VANCOUVER INTERNATIONAL FINANCIAL SECTOR STEERING COMMITTEE

phase 1 report of recommendations

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THE STEERING COMMITTEE WISHES TO ACKNOWLEDGE THE INVALUABLE CONTRIBUTIONS OF TODD TESSIER, NANCY TAYLOR, MELANIE ACHTEMICHUK, LINA DUONG AND JAVED HAQUE OF THE MINISTRY OF SMALL BUSINESS, TECHNOLOGY AND ECONOMIC DEVELOPMENT.

introduction

The financial sector is one of British Columbia's (B.C.) fastest growing sectors, contributing $35 billion to the province's annual Gross Domestic Product (GDP)[1]. To further grow the sector, the Government of British Columbia has introduced $400 million in tax cuts, is phasing out the corporate capital tax, has committed to review the International Financial Activity (IFA) program, and has established the Vancouver International Financial Sector Steering Committee (Steering Committee) to provide expert advice and forward-looking recommendations.

The Steering Committee's recommendations will be presented in two phases, in two separate reports. This report, Phase I, will focus on amendments to the IFA program as input to the Ministry of Finance's legislated review. The Phase II report, to follow in early 2010, will build on the Phase I report with recommendations on building Vancouver as an International Centre of Commerce. Being sensitive to the significant economic challenges faced by the province, this Phase I report will present short-term recommendations which will result in incremental business growth with minimal fiscal cost. These recommendations broaden the reach of the IFA program, support the creation of high-paying jobs, reduce regulatory complexity, and make B.C. more competitive. The recommendations focus on key sectors where B.C. has a competitive advantage and can become a center of excellence in the world. The key sectors identified by the Steering Committee and industry stakeholders during a series of industry workshops include professional financial services, clean technology, life sciences, transportation, and digital media.

The intention of the IFA program is to grow the international financial sector. In fiscal year 2007-08, refunds paid by the Province under the program totalled $15 million, translating to approximately $125 million of taxable income[2]. The Steering Committee's vision is for the program to double the amount of refunds granted over the next three years from its 2008 baseline. The associated incremental economic benefits are estimated to include[3]:

- Creation of 13,225 full-time equivalent (FTE) positions
- Incremental tax revenue of $112 Million
- Incremental GDP contribution of $1.3 Billion

And contribute to building high-performing sector clusters using the international financial sector as a foundation. These ambitious goals require the expansion of the program through increased eligibility and the broadening of eligible activities, and a comprehensive effort by government and industry to market Vancouver as an International Centre of Commerce.

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[1] BC Stats, http://www.bcstats.gov.bc.ca/data/bus_stat/bcea/BCEAchnd.asp. April 2009
[2] Review of the British Columbia International Financial Activities Program, MMK Consulting, 21 April 2009
[3] Review of the British Columbia International Financial Activities Program, MMK Consulting, 21 April 2009

1.1. ABOUT THE VANCOUVER INTERNATIONAL FINANCIAL SECTOR STEERING COMMITTEE

The Vancouver International Financial Sector Steering Committee was established in January 2009 to provide recommendations to the Province on enhancing Vancouver as a top-tier International Financial Centre (IFC) and key link in the financial marketplace for emergent trade between Asia and North America Members of the Steering Committee are influencers in the B.C. business community and leaders in their field:

Milton Wong, Co-Chair – Chairman Emeritus, HSBC Canada

Tracey Orr, Co-Chair – VP, Global Trade Finance, TD Securities

George Burke – Partner, Blake, Cassels & Graydon LLP

Bruce Flexman – President, IFC BC

David Hall – Former CFO & COO, Angiotech Pharmaceuticals

Paul Lee – Principal, Vanedge Capital

Linda Oglov – Consultant, Oglov Development Inc.

Our recommendations identify opportunities to attract international firms to Vancouver, highlight concerns and identify barriers to the expansion of key sectors from a financial perspective and provide strategic direction drawing on sector expertise.

1.2. SUMMARY OF RECOMMENDATIONS TO AMEND THE IFA PROGRAM

GENERAL IFAA:

1. Repeal the Incorporation in Canada requirement but maintain that an IFAA registrant can include a branch of a foreign corporation with a permanent establishment in B.C.
2. Clarify the management services regulation to be more focused on the attraction of regional corporate management activities that support international commerce and not be limited to strategic management services by corporate head offices as presently prescribed, resulting in the attraction of head office type activities without requiring a head office.
3. Amend the IFA Specialist designation to qualify individuals, earning a minimum annual salary of $100,000, who is employed in respect of any qualifying IFA activity, with a 5-year phase out period.

PRIVATE EQUITY, VENTURE CAPITAL & ALTERNATIVE INVESTMENT:

4. Clarify the IFA qualifying activities to include management of a venture capital, private equity fund or alternative investment fund, which has a fund size in excess of $50 million of capital sourced from non-resident investors.

CLEAN TECHNOLOGY:

5. Expand IFA qualifying activities to include the sale, assignment or licensing of proprietary technologies and services developed in B.C. to entities outside of Canada or to a non-resident person:
    - Biomass related technologies and services (gasification, anaerobic digestion, pyrolosis, wood pelletization, biofuels)
    - Energy efficiency technologies and services (demand-side, grid measurement and management, telemetry, green buildings)
    - Technologies and services related to the conversion, distribution, storage, monitoring and pollution reduction from fossil fuels

CARBON CREDIT CERTIFICATION & CONSULTING:

6. Expand IFA qualifying activities to include certification and trading of carbon credits to a non-resident person or on behalf of a non-resident person.

DIGITAL MEDIA PUBLISHING AND DISTRIBUTION:

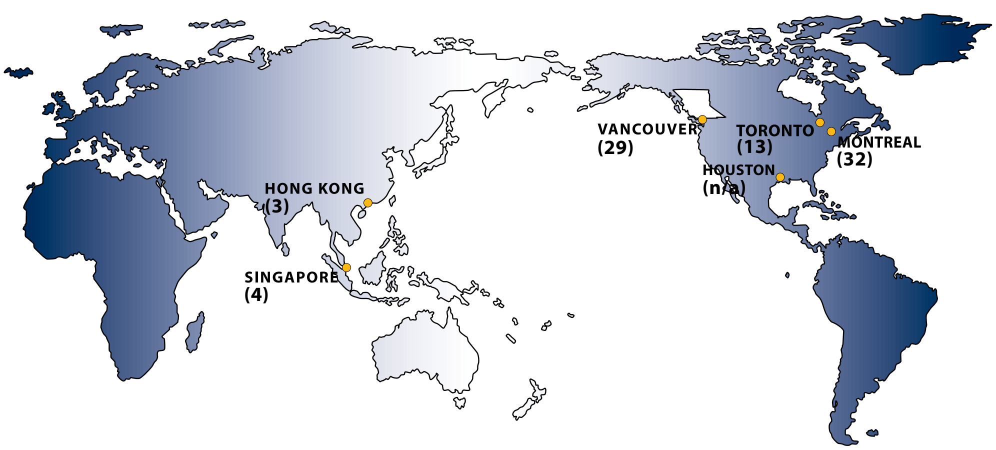
7. Expand IFA qualifying activities to include digital media publishing and distribution of copyrighted material to entities outside of Canada or to a non-resident person, moving the industry from contracted development to full service activity.
8. Expand IFA qualifying activities to include the development, publishing and distribution of an online or mobile production to entities outside of Canada or to a non-resident person.

MANAGEMENT OF LIFE SCIENCES CLINICAL TRIALS:

9. Expand IFA qualifying activities to include management services related to life sciences research and development activities, including clinical trials.

2. International Financial Sector in B.C.

British Columbia's proximity to the United States (U.S.) and emerging Asian markets, along with plentiful natural resources, has led to financial institutions based in B.C. developing expertise in commodities and global transaction banking. The Government has improved the climate for investment and financial services activities by phasing out the corporate capital tax and investing $428 million in new infrastructure investments[4]. These investments will ensure that ports, airports, rail, and road systems are state-of-the-art and efficient in the movement of goods through North America – one of the province's key competitive advantages. These attributes are recognized internationally; Vancouver is currently ranked 29th on the Global Financial Centers Index, ahead of Montreal[5]. To be acknowledged as a top-tier financial centre, the city needs to improve on its rankings and perceptions internationally.



[4]Budget 2008, Government of British Columbia
[5]Global Financial Centres Index, 6 September 2009, http://www.zyen.com

Financial services firms based in Vancouver enjoy a strong competitive advantage through favourable tax treatment, a labour pool of 100,000 finance professionals[6], and a multilingual workforce. Global banks who have located in B.C. include HSBC Bank Canada, United Overseas Bank, Bank of East Asia, CTC Bank of Canada, Korean Exchange Bank, Lloyds Bank, Bank of China, State Bank of India (Canada), Mitsubishi UFJ Financial Group, Marubeni and Mizuho Financial Group[7].

The multicultural diversity of B.C. enhances our economic, cultural, and geographic linkages, and enables us to do business in several languages in numerous countries. In Vancouver, over 800,000 people, or 39 per cent of the population, have knowledge of a language other than English or French, including Chinese, Punjabi, Hindi, Korean, Tagalog, German, Spanish, and Italian.

