

**TRANSCRIPTION/TRANSCRIPTION  
NEWS CONFERENCE/CONFÉRENCE DE PRESSE**

**Transcription prepared by Media Q Inc. exclusively for Department of Finance  
Canada**

**Transcription préparée par Media Q Inc. exclusivement pour Ministère des  
Finances Canada**

DATE/DATE: June 7, 2010 8:45 a.m.

LOCATION/ENDROIT: Fairmont Royal York, Toronto

PRINCIPAL(S)/PRINCIPAUX: The Honourable Jim Flaherty, Minister of Finance

SUBJECT/SUJET: Minister of Finance Jim Flaherty Speaks at the International  
Corporate Governance Network Annual Conference.

**Moderator:** ...Now on to our keynote speaker. Jim Flaherty, Canada's Minister of Finance, is well known. He was recently awarded Euromoney Magazine's award for Finance Minister of the Year. He has been credited with enhancing Canada's reputation for sound fiscal policy while overseeing a strong regulatory regime that has kept the Canadian financial system out of chaos. Previously, for more than 10 years he served as a Member of Parliament. He also served as Deputy Prime Minister, Minister of Finance, Attorney General and Minister of Labour. Minister Flaherty is both a governor of the World Bank and the International Monetary Fund. He's a cum laude graduate of Princeton and Osgoode Law School.

Currently, he's championing national securities commission – a national securities commission for Canada that would replace the provincial system and he recently made headlines for opposing two taxes recommended by the IMF to fund future bank bailouts. And from the weekend's newspapers, it would appear that he won that battle.

So one more thing about Minister Flaherty, I've heard that he had honed his hockey skills at Princeton which have proved to be very important to him as he is a skilled politician adept at stick handling the most complex political issues. Mr. Flaherty, welcome and thank you for coming to speak to us today. (Applause.)

**Hon. Jim Flaherty:** Well, good morning. I did play a lot of hockey at one time. It is important to stick handle as finance minister. You also need to get your elbows up in the corners from time to time I can assure you in some of our international meetings especially.

Bonjour. C'est un grand plaisir d'être ici parmi vous ce matin à Toronto.

It is good. I'm happy to be home in Toronto which is my home after three weeks of travel in India and South America and China and Korea. I'm happy to say that we made significant progress over the weekend on Friday, Saturday and Sunday in Pusan and I think it's a good example of the G-20 working well together in a time of crisis. The G-20, as directed by our leaders, is the primary economic forum in the world today. And we certainly support that concept. I've been a participant in the three summits so

far — in Washington in November 2008 and then last year in London and in Pittsburgh. And, as you know, in a few weeks we will host the next G-20 Leaders Summit here in Toronto. Lots of work that needs to continue to happen between now and then so that our leaders will be in a position to make some important steps forward at the Toronto Summit

My recent trips along with those of our Prime Minister, Prime Minister Harper of Canada and some of our other ministers have been about helping our government prepare the way for some key decisions that need to be made at the upcoming Leaders Summit. Internationally, as you know, we are in the midst of a promising but fragile global recovery. This recovery is no accident. It is thanks to the unprecedented cooperation in the G-20. As we lead up to the Toronto Summit, the focus will remain on delivering on the commitments that our leaders have already made.

Your conference's theme of Changing Global Balances is a timely one. The world does require new approaches and continued global cooperation. This is the theme of the Toronto Summit, Recovery and New Beginnings. Following a lot of travel that has taken me to key G-20 economies these past few weeks, I am pleased to say that Canada's leadership in reaching a global consensus is recognized and welcomed.

And to fully understand the importance of where we are today in June of 2010, it's important to look back a little bit and to remember where we were and how serious the crisis was back in the autumn of 2008. I can remember here in Canada, it was Friday, October 10<sup>th</sup>, 2008, in the morning announcing that we would take certain steps to make sure our banks, our financial institutions were able to maintain a level playing field because other countries had taken over banks and had guaranteed banks' indebtedness and so on. We agreed to purchase some insured mortgages to ensure adequate liquidity in our financial systems.

