

March 18, Finance Minister Jim Flaherty resigned from cabinet after having endured a difficult year due to health issues. This report looks at his legacy and attempts to grade his government's performance to date.

The purpose of this report is to provide FSIM readers with a quick snapshot with which to gauge his performance. The evaluation criteria are outlined in table 1 below, and were derived from published articles since 2009. Each category, such as GDP, was evaluated against positive and negative indicators and weights assigned. As this approach is inherently subjective, I have enclosed the related spreadsheet, and encourage you make up your own scenarios if you are so inclined. Examples of the biases in the scorecard are listed below:

- Canada's economic ranking against other countries. 1 point for every place we moved up since the credit crisis 11<sup>th</sup> place (5 in all).
- Personal view that money in the hands of consumers has more economic power than spending on infrastructure and subsidizing industry, therefore weight for austerity relatively high.
- Relatively high weight to venture capital.
- Concern over CMHC housing liability equal to weighting of -1 for every billion liability for which Canadians are on the hook if housing bubble bursts.
- Household debt to income ratio resulting in weighting of - 1 point for every 10 basis points over ratio of 90%.

**Table1, scorecard of economic indicators and weighted scores**

Category	Negative indicators	Positive indicators	Weight	Score	Subtotal
Canada's Economic Comparison against rest of world	"We have moved up, but some of it is because others have gotten a lot worse," said Kip Beckman, principal economist at the independent research organization.	<ul style="list-style-type: none"> <li>• A new report says Canada has moved up its economic ranking to sixth out of 16 countries</li> <li>• Improved its ranking from 11th since its last report card in pre-recession 2008</li> </ul>	5	5	25
GDP	Canada's growth hovering below the 2-per-cent mark	"The Canadian economy may only be growing at two per cent now, but people in Europe would love to have two per cent growth.	2	1	2
Jobs	Unemployment at 7.3 per cent		1	-1	-1
Trade balance	-6.79 billion in 2013 vs +43 billion in 2008		0.5	-1	-0.5
Business investment	<ul style="list-style-type: none"> <li>• \$250 billion dead money sitting in corporate coffers</li> <li>• Two-thirds of Canadian firms indicated that domestic/global demand, sector-specific issues, and taxes/regulations were affecting their investment decisions.</li> </ul>	<ul style="list-style-type: none"> <li>• Canada's federal corporate tax rate, for example, is among the lowest in advanced economies.</li> <li>• Equipment purchasing</li> <li>• Tax breaks</li> <li>• Only 10 per cent of firms suggested that access to credit was an issue.</li> </ul>	5	0.5	2.5

Venture capital	Innovative initiative for regenerating the nation's VC industry may well be offset by its 2013 decision to phase out federal tax credits for labour-sponsored venture capital corporations by 2017.	\$400 million Venture Capital Action Plan (VCAP), Established in May 2013.	3	0	0
Credit card fees	Competition Tribunal allowed Visa and MasterCard to continue charging merchants higher fees for so-called "premium" cards.	Competition Tribunal allowed Visa and MasterCard to continue charging merchants higher fees for so-called "premium" cards.	0.25	0.25	0.0625
Interest rates	<ul style="list-style-type: none"> <li>Canadian companies are said to be sitting on some (C)\$250 billion in cash,</li> <li>Investment spending over the next 12 months to the slowest rate of growth since the end of 2009.</li> </ul>	Just one week after Jim Flaherty stepped down, Bank of Montreal is shaking up the mortgage market, aggressively cutting its five-year rate to levels.	3	0	0
CMHC	<ul style="list-style-type: none"> <li>Flaherty regrets massive growth of CMHC, vows action if needed</li> <li>The value of home loans insured by Canada Mortgage &amp; Housing Corp., which is backed by the federal government, has almost doubled since the end of 2006, saddling taxpayers with a growing liability as policy makers warn that gains in house prices may be unsustainable. CMHC's insurance-in-force was \$562.1 billion</li> </ul>	TD's Ed Clark: Any government effort to reform the Crown corporation — as Jim Flaherty, the Finance Minister, has mused several times — risks taking away the very things that made Canadian banks [so resilient].	1	-5	-5
Austerity	<ul style="list-style-type: none"> <li>Big countries' weakening resolve to cut debt is a mistake, and surplus capital coursing through the world economy risks inflating asset bubbles and causing fresh turmoil, Canada's finance minister said on Thursday.</li> <li>Thomas Herndon spotted errors made by the economists in an influential paper that has been cited globally as justification for slashing spending</li> </ul>	"The speed at which they turned 180 degrees was spectacular," Mr. Charest said. "I don't think anyone held it against them because we had just seen the world unravelling in front of us. There weren't many options. They did what they had to do, quite frankly."	5	-2	-10
Data	<ul style="list-style-type: none"> <li>Canadian Imperial Bank of Commerce economist Benjamin Tal released a strongly worded note, titled "Flying Blind," in which he said "the gap between the importance of the real estate market to the economy and the lack of publicly available information on it is mind-boggling"</li> <li>"A unified approach to analyzing risks that stem both from federally and provincially regulated institutions and markets is lacking," the IMF says. "No one has a mandate to collect and analyze data for the financial system - federally and provincially regulated institutions, unregulated entities, and markets - as a whole."</li> </ul>		2	-2	-4

Balanced budget		No new taxes balanced by 2015	1	2	2
Household debt	165%		2	-7.5	-15
Inflation	1.5-per-cent mark for 18 months in a row	At least it is not deflation	5	0.25	1.25

*Minister of Finance Score: -2.7*

**In conclusion**, despite the fact that Canada is sitting on the precipice of a housing crash and with taxpayers holding the bag, Flaherty's policies have somehow kept the Canadian economy afloat. Hopefully a full recovery is coming for him, and also that the economy improves.