The desirability of B.C.'s west coast location as a place to live is evidenced by Vancouver's placing year after year at or near the top of the Economist Intelligence Unit's "most liveable city" rankings. In addition, Vancouver is a hotbed of creative minds - people who drive sustainable economic growth. According to urban sociologist Richard Florida, Vancouver ranks in the top 10 cities on the Creativity Index[8].

Following the world-wide economic downturn, Canada's financial services sector has emerged as one of the most stable and respected in the world. The Economist Intelligence Unit forecasts that through 2009, Canada will be one of the best countries in the world in which to do business because of its openness to foreign trade and capital, high quality infrastructure, and access to the United States marketplace[9]. British Columbia has an opportunity to capitalize on the reputation and strength of the Canadian financial services sector by promoting itself internationally and improving its business environment to compete with other jurisdictions and international financial centres.

2.1. IFA PROGRAM

The IFA program was established in 1988 to draw financial institutions to B.C. In 2004, the program was broadened to include new financial activities and expand the range of corporations that could benefit from the tax refunds. Although there has been growth, the full potential of the program has not been realized by key sectors in the province. In the February 2009 Throne Speech, the Government made a commitment to review the IFA program and expand jobs and investment opportunities associated with Vancouver's designation as an International Financial Centre (IFC).

The IFA program provides eligible corporations with a refund of provincial corporate income tax paid on qualifying activities or patents. A corporation may receive an annual refund of up to 100 per cent of the provincial corporate income tax paid on income earned from eligible activities transacted with a non-resident of Canada. For example, a company eligible for the 100 per cent refund would see its 2009 corporate income tax rate effectively cut from 30 per cent to 19 per cent. This rate will become even more competitive as federal corporate income tax rates drop further to 15 per cent by 2012. To

[6]International Financial Sector Profile, Province of British Columbia, 2009
[7]International Financial Sector Profile, Province of British Columbia, 2009
[8]Richard Florida is the author of Who's Your City. Vancouver Board of Trade Metro Forum 2008 Speech, http://www.boardoftrade.com
[9]The Economist Intelligence Unit, http://www.eiu.com

qualify for a refund, a corporation must be registered under the IFA program and be incorporated in Canada with a permanent establishment in B.C. In general, the activities must be international in nature. An IFA specialist is eligible to receive a refund of up to 75 per cent of provincial personal income taxes paid for the first five years of employment, provided they were a non-resident prior to commencing employment and are significantly engaged in international financial activities.

INTERNATIONAL INCOME TAX RATE (%)

Vancouver*	Beijing	Hong Kong	Seoul	Singapore	New York
16.2%	25.0%	17.5%	35.0%	18.0%	39.9%

Source: KPMG, 2008
*A corporation carrying on qualifying International activities from a base in B.C.
Assumes Preferred Tax Rate for Financial Institutions

Qualifying activities include: making loans, financing foreign affiliates, factoring trade accounts receivables, distribution of film and television rights, leasing property, captive insurance activities, foreign exchange activities, back office and administrative support services, and head office activities. In addition, the IFA program includes refunds on corporate income tax paid on income derived from certain types of life sciences and "green" patents.

The IFA program is a strong contributor to economic growth. According to a MMK study, the program generates $36.27 to $51.67 in provincial GDP for every $1.00 paid out under the program[10]. These results surpass the returns from general stimulus packages, which normally generate only $0.28 to $1.19 in provincial GDP for every $1.00 of stimulus spending[11]. Moreover, for every $1.00 of IFA refund paid, the Province is estimated to collect between $2.93 and $4.53 in other tax revenues from the IFA activity including indirect and induced activity. In fiscal year 2007-08, refunds paid by the Province under the program totalled $15 million, translating to approximately $125 million of taxable income. Nevertheless, the full potential of the program and its return-on-investment has not been realized. This Phase I report explores opportunities to expand the program, strengthen key sectors, and grow the provincial tax revenue base.

[10]Review of the British Columbia International Financial Activities Program, MMK Consulting, 21 April 2009
[11]Review of the British Columbia International Financial Activities Program, MMK Consulting, 21 April 2009

3. Areas of Immediate Opportunity and Focus

3.1.1 INCORPORATION REQUIREMENT

In order to register under the IFA program, a corporation must show that it is incorporated within Canada and has a permanent establishment in B.C. The IFA program incorporation requirement excludes branches of foreign financial institutions from eligibility, including Schedule III banks, insurance companies and other entities that may maintain branch operations in B.C.

There are currently 33 Schedule III banks in Canada, only 2 of which are based in B.C. The province is at a clear disadvantage to its direct Canadian competitor, the Montreal IFC, which permits foreign branches to register in its IFA program. Foreign banks, particularly Asia-Pacific banks, represent an area of significant opportunity. To grow the international financial services sector by developing a cluster of financial institutions, the Steering Committee recommends:

#1 **Repeal the incorporation in canada requirement but maintain that an ifaa registrant can include a branch of a foreign corporation with a permanent establishment in b.C.**

The Office of the Superintendent of Financial Institutions (OSFI) permits foreign banks to carry on business in Canada under certain restrictions noted in the Bank Act without incorporating. These restrictions allow foreign banks to operate in Canada as full-service or lending branches provided they remain commercially focused, refrain from accepting 'retail deposits' and maintain capital equivalency of the greater of $5 million or 5% of Canadian branch liabilities. OSFI has fewer regulatory requirements for the registration of Schedule III banks because their capital requirements are met by the foreign parent organization. Many foreign banks are reluctant to incorporate their Canadian operations in a separate Canadian incorporated company due to the more stringent regulatory requirements and the inability to utilize their international capital base.

The permanent establishment requirement assures that corporations are not simply using the program as a 'paper tiger' towards their bottom line, but rather create the incremental economic benefits of staffing an office, engaging professional managers and using other service providers in the economy to grow the cluster. Foreign branches of financial institutions pay Federal and B.C. taxes on their operations in Canada. There does not appear to be any policy reason for excluding them from the tax incentives as they face the same tax obligations as a financial institution incorporated in Canada. All banks should operate on a level playing field with the equal access to the same incentives. Foreign branches encourage competition. While Canadian financial institutions focus on domestic transactions, foreign branches will be focused on international transactions, thereby increasing deal flow for all financial institutions. Increased foreign presence through branch offices provides the benefits of competition without harming domestic banks.

In the current economic climate, government must recognize that foreign corporations, whether financial or other institutions, will be particularly conscious of costs when expanding. Creating separate corporate entities for each country is more expensive than establishing regional centres or branches that communicate directly with headquarters. By implementing this recommendation, the province will be able to leverage the IFA program to grow the pool of available financial institutions in the province and secure larger capital flows.

3.1.2. MANAGEMENT ACTIVITIES

The current IFA regulation requires greater clarity in its definition of strategic management services and head-office functions. The lack of clarity around these definitions creates uncertainty among corporations regarding their eligibility in the program and increases the cost of participation for those who participate. The current regulation does not use industry terminology nor acknowledge the discrepancies between IFAA reporting and the corporate reporting required by Sarbanes/Oxley. These administrative barriers discourage even those who are currently members of the IFC BC from making annual refund requests.

In addition, the current IFAA legislative benchmark for entities to be a head office may be too high. It is unreasonable to expect significant head offices to move to B.C. without some type of transitional movement of head-office functions over a period of time. Given the tendency of entities to focus on regional geographies, coupled with uncertainty of definitions, the Steering Committee recommends:

#2 **Clarify the management services regulation to be more focused on the attraction of regional corporate management activities that support international commerce and not be limited to strategic management services by corporate head offices as presently prescribed, resulting in the attraction of head office type activities without requiring a head office.**

Interpretation bulletins can be useful in better explaining regulations and providing assurance to those entities registered in the program whether their international activities would qualify for a provincial corporate tax refund. Thus far, interpretation bulletins on back office, management services and administration have not been published, leading to continued ambiguity of the regulatory meaning of these qualifying activities among the business community.

The competitive human resource advantages of a skilled and multilingual workforce make the province an attractive base for international administrative and back-office operations. These include the fund administration subsidiaries of big banks, branch and back-office operations of foreign banks currently hosted in Toronto and Montreal, and credit card operations.

Corporate relocations require justification and the expansion of eligible activities to include management services is a step in the right direction towards making B.C. more attractive to foreign corporations. However, the current ambiguity around IFA regulations is hampering efforts to grow the IFC BC membership. Broadening the management services definition and streamlining the regulatory burden will provide clarity and assist a corporation justify investing the time and energy to evaluate the B.C. opportunity, consequently positioning the province as a short-list jurisdiction for corporate functions.

3.1.3. IFA SPECIALIST DESIGNATION

The IFA program is intended to bring business to B.C. and acknowledges that to accomplish this often requires an incentive for key executives and employees. Presently, the program allows employees of corporations in the IFA program to register as IFA Specialists for up to five years if they arrive in B.C. as a non-resident and spend 70 per cent of their time performing eligible international financial activities. Current legislation omits employees in certain IFA eligible activities such as management services, patent activity, administrative support and back-office services.

