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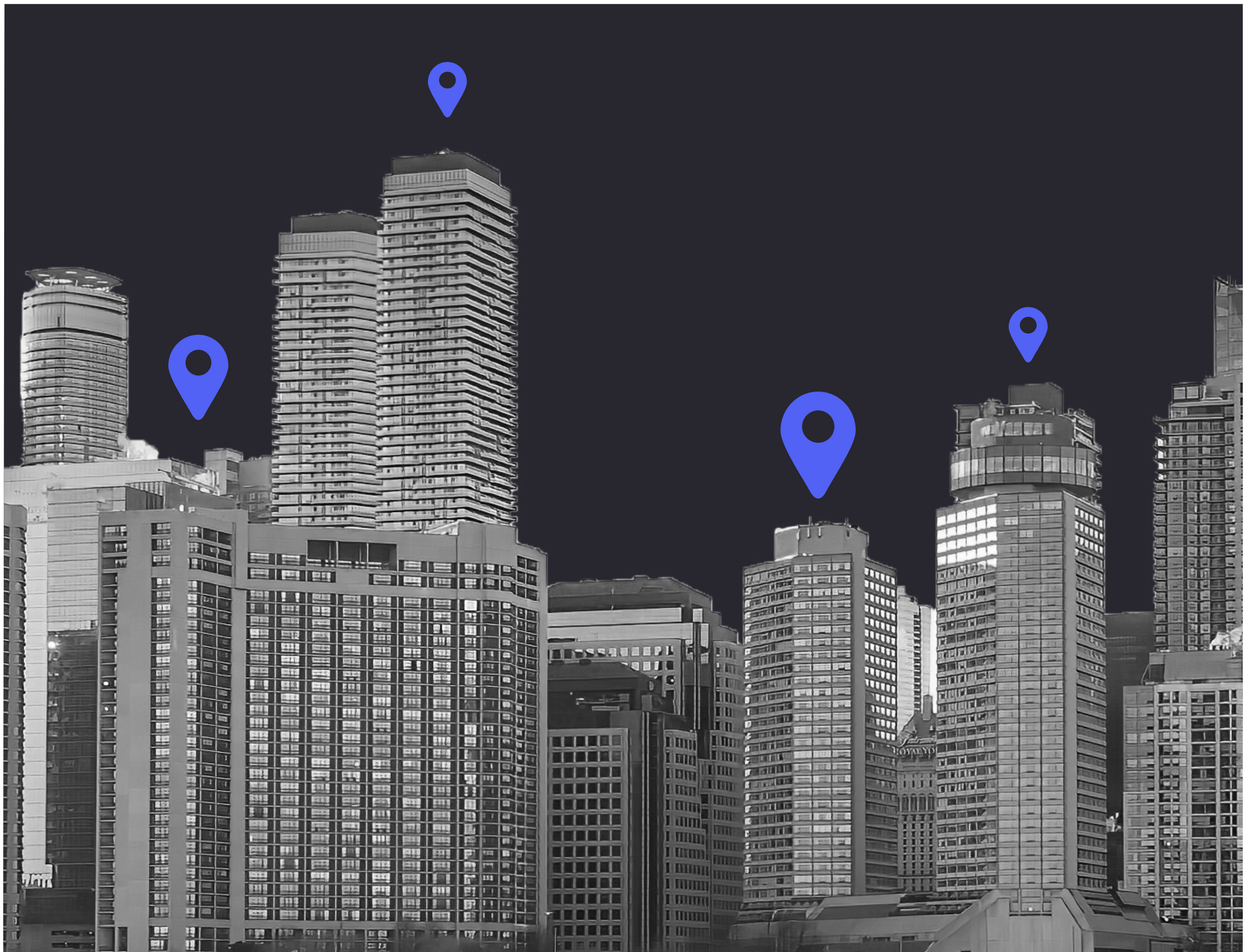
REGULATING FOR GROWTH:

18 ACTIONS TO UNLOCK CANADA'S FINANCIAL SECTOR



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About this Brief

A competitive financial sector is essential to our economy. By mobilizing savings, managing risk, and connecting investors with businesses and infrastructure projects, financial institutions drive job creation, innovation, and productivity.

Toronto is Canada's financial capital and North America's second-largest financial hub. Its banks, insurers, pension funds, and asset managers channel domestic and international capital into investments across the country. To remain competitive, the sector needs a modern, efficient regulatory framework. Yet, outdated rules and unnecessary red tape discourage investment and slow economic growth.

This brief summarizes a larger report commissioned by the Toronto Region Board of Trade's Business Council of Toronto's Financial Services Competitiveness Coalition (FSCC). FSCC brings together executives from Canada's leading financial institutions to examine the structural barriers weakening the financial sector's competitiveness and constraining economic growth. The Toronto Region Board of Trade thanks FSCC members and the Canadian Bankers Association for their valuable insights and contributions to the report.

