INVESTMENT INDUSTRY ASSOCIATION OF CANADA
ASSOCIATION CANADIENNE DU COMMERCE DES VALEURS MOBILIÈRES

Opening Remarks

Testimony to the House of Commons Standing Committee on Finance

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Good morning.

I appreciate this opportunity to appear before the House of Commons Standing Committee on Finance, and participate in your discussion of the measures taken to enhance credit availability in the capital markets.

The Investment Industry Association of Canada represents over 200 member firms, which employ over 42,000 Canadians from coast to coast.

Our members fulfill two vital roles in the Canadian economy. They advise clients on their savings and investments. Of course, the vast majority of Canadians are invested in the stock market, as individual investors or through mutual funds. And our members advise and assist corporations and governments in raising capital.

The investment industry is vital to the capital markets, and the capital markets are vital to the industry – and to the growth of the Canadian economy. Our investing clients have seen their portfolios devastated, endangering the ability of millions of Canadians to afford a secure retirement. Our corporate clients have seen their ability to raise capital squeezed – undermining the capacity of our economy to grow.

The Financial Crisis

The financial crisis is felt universally among Canadian regions and industries. It is global. And it was unanticipated.

In fact, one of the first glimmers of the unfolding crisis appeared in Canada in the summer of 2007, with the collapse of the non-bank sponsored asset-backed commercial paper market. Fortunately, non-bank sponsored asset-backed commercial paper was a small part of the Canadian financial market. But the problems associated with ABCP signaled the marked deterioration in credit standards in U.S. mortgage and corporate lending.

It did not take long for the financial crisis to unfold into the real economy. The financial impact and loss of confidence is being felt in every region and in every industry.

Portfolio values have declined 20 percent, with equity investments down 30 to 40 percent. Real estate values are in the early stages of following global trends. Unemployment rates are trending higher and are already at multi-year highs. Consumer spending has retrenched.

It took a while for the contraction to hit Canada. But it is hitting us hard, and the worst may be ahead.

Canadians already faced a retirement gap – a shortfall between their financial worth and what they need to comfortably retire. For too many, that gap has become a gorge, putting retirement out of reach.

That is why the IIAC has advocated changes in RRSP and RRIF programs to give Canadians the time and opportunity they need to rebuild retirement savings devastated by the recent market collapse.

Federal Government and Bank of Canada Initiatives

While not all of our policy prescriptions have been embraced, the government and the Parliament of Canada have done an excellent job of addressing the financial and economic crisis – consistent with the G20 consensus calling for national governments to make it a priority to stimulate their own national economies.

The federal stimulus initiatives have been significant – comparable to 2 percent of Canada's GDP, and have been strategic, targeted and efficient. The provincial governments have been adding their own stimulus, including initiatives targeted to support local industries.

In addition to tax incentives and infrastructure investments to provide stimulus for the real economy, the budget provided needed and well-thought-out support for Canada's financial markets. The Extraordinary Financing Framework strengthens the capacity of Canadian financial institutions to expand credit and respond to gaps in the credit markets. These measures have been precise, and coherent –

and stand in contrast to the early steps taken in the United States to address the weaknesses in the financial system that was the source of the problem.

These initiatives do not just help some faceless “markets.” They are vital to the jobs and futures of millions of Canadians. No bright line separates the markets from the industries and potential industries that depend on them. No fence stands between the ability of Canadian companies to raise capital and their capacity to create jobs. One thing that has become increasingly clear is that no one can escape the impact of a serious market downturn, and all of us can benefit from robust capital markets.

In addition to economic stimulus, Canadians are fortunate that the Bank of Canada and the federal government have acted promptly and effectively throughout this crisis to improve trading and financing conditions in corporate credit markets, particularly in the securitized marketplace. The extension of eligible collateral at the Bank of Canada and financing facilities in the recent federal budget has had a positive impact on markets. As well, Canadian securities regulators have put forward serious efforts to improve transparency and disclosure in corporate debt markets.