The importance of top talent in human resources, back-office services and the intellectual development of patent activity cannot be overstated. Excluding employees in these categories from an IFA Specialist designation hampers the ability of clean technology companies to hire key researchers for patent development or corporate entities to allocate senior managers to the relocation of back-office and administrative regional operations.

To encourage the growth of both mind and matter in key sectors within B.C., the IFA program can be a tool to draw top talent to the province. Amending the legislation to include both the expansion of the specialist designation to all qualifying activities and also creating a salary threshold for qualification will attract those individuals whose position within an entity entails decision-making and corporate autonomy. For these reasons, the Steering Committee recommends that:

#3 Amend the IFA Specialist designation to qualify an individual, earning a minimum annual salary of $100,000, who is employed in respect of any qualifying IFA activity, with a 5-year phase out period.

In industries such as digital media, life sciences and other knowledge-based sectors, the difficulty of obtaining capital and talent remain the largest barriers to growth. The expansion of the IFA specialist designation will help start-ups provide an incentive to foreign professionals to come to B.C. By allowing all activities to qualify specialists, the program increases the opportunity for entities to import not only senior managers in to B.C., but also high-value technical specialists such as software engineers. The ability to bring this talent to B.C. at the development stage of new ventures, instead of exporting intellectual property abroad to be further developed by foreign talent, is a laudable goal.

Amending the wording of the specialist designation also acknowledges that in some sectors there is no clear career track or designation for qualified specialists. For example, there is currently no designation required to participate or execute trades in the carbon credit trading market. However, these individuals could be high potential cluster-builders through their previous experiences, contacts and expertise. Including them as IFA specialists, through the expansion of eligible activities such as carbon credit certification, and the added qualifier of a $100,000+ salary, could entice the knowledge leaders required to develop the cluster in the province.

While B.C.'s corporate tax rate is highly competitive, its personal tax rate remains high in comparison to other international IFCs; the highest marginal rate of tax is reached at an income threshold that is much lower than other international jurisdictions. The specialist designation is a tool that can be used to make the prospect of moving to Vancouver more palatable to foreign professionals who may find a higher tax burden undesirable.

3.2.1. PRIVATE EQUITY, VENTURE CAPITAL & ALTERNATIVE INVESTMENTS

The Small Business roundtable, as well as the Premier's Technology Council, routinely recommends that the province focus on ensuring regular access to capital for the development and growth of innovative and new businesses. Private equity, venture capital and alternative investment funds can be a source of increased access to capital for all B.C. businesses.

British Columbia represented the third largest market for venture capital in Canada in 2008, receiving a total of $259 million for 51 companies. B.C.'s relative historical share of Canadian venture capital of 12 per cent continues to be too low. This level of venture capital disbursement is insufficient to ensure that B.C. technology companies flourish. The current IFA program can disqualify a fund manager depending on the particular structure used to carry out the investment. For example a fund manager for a fund structured as a partnership would not be eligible for the program if one of the partners was a Canadian resident. The Montreal IFC has corrected this anomaly by treating partnerships as foreign if the majority of the partners are non-resident.

In the current economic environment, B.C. has an opportunity to draw top-tier money managers to the province through the IFA program. To take advantage of this opportunity, the Steering Committee recommends:

#4

Clarify the IFA qualifying activities to include management of a venture capital, private equity fund or alternative investment fund, which has a fund size in excess of $50 million of capital sourced from non-resident investors.

Attracting general partners will increase the quality and quantity of management capacity in B.C. Alternative investment funds will increase access to capital for B.C. companies looking to expand and grow. Canadian funds continue to shrink with poor returns and the after effects of the credit crisis. The IFA program can be used as a tool to attract greater foreign capital and managers, thereby stimulating the development of a vibrant and sustainable risk capital market.

A cluster of alternative investment companies can also drive more 'local' financing of P3 partnerships. B.C. has developed expertise in the building and managing of public infrastructure that can be used as a model for foreign government in developing innovative options for the provision of capital projects. In addition, the recent growth in 'green' finance through funds such as Good Energies, Emerald Ventures, and Frog Capital is a substantial opportunity for the province.

Recent amendments in United States tax law make it favourable for fund managers to establish operations in Canada. The United States plans to change the tax status of a fund manager's 'carry' (bonus) from being taxed as a capital gain to ordinary income. This provides a significant opportunity for B.C. to recruit fund managers and their portfolios to the province where the carry may continue to be taxed as capital gain.

3.2.2. CLEAN TECHNOLOGY

Climate change, energy security, and energy supply concerns are creating demand for, and driving the growth of, green industries, products and services. B.C.'s commitment to mitigating climate change through its energy reduction and carbon neutrality targets plus its innovative carbon tax has driven technology development and a multitude of energy efficiency, conservation, and carbon reduction projects and processes that can be ready for export. For example, the Vancouver Olympic Organizing

Committee and B.C. architects have been recognized by the World Green Building Council for their leadership in establishing green building practices and constructing green 2010 Winter Games venues[12].

The global market for environmental products and services is projected to double from US $1,370 billion per year at present to US $2,740 billion by 2020. British Columbia's clean technology sector, comprised mainly of advanced energy and sustainable technology companies, currently employs about 18,000 people and generates $2.3 billion in revenue[13]. In addition, B.C. has the largest warehouse of bio-energy fuel sources in the world, such as mountain pine beetle (MPB) timber.

British Columbia companies have attracted global attention and investment, such as Power Measurement which was acquired by the French conglomerate Schneider Electric. The BC Energy Plan has set a vision for clean energy leadership, with an emphasis on clean technologies and conservation efforts. Existing initiatives have created a fertile environment for innovation, but more is needed to achieve and sustain global competitiveness. Thus, the Steering Committee recommends:

#5

Expand IFA qualifying activities to include the sale, assignment or licensing of proprietary technologies and services developed in B.C. to entities outside of Canada or to a non-resident person:

- **Biomass related technologies and services (gasification, anaerobic digestion, pyrolosis, wood pelletization, biofuels)**
- **Energy efficiency technologies and services (demand-side, grid measurement and management, telemetry, green buildings)**
- **Technologies and services related to the conversion, distribution, storage, monitoring and pollution reduction from fossil fuels**

The recommendation capitalizes on B.C.'s significant investments in research, development, and commercialization funding. It also transforms environmental issues like MPB timber into a resource rather than a liability. For example, the incentive encourages the harvesting of MPB killed timber rather than leaving excess residues in the forest, increasing risk of forest fires. The fibre can be used as feedstock to create renewable value added products such as is currently done with pellets for export markets. B.C. has the potential to be a world leader in the production of cellulosic ethanol, a biofuel created from woodchips[14].

[12]VANOC and Architects Recognized for Leadership in Building Green Venues, Vancouver Organizing Committee for the 2010 Olympic and Paralympic Winter Games, 22 July 2009, http://www.vancouver2010.com
[13]11th Report, Premier's Technology Council, June 2008, http://www.gov.bc.ca/premier/technology_council/
[14]Premier's Speech at A Climate For Change Conference, Vancouver Board of Trade, 12 June 2008

The recommended products and services align market demand with B.C.'s technical capabilities. Environmental, energy, and carbon reduction policies around the world have created sustained and broad demands for technologies designed to cut greenhouse gas emissions (GHG) and shrink power consumption. Due to B.C.'s relatively small economy by global standards, B.C. clean technology companies must derive a majority of their revenues from exports. Prospective buyers of our clean technology products and services include compliance-driven European companies seeking technologies to meet their emission allowances under the European Union (EU) Emission Trading System, and U.S. markets once the expected carbon trading regime is established. The export of these technological solutions can be complemented with our green building expertise to stamp a B.C. shade of green on sustainable development projects around the world.

The recommendation aims to create an attractive environment in which to locate and grow a clean technology business. It is an important contributor to the provincial objectives of becoming a leading low carbon economy and a centre of excellence for green technology expertise.

3.2.3. CARBON CREDIT CERTIFICATION AND CONSULTATION

As home to many world leaders in clean technology, renewable energy and environmental services, B.C. has established a niche for expertise in the green sector. This expertise extends to the carbon market where B.C. benefits from experience in developing a carbon tax system and stewardship of the Carbon Trust registry database. As the carbon market continues to expand and evolve, B.C. has an opportunity to be at the forefront of its development. The Steering Committee recommends:

#6

Expand IFA qualifying activities to include certification and trading of carbon credits to a non-resident person or on behalf of a non-resident person.

There is a significant opportunity for B.C. to become a centre for the 'under the counter' functions of the carbon market including management of the sale and purchase of carbon offsets or renewable energy certificates through financing, verification and accounting. British Columbia does not have a functioning exchange or a concentration of brokers; it may not be in B.C.'s best interest to compete with jurisdictions like Chicago, Montreal and Calgary by creating a carbon exchange. However, the opportunity remains for B.C. to draw financing professionals to participate in the various services and functions of trading credits without an exchange as a base.