Background

At a time of global disruption and slowing growth, Canada needs to compete for investment, not discourage it. Modernizing regulation and cutting red tape will help unlock the capital to build critical infrastructure, help businesses expand, and strengthen Canada's long-term economic competitiveness.

Cutting red tape does not mean a blanket elimination of regulations. Rules are needed to protect consumers, businesses, and the stability of our financial system. Red tape arises when rules and approval processes are unclear, outdated, duplicative, inconsistent, or unnecessarily slow — adding cost and delay without improving outcomes.

Concentrated in Toronto, Canada's financial services sector is a linchpin for the national economy. In addition to its vast economic footprint — accounting for 10,000 businesses and nearly 300,000 high-value jobs in the Toronto region alone — the financial sector serves as the plumbing for our economy; it connects capital to businesses, infrastructure, innovation, and communities across the country.[1] Yet, the burden of red tape and unnecessary regulation diverts resources away from lending and investment. Regulatory requirements for Canada's financial sector grew by 51% between 2006 and 2021, the third-fastest increase among the country's major sectors.[2]

To alleviate this burden and build on our Beyond Red Tape report released last winter, the Toronto Region Board of Trade consulted leaders from across the financial services sector to develop 18 priority recommendations. The recommendations reflect measures that regulators and governments can take to modernize legislation, improve federal-provincial cooperation, reduce administrative burden, recalibrate capital requirements, and strengthen Canada's global competitiveness. The recommendations were subsequently shared with federal and provincial decision-makers, including relevant government departments and regulators.

Summary of Priority Recommendations

The following section highlights the report's key themes and select recommendations. Read the full technical report here, and find all 18 recommendations in the appendix.

Enhancing Federal-Provincial Cooperation

Responsibility for regulating Canada's financial sector is divided among federal, provincial, and territorial authorities. For example, the federal Office of the Superintendent of Financial Institutions (OSFI) oversees federally regulated banks and insurers, while provincial securities regulators, such as the Ontario Securities Commission (OSC), oversee financing activities within their jurisdictions.

This division of responsibility can result in overlapping rules, inconsistent guidance, and duplicative processes for businesses operating across Canada, adding cost and delay without necessarily strengthening oversight. Recommendations to improve coordination include:

- Establishing a national securities regulator to replace Canada's separate provincial and territorial regulators with one organization. While Ontario's recent commitment to join the passport system, under which approval from a market participant's principal regulator is recognized across participating jurisdictions, is a welcome step, a truly national regulator remains the gold standard. A national regulator would provide consistent oversight and enforcement across Canada, enable coordinated responses to misconduct, and strengthen risk management. It would also give businesses and investors a single, predictable regulatory body with which to work.

Recalibrating Capital Requirements

Capital requirements determine how much capital financial institutions must hold against their loans and investments to protect against potential losses. Although these safeguards are essential to financial stability, requirements that overstate the actual risk of an activity can unnecessarily restrict lending and discourage investment.

The goal is not to weaken financial safeguards, but to ensure that capital requirements accurately reflect risk. Proposed changes would allow banks and insurers to deploy more capital in the Canadian economy while maintaining appropriate protections. Examples include:

- Reducing the amount of capital Canada's largest banks must hold against lower-risk lending to small- and medium-sized businesses, making it easier to finance business growth.
- Aligning Canada's treatment of commercial real estate financing more closely with that of the United States, increasing financing capacity for development projects.

Reducing Administrative Burden

Administrative burden encompasses the time, cost, and resources required to understand regulations, complete applications, meet reporting requirements, and engage with regulators. Although these processes support effective oversight, requirements that are duplicative, outdated, or disproportionate to the risks involved can divert resources away from serving customers, providing financing, and investing in innovation.

Recommendations to alleviate administrative burden aim to make regulatory processes more efficient and proportionate, reducing unnecessary costs for financial institutions and businesses while making programs and services easier to access. Examples include:

- Scaling regulatory requirements to the size and risk of financial institutions, so smaller banks are not subject to the same burden as larger, more complex institutions.
- Simplifying applications and reporting for federal Clean Economy Investment Tax Credits so more businesses can use the incentives to invest in new domestic clean technologies.

Strengthening Global Competitiveness

Canada's financial sector competes in international markets, and its rules need to keep pace with international norms so Canadian firms and investors are not disadvantaged. Where Canadian frameworks fall out of step with international standards, the result can be reduced competitiveness, slower adoption of new tools, and uncertainty for investors. Recommendations that focus on closing that gap include:

- Creating a level playing field for exchange-traded funds listed on Canadian exchanges, such as the Toronto Stock Exchange, by aligning requirements with those applied to comparable funds on foreign exchanges, such as Nasdaq. This would help keep investment in Canadian capital markets.
- Aligning securities regulators' artificial intelligence (AI) governance frameworks with international AI standards so Canadian financial institutions can adopt AI more quickly and responsibly.

