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November 15, 2016

Glenn Campbell
Director, Financial Institutions Division
Financial Sector Policy Branch
Department of Finance Canada
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Dear Mr. Campbell:

RE: Invitation for Comments "Supporting a Strong and Growing Economy: Positioning Canada's Financial Sector for the Future"

Chartered Professional Accountants of Canada (CPA Canada) welcomes the Department of Finance's review of Canada's financial sector to ensure it effectively supports growth, and positions it to meet the federal government's policy objectives. We recognize that Canada's financial sector, and the legislative and regulatory framework which support it, are key levers for economic stability and prosperity. As such, we are pleased to contribute to the consultation process to enhance this system through revisions to the framework.

The new Canadian designation, Chartered Professional Accountant (CPA), is now used by Canada's accounting profession across the country. The profession's national body, CPA Canada, is one of the largest in the world with more than 200,000 members, both at home and abroad. The Canadian CPA was created with the unification of three legacy accounting designations (CA, CGA and CMA). CPA Canada conducts research into current and emerging business issues and supports the setting of accounting, auditing and assurance standards for business, not-for-profit organizations and government. CPA Canada also issues guidance and thought leadership on a variety of technical matters, publishes professional literature and develops education and professional certification programs.

CPA Canada has reviewed the Department of Finance publication titled *"Supporting a Strong and Growing Economy: Positioning Canada's Financial Sector for the Future"* that was issued on August 26, 2016. This review yielded certain areas of interest that we believe are deserving of comment, and are particularly important to Canadian families, communities and businesses. Our list is not exhaustive, but rather, focused on key areas where we feel CPA Canada's contributions are most relevant. Overall, an emphasis on **long-term policy, and collaboration with relevant national and international regulatory bodies and organizations** should support an enduring framework. We hope our submissions will help guide the

Department of Finance's development of its policy paper, and support the future of Canada's financial sector.

Banking: Financial Technology (Fintech), Virtual Currency, and Information Security

The world is changing rapidly, and traditional banking institutions must continually modernize and implement new financial technologies to maintain the high level of utility and stability expected from them. Canadian banks have already realized this and have started to partner with both established technology companies such as Google and Apple, as well as other niche Fintech start-ups, to meet evolving customer needs.[1] This translates into seamless and secure digital delivery and access to multiple lines of banking products. However, there remain significant unknowns that need to be addressed.

For example, what are the implications to Canada's central bank, and chartered banks, when physical monies are potentially replaced with digital currencies such as Bitcoin? How will these digital currencies, transactions, and savings of Canadians be protected from theft? Will banks as we know them still need to exist if the central bank can directly interact with each citizen virtually?

The Bank of Canada has begun to consider these questions, and acknowledges the potential of new financial technologies.[2] CPA Canada is encouraged by the proactive approach taken by the Bank of Canada in this area and is glad to see it partnering with Payments Canada, Canadian banks and R3 to help it assess future potential.

CPA Canada will continue to monitor developments in this area to ensure we can provide relevant guidance and insights to our members, and other interested parties. We recently published an introductory publication on blockchain technology, which is the beginning of a broader conversation CPA Canada is initiating on the potential impact of disruptive technologies.[3] **With regard to the current review being undertaken by the Department of Finance, we suggest taking steps to recognize and support the fact that Fintech companies, digital currencies, and increased levels of secure encryption are here to stay, and actively promote a level playing field between established banks and the new entrants.** This will allow Canadian companies to become a leader in this innovative new area, while maintaining the hallmarks of our strong financial sector.

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[1] J. Lising, "Canadian Banks 2016: Embracing the FinTech movement," PwC, 2016: https://www.pwc.com/ca/en/banking-capital-markets/publications/5056-01-canadian-banks-2016.pdf

[2] "Technological Disruption of Capital Markets and Reporting? An Introduction to Blockchain," Chartered Professional Accountants of Canada Publication, 2016: https://www.cpacanada.ca/en/business-and-accounting-resources/other-general-business-topics/information-management-and-technology/publications/introduction-to-blockchain-technology

[3] Ibid.

Banking: Supporting Canada's Demographics - Age

Despite the increased willingness for banks to adopt new and more efficient technologies, they must remain cognisant that a large portion of wealth continues to be controlled by an aging population.[4] This subset of our population may not embrace new technologies, and in some instances are only comfortable with more traditional bank interactions that happen in-person or over the phone. Their preferences should be respected, and any new framework should ensure that banking services continue to be accessible in legacy formats, at an affordable cost.