And then going during the day to Washington, in the afternoon meeting in the Cash Board of the Treasury with the G-7 central bankers and finance ministers. And this was a meeting not like other meetings. I've been to lots of them over the course of more than four years now. This was a meeting where we threw away the script, we tore up the communique. You know these communiqués are prepared in advance of meetings which is a very peculiar habit that bureaucrats have. That's to avoid — I guess avoid elected people making serious decisions at these meetings. In any event, we tore that up. And it was quite a serious discussion.

At that point some German banks had failed, the United Kingdom had to take over, nationalize in effect some banks. Of course Lehman Brothers has just failed the month previously and it was an intense discussion with some blaming of others taking place in the room. The end result was we tore up the communique, created a five-point plan.

The reason I'm telling you all of this is a) this was a very serious crisis. The markets were unstable. It was unclear whether some markets would even open on the following Monday. And b) because the international bodies, the G-7, G-20, IMF, World Bank all

got together that weekend in Washington and all adopted this same five-point plan which created a degree of certainty and certainly direction in terms of what we were going to do. Fundamentally, we were not going to let any more financial institutions fail and that was the fundamental commitment.

At that time, as you know, we were dealing largely with investment banks and banks generally. Now in 2010 the European challenge, which is a challenge for all of us, relates to some sovereign debt that needs to be addressed. We are all agreed in the G-20 that fiscal consolidation is mandatory and not just fiscal consolidation among those countries that need to reduce their level of indebtedness but also the will to follow it through. And this is essential as we go forward in the next few weeks leading to the G-20 Summit in Toronto.

After that weekend in October 2008, there followed the first G-20 Summit in Washington in November 2008 which was led by President Bush. Again, there was a high degree of cooperation among the leaders and the finance ministers who were present in Washington and then later – later in New York. We agreed then of the need for stimulus and all of the G-20 countries agreed to create stimulus in their economies — two percent a year over the course of two years; four percent of GDP. We did that in Canada. Fortunately, we had good cooperation by our federal partners, by the provinces and territories in Canada. And together we created a stimulus of in excess of four percent of GDP. It is a two-year package. There's much talk about exit strategies in the G-20. We've built in our exit strategy in that the majority of our spending is infrastructure spending and it is being terminated as of the end of March 2011.

We made the clear from the beginning in the budget that I delivered in January 2009 which had the stimulus package in it that we would spend the money, we would spend it over two years but then it would end and we're going to make sure that it ends as of March 2011. That's important because that gives us the opportunity immediately as of the next fiscal year to cut our deficit in half and by the following year by two-thirds and then move to balance in three to four years in the Canadian context.

We were running balanced budgets in Canada before the crisis. We listened to businesspeople and ordinary Canadians and certainly the investment community in Canada and decided to run a deficit, a fairly sizeable deficit over the course of a couple of years in order to stimulate the economy. It is working. The Canadian economy in the first quarter of this year grew 6.1 percent real GDP and that is above expectations. We're pleased with that result. We're still concerned with the unemployment rate which is about 8.1 percent right now. But relatively speaking it's better than what our neighbour to the south, what the United States is experiencing in terms of unemployment.

Now, as you know, in Europe, financial markets are looking with concern at the debt situation of some countries. In Canada we have a controlled debt situation, as I say, and we'll move to balance in the intermediate term.

We also have a good brand these days. The Canadian brand is of strong financial institutions. The World Economic Forum calls Canada's financial system the most sound in the world. I can recall being in China actually in January 2007 and some concerns being expressed by my counterparts there about Canada's banking system being boring and risk averse. Gee, you know, when I went back last week I didn't hear much of that. I heard things like healthy and stable and solid and prudent which is the Canadian financial system.