The following is a compilation of published articles focussed on the Minister of Finance, dating from 2009.

#### **HARPER CONSERVATIVES ARE ANYTHING BUT**

*(G&M – David Parkinson)* – Attitude and Preference Issues

The next day, new Finance Minister did the "I'm watching you" motion in the direction of Canada's banks, as one (Bank of Montreal) had the temerity to re-introduce a 2.99-per-cent rate on a five-year mortgage. A year ago, when BMO cut its rate to this same level, Mr. Oliver's predecessor, Jim Flaherty, scolded the banks publicly for their recklessness given Canada's excessive household debt and overheated housing market – while privately leaning on the country's big banks to keep mortgage rates higher. The implication from Mr. Oliver's statement on the matter was that Ottawa had cracked down on mortgage lending before and is willing to do it again. March 31

#### **BMO SLASHES KEY MORTGAGE RATE**

*(G&M – Tim Kiladze, Tara Perkins)* – Risk / Competitive Issues

Just one week after Jim Flaherty stepped down, Bank of Montreal is shaking up the mortgage market, aggressively cutting its five-year rate to levels that caused the former finance minister to intervene last year. March 27

#### **SEVEN WAYS JIM FLAHERTY CHANGED THE CANADIAN MORTGAGE MARKET**

*(G&M – Robert Mclister)* – Risk

The man who ran our nation's finances for eight years is gone. In Jim Flaherty's wake are a legacy of housing policies that will impact homeowners for years to come. March 20

### **FINANCE MINISTER JIM FLAHERTY RESIGNS FROM CABINET**

*(G&M – Bill Curry)* – Governance

"Now, I will focus on life beyond politics as I return to the private sector. I believe that I have served my country, province and constituents of Whitby-Oshawa to the best of my abilities and thank them for their continued trust and support for almost two decades. It has been an honour to serve Canadians with the prime minister, cabinet and caucus colleagues and all Members of Parliament in the House of Commons," he said. March 18

### **CANADA'S ECONOMIC RANKING JUMPS AS OTHER NATIONS FALTER**

*(Huff Post – LuAnn Lasalle)* – Competitive Issues

A new report says Canada has moved up its economic ranking to sixth out of 16 countries — but it's mostly due to the weakness of other countries.

### **BANKS SHOW RESTRAINT ON MORTGAGE RATES ONE YEAR AFTER FLAHERTY'S WARNING**

*(G&M – Tim Kiladze, Tara Perkins)* – Risk

In March, 2013, Bank of Montreal dropped its five-year mortgage rate to 2.99 per cent, spurring Manulife Bank to follow suit as the all-important spring housing season kicked off. March 4

### **VIDEO JIM FLAHERTY WEIGHS HIS LEGACY AS FINANCE MINISTER**

*(CBC)* - Governance

After delivering what could be his last budget as federal finance minister, Jim Flaherty talked to CBC's The Lang & O'Leary Exchange about how he weighs the two responsibilities of stimulating the economy and fiscal prudence Feb 14

### **STIMULUS GAMBLE: HOW OTTAWA SAVED THE ECONOMY – AND WASTED BILLIONS**

*(G&M – Bill Curry, Barrie McKenna)* – Governance

" 'You know, we hoped we could run a deficit of fifteen or twenty billion dollars and manage the problem at that level. But I don't think so,' " Mr. Flaherty says he told the Prime Minister. " 'It's deeper and darker and it's at all levels of business.'

"The sad thing about being an economist is you're dealing with lag data," he said.

Mr. Flaherty had the same sense of unease. "None of the economists in the private sector gave us advice that we're into a recession," Mr. Flaherty said. Inside the government, the thinking was that some modest stimulus spending in the 2009 budget would be enough.

“I can look back now and say we were in recession the last quarter of 2008,” Mr. Flaherty said. “So it was a bit awkward to present what I presented and then to realize that things were getting increasingly worse.”

Jean Charest, Quebec’s premier from 2003 to 2012, said the Harper government did not want to believe that Canada was being dragged into the global financial crisis and recession.

“The speed at which they turned 180 degrees was spectacular,” Mr. Charest said. “I don’t think anyone held it against them because we had just seen the world unravelling in front of us. There weren’t many options. They did what they had to do, quite frankly.”

Feb 10, 2014

### **SCOLD ALL YOU LIKE, IMF – FLAHERTY’S NOT BUDGING**

(G&M – Kevin Carmichael) – Governance

So Mr. Flaherty will be selective in his interpretation of the International Monetary Fund’s review of the Canadian financial system, the second Financial System Stability Assessment of Canada since the IMF started conducting the periodic reviews for bigger economies back in 1999.

Like most everyone, the IMF generally has high praise for Canada’s supervision of banks and insurers. But it’s the fund’s job to criticize, and it finds fault with the informality of some aspects of the system.

