

**Harper and Flaherty Score
with their Opposition to a Special Bank Levy**
BDO Dunwoody Weekly CEO/Business Leader Poll
By COMPAS in *Canadian Business*
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1.0 Overview

The Harper government scores handily with its opposition to the special bank tax being proposed by the Obama Administration in concert with Japan and some European countries. CEOs and business leaders on the COMPAS panel agree wholeheartedly with Ottawa's opposition to the tax. They give the government one of the highest performance scores ever for its handling of the issue—82%. Panelists back Flaherty's proposal for the banks to sell debt that would convert to equity in the event of a crisis but less enthusiastically than they back the government's opposition to the special bank tax.

The key reason to oppose the tax is that Canada's banking system is well run, according to the panelists. In their view, a supplementary reason is that creating a fund from the special tax to be available for future bailouts creates what economists call the "moral hazard" of encouraging financial institutions to engage in needless risks.

Canadian bank CEOs have also opposed the tax. In their opposition to the tax, bank leaders identified three key factors in causing the recession—the lack of common, accurate standards for measuring the risk associated with investments such as the mortgage investments that were at the centre of the collapse; banks with too little reserve capital; and mediocre skills among risk managers. Members of the panel concur. But panelists see unscrupulous conduct in the financial services sector as an even stronger factor.

These are the key findings from this past week's Internet survey of CEOs and business leaders on the COMPAS panel. The weekly business survey is undertaken for *Canadian Business* magazine under sponsorship of BDO Dunwoody LLP.



2.0 Findings

2.1. High Support for Harper-Flaherty

Panelists agree overwhelmingly with the government's opposition to the levy (table 2a) and give the government an exceptionally high performance score (2b) while supporting less enthusiastically Finance Minister Jim Flaherty's specific remedy (2c).

Table 2a: (Q1) The Government of Canada resists involvement in this global bank tax proposal because Canada has a better regulated bank system than others. On a 7 point agreement scale where 1 means disagree strongly and 7, agree strongly, how much do you agree with the Canadian government position?¹

Mean	7	6	5	4	3	2	1	DNK
5.9	47	21	18	3	5	2	3	2

Table 2b: (Q3) On 100 point performance scale, what score would you give the Harper government for how it is handling pressure to join in on the proposal bank tax?

Mean	DNK
82	18

¹ Question preamble: The U.S. and several other developed countries are seeking special, global bank taxes to help defray the costs of past bailouts and as a reserve for future bailouts.



Proposed New Bank Fees

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Table 2c: (Q5) On a 7 point agreement scale where 1 means disagree strongly and 7, agree strongly, how much do you agree with Jim Flaherty’s alternative proposal that the banks sell debt that would convert to equity in the event of a crisis?

Mean	7	6	5	4	3	2	1	DNK
4.8	8	18	22	16	3	3	5	26

2.2. Why Panel Supports the Government—Mainly Because Our Banking System Is Well Run; Also Because of “Moral Hazard” of Encouraging Needless Risk

Panelists embrace the government’s opposition to the levy mainly because our banking system is well run (table 2d) and also because using the levy to create a fund for future bailouts risks encouraging financial institutions to take needless investment risks (2e).

Table 2d: (Q2) On a 7 point agreement scale where 1 means disagree strongly and 7, agree strongly, how much do you agree with the following reasons for supporting the Canadian government position? NO RANDOMIZATION

	Mean	7	6	5	4	3	2	1	DNK
Our system is well run and we don’t need the special tax	5.8	35	32	20	5	4	1	2	1
By having a reserve fund to protect financial institutions from their bad decisions in the future, the special tax would harm the banking system and the economy by encouraging needless risk	5.2	28	27	16	5	9	9	4	3



2.3. Many Causes of Financial Sector Collapse with Unscrupulous Conduct at the Top

Financial sector wrong-doing is perceived as the key reason for the financial collapse though panelists also see merit in all the other possible explanations that they were asked to assess, as shown in table 2e.

Table 2e: (Q4) On a 7 point agreement scale where 1 means disagree strongly and 7, agree strongly, how much do you agree that each of the following was a cause of the recent recession?
RANDOMIZE

	Mean	7	6	5	4	3	2	1	DNK
Unscrupulous conduct in the financial services sector	6.2	56	23	12	2	7	0	0	0
Pressure from the U.S. Congress to extend mortgages to high risk borrowers	5.7	27	33	18	6	4	4	0	8
The lack of common, accurate standards for measuring the risk associated with investments such as the mortgage investments that were at the centre of the collapse	5.6	33	29	20	7	5	4	1	1
The U.S. Federal Reserve for not cooling the mortgage market	5.5	23	38	18	12	6	2	0	2
Banks with too little reserve capital	5.3	21	22	25	20	6	2	0	4
Mediocre skills among risk managers	5.2	19	25	25	18	8	4	0	2



The following verbatims provide a nuanced sense of panel opinion:

All companies are under pressure to extend and increase profits. The Goldman story is a strong indicator of the payouts to managers for doing so, seemingly regardless of risks. They therefore create investment vehicles with huge asset bases to earn marginal, but also huge, profits on small spreads between the buy and sell. This type of action steers them towards other vehicles where the asset base is also huge with a view to create a market, especially in these times of small returns on investments. It seems no investment vehicle, corporation or county is safe from predatory practices.

Canada has very little influence over the banking in other countries and I don't think we should pay anything for their bad management practices.

It wasn't the risk managers that were asleep, it was that senior management didn't want to crimp profits by accepting the calls from risk managers that risk was rising. Tell me how somebody is paid and I'll tell you how they behave. That sums up the so called credit crunch.

Let's be clear, the economic collapse was caused by the world having one primary trading currency, and the money supply is controlled by only one country, and that country is in excessive debt. It was inevitable! The culprit that set off this collapse this time was the banks and mortgage companies. Who do we want to blame next time?

What Canada absolutely does not need is some new super fund administered by a bunch of UN-style, unelected bureaucrats ostensibly to save and protect the international banking system. Any way you look at it, it's simply a new tax over which, the people who pay it --ordinary citizens -- will have little or no say over what is done with the money. We



already have one of these in the UN and look how well it works (it doesn't).

Who's going to jail? Someone should go to jail.

3.0 Methodology

The COMPAS web-survey of CEOs and leaders of small, medium, and large corporations was conducted April 26 - 27, 2010. Respondents constitute an essentially hand-picked panel with a higher numerical representation of small and medium-sized firms.

Because of the small population of CEOs and business leaders from which the sample was drawn, the study can be considered more accurate than comparably sized general public studies. In studies of the general public, surveys of n=114 are deemed accurate to within approximate 9.2 percentage points 19 times out of 20. The principal and investigator on this study is Conrad Winn, Ph.D.