The recommendation intends to attract GHG verifiers, aggregators of offsets and carbon traders to the province. Traders bring liquidity and discovery of new opportunities. However, by attracting verifiers and aggregators, B.C. can truly be a leader in this emerging market. There is no North American centre for the designation of ISO GHG trading professionals. British Columbia should aim to become a training and certification centre for the emerging carbon market. Links can be made to

EU emission trading accreditation and the accreditation processes underway in California and other areas of the U.S.

Vancouver already has a strong knowledge base to service the emerging carbon economy. Verifiers bring third party credibility to offsets and are often required to ensure offsets qualify within a cap and trade system. This function is often performed by consulting and accounting firms that could expand their offering of these services from their Vancouver offices. A solid reputation for verifying offsets can create a flight to quality and grow Vancouver's reputation for high quality offsets and compliance.

Together with verifiers, aggregators gather high quality offsets both within Canada and internationally. Those with experience internationally and a reputation for quality can take a leading role in offsetting projects in North America and elsewhere, creating a cluster of talent and expertise in the province. As an example, Offsetters is a Vancouver-based corporation that provides aggregating services both domestically and internationally. Offsetters is the official carbon offsetter of the 2010 Olympics. By promoting and encouraging the training and services of both verifiers and aggregators, B.C. can build on its carbon innovation reputation to become a leader in this sector without a full exchange.

3.2.4 DIGITAL MEDIA PUBLISHING & DISTRIBUTION

British Columbia's digital media sector is comprised of over 1,000 companies, employing over 15,000 people, and generating gross annual revenue of $1.2-$1.4 billion[15]. Over 40 per cent of this revenue comes from sales to the U.S. and EU. PricewaterhouseCoopers estimates the U.S. entertainment market will grow at 4.8 per cent per annum, to $759 billion in 2012, with digital and mobile distribution accounting for 24 per cent of the growth in the next 3 years[16].

Despite Vancouver's internationally recognized status as a digital hub, job growth stalled in 2008 due to competitive pressures from other Canadian and U.S. jurisdictions. Tax incentives in Ontario, Quebec, and Michigan have effectively reduced console development costs by 33 per cent compared to similar development in B.C. As a result, successful companies and high-value jobs are being lured away from B.C. The exodus of talent is creating a competitive disadvantage and damaging B.C.'s ability to build a world-class next-generation digital media cluster.

While the B.C. digital media sector has grown as a development centre, it has stagnated on the higher profit generating distribution activities of the value chain. Traditionally, large, international companies have acquired successful home-grown B.C. companies. For example, Disney bought Vancouver-based Propaganda Games to strengthen the company's internal game development capabilities[17]. This trend has become common as Vancouver operations sell their production to a parent company at cost plus, resulting in no real Canadian publishers[18]. To move the sector from contract for hire development to full service activities in B.C., the Steering Committee recommends:

[15] 2008 CAIC Report, Canadian Interactive Alliance, 2008, http://www.ciaic.ca
[16] PwC Global Entertainment and Media Outlook: 2008-2012, PricewaterhouseCoopers, 2008, http://www.pwc.com/gx/en/entertainment-media/index.jhtml
[17] Buena Vista Games Strengthens Internal Development by Acquiring Propaganda, Propaganda, 19 April 2005, http://propaganda.go.com
[18] 2008 Interactive Media Industry Forum 3.0, Telefim Canada, 2008, http://www.telefilm.gc.ca

#7 Expand IFA qualifying activities to include digital media publishing and distribution of copyrighted material to entities outside of Canada or to a non-resident person.

The expansion of the qualifying activity will encourage large, international corporations to relocate publishing, distribution, and head office administrative work to B.C. in order to take advantage of a smaller total tax bill.

This recommendation also responds to the increased digital media tax incentives announced by Ontario and Quebec earlier this year. Tax subsidies are ineffective in the long-term because companies are prone to move "footloose" operations to the lowest cost jurisdiction[19]. Rather than participate in a downward spiral of intra-provincial competition, B.C. should differentiate itself by targeting upstream activities and middle-management or executive positions, which are inelastic to movement. Attracting decision-makers to B.C. will complement our home-grown pool of creative developers and enable companies to operate an integrated business from one jurisdiction. Potential targets include Asian gaming companies looking for a North American beachhead, such as Square Enix.

The accumulation of management talent and head office activity will lay the foundation for B.C. companies to grow into global players, potentially creating the first Canadian new media publisher.

3.2.5. ONLINE AND MOBILE MARKET

The latest report by the International Telecommunication Union forecasts global mobile subscriptions to reach 4.6 billion by the end of the year, corresponding to about two-thirds of the world population[20]. In addition, mobile broadband subscriptions are expected to top 600 million in 2009, overtaking fixed broadband subscribers[21].

Mobile phones and similar portable devices are referred to as the "third screen" in recognition of their emerging role as a new medium for content. The entry of the Apple iPhone and Google Android mobile phone platforms are challenging traditional handset manufacturers and mobile operators alike for dominance in the delivery of content and services to subscribers. Fuelling this change, social and gaming networks are cross-pollinating as online interactions replace prime-time TV and other, more traditional media experiences.

As TV, games, and apps are gaining momentum on the Internet and mobile devices, new distribution channels have created opportunities for shifts in power to service broadband and mobile subscribers.

[19] "Footloose" is a term for an operation that can be placed and located at any location without effect from factors such as resources or transport, such as content development.
[20] The World in 2009: ICT facts and figures, International Telecommunication Union, 2009, http://www.itu.int
[21] The World in 2009: ICT facts and figures, International Telecommunication Union, 2009, http://www.itu.int

To move B.C. to early leadership in the emerging online and mobile markets for new media, the Steering Committee recommends:

#8 Expand IFA qualifying activities to include the development, publishing and distribution of an online or mobile production to entities outside of Canada or to a non-resident person.

British Columbia has the opportunity to achieve first mover advantage in this sector because Vancouver's strengths in content development of console games and animation are transferable to online and mobile platforms. Companies can earn additional revenue from direct distribution on new channels as alternative payment mechanisms enable content developers to bypass traditional mobile operator billing systems.

The changing media landscape is also providing mobile operators an opportunity to become publishers and distributors of mobile content rather than simply providers of telecommunication services. This recommendation will motivate mobile operators to establish an operation in B.C. in order to take advantage of the tax incentive and be closer to content developers. The inclusion of all players along the value chain encourages the proximity and mobilization of their capacity to act jointly, thereby, increasing innovation and activating the evolution of the online and mobile cluster.

3.2.6. LIFE SCIENCES

British Columbia's life sciences sector is comprised of about 180 companies, employing over 2,700 people[22]. The sector is active in the areas of biopharmaceuticals, medical devices, bio-products and bioinformatics, nanotechnology, agriculture, marine, environment and forestry.

In the late 1960's, the international pharmaceutical industry and the federal government of Canada reached an agreement requiring international pharmaceutical companies to spend 10 per cent of their Canadian sales on qualified activities, such as direct or indirect (i.e. academic partnerships or grants) research and development. Today this requirement equates to a $1.4 billion in qualified Canadian expenditures of which B.C. presently receives only nominal amounts. However, with the government's announced reform of its PharmaCare program along with a program to produce a single B.C. portal for Investigational Review Board (clinical trial design) approval and a province wide prescription drug database, B.C. is becoming a more attractive location.

Today, there is significant opportunity to attract clinical trial activities to B.C. In addition, B.C. has top-tier Centres of Excellence which can operate as lead investigation sites for international trials. To attract international pharmaceutical companies to invest in and to locate human clinical trial activities in B.C., the Steering Committee recommends:

[22]Life Sciences Sector Profile, Province of British Columbia, 2006

#9 Expand IFA qualifying activities to include management services related to life sciences research and development activities, including clinical trials.

This recommendation will make B.C. more competitive with other jurisdictions in attracting clinical trial infrastructure and administration. Currently, clinical trials activities in B.C. are minimal. Historically, the majority of qualified investments by international pharmaceutical companies have been made in Quebec or Ontario, largely driven by an attractive regulatory environment.

A vibrant and competitive life sciences industry can be grown through provincial initiatives, which facilitate the industry's technological advances. Enhancing collaboration between B.C. researchers and international pharmaceutical firms helps support a strong and efficient innovation pipeline. In addition, expanding the program to capture more life sciences activities aligns with the province's objectives of diversifying the economy towards knowledge-based industries, and attracting skilled researchers to B.C.

4. Competitive Positioning and Legislative Impacts

The province needs to better leverage the IFA program as a tool to remain competitive as an International Financial Centre. The Steering Committee's vision for the program to double the amount of refunds granted over the next three years from its 2008 baseline will have positive benefits for the provincial economy including[22];

- Creation of 13,225 full-time equivalent (FTE) positions
- Incremental tax revenue of $112 Million
- Incremental GDP contribution of $1.3 Billion

The Global Financial Centres Index (GFCI) remains one of the key worldwide rankings of IFCs. In particular, it is weighted on how an IFC is perceived among the international business community. Vancouver, now ranked 29th, ranks three spots ahead of Montreal but continues to fall far behind key competitors like San Francisco and Toronto.

