

GUEST COLUMN

Harmonizing global markets

Canadian securities firms are doing more and more business abroad. It's time for global regulators to catch up with the world of finance, where borders are increasingly porous

BY IAN RUSSELL

GLOBAL FINANCIAL MARKETS HAVE become a reality. It's time for regulatory and tax regimes to catch up.

After the 2008 financial crisis, cross-border trade in financial services accelerated, restoring a trend we had seen over the past decade. This reflects a simple fact: global trade in financial services — driven by lower barriers to trade and capital, global diversification opportunities and the expansion of non-financial international markets — is integral to global prosperity.

But one thing is different in the post-2008 world: trade with developing countries is attracting greater investor attention, largely because of these regions' swift economic recoveries and the buoyant prospects for their emerging middle classes. Large and mid-sized Canadian securities dealers are doing more business with foreign clients, including research and trading in Canadian stocks and bonds. And more foreign clients

are looking for opportunities in Canada, drawn by world demand for commodities and a stable financial services sector.

Last year, foreigners purchased a record \$116 billion in Canadian securities, with an emphasis on energy and mining. On the other side of the ledger, Canadian investment abroad in the fourth quarter of 2010 reached its highest level in three years, due mainly to Canadian companies' acquisitions of Australian mining properties.

Canadian firms have increasingly focused on London and, more recently, Hong Kong. The business focus in London is the global institutional market, with large firms dealing in fixed-income and over-the-counter derivatives. Both large and mid-sized Canadian firms trade, sell and distribute Canadian mining and energy equities.

Smaller Canadian firms also have established relationships with firms in London and New York to exchange products and services, as well as jitney equity transactions listed on foreign exchanges. These relationships — although sometimes costly and bearing the risk of losing client business to competitors — may help build beachheads in foreign markets. The British regulatory regime is particularly attractive, as it provides greater flexibility for registered Canadian dealers to operate in the London institutional market than U.S. regulations allow for Canadians dealing in New York.

In the Hong Kong market, large integrated Canadian dealers have recently established a foothold in high net-worth wealth management. Some of these firms have built prime brokerage businesses for insti-

tutional clients investing in global markets.

Still, Canadian firms mostly have continued to look south. But the U.S. Securities and Exchange Commission's "safe harbour" — which allows Canadian dealers to deal with U.S. institutional clients only if "chaperoned" by a U.S. broker — is too restrictive. While registered U.S. affiliates offer Canadian firms the flexibility to provide a relatively cost-effective trading and sales platform, it would still be simpler and cheaper for Canadian firms to provide these services directly to American clients.

Several integrated dealers have gone one

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step further, establishing U.S.-based subsidiary operations that also offer wealth-management services despite U.S. compliance costs and stiff competition from the U.S. retail wealth-management business.

The international successes of Investment Industry Association of Canada members have relied largely on the efficiencies of their domestic institutional platforms, which are based on substantial investments, expertise, technology, and domestic trading and dealing infrastructure. The IIAC is pursuing several regulatory and tax policy initiatives to improve cost-effective access for its mem-

bers to foreign institutional markets.

U.S. regulatory requirements are the toughest in the world. But the IIAC has encouraged the SEC to submit a less restrictive safe harbour for foreign broker-dealers dealing in U.S. institutional markets.

In retail, the IIAC is seeking to broaden the SEC exemption that allows Canadian brokerage firms to service traditional RRSP accounts to include fee-based RRSPs.

The IIAC supports a tax agreement with Hong Kong that gives individuals and companies in Hong Kong an exemption from Canadian withholding taxes. This would promote Hong Kong-based investment in Canadian dividend-paying stocks — and stimulate direct investment in Canada through Canadian affiliates of Hong Kong-based companies.

Finally, in this era of stock market consolidation, the IIAC supports U.S./Canada mutual recognition of listing standards, which would facilitate increased market cross-listing and exploit the key benefits of enhanced liquidity and financing for listed companies on merged stock exchanges.

In the globalizing markets, Canadian securities firms are bringing a lot to the table. A liberalized regulatory and tax regime would enhance that process — to the benefit of both investors and companies. ■

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