Another aspect of an aging population that requires further research is the impact of the inevitable transfer of wealth from one generation to the next. CIBC estimates that in Canada, $750 billion of wealth will be inherited over the next 10 years.[5] As wealth is passed down to younger generations, the Department of Finance should consider how this will impact society. For example, will this next generation continue to invest in financial markets, and if so, will their investment preferences be different? Or will a level of distrust or lack of understanding push them towards other asset classes, alternative investment options not associated with the financial markets, or away from investing altogether? How will this impact current banking structures, employment and savings levels?

Finally, passing such wealth to the next generations will often trigger significant tax consequences, and provide a temporary boost to Canada's tax revenues. However, once this accumulated wealth has been dispersed, tax-paid, to younger individuals often in lower tax brackets, and with no requirement to be brought back into income as part of a RRIF, what will this do to Canada's future tax stream?

CPA Canada recommends the Department of Finance pay close attention to changing demographics, and take these factors into account as work commences toward potential revisions to the legislative and regulatory framework for the financial sector.

Banking: Supporting Canada's Demographics – Income Level

Low-income households and those suffering from excessive amounts of consumer debt should also be a focus of a modified financial framework. These groups are especially vulnerable to the high fees and minimum balance requirements that banks impose. Now that the Canada Revenue Agency will only make payments by way of direct deposit, rather than cheques, a bank account is a necessity for every taxpayer. It therefore behoves the Department of Finance to ensure that every Canadian can afford to open and maintain a basic chequing account at a financial institution, without suffering financial hardship. **New regulations should strive to address the public interest of meeting the banking needs of low-income households, so they too can continue to be an integral and contributing part of our economy.**

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[4] T. McMahon, "Seniors and the generation spending gap," MacLean's, September 6, 2014: http://www.macleans.ca/society/life/seniors-and-the-generation-spending-gap/

[5] J. Laucius, "Trickle down effect: Will the inheritance boom save the millennials?" Ottawa Citizen, July 5, 2016: http://ottawacitizen.com/news/national/trickle-down-effect-will-the-inheritance-boom-save-the-millennials

Insurance Risk: Climate Change

CPA Canada has a longstanding history in sustainability and climate change matters, and we have been advocating for enhanced reporting and other initiatives to address climate change matters for many years. One of CPA Canada's current priority initiatives focuses on helping organizations understand and address the business risks and opportunities associated with a changing climate. Our thought leadership, research, and guidance in the field of climate change influences a variety of key economic actors, including reporting issuers, institutional investors, securities regulators and other key stakeholders within the broader financial community. For example, our 2008 publication titled *Building a Better MD&A: Climate Change Disclosures* was referenced in the Canadian Securities Administrators (CSA) staff notice 51-333 on environmental reporting guidance for reporting issuers.

In a speech given to the insurance market at Lloyd's of London in September 2015, Bank of England Governor Mark Carney warned that climate change will lead to financial crises and falling living standards unless the world's leading countries do more to ensure that their companies provide relevant information to the financial community about their current and future carbon emissions. Governor Carney termed the issue of climate change as the "tragedy of the horizon", stating that "once climate change becomes a defining issue for financial stability, it may already be too late."[6]

In July 2016, CPA Canada hosted Governor Carney at an information session focused on the need for consistent climate-related disclosures in financial reporting. In his role as the Chair of the Financial Stability Board (FSB), Governor Carney convened a global Task Force on Climate-Related Disclosures to develop a set of voluntary, consistent climate-related financial risk disclosures for companies to use in providing information to investors, lenders, insurers and other stakeholders.

Canada is already experiencing an increased frequency and severity of extreme weather events linked to the broader trend of climate change. There are countless examples of costly extreme weather events, including the 2013 ice storm in Toronto and the 2013 Calgary floods. The 2016 Fort McMurray wildfire was the costliest insured disaster in Canadian history with estimated damage totaling $3.58 billion, according to the Insurance Bureau of Canada.[7] Canada's Disaster Financial Assistance Arrangements program has spent more in disaster recovery funding in the past six fiscal years than in its first 39 fiscal years combined. From these statistics, it is clear that climate change poses significant financial stability risks to the Canadian insurance industry.