In fact, modeling shows that even with IFC benefits, Vancouver lags behind Montreal in terms of overall cost competitiveness[23]. Therefore it is increasingly important that Vancouver maintain a level playing field with Montreal IFC incentives. Historically, Vancouver has been known as a desirable place to do live but not to conduct business because of limited market access and low deal flow. The recommendations outlined in this report aim to positively influence those perceptions by laying the groundwork to build Vancouver as an international centre of commerce.

In addition, the recommendations will contribute to establishing the IFC BC on a competitive level of incentives with North American competitors. The Phase II report will provide recommendations on how to change these perceptions through marketing of the province as "Canada's Pacific Gateway" and Vancouver as an International Centre of Commerce.

Recommended amendments to the International Financial Activity Act

CURRENT	PROPOSED	REASONS
Section 9 (1)(a) A business must be incorporated in Canada to apply for registration.	Repeal the incorporation requirement and maintain that an IFAA registrant must have a permanent establishment in B.C.	Enable foreign branches to register under the IFA program so long as they have a permanent establishment in B.C. Level the playing field with the Quebec IFC program which permits foreign branches to register. Increase B.C.'s competitiveness in attracting branch operations, in particular Asia-Pacific banks. Consistency with OFSI's reduced regulatory regime to register branches due to capital requirements and lack of retail deposits. Increase the capital and foreign financial transactions in the province.
Regulation 4 (7.1) "For the purposes of section 2 (2)(r.1) of the Act, the following are prescribed management services: (a) strategic management services provided by the head office of the corporation;"	Clarify the management services regulation to be more focused on the attraction of regional corporate management activities that support international commerce and not be limited to strategic management services by corporate head offices as presently prescribed, resulting in the attraction of head office type activities without requiring a head office.	Remove uncertainty around head office eligibility to increase IFA program uptake. Accommodate the transitional movement of head-office functions over a period of time to encourage international firms to establish and build a regional head-office in B.C. first. Discourage corporate office relocations outside of the province.
Section 21 (d) There are no salary thresholds to qualify as an IFA Specialist.	Set a threshold for individuals earning a minimum annual salary of $100,000, who is employed in respect of any qualifying IFA activity.	Increase the competitiveness of the B.C. personal income tax rate. In B.C., the highest marginal rate of tax is reached at an income threshold that is much lower than other international jurisdictions. Inclusion of all qualifying activities to aid in recruitment of key executive personnel to staff new regional offices. Encourage growth of both mind and matter in key sectors within B.C. Salary threshold ensures the recruitment of highly qualified personnel who hold decision-making power and corporate autonomy.

[23] See Appendix 2: MMK Economic Comparison Model
[24] See Appendix 2: MMK Economic Comparison Model

CURRENT	PROPOSED	REASONS
Section 22 The tax refund formula is calculated as 75 per cent of eligible income for a 5-year period.	Amend the tax refund formula to phase out over the 5-year period: Year 1 and 2 – 100% Year 3 – 75% Year 4 – 50% Year 5 – 25%	Consistency with the Quebec IFC program benefits. More attractive for individuals to front-load the incentive and phase out the refund on a graduated scale. Lessen the impact on the B.C. foregone revenue.
Section 2 Capital managers	Clarify the IFA qualifying activities to include management of a venture capital, private equity fund or alternative investment fund, which has a fund size in excess of $50 million of capital sourced from non-resident investors.	Attract general partners to increase both the quality and quantity of management capacity in B.C. Attract alternative investment funds to increase access to capital for B.C. companies looking to expand and grow. Increase the opportunity for more "local" financing of P3 projects and technologies.
Section 2 Clean technology	Expand the IFA qualifying activities to include the sale, assignment or licensing of proprietary technologies and services developed in B.C. to entities outside of Canada or to a non-resident person: • Biomass related technologies and services (gasification, anaerobic digestion, pyrolosis, wood pelletization, biofuels) • Energy efficiency technologies and services (demand-side, grid measurement and management, telemetry, green buildings) • Technologies and services related to the conversion, distribution, storage, monitoring and pollution reduction from fossil fuels.	Capitalize on B.C.'s investment in R&D and commercialization funding. Expand export sales of clean technologies and energy conversation services to foreign companies looking for solutions to meet their emission allowances (i.e. EU Emission Trading System). Transform the mountain pine beetle timber into a resource rather than a liability. Become a leading low carbon economy to support the vision for clean energy leadership set in The BC Energy Plan.
Section 2 Clean technology	Expand the IFA qualifying activities to include certification and trading of carbon credits to a non-resident person or on behalf of a non-resident person.	Those engaged in this activity should hold ISO certification for carbon accounting or trading set by the National Standards Council of Canada. Attract GHG verifiers, aggregators of offsets, carbon traders, and liquidity providers to B.C. Establish B.C.'s reputation for excellence in carbon credit certification and trading.

CURRENT	PROPOSED	REASONS
Section 2 Digital media publishing and distribution	Expand the IFA qualifying activities to include digital media publishing and distribution of copyrighted material to entities outside of Canada or to a non-resident person.	Move the digital media industry from contracted development to full service activity. Target upstream, higher margin activities and middle-management or executive positions, which are inelastic to movement. Attract international digital media giants to relocate publishing, distribution and head-office type work to B.C. Respond to the increased digital media tax incentives announced by Ontario and Quebec without the expense of substantial foregone revenue.
Section 2 Online or mobile market	Expand the IFA qualifying activities to include the development, publishing and distribution of an online or mobile production to entities outside of Canada or to a non-resident person.	Gain early market leadership in the emerging online and mobile markets. Attract mobile operators, new entrants as publishers and distributors of mobile content, to establish an operation in B.C.
Section 2 Life sciences	Expand the IFA qualifying activities to include management services related to life sciences research and development activities, including clinical trials.	Attract international pharmaceutical company R&D investment to B.C. Capture more of the $1.4 billion opportunity created by the federal requirement for international pharmaceutical companies to spend 10 per cent of sales on R&D activities in Canada.

5. Phase II: Marketing the Hub

Across all industry sectors, the Steering Committee's consultations highlighted that marketing, promotion and education are keys to building credibility for the province on the world stage and that more effort needs to be devoted to developing strategic partnerships between government and industry to promote B.C.'s competitive advantages. This feedback forms the basis of the Phase II report.

The Phase II report will focus on the recommendation to build and brand Vancouver as an International Centre of Commerce; the most sustainable centre for the development of safe, secure and reliable pathways to global trade. Vancouver can attract multinationals to its international centre of commerce by marketing its excellence in the processing of international trade activities including;

- Trade Finance, Foreign Exchange, Cash Management and Corporate Treasury
- Scrub Centre for Specialists in AML (Anti-Money Laundering), KYC (Know Your Customer) and Transparent Accounting
- Asia Pacific Gateway and Transportation expertise
- Logistics and Documentation systems and processing
- Risk Mitigation: Operational, Counterparty, Settlement & Liquidity
- Comprehensive Financial Supply Chain Services

These services are critical components to the establishment of B.C. as an international gateway between Asia and North America, and must be better promoted along with the IFC BC.
The Phase II report will also concentrate on further policy recommendations outside the purview of the IFA Program. These include:

> **A recommendation for the provincial government to pursue lobbying the federal government to re-examine Bill C-15 with the aim to improve perception of Canadian maritime operations.** Bill C-15 makes a pollution incident a criminal offence even if accidental and regardless of whether there was any wilful misconduct on the part of the accused. It creates a presumption of guilt and extends culpability for polluting offences throughout the whole structure of a shipping company with harsh fines and possible imprisonment; factors that take the bill far beyond criminal offences in Europe or the United States. A shipping company considering Canada as a location will not choose to risk

exposing its directors, officers and employees to criminal sanctions without the presumption of innocence in place. Since Bill C-15 was instated in 2005, not a single shipping company has newly relocated into Vancouver. Bill C-15 is damaging the province's ability to create a world-renowned efficient supply chain system and undermines the province's reputation as Canada's Pacific Gateway. Furthermore, current federal income tax provisions designed to attract international shipping companies are in need of updating to accommodate the variety of activities that comprise international shipping operations and the structures used to carry out international activities.

> **A recommendation for government to modernize the Insurance (Captive Company) Act** to accommodate more current insurance practices such as a regulatory framework to allow for Protected Cell captives, and to allow for different classes of captive insurers and branch captives. Captive domiciles around the world continue to make ongoing changes in their legislation to make their jurisdictions more attractive on the international stage; there have been no major changes in legislation to B.C.'s Insurance (Captive Company) Act since its inception in 1987. Other jurisdictions have created upsurges in activity in captive insurance and seen significant economic activity generated. It is estimated that each new captive to B.C. generates, on average, $80,000 in premium taxes, $250,000 in expenses and $500,000 in assets invested through B.C. financial institutions and investment managers[25].

> **A recommendation that greater effort be devoted to working with universities, colleges and training institutions to deliver specialized certification programs to drive productivity in key high-potential sectors.** Education is a critical tool to drive success in key clusters like maritime transport, trade finance, risk management, digital media, and the green economy.

> **A recommendation to focus on facilitating the mobility of people.** Immigration and attracting skilled international workers and their families are factors that greatly influence the growth of knowledge clusters in B.C. The province needs a strategy aimed at attracting highly qualified personnel to its key sectors and landing them through a comprehensive welcoming package that will encourage them to make B.C. home.