Feb 4

### **SUB 3% MORTGAGE RATES ARE IN SIGHT AGAIN — JUST DON’T TELL JIM FLAHERTY**

(FP – Garry Marr) - Risk

Rates from some brokers on five-year fixed loans have dipped below 2.99%, a level that previously prompted Flaherty to warn banks of getting into mortgage wars. Feb 4

### **FINANCE MINISTER JIM FLAHERTY TO UNVEIL 'CAUTIOUS' FEDERAL BUDGET ON FEB. 11**

(FP – Gordon Isfeld) - Indicator

Jim Flaherty is still insisting he’s on course to turn a once-monstrous budget deficit into a healthy surplus the Conservatives can take into the next election

The Canadian dollar is a market currency and it moves in response to market forces, “ Mr. Flaherty told reporters Jan 28

### **WHY IT’S SO HARD TO REPLACE OSFI’S JULIE DICKSON**

(G&M – Kevin Carmichael, Tara Perkins) – Governance / Regulatory Issues

It took Finance Minister Jim Flaherty the better part of a year to decide that Julie Dickson was up to running Canada’s banking regulator. Now, it’s taking him just as long to find someone good enough to replace her.

Ms. Dickson confirmed eight months ago that she planned to retire as head of the Office of the Superintendent of Financial Institutions, or OSFI, in July – the conclusion of her seven-year term.

Mr. Flaherty had hoped to find a replacement by the end of 2013, an unofficial deadline that came and went without an announcement. Jan 22

### FINANCE MINISTER JIM FLAHERTY OPENS UP ABOUT RARE SKIN AILMENT

(The Star) – Governance

Bullous Pemphigoid is skin condition treated with prednisone, which causes weight gain, puffiness. Flaherty says he thinks it's clearing up Jan 31, 2013

### TROUBLE AHEAD FOR CANADA'S VC ACTION PLAN?

(PeHub – Stephen Hurwitz) – Risk / Public Policy

Will Canada's long-standing severe venture capital (VC) shortages be ameliorated by the Canadian government's implementation of its **Venture Capital Action Plan**? Sadly, the answer may be no, writes **Stephen Hurwitz**. That's because the government's innovative initiative for regenerating the nation's VC industry may well be offset by its 2013 decision to to phase out federal tax credits for labour-sponsored venture capital corporations by 2017.

### FEDERAL FINANCE MINISTER APPOINTS ANNETTE VERSCHUREN TO CHAIR VCAP PANEL

(PeHub – Kirk Falconer) - Risk

The federal Minister of Finance **Jim Flaherty** has named **Annette Verschuren** as the new chair of the **Venture Capital Expert Panel**. Verschuren is currently Chair and CEO of **NRStor Inc**, a business focused on accelerating the commercialization of energy storage technologies. The panel was previously chaired by Canadian private equity professional **Sam Duboc**, who was recently [appointed](#) chair of the board of directors of the **Business Development Bank of Canada**. Established in May 2013, the panel advises the government on key issues of venture capital policy, including the \$400 million **Venture Capital Action Plan (VCAP)**, launched last year.

### BANK OF CANADA CHIEF POLOZ SAYS RATES ON HOLD UNTIL DATA IMPROVES

(FP – Louise Egan, Randall Palmer) - Governance

Stephen Poloz's comments follow controversial remarks by Finance Minister Jim Flaherty suggesting there would be pressure to raise interest rates in 2014 Jan 8

### WHILE OSFI MULLS NEW RULES, BANKS ACT ON RATE RESET PREFS

(FP – Barry Critchley) – Regulatory Issues

Maybe, this will be the year that OSFI, the country's financial institution regulator, will issue a white paper on so-called bail-in provisions, a move that has been talked about for a few years Jan 7

### CANADA WILL FACE PRESSURE TO RAISE INTEREST RATES, FLAHERTY SAYS

(G&M – Josh Wingrove) – Risk / Public Policy / Governance

The decision by the U.S. Federal Reserve to move away from its quantitative easing policy – in which the central bank creates billions of dollars to buy financial assets each month – comes amid signs the American economy is beginning to heat up, which would boost demand for Canadian imports. Jan 6

### **FLAHERTY TO SAVERS: YOU'RE ON YOUR OWN WITH CPP AS IT STANDS**

(G&M) – Public Policy / Governance

The Canada Pension Plan has only one defect: It's too small. On Monday, federal Finance Minister Jim Flaherty once again blocked a proposal to bolster the income security of the next generation of retirees by expanding the plan. Dec 13

### **PRIVATIZING CMHC WOULD WEAKEN BANKS, LEAVE ECONOMY VULNERABLE: TD'S ED CLARK**

(FP – John Greenwood) – Risk

Any government effort to reform the Crown corporation — as Jim Flaherty, the Finance Minister, has mused several times — risks “taking away the very things that made Canadian banks [so resilient]”, he said. Dec 13

### **FLAHERTY REGRETS MASSIVE GROWTH OF CMHC, VOWS ACTION IF NEEDED**

(FP – Bloomberg) – Governance

The value of home loans insured by Canada Mortgage & Housing Corp., which is backed by the federal government, has almost doubled since the end of 2006, saddling taxpayers with a growing liability as policy makers warn that gains in house prices may be unsustainable. Dec 9

