Investing in Canada: strength and stability continue to attract global investors

By Shane Kuros
Vice President, Business Development and Relationship Management

Canada’s reputation as a welcoming business and financial market environment has been recognized worldwide and highlighted by the country’s decade-long position as a leader in economic growth across the G-7. Canada has been named the best place for doing business among the G-7 over the next 5 years, and has been recognized as the best G-20 country to do business in by both Forbes and Bloomberg. Canada continuously ranks as one of the most cost-effective global investment destinations and the best country in which to do business due to its infrastructure, foreign trade, exchange controls, competitive business costs, low corporate tax rates and successful innovation markets.

THE TRUE NORTH, STRONG AND STABLE: CANADA’S FINANCIAL SECTOR

It’s little wonder that Canada’s economic infrastructure ranks first among the G-7 for attracting foreign investment. Canada’s strong financial sector is known as a well-regulated, stable and reliable system. Canada continues to attract global investors by remaining a strong performer among the G-7 in GDP growth, and is expected to remain so through 2015 and 2016. In addition to maintaining the lowest total business tax costs in the G-7, Canada’s solid fiscal situation and low inflation has led to lower interest rates and the lowest general government debt in the G-7. Investor confidence is also bolstered by Canada’s ongoing status as home to the soundest banking system in the world according to the World Economic Forum, and home to six of the world’s 50 safest banks according to the most recent Global Finance ranking.

Canada’s triple-A credit rating for sovereign debt and stable economic outlook, in addition to its above average investment environment and solid investor protection makes it both a promising and welcoming environment for Canadian and foreign investment.

Of course, as with jurisdictions around the world, Canada is not without its challenges. Canada is closely aligned to the U.S. market, and under NAFTA operates as a key element within the supply chain for key manufacturing segments such as the automobile industry. While the impact of the Canadian dollar has driven more manufacturing activity south of the border, Canadian manufacturing sectors are intertwined with their U.S. counterpart—our two-year rolling correlation of shipments to the U.S. is currently 40 per cent higher than its long term average. This is a reflection “of the large and growing portion of Canadian manufacturing exports of capital and intermediate goods as opposed to finished goods.”

The Bank of Canada in September maintained its interest rate benchmark at ½ per cent, providing comments on the strength of Canada’s economy:

“*Inflation has evolved in line with the outlook in the Bank [of Canada]’s July Monetary Policy Report (MPR). Total.*
In addition to maintaining the lowest total business tax costs in the G-7, Canada’s solid fiscal situation and low inflation has led to lower interest rates and the lowest general government debt in the G-7. Investor confidence is also bolstered by Canada’s ongoing status as home to the soundest banking system in the world according to the World Economic Forum, and home to six of the world’s 50 safest banks according to the most recent Global Finance ranking.

CPI inflation remains near the bottom of the target range, reflecting year-over-year price declines for consumer energy products. Core inflation has been close to 2 per cent, with disinflationary pressures from economic slack being offset by transitory effects of the past depreciation of the Canadian dollar and some sector-specific factors. The dynamics of GDP growth in Canada outlined in July’s MPR also remain intact. The stimulative effects of previous monetary policy actions are working their way through the Canadian economy.

Canada’s resource sector continues to adjust to lower prices for oil and other commodities, with some spillover to the rest of the economy. These adjustments are complex and are expected to take considerable time. Economic activity continues to be underpinned by solid household spending and a firm recovery in the United States, with particular strength in the sectors of the U.S. economy that are important for Canadian exports.

Although Canada has faced challenges and economic headwinds, such as the decline of oil prices that “were supposed to fuel consumer spending, and the combination of a weaker dollar and a stronger US economy was supposed to stimulate non-energy investment and exports,” Canada’s financial forecasts maintain a positive outlook for upswing in the future.

The resilience of the Canadian financial system has been further strengthened due to the continued implementation of agreed reforms and the finalization of the G-20 priorities for 2015: completing the design of reforms pertaining to bank frameworks, initiatives to make over-the-counter (OTC) derivatives markets safer, and the measures to end “too big to fail.” These reforms continue to foster confidence for the future: Steven S. Poloz, Governor, Bank of Canada, stated that “…there have been tremendous reforms in the global and Canadian financial systems that have been designed to reduce the likelihood and impact of future turmoil. There is no question that the global financial system is now more resilient, thanks to these reforms.”

CANADA’S REGULATORY CLIMATE

Canadian market participants continuously aim to comply with changing regulatory requirements. Canada’s conservative investment market and prudential regulatory environment have contributed to Canada’s economic stability, which has persevered even during the oil price downturn. The federal Office of the Superintendent of Financial Institutions (OSFI) serves as Canada’s primary banking regulator, and has a network of 13 provincial and territorial securities regulators overseeing securities trading matters across the country in each provincial or territorial jurisdiction.