Modernizing Legislation

Some provisions in legislation governing Canada's financial sector no longer reflect how the sector operates. Outdated legislation can restrict productivity without serving any current policy purpose, leaving capital on the sidelines that could otherwise support the economy. In this instance, legislative reform is required to modernize the rulebook for Canadian firms:

- Amending the *Insurance Companies Act* to modernize rules that limit where insurers can invest and enable additional investments in health services and infrastructure.

Appendix: 18 Actions to Unlock Canada's Financial Sector

Enhancing Federal-Provincial Cooperation

1. Establish a national securities regulator to harmonize Canada's capital markets, reduce regulatory friction, and lower the cost of financing growth.

2. Clarify Health Canada's recent interpretation letter to confirm that provinces and territories can protect employer-funded virtual care through their regulations while remaining consistent with the Canada Health Act.

3. Enable standalone variable payment life annuities by reducing regulatory barriers and harmonizing requirements across jurisdictions, giving Canadians more options to turn their savings into retirement income.

Recalibrating Capital Requirements

4. Extend OSFI's "look-through" approach, allowing financial institutions to calculate capital requirements based on the risk of an investment's underlying assets rather than the structure through which the investment is held. This would remove unnecessary capital barriers and unlock more institutional investment in Canada.

5. Reduce capital requirements for loans to low-risk small- and medium-sized enterprises (SMEs), in line with international approaches. This would enable Canada's largest banks to provide more financing to SMEs, supporting business expansion.

6. Reduce the risk weighting applied to banks' minority investments in Canadian venture companies and Canada-focused venture capital funds from 400% to 100%. This would encourage greater institutional investment in Canada's venture capital ecosystem and give innovative firms more funding to grow and scale.

7. Expand the types of assets that Canadian branches of foreign insurers are permitted to hold, including certain infrastructure investments. This would allow more international insurance capital to be invested in Canadian projects.

8. Reduce the equity developers must contribute to certain higher-risk commercial real estate projects from 25% to 15%, aligning Canada with the United States. This would make it easier to finance new commercial developments in Canada.

9. Allow Canadian life insurers to use internal risk models that better reflect their actual risk profiles when calculating capital requirements, freeing up institutional capital for domestic investment.

10. Implement the recommendations of the Advanced Internal Ratings-Based Banks Working Group for Canada's largest banks. This would remove unnecessary capital requirements and allow banks to put more funds toward lending.

Reducing Administrative Burden

11. Apply the principle of proportionality by scaling regulatory requirements to firms' size and risk, thereby reducing the burden on smaller financial institutions and supporting a more innovative sector.

12. Simplify the application process and reduce reporting requirements for the federal Clean Economy Investment Tax Credits. This would make the incentives easier to access and increase clean technology investment in Canada.

13. Review and update OSFI's leveraged lending guidance by removing low-value requirements and reducing unnecessary meetings, allowing financial institutions to devote more resources to lending.

14. Establish an industry working group to design a national unclaimed retirement assets portal through the Canada Revenue Agency, making it easier for Canadians to find and recover lost retirement savings.

Strengthening Global Competitiveness

15. Align the Canadian Securities Administrators' Exchange-Traded Fund (ETF) framework with international best practices, where appropriate, so that Canadian-listed ETFs meet the same standards as foreign-listed ETFs. This would support Canadian issuers and keep capital in domestically listed assets.

16. Align securities regulators' AI governance frameworks with international standards to maintain Canada's competitiveness and enable financial institutions to adopt AI more quickly and responsibly.

17. Incorporate economic growth considerations and improve the predictability and transparency of regulatory decision-making to support capital deployment and better position the sector for growth.

Modernizing Legislation

18. Amend and refine the *Insurance Companies Act* to enable additional investments in health services and infrastructure.

Endnotes

1 Toronto Region Board of Trade, "The Financial Services Competitiveness Coalition," accessed August 5, 2026, https://bot.com/The-Business-Council-of-Toronto/Financial-Services-Competitiveness.

2 Gary Edwards, Regulatory Reset: A Policy Roadmap for Expanding Financial Advice to Middle- and Lower-Income Canadians (Toronto: C.D. Howe Institute, October 7, 2025), https://cdhowe.org/publication/regulatory-reset-a-policy-roadmap-for-expanding-financial-advice-to-middle-and-lower-income-canadians/

The Toronto Region Board of Trade is one of the largest and most influential chambers of commerce in North America and is a catalyst for the region's economic growth agenda. Backed by more than 10,500 members, we pursue policy change to drive the growth and competitiveness of the Toronto region, and facilitate market opportunities with programs, partnerships and connections to help our members succeed – domestically and internationally.

For more on making Toronto one of the most competitive and sought-after business regions in the world, visit **bot.com** and follow us **on LinkedIn.**

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