

Study on the Tax Havens Phenomenon

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for

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CHECK AGAINST DELIVERY

Mister Chair, Members of the Committee:

My name is Eric Prud'homme. I am the Director of the Quebec Region for the Canadian Bankers Association.

I'd like to thank the Committee on Public Finance for providing the CBA with an opportunity to assist with this important study on tax evasion. As members know, we provided the Committee with a written submission in early September and we are pleased to be able to build on that submission in our appearance today.

Joining me today is my colleague, Darren Hannah, the CBA's Vice-President of Finance, Risk & Prudential Policy. Mr. Hannah has spent considerable energy on behalf of the CBA working on issues directly related to domestic and international efforts to combat tax evasion, including the OECD's Common Reporting Standard, and the United States' Foreign Account Tax Compliance Act (FATCA). He has appeared before the House of Commons Finance Committee and the Senate Banking Committee on these topics, as well as engaging directly with the IRS in the United States on FATCA and CRS. Further, Mr. Hannah filed an affidavit on FATCA on behalf of the industry before the Federal Court of Appeal. As such, he brings a significant understanding of these issues to this appearance today and we will be pleased to answer your questions.

The Canadian Bankers Association works on behalf of 60 domestic banks, foreign bank subsidiaries and foreign bank branches operating in Canada and their 280,000 employees. The CBA advocates for effective public policies that contribute to a sound, successful banking system that benefits Canadians and Canada's economy. The Association also promotes financial literacy to help Canadians make informed financial decisions and works with banks and law enforcement to help protect customers against financial crime and promote fraud awareness.

Banks have a very significant presence in Quebec and are key drivers of the provincial economy.

- Banks and other deposit-taking institutions account for 2.4% of Quebec's GDP;
- Banks employ more than 45,000 Quebecers;
- The six largest banks contributed approximately \$700 million in provincial taxes; and
- As of December 2014, banks operating in the province authorized \$126 billion in lending to Québec businesses, including \$40 billion to SMEs.

With respect to tax evasion and the use of tax havens, I would like to emphasize the following points:

- CBA member banks do not advise clients to evade taxes in Canada or elsewhere;
- Banks firmly adhere to the laws in Canada and other jurisdictions where they carry on business, including those laws designed to deter illegal activities such as tax evasion and money laundering; and,
- As taxpayers, banks pay all taxes due on their business income in Canada and in other countries where they do business.

To prevent and detect cases of potential tax evasion, Canadian banks have implemented comprehensive and multifaceted governance and compliance regimes to ensure that the products and services they offer are not used for the purpose of evading taxes. These include “know your client rules” as well as anti-money laundering (AML) and anti-terrorist financing (ATF) requirements, where predicate offences can emanate from the proceeds of tax evasion. The AML/ATF regime in Canada requires that banks:

- Report to the Financial Transactions and Reports Analysis Centre of Canada (FINTRAC) every financial transaction that occurs or that is attempted where there are reasonable grounds to suspect that the transaction is related to money laundering or terrorist financing;
- Report to FINTRAC all cash transactions of \$10,000 and above, and international electronic funds transfers (EFTs) of \$10,000 and above. Banks are now required to submit any report on EFTs to the Canada Revenue Agency as well;
- Maintain records of the intended use of an account;
- Conduct ongoing monitoring of clients and transactions; and,
- Ascertain the client’s identity including beneficial ownership information.

If a bank suspects an account is being used for criminal purposes of any kind it will close the account.

Compliance regimes are supervised by senior management as well as board committees who are appointed to oversee risk management and regulatory compliance with applicable tax laws, securities laws, and other rules imposed by banking supervisors. To ensure internal processes within banks are effective at detecting tax evasion, banks are subject to regular oversight by Canadian tax authorities and the banks’ prudential regulator, the Office of the Superintendent of Financial Institutions (OSFI). All bank employees must also agree to strict internal codes of ethics.

Beyond the statutory requirements, banks take these responsibilities very seriously because tax evasion is bad business and reputable financial institutions want no part of it.

Like many other Canadian businesses, banks are increasingly becoming export-oriented, growing their business operations abroad with well-established subsidiaries in countries across the globe.

By competing globally and earning foreign income, banks not only bolster Canada’s international reputation, they generate important economic benefits here at home. These benefits include highly-skilled, high-paying head office jobs and higher profits from which dividends are paid to Canadian shareholders. It is important to remember that most Canadians are shareholders in Canada’s banks through the Canada and Quebec Pension Plans, their employer pension plans, RRSPs, mutual funds and direct investments.

Banks with foreign branches or foreign subsidiaries must implement a compliance program to detect money laundering and terrorist financing similar to one required here in Canada. Banks use their Canadian anti-money laundering regime as a baseline and then overlay local regulations, policies, and procedures to ensure they are compliant with the laws of the jurisdictions in which they operate. They also monitor transactions and if a client is believed to be conducting suspicious activities, the account would be closed. Let me emphasize that if the person in question held accounts in a foreign affiliate as well as in Canada, they would be dealt with holistically by the bank.

The CBA is supportive of the emphasis that the G-20 leaders have placed on tax transparency and the exchange of information to address tax evasion.

We have long held that state-level information sharing between tax authorities in accordance with their domestic tax laws is the most effective approach to combat tax evasion on an international scale.

On June 2, 2015, Canada signed the international Multilateral Competent Authority Agreement, an important step towards implementing the Common Reporting Standard for the automatic exchange of financial account information with other tax jurisdictions. Canada is one of more than 90 jurisdictions that have to date committed to implementing the CRS. The CRS will provide an automatic, mutual process for exchanging information about financial accounts held by account holders who are taxpayers in other countries. These international efforts will significantly enhance the ability of governments to tackle tax evasion.

Once CRS is implemented, all individuals and businesses opening an account will need to identify the country or countries of residence for tax purposes through a self-certification. Financial institutions will need to assess the reliability of that self-certification based on the identification and supporting documents provided at account opening by the client as part of the financial institution's usual account opening process. Where a client is found to be a resident of another country for tax purposes, information about that client account will be sent to the local tax authority. At the end of each year, national tax authorities will automatically exchange that information with each other.

Complementing the OECD CRS project is the OECD's Base Erosion and Profit Shifting (BEPS) project. The BEPS project includes a series of fifteen measures that are designed to ensure that profit is recorded, and therefore subject to tax, in the country in which it is earned. While still under development, the cornerstone of the BEPS project will be a multilateral instrument standardizing the measures that countries will implement to bring BEPS into effect in their home country. That multilateral instrument is expected to be completed by the end of 2016.

In closing, we would like to reiterate that Canadian banks do not advise clients to evade taxes. As taxpayers, banks pay all taxes due on their business income in Canada and in other countries where they are active and

they adhere to the laws of the jurisdictions where they carry on business, including those laws designed to deter illegal activities such as money laundering and tax evasion.

Finally, we are fully supportive of the expansion of inter-governmental information exchange systems between countries as the most effective means of identifying cases of tax evasion. The Multilateral Competent Authority Agreement and the Common Reporting Standard recently agreed to by the Canadian government are important steps in that direction.

Thank you Chair and members of the Committee.

It would now be our pleasure to answer any questions you may have.