More detailed discussion and targeted recommendations for marketing, branding and education will be provided in the Phase II report.

[25]Submission to the Ministry of Finance, Canadian Captive Insurance Association, November 2009

conclusion

Economic modeling has shown that the IFA program is a strong contributor to provincial economic growth. However, challenges remain in further clarifying the IFA program and its associated regulations.

This Phase I report addresses these challenges by presenting short-term recommendations which the Steering Committee believes will result in incremental business growth with minimal fiscal cost to the province. It also addresses barriers in easing the reporting burdens of those corporations who are members of the IFC BC and in promoting the program and its benefits both domestically and internationally. The report has identified key sectors that rely on the financial services sector as a base for the growth. The recommendations also complement government priorities of maximizing trade, investment and job creation through the Asia Pacific Initiative, capitalizing on investments in research and innovation in B.C.-based technology industries, commercializing research and innovation in the life sciences, biotechnology and clean energy sectors, and increasing the competitiveness of small to medium sized enterprises in B.C.

By implementing these recommendations, the province will not only stimulate the financial services sector, but also reap the associated incremental economic benefits of growing the province's GDP, encouraging skilled employment and building high performance clusters.

Appendicies

APPENDIX 1:
MMK IFA PROGRAM REVIEW – EXECUTIVE SUMMARY

British Columbia's International Financial Activity (IFA) program allows companies operating a registered international financial business (IFB) in British Columbia to receive a refund of 100 per cent of B.C. corporate income taxes paid on income derived from a range of qualifying international financial activities[26]. The objective of the study is to estimate the total provincial economic impacts associated with the IFA program.

In 2007/8, refunds paid by the Province under the IFA program totalled $15 million. Based upon the 12 per cent provincial corporate income tax rate that was in effect in 2006 and 2007, this translates into approximately $125 million of IFB taxable income (or net profit before income tax). Timing differences exist in the payment of IFA refunds due to the 18 month filing window and subsequent audit process, so records of the International Financial Centre BC (IFC BC) were also used to verify the annual level of IFB activity. This figure appears to represent a reasonable estimate of annual IFB activity, correlating closely with the $124 million of total IFB income used to determine IFC BC member participation assessments for the 2007 year.

Based on data drawn from eight separate industry-specific studies, it is estimated that this $125 million in known IFB taxable income is the product of $625 - $833 million in IFB revenue.

The range of economic impacts generated in British Columbia by this volume of IFA associated business activity has been estimated using the B.C. Government's economic multipliers for the financial services industry[27]. These economic impacts are estimated as follows:

- $981 million to $1.4 billion in total annual economic output, after counting indirect and induced activity resulting from the direct IFB operations.
- $544 – $775 million in total annual provincial GDP (direct, indirect and induced).
- 2,726 – 3,635 direct FTE jobs in IFB operations, which grows to represent a total of 5,332 – 7,893 FTE jobs after including indirect and induced impacts.

From an economic development perspective, the provincial return on investment from the IFA program can be summarized as follows:

- Each dollar of IFA refunds paid is associated with $65.40 - $93.33 in economic activity (output) and $36.27 - $51.67 in provincial GDP. This implies that the IFA program is acting as a strong positive economic stimulus, as these returns far exceed the level of output per dollar ($1.39 - $2.62) or GDP per dollar ($0.28 - $1.19) that could be expected to be generated by direct government spending of $15 million on goods or services from any sector of the economy[28].
- Each million dollars of IFA refunds paid is associated with 355 - 526 FTE jobs.

[26]Refunds for patent activities are limited to 75% of tax paid, to a maximum of $8 million.
[27]2004 BC Provincial Economic Multipliers, BC Stats, 2008.
[28]Based on 2004 BC Provincial Economic Multipliers, BC Stats, 2008, total output and GDP multipliers with no social safety net, by small industry aggregation.

The IFA program is also generating net positive provincial tax revenues, even after considering the $15 million in IFA refunds paid out in 2007. Provincial tax revenues from direct IFB activities, plus indirect and induced activity, are estimated at $44 - $68 million before IFA refunds, or $29 - $53 million after IFA refunds have been paid.

Including indirect and induced activity resulting from the IFA program, the Province is estimated to collect between $2.93 and $4.53 in gross tax revenue[29] for every dollar of refunds paid, resulting in positive net tax revenue of $1.93 - $3.53 per dollar of refund issued. Based on these ratios, provided that approximately one quarter to one third (22 per cent - 34 per cent) of all IFB activity is incremental, then the IFA program is breaking even for the Province on a purely fiscal basis. (This breakeven point is based solely on B.C. provincial revenues, and would be significantly lower if federal and/or municipal revenues were included in the analysis.)

In addition to these economic and fiscal impacts, the IFA program is also reported to be further promoting B.C. business through the attraction of valuable investment and human capital to the province.

This study only reviews IFB activities. However, it is important to consider that the operations of most IFC BC members include significant other business activities (i.e., non-IFB) in addition to their IFB activities. While it is not possible to determine to what extent the IFA program influences these other business activities, the IFA program may have some influence in causing IFA participants to also establish and/or retain other business activities in British Columbia.

[29]Including personal income tax from employees, PST, and gross corporate income tax

APPENDIX 2: MMK ECONOMIC MODELS

Assumptions for the MMK Economic Models

Exchange Rate	USD$1.00	Canada $1.08	China Yuan ¥6.8300
	Euro € 0.75	India Rupees 49.87	Japan Yen ¥97.81
	UK Sterling £0.6800		

Canada Interest Rate = 4.5% US Interest Rate = 5.25% Sales = 15% mark-up of cost

Vancouver with IFC benefits = 100% Regional Tax Abatement

Montreal with IFC benefits = 75% Regional Tax Abatement

Vancouver and Toronto = 100% Sales Tax Abatement because of the HST

Financial Services

Cities	Sales	Labour	Facility, Lease & Utilities	Interest, Taxes, Dep'n	Effective Income Tax Rate	Net Profit After Tax	Cost Index	Overall Cost Rank
Mumbai	3,843	877	2,172	508	43.0%	286	67.9	1
Montreal with IFC benefit	5,060	3,176	1,080	267	28.8%	537	86.5	2
Toronto	5,377	3,293	1,237	329	27.4%	518	92.8	3
Houston	5,304	3,313	1,031	528		432	93.1	4
Vancouver with IFC benefit	**5,787**	**3,630**	**1,274**	**246**	**15.6%**	**637**	**98.4**	**5**
Vancouver	5,799	3,630	1,274	333	26.9%	562	100.0	6
Chicago	6,046	3,970	1,050	555	40.2%	471	106.5	7
San Francisco	6,127	4,013	1,070	577	41.6%	467	108.1	8
New York	6,559	4,062	1,404	584	40.5%	509	115.6	9
Frankfurt	7,932	5,226	1,554	485	35.6%	667	138.8	10
London	8,508	4,611	2,775	309	26.7%	813	147.0	11
Shanghai	9,259	1,665	5,863	826	25.0%	905	159.7	12
Yokohama	11,702	5,325	4,545	965	43.1%	867	207.0	13

Assumptions:

Total Employees = 40, Leased Office, Downtown Facilities, Building Size = 20,000 sqft

Peak Electric Demand 410kW, Monthly Electric Consumption = 125,000kWh

Professional Engineering

Cities	Sales	Labour	Facility, Lease & Utilities	Interest, Taxes, Dep'n	Effective Income Tax Rate	Net Profit After Tax	Cost Index	Overall Cost Rank
Mumbai	4,507	733	1,635	549	42.3%	340	62.5	1
Montreal with IFC benefit	6,892	4,032	736	144	18.8%	730	92.4	2
Toronto	7,186	4,164	857	228	26.7%	687	97.5	3
Vancouver with IFC benefit	**7,374**	**4,181**	**1,012**	**121**	**15.8%**	**810**	**98.4**	**4**
Vancouver	7,382	4,181	1,012	226	26.0%	713	100.0	5
Houston	7,547	4,469	828	380	37.1%	620	103.8	6
London	7,911	4,155	1,646	89	25.3%	771	107.1	7
Chicago	8,416	5,259	819	426	39.7%	662	116.2	8
Frankfurt	8,496	5,256	986	270	33.8%	734	116.5	9
San Francisco	8,771	5,351	1,036	466	40.7%	678	121.3	10
New York	8,827	5,418	1,004	463	39.9%	692	122.0	11
Shanghai	9,460	1,446	5,214	623	24.9%	927	127.9	12
Yokohama	12,092	5,202	4,011	712	41.8%	917	167.6	13

Assumptions:

Total Employees = 40, Leased Office, Downtown Facilities, Building Size = 22,500 sqft
Peak Electric Demand 195kW, Monthly Electric Consumption = 50,000kWh

