Desjardins Group

2018 Pre-budget Consultations

House of Commons Standing Committee on Finance

August 4, 2017

Summary

The Desjardins Group would like to submit comments as part of the 2018 pre-budget consultations being held by the House of Commons Standing Committee on Finance. Our comments are grouped under four major themes: international trade, financing for businesses, housing, and the financial sector framework.

To summarize, we are asking the government to maintain its support for international trade and free trade while bearing in mind the protection of national interests, to facilitate more long-term financing for entrepreneurship, and to exercise constant vigilance over the evolving housing market.

The financial institutions sector is changing due to the increased presence of financial technologies. The review of the federal financial sector framework makes it possible for the federal government to examine the regulatory framework with a view to enhancing the competitiveness, stability, and innovation of the financial sector. This is also an excellent opportunity to recognize the distinct characteristics of the Canadian financial system, which must operate in a hybrid regulatory system involving both the federal and provincial governments. The Government of Canada must take concrete steps to recognize the contribution made by financial co-operatives to the diversity and stability of the Canadian economy and consequently reflect this in the regulations governing the financial sector.

The elements presented below are central to Canada's economic issues and seek to provide the Committee with food for thought on how to foster economic and social development. At the same time, we want to point out that it is important for the federal government to continue supporting Canada's economic development by implementing the measures announced in the previous budget.

International trade

The Desjardins Group believes that free trade agreements are essential to economic development and generally have a positive effect on Canada's economy. Negotiations in recent years have resulted in a wave of new bilateral and multilateral trade agreements, such as the Canada-European Union agreement.

However, the North American Free Trade Agreement (NAFTA) is a different matter altogether in that it is being reopened at the request of another state. Access to the U.S. market is critical for

Canadian businesses, especially those in Quebec and Ontario.[1] More than ever before we must consider the Canada-U.S. economic relationship as strategic and even more important at a time when the Canadian government is looking to stimulate innovation and diversify its economy. Rising protectionism and the current political climate in the United States are fuelling uncertainty, which can only negatively impact Canadian businesses and their ability to plan for their growth.

The renegotiation of this agreement must be considered as an opportunity to modernize an agreement and to address important new realities faced by businesses and governments in Canada, such as e-commerce and tax avoidance related resulting from the virtualization of many transactions. In order for the government to put in place a clear strategy, it must consult economic actors and their associations. Their contribution and those of provincial representatives will be indispensable throughout the process of modernizing the partnership. Co-operation is essential especially since concerns vary from province to province and sector to sector. The government's approach must reflect this reality.

Furthermore, certain sectors of the economy, such as the agriculture, culture and forestry sectors, become more exposed to risk as their markets become more open. The government must take into account that the risk actually affects much broader economic and social issues specific to Canada such as land occupancy and regional vitality. In particular, the government must continue its longstanding practice of vigorously defending supply management in the agricultural sector.

It is vital for the government to also support the vitality of other sectors by establishing specific measures, as required, to provide compensation and support and by setting clear deadlines for their implementation. This will result in a smooth transition that will allow businesses to develop adaptation strategies while maintaining the required market stability. This is especially important in those regions where economic activity is more dependent on sectors that could eventually be adversely affected by reopening NAFTA.

Financing for businesses

Canada's ability to compete and the health of its economy are reliant on the dynamic entrepreneurship of our businesses. Our small and medium-sized businesses are fertile ground for entrepreneurship, both in major centres and in more remote areas. In recent budgets, the government clearly articulated that it wants to stimulate entrepreneurship and innovation in particular.

[1] "Trade Between Quebec and the United States: Banking On Each Party's Strengths", *Desjardins Economic Studies*, January 31, 2017.

A major issue for Canada's entrepreneurial economy is retaining businesses in the medium to long term. Unfortunately, some innovative businesses are leaving because they lack the patient capital required to help them reach the next stage of their growth. The government must pay special attention to this concrete reality.

Some approaches over the past few years have proven to be successful. It is in the Government of Canada's best interest to leverage this expertise in order to implement its plan in this area. As an important socio-economic actor, the Desjardins Group is a valued partner of Canadian businesses and as the largest co-operative financial group in Canada it has developed unique expertise based on its collective values and skills.