### **JIM FLAHERTY 'NOT AWARE' OF MINT CHAIR'S TAX-HAVEN DEALINGS**

(CBC – Zach Dubinsky, Harvey Cahore) – Governance é Industry Conduct

Finance minister and wife Christine Elliott have close ties to Jim Love. Nov 28

### **REMAIN A FOCUS FOR OSFI**

(G&M – Tara Perkins) – Risk / Regulatory Issues

While Finance Minister Jim Flaherty changed the mortgage insurance rules in July of 2012 to cut the maximum amortization of insured mortgages to 25 years, uninsured 30-year mortgages are still available for consumers who have a downpayment of at least 20 per cent. Nov 26

### **JIM FLAHERTY VOWS TO INTERVENE IN HOUSING MARKET AGAIN IF NEEDED**

(G&M – Michael Babad) – Risk / Governance

Mr. Flaherty's latest move came in the summer of 2012, when he tightened mortgage insurance rules and deliberately sparked a slump in the residential real estate market. Nov 13, 2013

### **ECONOMISTS PRESS FLAHERTY ON LACK OF CLEAR DATA IN HOUSING SECTOR**

(G&M – Tara Perkins) – Risk

The worry among economists has been that foreign investors might have played a larger role than assumed in the Canadian housing market's escalation in recent years. Investors are more likely to bail out of the market in the event of a downturn than owner-occupiers are. Oct 30, 2013

### **FLAHERTY TO MEET DEVELOPERS, BUT WON'T INTERFERE IN HOUSING MARKET FOR NOW**

(G&M – Billy Curry, Tara Perkins) – Risk

Private-sector economists are pressing Finance Minister Jim Flaherty to keep a closer eye on Canada's housing market in light of persistently low interest rates. Oct 29

### **FLAHERTY'S DREAM OF UNIFIED REGULATION LEAVES COUNTRY DIVIDED**

(G&M – Sophie Cousineau) – Structural Issues

In a business world that feeds on take-no-prisoners rivalries and revels in military expressions to depict its "battles," common sense and conciliation are in short supply. Sept 23

### **SECURITIES REGULATOR DEAL OPPOSED BY QUEBEC, ALBERTA**

(CBC) - Governance

Federal Finance Minister Jim Flaherty has announced a voluntary "co-operative capital markets regulatory system," with Ontario and British Columbia agreeing to join. Quebec vows to challenge Flaherty's plan in court. Sept 20

### **FLAHERTY DESERVES CREDIT FOR NEW SECURITIES REGULATOR**

(G&M - Tim Kiladze) – Governance

They were always the major unknown. The big impediment to a securities regulator has always been a vocal group of provinces – including Quebec – who argued securities legislation is a provincial matter. Ottawa, they stressed, had to stay off their turf. Ultimately the Supreme Court agreed. Sept 20

### **FLAHERTY EXTENDS TAX BREAK FOR MANUFACTURERS IN BID TO HELP CANADA COMPETE GLOBALLY**

(FP – CP) – Public Policy

Finance Minister Jim Flaherty has announced a two-year extension to a program that allows manufacturers to write off eligible investments in new machinery faster Sept 19

### **FLAHERTY SAYS TAX DEAL NEAR ON AMERICANS LIVING IN CANADA**

(G&M – Barrie McKenna) – Risk

We have made some progress," Mr. Flaherty told reporters in Ottawa Sept 10

### **JIM FLAHERTY LAUDS 'FRUGAL' GERMANS, REJECTS U.S. 'PRINTING MORE MONEY'**

(G&M – Michael Babad) – Governance / Attitude and Preference Issues

Canada's finance minister gave a nod to "frugal" Germany today as he again rejected the money-printing ways of the Americans. Sept 6



### **TWO REASONS CANADIAN MORTGAGE RATES ARE FINALLY RISING**

(G&M – *Tim Shufelt – Video*) – Competitive Issues

The Globe's Tim Shufelt explains how the U.S. economy and Jim Flaherty's efforts to cool the housing market are factoring into BMO's and Royal Bank's decision to hike rates. August 23

### **FINANCE MINISTER CAUTIOUS ON CANADA'S ECONOMY**

(CBC) – Risk / Governance

Jim Flaherty says balanced budget key to weathering future shocks Aug 23

### **CANADA'S HOUSING MARKET STILL RUNNING HOT**

(G&M – *Tara Perkins*) – Governance / Risk / Public Policy

Housing starts, sales and prices are once again defying expectations, one year after Finance Minister Jim Flaherty shocked the market with tighter mortgage insurance rules. The sector is showing such strength this summer that some economists are wondering whether Mr. Flaherty will go further in a bid to stem rising house prices and consumer debt levels. Aug 12

### **FLAHERTY TO REVIEW DECISION ALLOWING CREDIT CARD GIANTS TO KEEP HIGHER MERCHANT FEES ON 'PREMIUM' CARDS** – From July

(FP – *Gordon Isfeld*) – Governance / Regulatory Issues

Finance Minister Jim Flaherty said he is “carefully reviewing” Tuesday’s ruling by the Competition Tribunal that allowed Visa and MasterCard to continue charging merchants higher fees for so-called “premium” cards. July 23, 2013

### **FLAHERTY TO REMAIN FINANCE MINISTER IN SHUFFLED HARPER CABINET**

(G&M – *John Ibbitson, Josh Wingrove*) – Governance

Jim Flaherty is expected to remain as Finance Minister in a new cabinet that Prime Minister Stephen Harper will unveil Monday.