Digital Media

Cities	Sales	Labour	Digital Media Tax Credit	Facility, Lease & Utilities	Interest, Taxes, Dep'n	Effective Income Tax Rate	Net Profit After Tax	Cost Index	Overall Cost Rank
Mumbai	3,947	1,999	n/a	1,204	435	39.9%	309	33.1	1
Shanghai	5,959	3,797	n/a	992	504	14.3%	666	48.2	2
Montreal with IFC benefit	8,279	9,448	(2,834)	641	(3,314)	0.0%	1,504	61.7	3
Toronto	7,712	9,723	(3,889)	775	(3,541)	0.0%	755	63.4	4
Vancouver with IFC benefit	**12,137**	**9,650**	**n/a**	**897**	**249**	**15.2%**	**1,341**	**98.4**	**5**
Vancouver	12,162	9,650	n/a	897	428	25.1%	1,187	100.0	6
Houston	12,387	9,839	n/a	759	746	35.5%	1,043	103.5	7
London	14,008	10,712	n/a	1,570	402	27.5%	1,324	115.7	8
Chicago	14,503	11,743	n/a	742	866	39.1%	1,152	121.8	9
San Francisco	14,968	11,893	n/a	978	932	40.3%	1,165	125.8	10
New York	15,188	12,120	n/a	958	909	39.4%	1,201	127.5	11
Frankfurt	16,258	13,281	n/a	876	672	32.6%	1,429	135.2	12
Yokohama	16,456	12,516	n/a	1,514	1,196	42.6%	1,230	138.8	13

Assumptions:

Total Employees = 110, Leased Office, Downtown Facilities, Building Size = 22,500 sqft
Peak Electric Demand 360kW, Monthly Electric Consumption = 120,000kWh
Ontario = 40% Interactive Digital Media Tax Credit, Montreal = 30% Production of Multimedia Titles Tax Credit

Life Sciences Clinical Research

Cities	Sales	Labour	Facility, Lease & Utilities	Interest, Taxes, Dep'n	Effective Income Tax Rate	Net Profit After Tax	Cost Index	Overall Cost Rank
Mumbai	1,149	530	496	4	20.7%	119	29.0	1
Shanghai	1,579	1,051	262	59	0.0%	207	38.3	2
Montreal with IFC benefit	3,540	2,926	274	(594)	-102.2%	934	72.8	3
Toronto	3,831	3,027	377	(91)	-3.8%	518	92.5	4
London	4,308	3,226	710	(461)	-48.5%	833	97.0	5
Houston	3,853	3,013	330	188	36.0%	322	98.5	6
Vancouver with IFC benefit	**4,119**	**3,261**	**386**	**(65)**	**0.0%**	**537**	**100.0**	**7**
Vancouver	4,119	3,261	386	(65)	0.0%	537	100.0	8
Chicago	4,516	3,608	322	204	35.0%	382	115.4	9
San Francisco	4,732	3,657	457	217	35.0%	401	120.9	10
New York	4,754	3,693	442	247	40.0%	372	122.3	11
Frankfurt	4,930	3,973	368	160	33.4%	429	125.6	12
Yokohama	5,546	4,154	609	227	35.2%	468	141.7	13

Assumptions:

Total Employees = 40, Leased Office, Downtown Facilities, Building Size = 22,500 sqft
Peak Electric Demand 195kW, Monthly Electric Consumption = 50,000kWh

APPENDIX 3: INTERNATIONAL FINANCIAL CENTRE COMPARISON MATRIX

	TORONTO	MONTREAL
KEY INDICATORS	Population: 5.6 million GDP: CDN $225 billion (2008)	Population: 3.6 million GDP: CDN $121 billion (2008)
KEY TRADE ORGANIZATIONS	**Mission Statement:** Advance initiatives to implement the City's Economic Development Strategy with respect to enhancing the City's ability to compete within a global marketplace, building capacity within key industry clusters and embracing ideas and innovation. *The City of Toronto is in the early development of 'Invest Toronto'. Invest Toronto will engage the private sector in promoting Toronto as an investment opportunity through marketing, conducting trade missions and coordinating with other governments and business.	**Mission Statement:** The International Financial Centre of Montréal (IFCMontréal) is a unique organization whose goal is to develop Montréal as an international financial centre.
FUNDING	TEDCO is a wholly owned subsidiary of the City of Toronto but operates as an arms-length corporation. TEDCO is completely self-financing and receives rental income from leases of its land holdings. It also earns development fees and profits from property development.	IFCMontréal is a non-profit organization created by Ministère des Finances du Québec in collaboration with the Montréal Exchange and the City of Montréal. Companies that obtain the status of an IFC in Montreal are required to contribute a certain amount each year to the Financial Sector Development Fund, contributions that amount to about half of the IFC Montreal's operating budget. In 2002, the Department of Finance allocated $800,000 over three years to boost this organization.

HOUSTON	HONG KONG	SINGAPORE	VANCOUVER
Population: 5.5 million GDP: USD $440.4 billion (2008)	Population: 6.9 million GDP: USD $207 billion (2007)	Population: 4.8 million GDP: USD $161.3 billion (2007)	Population: 2.3 million GDP: CDN $83 billion (2008)
Mission Statement: The Greater Houston Partnership will lead and facilitate initiatives that establish the Houston region as a business magnet. The Partnership will support and promote visible initiatives that differentiate Houston and capitalize on core strengths and resources. ***"Energy Capital of the World"***	**Mission Statement:** Hong Kong should not only be a major Chinese city, but could become the most cosmopolitan city in Asia, enjoying a status comparable to that of New York in North America and London in Europe. ***"Asia's World City"***	**Mission Statement:** Create sustainable GDP growth for Singapore with good job and business opportunities for its people by planning and executing strategies to enhance Singapore's position as a global business centre. ***"A global hub for business, investment and talent"***	**Mission Statement:** Vancouver is Canada's commercial hub on the Pacific Rim, driving prosperity as a secure international finance centre for our key trading partners, offering expertise to innovators in high-growth sectors and serving as a dynamic gateway for the commerce of ideas and resources.
Opportunity Houston is a $40 million fundraising vehicle which is administered by the Greater Houston Partnership. Opportunity Houston is funded through public and private investments by businesses, organizations and individuals. Investments in Opportunity Houston may be made as a business expense or charitable contribution. The majority of the funds were raised by enlisting 15 regional business leaders to cultivate and solicit investors on behalf of Opportunity Houston.	InvestHK is a department in the Hong Kong SAR Government, with an annual budget of HKD$111.6M (USD$14.4M). InvestHK also makes an annual commitment to the HKTDC. The 2009-10 commitment is HKD$300M (USD$38.7M). HKTDC is the global marketing arm and service hub for Hong Kong based manufacturers, traders and service exporters. In addition to the subvention from the government, HKTDC earns self-generated operational and investment income of HKD$1,296M (USD$167.2M).	The EDB is an autonomous government agency created by special legislation to implement specific socio-economic development programs. It also includes EDB Investments (EDBI) - an independent equity investment arm. EDB's budget of US$422 million for 2009 is set by the Government of Singapore in the estimates of the Ministry of Trade and Industry.	Initial sources of funding for the Vancouver hub should reflect the Key Sectors. Privately, industry-led funding should be modelled along the lines of the Opportunity Houston investor program, which has seven investment and benefits levels. The 2010 Olympic sponsorship program could be tapped to encourage further investment in B.C. A smart card as a revenue generator should also be considered, similar to the Hong Kong Octopus Card. The B.C. smart card might be developed for use on city and regional transit initially, and expanded to other micro-transaction opportunities over time.

	TORONTO	MONTREAL
KEY SECTORS	• Aerospace • Biomedical & Biotechnology • Business Services • Design • Fashion/Apparel • Film & Television • Financial Services • Food & Beverage • ICT • Tourism	Exclusively Financial: • Investment Advising and Portfolio Management • Dealing in Securities • Financial Packaging • Foreign Exchange Operations • Back office operations • Financial Engineering • Loans • Lines of Credit • Administration of Qualified Investment funds
TRANSPORTAION AND INFRASTRUCTURE	Pearson International Airport • Cargo traffic: 511,000 tonnes (2007) (ranked 37) • Passengers: 32.3 million (2008) Port of Toronto: • Cargo traffic: 72,000 TEU handled (2007) (unranked) Roadways: • Canada's largest trucking centre, in 2001 the region originated 6.1 million shipments, hauling over 20 million tons of cargo to market in the U.S. and Canada. Rail: • CN Railway assembles up to 80 trains with 4,000 freight cars daily at MacMillan Yard. • Utilizing continuous platform technology, CPR carries conventional non-reinforced highway transport semi trailers without modification, the only intermodal rail service in the world that can handle any type of truck trailer Pipelines:	Montreal-Trudeau International Airport: • Passengers: 12.8 million (2008) Port of Montreal: • Cargo traffic: >1 million TEU handled annually • Montreal is the major port on the St. Laurence seaway Roadways: • Hub for Quebec's Autoroute system Rail: • VIA rail is headquartered in Montreal, providing service to other Canadian services • AmTrack also has a hub in Montreal • CPR, based in Calgary, uses Montreal as the railway's eastern and intermodal freight terminus • CN Rail, CPR's cheif rival for freight carriage, is based in Montreal Pipelines: • South Portland-Montreal Pipeline transfers oil from tankers docking in Maine to Canada for distribution • Intra-canadian pipeline runs from Montreal to Sarnia to distribute US oil. • Plans are now underway to reverse the flow and allow Canadian crude oil to be transferred to US markets as the demand for Canadian crude rises (Trailbreaker Project)