Desjardins Business Capital régional et coopératif (CRCD) is a good example. As the partner of some 420 businesses and co-operatives, this investment fund helps maintain more than 71,000 jobs. Not only does CRCD provide financial support to its partners, but it is also committed to guiding their long-term growth. It provides access to a vast network of administrators, businesses, and concrete solutions for businesses that want to penetrate new foreign markets, ensure the transition of business ownership, or adopt the most recent advances in their sectors.

CRCD is an innovative and unique tool, which is unparalleled in the Canadian financial landscape. Its mandate to provide long-term support allows businesses and partner co-operatives to improve their productivity and competitiveness on a stable and sustainable basis. This approach helps enhance the economic development of cities as well as remote regions in a concrete and measurable way. The government would do well to support the momentum created by this type of initiative, especially in a context where it intends to diversify the country's economy.

Housing

Housing is an ongoing concern for this government as evidenced by the implementation of different measures that focus on access to housing and the stability of the housing market. The most recent measures were announced in the fall of 2016 and are part of a series of measures adopted since the 2008 financial crisis with the goal of tightening access to property ownership.

In this regard, there was a slight downturn in the market even before the new rules were announced in October 2016. These rules should help slow demand even further as will the interest rate hike announced by the Bank of Canada on July 12.[2] In our opinion, it would be premature to move forward in the short term with the implementation of additional measures given that assessing the ultimate impact of previous measures remains difficult. In the current

[2] "The Residential Market Shifts into Second Gear in Quebec, Adjusting in Ontario", *Desjardins Economic Studies, Spotlight on Housing*, June 2017.

economic climate, changing the existing structure of mortgage insurance should be given even less consideration.

One direct result of establishing a mechanism for sharing risks with lenders will be increased costs, especially for more vulnerable categories of borrowers. We are thinking in particular of those people living outside major centres and more generally of members of the middle class. Access to housing and to home ownership would ultimately decline and this would hinder one of the government's key objectives.

Without clear data on the effects of recent measures, there are still several grey areas primarily because of the many variables and hypotheses in the forecasts. In particular, it is quite possible that consumers may not behave as forecast and this could result in new undesirable risks.[3] Under these circumstances, we believe it is more prudent to maintain the status quo for the time being and to closely monitor changes in household debt and the housing market while bearing in mind regional particularities.

Financial sector

In its last budget, the government expressed its intent to maintain a resilient financial sector by reiterating its strategic objectives for the sector, namely financial stability, competition, and utility for financial system users. As a systemically important financial institution in Quebec and the largest co-operative financial group in Canada, the Desjardins Group encourages the government to consider the contribution of financial co-operatives to the attainment of its objectives.

One of the strengths of the Canadian financial sector is its diversity, which proved its worth and was affirmed by the system's resiliency. The financial sector's decentralized structure was praised around the world following the 2008 financial crisis. Therefore, the Desjardins Group favours close ties between provincial and federal authorities with regard for their individual jurisdictions. This proactive approach has been used in the past.

The federal government will soon begin the second stage of the review of the federal financial sector framework. This is a good opportunity to update the rules and, in particular, to consider a framework for entities that are not clearly regulated, such as emerging businesses in the financial technologies sector.

The recent crackdown on the use of the term "banking" and its derivative terms is understandable and essential for emerging unregulated businesses. However, the description of

[3] "Canada: Consumers Remain the Cornerstone of Growth", *Economic Viewpoint, Desjardins Economic Studies*, April, 2017.

activities must be flexible and allow the use of an appropriate descriptor for deposit institutions that are supervised and regulated by governments in Canada. The qualifier reflects their actual activities. Making distinctions and preventing the use of this qualifier when describing similar services would have the opposite effect, that is, it would confuse Canadian consumers, and generate unwarranted expenses for provincial institutions and move the government away from its objectives of stability, competition, and, above all, utility.

This approach should be more flexible in order to reflect the current and longstanding reality of the financial sector.

Conclusion

In phase two of the review of financial sector legislation, the government must foster a close alignment with provincial frameworks and allow financial co-operatives to evolve in a legal and regulatory framework that recognizes their reality and allows them to continue contributing to the diversity and stability of the Canadian financial system.

We would be pleased to again discuss the themes in this submission with the members of the Standing Committee on Finance and we will continue to participate in consultations that affect sectors of interest to the Desjardins Group and its seven million members and clients.