

**Final – Letter to the Toronto Star  
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**Re: “Banking reforms not for Canada?”, Feb. 10/10**

To the Editor,

In your editorial, “Banking reforms not for Canada?”, a number of prominent commentators point out that the Canadian and American banking systems are very different and reforms proposed south of the border are not needed here. While your editorial is pushing for further review of the US reforms to see if any could be adopted in Canada, I’d like to provide additional information on the points raised.

One of the proposed reforms in the US is the “Volcker Rule”, separating commercial banking from other activities and limiting the size of banks. This runs counter to the Canadian experience where our system has benefited from investment subsidiaries being anchored by solid, deposit-taking banking operations. And this consolidation has meant that our regulators look at the systemic risk of the whole bank financial group, resulting in a more streamlined and effective regulatory system.

International discussions on compensation and bank bonuses came about because banks in some other countries rewarded excessive risk-taking. Canadian bank compensation practices did not. Nevertheless, Canadian banks have been taking steps to ensure that their compensation practices are as strong as possible. They have made significant progress, for example, in implementing new international standards, including revising pay policies for investment banking, deferring more incentive compensation so as to not reward short-term performance, revising share ownership rules, and introducing “say-for-pay” measures at annual general meetings,.

It is important to remember that banks in Canada are well-managed and prudent in their lending practices, allowing them to avoid the financial difficulties that banks in other countries have experienced. In Canada less than 30 per cent of mortgages are securitized and those mortgages are high quality, not sub-prime. Canadian banks have an “originate to hold” model of lending where most mortgages are held on their balance sheets, meaning they directly bear the consequences of imprudent lending decisions. In contrast, mortgage securitization is significantly higher in the US where the model is “originate to distribute”, taking much of the risk away from the lender. The facts speak for themselves –the rate of bank mortgages in arrears in Canada is very low, in fact only 0.44 per cent.

While Canadian banks will do their part, it is essential that new regulations focus on the countries where the financial crisis started and where regulatory frameworks failed to protect bank customers and ultimately, taxpayers. That was not the case in Canada.

Sincerely,

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