COOPERATIVE CAPITAL MARKETS REGULATORY SYSTEM UPDATE

Canada’s Cooperative Capital Markets Regulatory System (CCMRS) is an effort by the federal government and participating provinces and territories to unify regulating systems and to position Canada to play a more empowered role internationally through a single voice of a new cooperative capital markets regulator. The CCMRS aims to better protect investors, enhance Canada’s financial services sector, support efficient capital markets and manage systemic risk.

Recently, the CMMRS has taken further steps to stay on track for the enactment of a uniform Capital Markets Act to bring together and modernize the aspects of capital markets regulation within each province. British Columbia, Ontario, Saskatchewan, New Brunswick, Prince Edward Island and Canada welcomed the Yukon in April 2015 as the first territory to participate in the CCMRS. The Ministers of the CCMRS also announced the members of the nominating committee for recommending candidates for the initial board of directors for the Capital Markets Regulatory Authority, who will administer and monitor both the provincial and territorial Capital Markets Act and the federal Capital Markets Stability Act.
When participating in Canada’s complex marketplace, global investors must also comply with Canada’s regulatory requirements as well as any downstream or upstream dependencies or impacts in their own jurisdictions. As global and local requirements continue to evolve, global investors and Canadian market participants must work to adapt.

**TAX**

The Canadian government’s recent efforts to address tax non-compliance in the underground economy includes expanded audit efforts and the establishment of a ministerial advisory committee. To further these efforts, Canadian market participants continue to comply with the 2014 intergovernmental agreement between Canada and the U.S. to include the U.S. Foreign Account Tax Compliance Act (FATCA) in the Canadian legislation and to establish non-compliance with intergovernmental agreement as an offence under the Income Tax Act of Canada. The intergovernmental agreement requires U.S. institutions active in Canada to report on U.S. citizens’ holdings within Canada, or face a 30 per cent withholding tax.

While participants work to meet FATCA requirements, the Organization for Economic Co-operation and Development’s (OECD) Creditor Reporting System (CRS) has also announced that it will implement new regulatory reporting beginning in 2018.

On June 2, 2015, Canada signed the Multilateral Competent Authority Agreement (MCAA) to help lay the foundation for the automatic exchange of financial information with international partners beginning in 2018. By signing the MCAA, Canada will join a coordinated arrangement aimed at the efficient and secure exchange of financial account information with other tax jurisdictions. This agreement and information support improvement in the Canada Revenue Agency’s (CRA) ability to detect and address tax evasion and to protect the integrity of Canada’s tax system. In addition, the CRA will receive $25 million from the federal government over the next five years to expand its activities to combat international tax evasion and aggressive tax avoidance. The Canadian government also plans to participate in the OECD/G-20 project on base erosion and profit shifting, aiming to develop coordinated multilateral solutions to address the inappropriate use of internal tax planning strategies used to multinational enterprises to minimize their taxes.
SETTLEMENTS
Earlier this year, the U.S. Depository Trust & Clearing Corporation (DTCC) announced its plans to shorten the T+2 settlement cycle in Q3 2017; the Canadian Depository Securities (CDS) has confirmed that they will follow the DTCCs timelines as well. By shortening the settlement cycle the DTCC and CDS aim to reduce counterparty risk, decrease clearing capital requirements, reduce both pro-cyclical margin and liquidity demands and increase global settlement unity.

CANADIAN REGULATORY IMPACTS ON GLOBAL INVESTORS
When participating in Canada's complex marketplace, global investors must also comply with Canada's regulatory requirements as well as any downstream or upstream dependencies or impacts in their own jurisdictions. As global and local requirements continue to evolve, global investors and Canadian market participants must work to adapt. Canadian market participants and regulatory stakeholders are actively working to move forward—for example, the intergovernmental agreement between Canada and the U.S. regarding the implementation of FATCA and tax compliance initiatives helps position market participants to comply with global and local requirements.

Though Canada's regulatory goals are to ensure security, stability, and transparency for Canada and its market participants, its particular requirements may differ from those for investors across the globe. While traditionally European regulators focus on specific requirements and contractual terms, Canadian regulators focus on the financial health of an institution or segment. To support proper compliance, global investors turn to asset service providers like CIBC Mellon for help navigating Canada's regulatory field.

CIBC Mellon's intense focus on client service and relationship building, combined with a deep knowledge of the Canadian market, has proven to be highly effective in helping its clients find the right balance to meet the needs of both Canadian and global stakeholders.