Although the shuffle will be more substantial than many observers predicted, government sources say they believe Mr. Harper has decided to keep Mr. Flaherty at his post.

The Finance Minister has said publicly that he wants to remain on the job until the budget is brought back into balance, and has suggested that he may contest the next election. July 15

### **JIM FLAHERTY: WILL HE STAY OR WILL HE GO?**

(FP – *Jason Fekete*) - Governance

The only finance minister the ruling Tories have known, Flaherty will play an important role in the upcoming cabinet shuffle and future of the government. July 12, 2013

### **FLAHERTY BRIEFING DEBUNKS CLAIM CANADIAN CORPORATIONS ARE SITTING ON PILE OF 'DEAD MONEY'**

(FP – CP) – Governance / Attitude and Preference Issues

An internal briefing for Finance Minister Jim Flaherty deflates repeated claims that corporations are irresponsibly sitting on a hoard of idle cash rather than injecting it into the economy. June 27

### **FLAHERTY SHOULD CAUTIOUSLY CHEER “SHORT CANADA” CROWD**

(G&M – David Parkinson) – Indicator

Jim Flaherty [is wishing “bad luck”](#) to foreign investors who are betting against Canada. I hope, for the Canadian economy’s sake, that he knows better than to really mean it. May 29

### **BANK OF CANADA’S GROWTH VIEW IS CLOUDED WITH HAZY THINKING**

(G&M – Christopher Ragan) – Risk / Governance / Public Policy

The high levels of consumer debt suggest that consumers cannot be relied upon to fuel economic growth in Canada. And the current frothy state of the Canadian housing market, combined with Finance Minister Jim Flaherty’s actions on mortgage policy, suggest that it is neither desirable nor realistic to expect residential investment to be a driving force. Similarly, most governments in this country are trying to get back to fiscal balance within a few years, and this requires either trimming spending or raising taxes, neither of which contribute to growth in the short run.

What can the Bank of Canada do to improve the prospects for Canadian exporters? As long as the Bank keeps focused on its inflation target, and resists any temptation to intervene in foreign-exchange markets, the answer is, nothing. Not a popular answer, I realize, but it has the advantage of being true.

How about Canadian business investment? Prospects here aren’t much brighter. Slow growth in the United States, combined with the massive uncertainty coming from Europe, provide great excuses for firms to sit on their hands, and delay or rethink entirely their investment plans. In the Bank of Canada’s April Monetary Policy Report, survey data showed that more than two-thirds of Canadian firms indicated that domestic/global demand, sector-specific issues, and taxes/regulations were affecting their investment decisions. Only 10 per cent suggested that access to credit was an issue.

May 28

### **FLAHERTY’S CONCERNS THROW THIRTY-YEAR MORTGAGES IN SPOTLIGHT AGAIN**

(G&M – Tara Perkins) – Risk / Governance / Regulatory Issues

Mr. Flaherty has tightened the country’s basic mortgage insurance rules four times since the financial crisis, most recently last July, in bids to stop consumers from taking on too much debt, to cool the housing market, and to protect government coffers. Mortgage insurance is mandatory when the borrower’s down payment is less than 20 per cent (so called high loan-to-value mortgages) and Mr. Flaherty’s changes, such as cutting the maximum length of an insured mortgage to 25 years, applied to such loans. May 14

### **FLAHERTY BELIEVES G7 IS COMMITTED TO BALANCING BUDGETS**

(G&M – Paul Waldie) – Risk / Governance

Mr. Flaherty has been among the most vocal at the G7 in calling for so-called fiscal consolidation. However, several European countries, notably France, have indicated that austerity measures have gone far enough and that governments need to stimulate their economies to reduce unemployment. On Saturday, Mr. Flaherty appeared to accept some of that view. May 13

### **CIBC HIRES SENIOR GOLDMAN BANKER IN CALGARY**

(G&M – *Boyd Earman*) – Governance

The deal business in Calgary may be sleepy right now, but in a good market the energy business can generate a big chunk of the investment banking dollars in Canada. Canadian Imperial Bank of Commerce is getting ready for the rebound in energy, whenever it comes, by adding a very senior banker plucked out of Goldman Sachs Group Inc. May 13

### **LOOSENING AUSTERITY A MISTAKE, FLAHERTY WARNS G7**

(FP – *Mike Peacock, David Milliken*) – Risk / Governance

Big countries' weakening resolve to cut debt is a mistake, and surplus capital coursing through the world economy risks inflating asset bubbles and causing fresh turmoil, Canada's finance minister said on Thursday. May 10

### **FLAHERTY'S EXPECTED AUSTERITY BUDGET PUTS ECONOMIC LEGACY AT RISK**

(The Globe and Mail – *Sean Silcoff*) – Regulatory / Public Policy

Finance Minister Jim Flaherty looks set to deliver an austerity budget this March 19, 2013

### **HOW A STUDENT TOOK ON TWO HARVARD ECONOMISTS OVER THEIR PRO-AUSTERITY STUDY — AND WON**

Thomas Herndon spotted errors made by the economists in an influential paper that has been cited globally as justification for slashing spending April 19, 2013

### **CMHC COULD BE PULLED OUT OF MORTGAGE INSURANCE BUSINESS, FLAHERTY SAYS**

(*Financial Post* – *Garry Marr*) – Evolving Public Policy

[Finance Minister Jim Flaherty](#) said he would consider taking [Canada Mortgage Housing Corp.](#) out of the mortgage default insurance business. "Over time, I don't think it's essential that a government financial institution provide mortgage insurance in Canada. I think what's key is that mortgage insurance is available at a reasonable cost in Canada. I think there is a role to regulate but whether we, the Canadian people, have to be the owners and shareholders of a financial institution to do this is a question. I don't think it's essential in the long run."