The frequency and severity of extreme weather events are expected to increase due to climate change, and the effects of these disasters will put significant strain on insurance companies' ability to help families and

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[6] L. Elliott, "Carney warns of risks from climate change 'tragedy of the horizon'" The Guardian, September 29, 2015: https://www.theguardian.com/environment/2015/sep/29/carney-warns-of-risks-from-climate-change-tragedy-of-the-horizon

[7] W. Snowdon, "Fort McMurray wildfire costliest insured disaster in Canadian history," CBC News, July 7, 2016: http://www.cbc.ca/news/canada/edmonton/fort-mcmurray-wildfire-costliest-insured-disaster-in-canadian-history-at-nearly-3-6b-1.3668602

businesses mitigate risks at a reasonable cost. In fact, Henri de Castries, CEO and Chairman of AXA, one of the world's largest insurers, emphasized the fact that even a slight increase in global temperatures, would make insurance premiums unaffordable, stating "...a 2°C world might be insurable, a 4°C world certainly would not be."[8] Without the protection of insurance, businesses would be unable to innovate or generate prosperity at the same pace, as many projects would simply be too risky to explore.

In this vein, it is critical for the Department of Finance to recognize that climate change is ubiquitous in nature – affecting nearly every sector of the Canadian economy – either directly or indirectly. Beyond only the insurance sector, it is important to recognize there are broad sweeping risks posed by climate change that could significantly impact Canada's financial stability over time. **We encourage the Department of Finance to embed climate change considerations as a key pillar of financial stability in a new legislative and regulatory framework for the financial sector.** Building upon our existing resources and years of experience on this topic, CPA Canada would be pleased to support the Department of Finance in building a comprehensive framework that appropriately considers the risks to financial stability posed by climate change.

Insurance Risk: Investments

In the insurance sector, another key risk area that could be addressed as part of the Department of Finance's framework review, relates to the underlying investments held by insurance companies, specifically the risk profile of the investments. Further, insurance companies may also benefit from enhanced corporate disclosures on financial risks posed by climate change in order to make educated investments in assets to offset future liabilities. CPA Canada suggests, as part of a revised framework, encouraging more oversight on investments made by insurance companies, to ensure the volatility suffered by one of Canada's largest insurers between 2009 and 2011 is not repeated.[9]

Overall, improved investment risk oversight, and governance focusing on the long-term sustainability of this sector is key to its continued success. This is an especially relevant sector for the revised framework to focus on, in light of Canada's climate related disasters, low interest rates, and the continued need for businesses and consumers to use insurance to mitigate risks.

Financial Literacy: Evolving Financial Marketplace for Consumers

CPA Canada is encouraged by and supportive of the federal government's ongoing commitment to financial literacy. As an organization of accounting professionals, we see enormous social and economic benefits to Canadians through teaching all generations and income levels, how to be money smart. That is why, in March 2013, CPA Canada rolled out our own Financial Literacy program free of charge, to communities across Canada and internationally. To date, we have trained 11,000 volunteers, and delivered over 1,700 sessions on 35 relevant topics with our partners.

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[8] Henri de Castries, "Climate Change: it's No Longer About Whether, it's About When," May 22, 2015: https://www.axa.com/en/newsroom/news/about-whether-about-when

[9] T. Perkins "Manulife reports record loss," The Globe and Mail, August 5, 2010 (updated August 23, 2012): http://www.theglobeandmail.com/globe-investor/manulife-reports-record-loss/article575222/

CPA Canada encourages the federal government to continue its efforts in this area, especially in light of the record high levels of debt being shouldered by Canadian households.[10] We feel that a money-wise population will make sound financial decisions, be less susceptible to economic downturns, and reduce the burden on Canada's social programs.

Financial Literacy: Protecting Canadians

Lack of financial literacy is a problem throughout all income categories, but Canadians in the lowest bracket are at greatest risk of turning to alternative financing sources, such as pay-day loans, just to put groceries on the table. CPA Canada recognizes that there are legitimate uses for these alternative sources of financing. **However, in order to protect society's most vulnerable, we encourage the Department of Finance to consider modernizing the financial framework in this sub-sector, to include more robust consumer protections on these types of financing arrangements.**

Closing comments

CPA Canada appreciates the opportunity to provide our comments as part of the federal financial sector framework review, and we consent to the disclosure of our submission. We hope that our submission assists the Department in focusing on topics that are particularly important to Canadian families and businesses, and we look forward to the next phase of this consultation process.

Sincerely,

Joy Thomas MBA, FCPA, FCMA, C.Dir.
President and Chief Executive Officer
CPA Canada

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[10] "Canadian key household debt ratio hits record high," CBC News, Sept. 15, 2016: http://www.cbc.ca/news/business/debt-income-ratio-record-1.3763343