Liquidity Concerns

While the mechanics to provide liquidity to banks have been successful, especially the Insured Mortgage Purchase Plan in liquefying banks, some capital markets products have not benefited substantially from this liquidity. Many corporate debt issuers remain on the sidelines, and while the reasons are partially due to general “de-risking” of investment by buyers, a significant factor in this development is lack of robust market liquidity. Authorities must remain vigilant in monitoring and identifying pockets of illiquidity that may disrupt the normal functioning of important sub-markets, or the market as a whole, and continue to assess what could be done to address such situations.

A robust and active repo market is important to well functioning and liquid credit markets. The repo market faces many challenges including inefficient netting and the reluctance of market participants to lend out various debt asset classes to facilitate efficient hedging transactions by market-makers. We are encouraged the Bank of Canada is dedicating resources to address the many issues needed to improve the efficient functioning of the repo marketplace.

Federal authorities, including the Bank of Canada, Department of Finance, OSFI, and provincial securities regulators, have initiated various policy initiatives that have significant impact on stimulating financing activity, promoting market liquidity, and ensuring prudential standards are met. Policy coordination is therefore key to ensuring remedial measures have maximum impact. Moreover, consultations with market participants are vital to identify market problems, as well as emerging problems, and gain market perspective to determine effective, flexible and targeted remedial action.

In that respect, the IIAC was pleased to see the Canadian Securities Administrators release a consultation paper that among other issues addressed exemptions from prospectus and disclosure requirements for asset-backed commercial paper.

ABCP Disclosure Issues

The IIAC believes in a high standard of disclosure and transparency for all derivative securities. At the same time, we believe it is important to avoid stifling the dynamism of the marketplace through regulatory actions that overshoot the actual problem. It is important to focus on the complex, high-risk forms of ABCP that are actually part of the problem, and shape a solution tailored to them – rather than the low-risk, plain-vanilla commercial paper. We can have transparency and disclosure that investors deserve – without undermining the market's ability to create wealth that all investors, and all Canadians, depend on.

It should be noted that Canada deserves high marks for achieving a successful industry and government restructuring of the non-bank sponsored ABCP marketplace over the past year while a similar initiative in the United States, the Super SIV concept, failed to gain support.

In addition to economic stimulus, support for capital markets, and regulatory initiatives, the current crisis has generated another effective response from government. The crisis has served as a catalyst for something that Canada has long needed – reform of our regulatory structure.

Single Securities Regulator

For a long time now, Canada has been unique among leading market countries in not having a securities regulator with authority beyond its own province or territory. The various provincial and territorial regulators have made an admirable effort to work together, through the Canadian Securities Administrators. But best intentions and best efforts aside, only a single securities regulator can provide the regulatory responsiveness, timeliness, coordination, and efficiency that we need to regulate today's fast-paced, globalized markets.

We are pleased that the government has acted on the advice of the Expert Panel on Securities Regulation, and put forward a transition plan to move forward with willing provinces and territories to create a Canadian securities regulator.

By promising to establish and fund a transition office, the federal government has taken an important first step to bringing Canada up-to-date with the rest of the world when it comes to securities regulation. The office is expected to deliver a transition plan within a year, covering the necessary legislation, negotiations with the provinces, and infrastructure.

A single Canadian securities regulator is needed now more than ever. Aside from its impact on our economy, the turmoil in global financial markets points a spotlight at the magnitude and velocity of change in financial markets – the frenetic pace of financial innovation, the development of new investment products and trading practices, their rapid dissemination even when risks are misunderstood and underestimated, and the close linkages between leveraged financial instruments and developments in the real economy.

In closing, I would like to remind the Committee that while the economic initiatives of Canada’s federal and provincial governments have been impressive, our economic future is marked by uncertainty. Our economic resurgence depends largely on the economic fortunes of others, especially our neighbours to the south.

But we have some enormous advantages. Governments have shown a willingness to take steps to boost economic confidence. The financial industry has been devastated, but it is resilient. We will no doubt see some consolidation in the industry, and greater focus on the basics.

The legendary film mogul Sam Goldwyn once said: “Never predict anything, especially the future.” That’s sound advice. But one thing we can predict is that regardless of the economic challenges ahead for the Canadian economy and the Canadian financial services industry, we will meet them with energy, focus and commitment. Thank you.