He offered no timetable on when the government could get out of mortgage default insurance business, just offering it up as a possibility. "We have a list of Crowns, Crown agencies that are being reviewed." He added that he said he has no plans to increase CMHC's current (C)\$600 billion loan limit, ruled out any possibility of regulating foreign real estate investment and made it clear his focus is on the governance of CMHC which controls about 75% of the mortgage default insurance business in the country. (April 30)

**TORIES CONCERNED BY CARNEY'S TIES TO LIBERALS, BUT WILL AVOID FIGHT, SOURCES SAY**

*(The Globe and Mail – Stephen Chase, Daniel Leblanc)* – Governance

Finance Minister Jim Flaherty is privately disappointed and concerned over Bank of Canada Governor Mark Carney's courtship by federal Liberals as well as his holiday stay at the home of an opposition MP, sources say. Dec 24, 2012

**FLAHERTY RAMPS UP WAR OF WORDS WITH EUROPEAN LEADERS**

*(The Globe and Mail – Bill Curry)* – Evolving Public Policy

Finance Minister Jim Flaherty wrote an opinion piece published by London's Daily Telegraph where he says it's time to limit Europe's voting influence over the IMF. Thirty-four percent of the votes at the IMF gives Europe a "relatively low threshold" for tapping in to the global fund aimed at stabilizing the world economy. May 2, 2012

**CARNEY PUSHES TAX INCENTIVES TO BOOST SPENDING**

*(The Globe and Mail – Kevin Carmichael)* – Evolving Public Policy

Bank of Canada Governor Mark Carney told the House of Commons finance committee that the government should consider tax incentives that might persuade cash-rich companies to boost investment. The suggestion – made ever so gingerly, as central bankers are loath to be seen influencing fiscal policy – represents Mr. Carney's latest attempt to spur business investment, which is crucial to economic growth because debt-heavy consumers and governments are reducing their spending. Central bankers have expressed dissatisfaction with the level of business spending.

Canadian companies are said to be sitting on some (C)\$250 billion in cash, a hoard that Mr. Carney in August called "dead money" because interest rates are so low. A recent survey of businesses by the Bank of Canada showed executives planned to ease investment spending over the next 12 months to the slowest rate of growth since the end of 2009.

At the same time, Finance Minister Jim Flaherty has indicated in recent weeks that the government feels it has done plenty to put companies in a position to invest. Canada's federal corporate tax rate, for example, is among the lowest in advanced economies. Oct 31, 2012

**PREPAID CREDIT CARDS FACE TIGHTER RULES**

*(Toronto Star)* – Evolving Regulatory Structures

Finance Minister Jim Flaherty announced that in the future, issuers of prepaid credit cards will not be able to impose expiry dates and must be up front about hidden fees and conditions. The move is part of the government's expanding code of conduct measures to govern credit and debit transactions that had previously not applied to the relatively new prepaid market. Oct 25, 2012

**JIM FLAHERTY READY TO ACT, IF NEEDED**

*(The Globe and Mail – Richard Blackwell)* – Evolving Public Policy

Finance Minister Jim Flaherty says the government has “contingency plans if we need to create more stimulus in the Canadian economy. ... We have tax measures that we can take to stimulate the economy, we have infrastructure spending and other measures that we can do. We know what kind of projects can be done quickly [to] create jobs immediately.” Sept 17, 2012

### **EUROPE KEY RISK TO FUTURE GROWTH, CANADA’S FINANCE MINISTER SAYS**

*(Toronto Star – Dana Flavelle)* – Indicators

Statistics Canada reported that Canada’s gross domestic product rose at a 1.8 percent annualized rate in the second quarter. That was a bit higher than economists’ projections and nearly in line with the Bank of Canada’s 1.9 percent forecast. Still, it was the third quarter in a row Canada’s economic growth remained sluggish as the financial crisis in Europe and political deadlock in the U.S. continue to loom over global growth.

While Canada is outperforming its peers in terms of output and job growth, as an export-oriented nation it remains challenged by events beyond its borders, federal finance minister Jim Flaherty told reporters at a press conference in Toronto. “The key risk remains the situation in Europe and the pressing need for European leaders to firmly and permanently deal with their sovereign debt and banking crisis,” he said. The U.S. is also a concern, he added. Sept 4, 2012

### **CARNEY SOUNDS ALARM ON TORONTO CONDO BOOM**

*(The Globe and Mail – Jeremy Torobin)* – Risk Management

Bank of Canada Governor Mark Carney and his policy team reiterated that high personal debt is the main domestic risk, especially since Europe’s economic crisis threatens to spin out of control and cause job losses or falling home prices to which overstretched households are vulnerable. But Mr. Carney and his officials went further, spelling out their concerns about excessive building in Toronto’s condo sector, and strongly suggesting that supply-and-demand fundamentals are out of whack owing to speculators’ willingness to pay inflated prices. Finance Minister Jim Flaherty – who has three times since the recession moved to tighten mortgage-eligibility rules and cool the housing market – has also openly worried that Toronto’s condo boom could end in a crash. June 15, 2012