HOUSTON	HONG KONG	SINGAPORE	VANCOUVER
• Aerospace • Alternative Energy • Biotechnology • Education • Energy • Entrepreneurial Enterprises • Health Care • Information Technology • Nanotechnology • Petrochemical	• Business and Professional Services • Consumer, Retail and Sourcing • Financial Services • Information Technology • Media and Multimedia • Technology (esp. electronics & biotech) • Telecommunications • Tourism and Entertainment • Transportation • Special Projects (esp. industrial & food products)	• Aerospace • Alternative Energy • Chemicals • Consumer Business • Education • Electronics • Energy • Engineering Services • Healthcare • ICT • Logistics & Supply Chain Management • Media & Entertainment • Biotechnology • Professional Services	• Professional Financial Services • Clean Technology and Services • Carbon Credit Certification and Consulting • Digital Media Publishing and Distribution • Management of Life Sciences Clinical Trials • Transportation
Houston Airport System: • Air cargo: 387,000 tons (2007) • Air passengers: 52 million travellers (2007) Port of Houston: • Cargo traffic: 1.8 million TEU handled (2007) (ranked 66th in the world) Roadways: • 575 miles of freeways and expressways in 10-county metro area • $65 billion in roadway and transit improvements planned Rail: • 14 mainline tracks radiate from Houston Pipelines: • Fifteen of the nation's 20 largest petroleum products and crude oil pipeline operators have corporate or divisional headquarters or ownership interests in Houston. These 15 control more than 64,000 miles, or 45.8%, of the nation's 139,901 miles of liquid pipelines. • Fourteen of the nation's 20 largest natural gas transmission companies have corporate or divisional headquarters in the region, accounting for 57.5% of the nation's 195,038 miles of gas pipelines.	Hong Kong International Airport: • Air cargo: 3.6 million tonnes (2008) • Air passengers: 48.6 million travellers (2008) Port of Hong Kong : • Cargo traffic: 24 million TEU handled (2007) (ranked 3rd in the world) Roadways and Rail: • There are three road crossings between Hong Kong and the Mainland • Goods vehicles accounted for about 70 per cent of the cross-boundary vehicular traffic through the three road crossings with the daily average number of vehicle trips registered at 40,000. • A three-pronged bridge linking Hong Kong to Macau and Zhuhai to the mouth of the Pearl River Delta is going ahead. The 29-kilometer (18-mile) road and rail link estimated to cost upward of HK$60 billion. Pipelines:	Changi International Airport: • Cargo traffic: 1.9 million tonnes (2007) (ranked 11 in the world) • Passengers : 37.7 million (2008) Port of Singapore: • Cargo traffic: 27.9 million TEU handled (2007) (ranked 1st in the world) Roadways: • Total roadways of 3,262 km • 2 land crossings into Malaysia Rail: Pipelines: • Natural gas imports from Malaysia and two pipelines from Indonesia • Total crude oil refining capacity close to 1.3 million barrels per day (bbl/d) with three main refineries; ExxonMobil, Royal Dutch/Shell and the Singapore Petroleum Company's refineries • Plans under discussion to build a liquefied natural gas (LNG) import terminal	Vancouver International Airport: • Air cargo: 225,444 tonnes (2007) • Air passengers: 17.5 million travellers (2007) Port of Vancouver : • Cargo traffic: 2.3 million TEU handled (2007) (ranked 42nd in the world) Roadways: • $3 billion Gateway Program road and bridge projects in Metro Vancouver (including Port Man bridge twinning, North and South Fraser perimeter road, Pitt River bridget, etc) Rail: • CN, BC Rail, Burlington Northern and CPR all service Vancouver area ports • $160 million investment to increase CPR capacity by 12% along southern lines from Vancouver to Manitoba Pipelines: • Construction of pipeline from AB to northwest B.C. is projected to increase crude oil tonnage through northern ports by 50 million tones/annum by 2020. • Kitimat LNG facility development. • Crude oil/petroleum traffic through Port of Vancouver likely to double by 2020.

	TORONTO	MONTREAL
KEY SECTORS	Home to Canada's 5 largest banks, 50 foreign bank subsidiaries and branches, and 112 securities firms. North America's 3rd largest financial services centre including 75% of Canada's foreign banks, and 65% of the country's pension fund companies	Montréal, a financial city that has been adopted by: • Some 130 international financial companies registered as IFCs • The Montréal Stock Exchange specializing in derivatives • Thirteen Canadian banks, 34 subsidiaries and 11 branches of foreign banks managing assets of \$1.6 trillion and employing 235 000 people • The seven largest brokerage firms in Canada (RBCDS, BMO Nesbitt Burns, CIBC World Markets, Scotia Capital, TD Securities, Merrill Lynch) • Four hundred financial institutions, including Mouvement Desjardins and the Caisse de dépôt et placement, the largest pension fund manager in Canada (\$125 billion) • A critical mass of large portfolio managers, both private and public
CORPORATE TAX RATES (2009)	General: 19% (CND) + 14% (ON) 33.0% combined Small Business: 11% (CND) + 5.5% (ON) 16.0% combined	General: 19% (CND) + 11.9% (QC) 30.9% combined Small Business: 11% (CND) + 8% (QC) 19.0% combined

HOUSTON	HONG KONG	SINGAPORE	VANCOUVER
Houston is known as a major corporate centre, with 26 companies on the 2008 Fortune 500 list headquartered in the region. Of the world's 100 largest non-U.S. based corporations, at least 51 have non-retail operations in Houston. More than 3,000 firms and organizations trading more than 250 types of products and services report international business activities in more than 200 countries.	With 144 licensed banks, of which 121 are foreign-owned, Hong Kong is also home to 69 of the world's top 100 banks. Hong Kong has Asia's second largest stock market in terms of market capitalisation, over US$1,960 billion as at the end of August 2008. Hong Kong is the largest international capital raising centre for mainland enterprises, with over US$245 billion being raised through Hong Kong since 1993.	Singapore is the fourth largest foreign exchange trading centre in the world. Companies in Singapore can access diverse capital markets and financial services from more than 500 local and foreign financial institutions.	Head Offices by Canadian Bankers Association Classifications Canada B.C. Schedule I Head Office Wholesale Branches 21 1 (Citizen's Bank) 60 (Big 5 only) Schedule II Head Office Wholesale Branches 25 2 (CTC, HSBC) 2 Schedule III Head Office Wholesale Branches 30 2 (United Overseas, First Commercial) 6
Federal Corporate Income Tax rate: 35% No state corporate income tax. Subject to Texas franchise tax rates: 1.0% for most entities	Profit Tax rate: 16.5%	Corporate Income Tax: 17%	General: 19% (CND) + 11% (BC) 30.0% combined With IFA refund: 19.5% Small Business: 11% (CDN) + 2.5% (BC) 13.5% combined

APPENDIX 4: INDUSTRY CONSULTATION

The following provided advice and expertise in generating the Phase I Report of Recommendations. The Steering Committee wishes to thank them for their participation in sector workshops and input to the Phase I report.

Trade Finance

Bill Armit – *Canada Imperial Bank of Commerce*

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Olkie Edema – *Toronto Dominion Bank*

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Bryan Hughes – *Export Development Canada*

Scott Shepherd – *Northstar Trade Finance*

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Bill Morgan – *Aon Insurance*

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Brad Sakick – *PriceWaterhouseCoopers*

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Gordon Chu

Peter Curtis – *Seaspan International Ltd.*

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Stephen Ho – *Fairmont Shipping Ltd.*

Catherine Hoffman – *Bernard & Partners*

Mark Kremin – *Teekay Corporation*

Chun Li

Rene Li

Stephan Mehr – *SNC Lavalin*

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Howard Donaldson – *Walt Disney Company*

Warren Franklin – *Rainmaker Entertainment Inc.*

Rick Griffiths – *PriceWaterhouseCoopers*

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Ryan Holmes – *Invoke Media*

Pauline Moller – *Electronic Arts*

Michael Remedios – *Bardel Entertainment*

Kelly Zmak – *Radical Entertainment*

Clean Energy and Carbon Credit Trading

Alex Boston – *HB Lanarc*

Aldyen Donnelly – *Greenhouse Emissions Management*

Andrew Dooner – *Pacific Carbon Trust*

Sandy Ferguson – *BioEnergy Network*

Erik Jordan – *Premier's Technology Council*

Carolyn Kamper – *Climate Action Secretariat*

Gurminder Minhas – *Lignol Energy Corporation*

Brian Moghadam – *Powerex Corporation*

Jonathan Rhone – *Nexterra Systems Corporation*

Marni Robinson – *HSBC Canada*

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Jack Scott – *NaiKun Wind Energy Group*

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James Topham – *KPMG*

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Wayne Young – *Pacific BioEnergy Corporation*

VANCOUVER INTERNATIONAL FINANCIAL SECTOR STEERING COMMITTEE