Our overall tax rate on new business investment this year will be the lowest in the G-7 and below the OECD average. We're reducing corporate taxes. The opposition here tells us we shouldn't do that but we have a long-term plan to get our federal corporate tax rate down to 15 percent. It was a little bit over 22 percent when we took office more than four years ago. We've been reducing it every year. We'll get it down to 15 percent by 2012. I have encouraged the provinces to join us in that, get their corporate rate down to 10 percent because in Canada both the provinces and the federal government levy corporate tax. So by 2012-13 we will have a combined corporate tax rate, business tax rate in most of Canada of 25 percent which will be easy to communicate and a clear brand for Canada. We have reduced our consumption tax by two percent as we promised to do. And this year in my budget we got rid of tariffs on inputs, on manufacturing inputs. We are now in Canada the first tariff-free country on manufacturing inputs in the G-20. All of this is part of a competitive advantage.

In terms of fiscal discipline, Canada today has the lowest debt-to-GDP ratio in the G-7. The IMF expects Canada to have the strongest recovery in the G-7 over the next two years. All of this is as a result of fiscal discipline which I as an elected person realize is not always the easiest thing to do and I understand the challenges faced by some of my colleagues elsewhere but the need is there to pay down substantial amounts of debt in Canada. In our first three years, we paid down almost \$40 billion of debt before the recession – the crisis and the recession happened. That helped us to be able to go into deficit briefly and then come back out of it without creating a structural deficit.

If Canada is going to call on other nations to follow through on fiscal consolidation, which we are, we had better do it ourselves. And I have a budget bill before the House of Commons. This is a little bit of domestic demand here. We are trying to get our budget bill through the House of Commons and in Canada we are a minority government so I'm urging my parliamentary colleagues to do that. We have a budget vote tonight in Ottawa and I think we'll make some progress in moving our budget forward. We need to do that. We're asking other countries to exercise fiscal consolidation that we need to make sure that we're proceeding with our own Economic Action Plan as we are and that we're leading by example.

I am encouraged, and I'll repeat this, I am encouraged by the cooperation that we see in the G-20. There's much discussion on the number one issue which is strong, sustained and balanced growth. I chaired the discussion about that at the G-20 on Saturday. Our intent is to get a clear agreement on the principles needed to achieve real progress on reducing deficits and debt burdens. In Toronto we will push for clear, credible, concrete, timely fiscal consolidation plans that will reduce and eliminate our

deficits to put debt burden on a downward and sustainable path. It is critical for all economies to go in this direction.

Au Sommet de Toronto nous allons insister pour l'adoption de plans clairs, crédibles et opportuns afin de réduire et d'éliminer nos déficits et de placer les fardeaux de la dette sur une trajectoire décroissante et viable. Le Canada a fait preuve de leadership et a déjà établi un tel plan. Il est essentiel que toutes les économies fassent du même. On financial sector reform, a lot of talk about bank levies and so on these past few weeks including on the weekend. Fundamentally, we are opposed to a bank tax, an ex ante bank tax for several reasons, most important of which, and we share this with the majority of G-20 countries, is that we did not put taxpayers' money into our financial institutions during the crisis. To impose a tax now, an ex ante tax on our financial institutions would inevitably flow through as a tax to – as a cost of doing business to customers. So we would in Canada be imposing a tax on Canadians whose money was not used to bail out banks during the difficult time. So we're not going to do that. I've had this discussion certainly with my colleagues in the G-20 but, as I say, the majority of countries in the G-20 will not be imposing an ex ante tax.

Now we all agree on the principle that to the extent a financial institution contributes to a crisis in the future, it is the debt holder and shareholders of the financial institution that should bear the cost of that contribution and not taxpayers. Now there are different ways of getting resolution of that principle, one of which Canada has suggested which is an embedded contingent capital provision. We've provided some detail of that to our colleagues and that is being looked at as well as one of the solutions.