### **MAYBE EUROPE SHOULD GIVE UP ON EUROZONE: FLAHERTY**

*(Reuters)* – Evolving Public Policy

According to Finance Minister Jim Flaherty, if European countries are not prepared to bail out fellow [eurozone](#) members, maybe they should just abandon the whole concept of a common currency. “This is a time of crisis in the eurozone. The whole future of the eurozone is up for grabs, and this is very important for many of the eurozone member countries, given the history of Europe in the last 100 years or so. So they have to show courage. They have to do the right thing, use some of their taxpayers’ money to bail out some of the weaker members of the eurozone – or start moving away from the eurozone and just say this was an experiment that has not worked.” May 15, 2012

### **FLAHERTY RAMPS UP WAR OF WORDS WITH EUROPEAN LEADERS**

*(The Globe and Mail – Bill Curry)* – Evolving Public Policy

Finance Minister Jim Flaherty wrote an opinion piece published by London's Daily Telegraph where he says it's time to limit Europe's voting influence over the IMF. Thirty-four percent of the votes at the IMF gives Europe a "relatively low threshold" for tapping in to the global fund aimed at stabilizing the world economy. May 2, 2012

### **OBSI DISAPPOINTED OTTAWA TO ALLOW BANKS TO HIRE OWN MEDIATORS, 'RESPECTS' DECISION**

*(Financial Post – Theresa Tedesco)* – Evolving Regulatory Structures

Finance Minister Jim Flaherty confirmed the federal government would not force the country's banks to resolve clients disputes through the not-for-profit Ombudsman for Banking Services and Investments (OBSI). Mr. Flaherty said dispute resolution for federally chartered financial institutions can be achieved through a public body or the private sector "as long as the private sector obeys the rules."

Mr. Flaherty added that new rules and regulations to create a multi-platform system that will allow banks to hire private-sector mediators are imminent. May 2, 2012

### **INSURERS LODGE COMPLAINT AGAINST RBC, BMO**

*(The Globe and Mail – Tara Perkins)* – Market Conduct

Canada's insurance brokers have lodged a complaint with the country's banking regulator, alleging that Royal Bank of Canada and Bank of Montreal are flouting Ottawa's rules by promoting insurance on their websites. Finance Minister Jim Flaherty must ultimately referee, and he has made it clear that he wants to maintain a strong separation between banking and insurance. Mr. Flaherty has said that by placing restrictions on the sale of insurance on bank websites, he is seeking to replicate on the Internet the laws that govern banks on the ground. April 23, 2012

### **CANADA NEEDS QUICKER SHIFT TO MOBILE PAYMENTS, TASK FORCE SAYS**

*(Postmedia News - Scott Simpson)* – Competition

The Task Force for the Payments System Review says Canada needs to move quickly to implement a mobile payments system. But it notes that the change won't come without government leadership — and without pressure upon key financial institutions such as Canada's major banks to be more innovative.

At the behest of [Finance Minister Jim Flaherty](#), the task force spent 18 months examining opportunities and challenges involved in decisively moving Canada away from paper-based payments. The Task Force calls for a "state of the art" mobile-payments system for consumers, noting that although Canadians are among the world's heaviest users of online shopping, banking and web browsing, mobile payments are "largely absent in Canada." March 28, 2012

### **FLAHERTY DEMANDS NEW BANKING POWERS FOR OTTAWA**

*(The Globe and Mail – Bill Curry)* – Evolving Regulatory Structures

Finance Minister Jim Flaherty says he's giving himself new powers over Canadian banks because the global credit crisis showed how governments are left on the hook when the banking sector runs into trouble. Bill S-5 includes a new provision that gives the finance minister — rather than the Office of the

Superintendent of Financial Institutions (OSFI) – the final approval for large foreign acquisitions by Canadian banks. Dec 8, 2011

### **CANADIANS REIN IN DEBTS AMID UNCERTAINTY**

*(The Globe and Mail – Tara Perkins and Janet McFarland)* – Risk Management

The average Canadian household has debt that is 150 percent of income, and mortgage debt accounts for the largest chunk of credit that Canadian consumers hold. But Canada Mortgage and Housing Corp. reports that after months of warnings from senior officials like Bank of Canada Governor Mark Carney, consumers are finally pulling back on their borrowing, and in particular, that the rate at which they are racking up new mortgage debt has slowed. Nov 30, 2011

### **GREECE COULD TRIGGER GLOBAL BANKING CRISIS: FLAHERTY**

*(Reuters)* – Credit Risk/Losses

Canadian Finance Minister Jim Flaherty says a global banking crisis will erupt unless Europe properly deals with Greece's debt problems. Flaherty said finance ministers of the Group of 20 nations would focus on Greece when they meet in Washington today. Finance ministers from the smaller Group of Seven also discussed Greece when they met in France earlier this month. Flaherty said European nations could "get ahead of the game" if they were prepared to increase the euro zone's bailout funds to 1 trillion euros from 440 billion euros. Sept 22, 2011