CIBC Mellon can help global investors navigate Canada's complex regulatory environment in multiple ways. By taking on tasks that we as an asset servicing provider are already delivering or can facilitate within our service offerings for clients, we can help global investors maintain compliance more easily. Secondly, we can help mitigate regulatory responsibilities that present a substantial additional burden to our services when clients share some of the additional costs. Finally, in some cases CIBC Mellon is unable to take on some Canadian regulatory requirements and responsibilities. These can include certain filings under FATCA that require specific internal client information that providers either do not have access to or are unable to give on behalf of their clients.
CIBC MELLON CAN HELP YOU NAVIGATE THE CANADIAN MARKET

Canada’s highly successful business and financial sector remains a growing attraction for global investors. While Canada’s prudential regulatory environment and conservative business environment has helped Canada maintain stability and promote growth over many years, some regulatory practices can prove challenging to international participants. Global investors can take steps for better understanding and compliance by tapping CIBC Mellon as their service provider—our local insights and Canadian expertise can help clients navigate the Canadian markets and complex regulatory environment. Leveraging the innovative tools of our parent company BNY Mellon, a global leader in investment services, as well as the client-driven focus and local expertise of the CIBC Mellon team, CIBC Mellon delivers investing solutions for global clients.
### Why Invest in Canada?

The Canadian Trade Commissioner Service offers this summary of Canada’s outstanding investment climate for international investors:

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<th>Category</th>
<th>Description</th>
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<tr>
<td><strong>A WELCOMING BUSINESS ENVIRONMENT</strong></td>
<td>Canada is the best country in the G-20 to do business, according to both Forbes and Bloomberg.</td>
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<td><strong>A STRONG GROWTH RECORD</strong></td>
<td>Canada led all G-7 countries in economic growth over the past decade (2004–2013).</td>
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<td><strong>UNPARALLELED MARKET ACCESS</strong></td>
<td>Once the Comprehensive Economic and Trade Agreement (CETA) between Canada and the European Union comes into force (as early as 2016), foreign investors in Canada will have assured preferential access to both NAFTA and the EU - a vibrant market with a combined GDP of US$38 trillion, or nearly one-half of the world’s output of goods and services.</td>
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<td><strong>A HIGHLY EDUCATED WORKFORCE</strong></td>
<td>Canada’s workforce is the most highly educated among members of the OECD, with half of its working-age population having a tertiary level education.</td>
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<td><strong>LOW BUSINESS TAX COSTS</strong></td>
<td>Total business tax costs in Canada are by far the lowest in the G-7 and 46 percent lower than those in the United States.</td>
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<td><strong>COMPETITIVE R&amp;D ENVIRONMENT</strong></td>
<td>Canada offers the lowest business costs in the G-7 for R&amp;D-intensive sectors, with a 15.8 percent cost advantage over the United States.</td>
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<td><strong>FINANCIAL STABILITY</strong></td>
<td>For the seventh consecutive year, the World Economic Forum has declared Canada’s banking system to be the soundest in the world.</td>
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<td><strong>A GREAT PLACE TO INVEST, WORK, AND LIVE</strong></td>
<td>Canada is one of the most multicultural countries in the world, with world-class universities, a universal health care system and clean and friendly cities. The OECD’s Better Life Index shows Canada as best in the G-7 in terms of overall living conditions and quality of life.</td>
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Notes
4 http://www.ic.gc.ca/eic/site/icgc.nsf/eng/07055.html
9 http://www.fin.gc.ca/n14/14-114-eng.asp
11 http://countryeconomy.com/ratings
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For further information, please contact:

Shane Kuros
Vice President, Head of Business Development
CIBC Mellon
320 Bay Street
Toronto, Ontario M5H 4A6 Canada
Tel: +1-416-643-6365
Email: shane_kuros@cibcmellon.com

About CIBC Mellon

CIBC Mellon is a Canadian company exclusively focused on the investment servicing needs of Canadian institutional investors and international institutional investors into Canada. Founded in 1996, CIBC Mellon is 50-50 jointly owned by The Bank of New York Mellon (BNY Mellon) and Canadian Imperial Bank of Commerce (CIBC). CIBC Mellon’s investment servicing solutions for institutions and corporations are provided in close collaboration with our parent companies, and include custody, multicurrency accounting, fund administration, recordkeeping, pension services, securities lending services, foreign exchange settlement and treasury services. As at June 30, 2015, CIBC Mellon had more than C$1.5 trillion of assets under administration on behalf of banks, pension funds, investment funds, corporations, governments, insurance companies, foreign insurance trusts, foundations and global financial institutions whose clients invest in Canada. CIBC Mellon is part of the BNY Mellon network, which as at June 30, 2015 had US$28.8 trillion in assets under custody and/or administration and US$1.7 trillion in assets under management. CIBC Mellon is a licensed user of the CIBC trade-mark and certain BNY Mellon trade-marks, is the corporate brand of CIBC Mellon Global Securities Services Company and CIBC Mellon Trust Company, and may be used as a generic term to refer to either or both companies.

For more information – including CIBC Mellon's latest knowledge leadership on issues relevant to institutional investors active in Canada – visit www.cibcmellon.com or follow us on Twitter @CIBCMellon.