But one size does not fit all on this issue. There are a few countries that are interested in an ex ante bank tax and they may proceed, a few of them, doing that. But there will not be a global tax of that nature, a global ex ante bank levy.

It also concerns me as a finance minister, I can tell you, when countries are running deficits and if they impose some kind of bank levy and the idea is that this bank levy money will be used later on when there's a crisis, one wonders whether the money would really be there later on and I say that as someone who has to manage budgets and looks at deficits and the tendency would be for any government to use that money to reduce their deficit when they have it at hand rather than have it put aside for another time.

Christy very kindly mentioned securities reform which I've been working on here for several years. Canada does have a strong financial system. We have an effective regulatory system. As you know, most of the financial institutions that failed during the crisis were regulated — not well, but they were regulated. So in our discussions, I always emphasize with my colleagues the importance of effective supervision, not just having a supervisory framework. In Canada we do have an effective supervisory framework of our financial institutions through the Office of the Superintendent of Financial Institutions. We also have the Financial Consumer Agency of Canada. I know some other countries are looking at that type of agency. We've had one for some

years. The Bank of Canada of course responsible primarily for monetary policy. The Canada Deposit Insurance Corporation and my department, the Department of Finance.

This group, the leaders in the institutions that I just mentioned meet regularly. That's our macro economic overview in Canada. But what we are missing is a common securities regulator in Canada. Right now, we have 13 provinces and territories in the business of securities of regulation so in the five budgets that I've done here we have consistently proposed that we would work with participating provinces and territories to create a Canadian securities regulator. We have created a Canadian Securities Transition Office.

Ten of the provinces and territories have been working with the Government of Canada toward creating the Canadian securities regulator. We have in fact created the draft law, the bill which I tabled in the House of Commons about 10 days ago. We referred the bill to Supreme Court of Canada for a constitutional interpretation. Our view is that the federal government has the constitutional authority in the Canadian context to legislate in this area but we want to have certainty for investors and certainty for business and certainly in the securities area so we are asking our highest court to give us that ruling.

Then we would be able to fill what is really the missing chair, the empty chair at the table with the Department of Finance, the Office of the Superintendent of Financial Institutions, the Bank of Canada, the Canada Deposit Insurance Corporation and the Financial Consumer Agency of Canada. I expect that we'll see the ruling of the Supreme Court of Canada in 10 to 18 months so that's our timetable and the would make any changes we needed to make and proceed.

So we've made a lot of progress, more progress than has ever been made before on creating a Canadian securities regulator.

Now I've gone on almost as long as it seems. I'm glad to see most of you are still awake and let's look at the big picture for a moment. Leadership is measured not by what we say but by what we do and that includes in the G-20. In so many ways, Canada has done well during the crisis. We do have a world leading financial system. We have a competitive advantage through tax relief and we have had budgetary prudence. We do have to work with our colleagues now in the G-20 to make sure that we have a sound basis for sustainable growth going forward. This doesn't mean growth at any cost. It means sustainable growth over time. The discussions that we had on the weekend were largely about fiscal consolidation in this area but also about mutual assessment practices so that we will be able to country to country be assured that there is financial system integrity from country to country, dealing with that interconnectedness that Christy referred to. It is important that we make progress in that area at the summit in Toronto and we are all agreed that we need to push forward seeking concrete results in a cooperative and committed way so that we can have balanced growth. The concern of course given the weakness in some of the vulnerable

European sovereign states is that their need to exercise fiscal consolidation will have a negative effect on growth so it is important in terms of balances that the emerging economies like China increase domestic demand. China is in fact going in that direction intentionally, increasing domestic demand so this can help balance the effects of fiscal consolidation in other – in some of the developed economies.

I wish you every success at your conference. Thank you for the invitation. Thank you for the opportunity to be here this morning. You're doing important work and a contribution to the balance that we are seeking internationally.

Thanks very much. (Applause.)

**Moderator:** Thank you, Minister Flaherty. Thank you very much.