### **RULE CHANGES SPARK DROP IN REFINANCING: CHMC**

*(The Globe and Mail – Tara Perkins)* – Evolving Regulatory Structures

Canada Mortgage and Housing Corp. said mortgage refinance activity has dropped nearly 40 percent since Ottawa imposed stiffer mortgage rules, a sign that efforts to curb the country's rapid rise in debt levels are having an impact. But Canadians' exposure to debt is an issue that will continue to press Finance Minister Jim Flaherty. Some experts say another round of rule changes is needed as consumer debt levels rise faster than incomes, while others argue further tightening in the mortgage market could slow the housing industry and spark a recession. Aug 30, 2011

### **CANADA SET FOR GLOBAL BANK STANDARDS**

*(The Globe and Mail – Kevin Carmichael)* – Evolving Regulatory Structure

Finance Minister Jim Flaherty said Canada will implement the Basel III global financial standards "well ahead" of proposed deadline in 2019. Mr. Flaherty said Canada is "well positioned" to implement Basel III because the country's standards already were relatively onerous. But Canada won't be using that as an excuse to delay the implementation of the new standards. "We will do that well ahead of the deadline." And while there is some risk that Canadian banks could be put at a disadvantage if it's international competitors face looser standards. Mr. Flaherty said the benefits of a sound financial system outweighs that risk. Basel III, among other things, will force banks to keep more cash and easy-to-sell assets in reserve so financial institutions will be better able to absorb economic downturns – and reduce the odds for a government bailout. Jan 13, 2011

### **BUDGET DEFICIT HITS RECORD (C)\$55.6 BILLION: FLAHERTY**

*(CBC)* – Indicators

Canada's federal deficit for the 2009-10 fiscal year is a record \$55.6 billion, Finance Minister Jim Flaherty announced Tuesday.

That figure is almost \$2 billion higher than the \$53.8-billion deficit projected in the federal budget last March, and was largely prompted by a one-time transfer of \$5.6 billion to Ontario and British Columbia to help them make the transition to the harmonized sales tax

### **OTTAWA ENDS FISCAL YEAR (C)\$2.2B IN THE HOLE**

*(Canadian Press – Julian Beltrame)* – Indicators

The Finance Department reported that the federal government is now officially in a deficit position with no prospect of getting out of the hole any time soon. Ottawa lost (C)\$3.6 billion in March, closing the books on the 2008-2009 fiscal year (C)\$2.2 billion deficit. Last year at this time, the government sat on an (C)\$11.4 billion surplus. While a final tally on the fiscal year won't be released until later this summer, the \$2.2-billion shortfall is twice what Flaherty had predicted in the January budget. The government now forecasts that this year's deficit will top (C)\$50 billion. The last time Ottawa recorded an annual shortfall was in 1996-97, and according to Finance Minister Jim Flaherty, it will be at least another four years before the government sees black ink again. June 1, 2009

### **PLAN TO GUARANTEE BANK DEBT SLOW GETTING OFF GROUND**

*(The Globe and Mail – Tara Perkins)* – Evolving Regulatory Structures

One of the two main programs Ottawa has created to help the banks, the so called Canadian Lenders Assurance Facility (CLAF), isn't actually running yet, three months after it was announced. When Mr. Flaherty announced the program on Oct. 23, he said it would expire six months after its start date, which was expected to be the beginning of November. The program was designed to offer insurance for some debt of banks and other federally regulated deposit-taking institutions. It is intended to help banks secure access to longer-term funds to continue lending to consumers, home buyers and businesses. Jan 2009

### **EXPERT PANEL BACKS SINGLE REGULATOR**

*(Financial Post - John Ivison, Paul Vieira and Barbara Shecter and The Globe and Mail – Kevin Carmichael and Brian Leghi)* – Evolving Regulatory Structures

The creation of a national securities regulator is will be announced today, January 12, by a seven-member government-commissioned panel headed by former Mulroney-era Cabinet minister Tom Hockin. The proposal reportedly endorses endorse the federal government's constitutional authority to regulate the buying and selling of stocks and bonds. Mr. Hockin will reportedly propose a road map for how the federal government could pursue its goal of a single overseer of financial markets, something Mr. Flaherty and Prime Minister Stephen Harper have promised to do as part of the international response to the financial crisis. Jan 2009

### **AN OPEN DOOR FOR BANKS ON LEASING?**

*(The Globe and Mail – Tara Perkins and Greg Keenan)* – Competition and Evolving Regulatory Structures



Canada's banks have been trying for decades to break into the auto leasing business, now Finance Minister Jim Flaherty is considering opening the door to make it happen as part of his government's stimulus plan. The Bank Act currently prohibits the banks from being involved in auto leasing for vehicles under 21 tons. The entry of banks into auto leasing has been strongly opposed by Canada's new-car dealers for decades. But with a number of financing companies exiting the market in Canada, consumers are having a tougher time finding the funds to lease a car and dealers appear to be softening their position. Leasing represented more than 40 percent of sales in the Canadian market earlier this year, but leasing has now declined to about 20 percent of sales. Jan 2009

### **CUT TAXES NOW, CUT SPENDING LATER, FLAHERTY TOLD**

*(The Globe and Mail – David Parkinson) – Political Developments*

According to the economists from the country's five biggest banks, the upcoming federal budget needs immediate, permanent tax cuts to stimulate the Canadian economy, to be offset by tightening the reins on program spending in future years. The economists also called for carefully targeted spending on near-term infrastructure needs, and said the Bank of Canada must reduce interest rates. Jan 8, 2009