **John Chant**, Emeritus Professor of Economics at Simon Fraser University

The importance of the payment system to the functioning of the Canadian economy, as well as the speed with which change is occurring, brings about vital questions: How well are Canadians served by the payments industry? What improvements are necessary? What are the obstacles to this improvement and how can they be overcome? What does the rapid pace of change in information technology mean for public policy toward payments? This paper sets out to answer these questions.

Housing Finance: The Role of Covered Bonds

Author: **Finn Poschmann**, former Vice President Policy Analysis, C.D. Howe Institute

An OSFI rule limits Canadian bank issuance of covered bonds to four percent of assets, a tight limit by international standards. Given that the federal government has limited access to portfolio insurance for bundled mortgages, raised the price and tightened the supply of guarantees for mortgage-backed securities, a review of the asset limit is warranted. Because covered bonds are held in bankruptcy remote special purpose vehicles, a change would have implications elsewhere in the financial system.

Looking for Liquidity – Banking and Emergency Liquidity Facilities

Author: **Jeremy Kronick**, Senior Policy Analyst, C.D. Howe Institute

This paper begins with a brief survey of emergency liquidity/lending facilities in the US, UK, and Canada. Under 18(g) of the Bank of Canada Act, the Bank may buy and sell from or to any person securities and any other financial instruments – other than instruments that evidence an ownership interest or right in or to an entity – and, if the Governor is of the opinion that there is a severe and unusual stress on a financial market or the financial system, buy and sell from or to any person any securities and any other financial instruments, to the extent determined necessary by the Governor, implying useful and extensive discretionary powers. It may be useful to prearrange well-designed mechanisms for managing such activities, in particular by way of a static (sealed-bid) auction for differentiated securities.

FOLLOW-UP ACTIVITIES

How to Regulate Small Financial Institutions in a Competitive Environment?

Author: **John Jason**, Lawyer at Norton Rose Fulbright

Little research is done on how small financial institutions, in particular trust and loan companies, credit unions, and other cooperatives, should be regulated. The types of regulation they are subject to and, perhaps more importantly, who should be doing the job, for example federal or provincial regulators, has had little formal examination. This E-Brief will first review the different forms of small financial institutions operating in Canada and some of the services they provide in comparison to the large banks. The next section will look at the current regulatory framework for these institutions commenting on their costs and benefits and on the application of proportionality in light of the roles of different institutions. Lastly, this paper will discuss whether the optimal body to perform regulation on these small institutions is at the provincial or federal level.

Benefits of Trade and Investment Agreements for the Financial Services Sector

Author: **Dan Ciuriak**, Director and Principal at Ciruriak Consulting Inc. and former Deputy Chief Economist at the Department of Foreign Affairs and International Trade; **Daniel Schwanen**, Vice President, Research at the C.D. Howe Institute; and **Jeremy Kronick**, Senior Policy Analyst at the C.D. Howe Institute.

Canada has gained an almost unparalleled reputation for good financial governance since the 2008 financial crisis. However, it may not be able to parlay this reputation into strong market expansion abroad, especially as formal liberalization

of international trade in financial services has slowed since the 1990s, leaving many important barriers in place. This paper will report on the barriers to international expansion facing Canadian financial institutions, and will assess the impact of more open trade and investment in financial services with key markets. The paper uses a leading-edge approach developed by one of the authors to assess the impact of services liberalisation in the context of a general equilibrium model (GTAP), using changes in the OECD's Services Trade Restrictions index that would result from liberalisation, to examine the gains that could be expected from opening financial services trade and investment with key partners

Planned Policy Events:

Inside the Mind of a CEO

Sam Sebastian, Managing Director, Google Canada
Bill McFarland, CEO & Senior Partner, PwC Canada

Victor Dodig, President and CEO, CIBC
Toronto Patrons' Circle Dinner

Thursday, September 24, 2015, 6:00 pm – 9:00 pm

Mark Zelmer, Deputy Superintendent, Regulation Sector, OSFI

Toronto Roundtable Luncheon

Tuesday, December 8, 2015, 12:00-1:30

THANK YOU

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August 2015	Poschmann, Finn with Aaron Jacobs. "Improving on the CPI: A Proposal for a Better Inflation Indicator." C.D. Howe Institute E-Brief.
August 2015	Ciuriak, Dan. "Making Free Trade Deals Work for Small Business: A Proposal for Reform of Rules of Origin." C.D. Howe Institute E-Brief.
July 2015	Jacobs, Aaron. "An Opportunity not to be Wasted: Reforming Ontario's Recycling Program." C.D. Howe Institute E-Brief.
July 2015	Robson, William B.P., and Alexandre Laurin. <i>Adaptability, Accountability and Sustainability: Intergovernmental Fiscal Arrangements in Canada</i> . C.D. Howe Institute Commentary 431.
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May 2015	Dachis, Benjamin, and John Lester. <i>Small Business Preferences as a Barrier to Growth: Not so Tall After All</i> . C.D. Howe Institute Commentary 426.
May 2015	Robson, William B.P., and Alexandre Laurin. "Ottawa's Secret Debt: The Burden and Risks of Federal Employee Pensions." C.D. Howe Institute E-Brief.
May 2015	Safarian, A. E. <i>Simplifying the Rule Book: A Proposal to Clarify Canada's Policy on Inward Foreign Direct Investment</i> . C.D. Howe Institute Commentary 425.

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