Standing Committee on Finance (FINA)

Pre-budget consultations 2012

Portfolio Management Association of Canada

Responses

1. Economic Recovery and Growth

Given the current climate of federal and global fiscal restraint, what specific federal measures do you feel are needed for a sustained economic recovery and enhanced economic growth in Canada?

A. Minimize Taxation Impact on Pensions & RRSPs and Reconsider Consumption Taxes on Discretionary Investment Management Services (1) Revisit 150 Unit Holder Rule for Pooled Funds • Taxation Impact on Tax Exempt Vehicles (e.g. Pension Plans and RRSPs) - Some individual Canadians and pension plans invest part of their investments in “pooled funds” that are very similar to mutual funds but are offered at substantially lower costs than traditional mutual funds. If these funds drop below 150 units, however, they may be subject to taxation even though the units may be pension plans or RRSPs. If pension plans were counted as multiple units (based on underlying plan participants) instead of one unit, the 150 unit holder target would be more attainable and negative tax consequences of dropping below 150 units could be avoided. The government could meet its original policy objective, by simply providing a look-through to pension plans and retirement savings plans, including those serviced by insurance companies. • Barrier to Starting New Innovative Funds due to Very High Threshold - We believe that lowering the limit or creating a new test for certain funds, would encourage the creation of new, innovative funds which offer growth potential and optimum value for investors. The current threshold of 150 makes it difficult for firms to launch pooled funds and limits competition in the industry. • Barrier to Investment in Canadian Funds by Non-Residents - Non-residents are unable to invest in our funds with less than 150 unit holders without detrimental tax implications on the non-resident and remaining unit holders. This has negative consequences on our industry and ultimately the government tax base. We understand the Department of Finance continues to review this issue and is considering alternatives to address these concerns. (2) Minimize and/or exempt consumption taxes on discretionary investment management services We recommend the Government work with provinces to adopt the policy positions taken elsewhere in the world and minimize and/or exempt consumption taxes on investment management services generally (i.e. on savings) or in the alternative, to work with the provinces to remove or mitigate the additional and uneven provincial portion of HST.

2. Job Creation

As Canadian companies face pressures resulting from such factors as uncertainty about the U.S. economic recovery, a sovereign debt crisis in Europe, and competition from a number of developed and developing countries, what specific federal actions do you believe should be taken to promote job creation in Canada, including that which occurs as a result of enhanced internal and international trade?

3. Demographic Change

What specific federal measures do you think should be implemented to help the country address the consequences of, and challenges associated with, the aging of the Canadian population and of skills shortages?

A. Introduce a tax incentive to encourage participation by employees & employers in PRPPs We commend the Federal government's implementation of the Pooled Registered Pension Plans Act (the "Act") which authorizes the introduction of Pooled Registered Pension Plans (PRPPs) at the federal level and are pleased the Act has received Royal Assent. PMAC has been actively engaged in the development of the Federal PRPP framework and very supportive of PRPPs as a new retirement savings vehicle. It is our contention that without a mandatory PRPP obligation on employers (i.e. other than employers already providing a RPP), the targeted objective of widespread participation by employer/employees may not be achieved. We recommend that in order to improve participation in the absence of mandated obligations, the following potential tax incentives should be considered: a) Introduce a temporary employer retirement savings tax credit akin to the Home Renovation Tax Credit. To ensure that the roll out of such a measure would not create an unfair advantage over those employers who were previously offering RPP's, this incentive should be offered to all participating employers in an RPP; b) A transitional exemption for the first contributions into a PRPP to be included in calculating the RRSP limits; and c) Introduce an Employer/Employee Retirement Savings Grant – Similar to the RESP structure, provide a supplemental matching annual grant invested in the retirement savings vehicle. B. Prohibited Investments The Department of Finance recently indicated they were recommending changes to the prohibited investment rules, including narrowing the definition of "prohibited investment" such that the rule stating that investments in entities with which you (or any entity in which you have a significant interest) do not deal at arm's length is repealed. This would ensure that the prohibited investment rules do not apply in circumstances where the planholder both lacks a significant interest in the Issuer in question and deals at arm's length with the Issuer. We support these changes and recommend that the government move to adopt these changes formally as soon as possible.

4. Productivity

With labour market challenges arising in part as a result of the aging of Canada's population and an ongoing focus on the actions needed for competitiveness, what specific federal initiatives are needed in order to increase productivity in Canada?

5. Other Challenges

With some Canadian individuals, businesses and communities facing particular challenges at this time, in your view, who is facing the most challenges, what are the challenges that are being faced and what specific federal actions are needed to address these challenges?

A. Renewed Focus on National Securities Regulator PMAC believes that the Supreme Court of Canada decision on the national securities regulator provides an opportunity for the Federal government to continue working cooperatively with the Provinces to develop constitutionally sound legislation that supports streamlined securities regulation in Canada while moving towards a national securities regulator. PMAC has long advocated that Canada adopt one national securities regulator. We recommend the Government prioritizes the creation of a National Securities Regulator and moves forward immediately with negotiations with the Provinces. Secondly, we recommend the Government prioritize the areas of enforcement and systematic risk to improve investor protection. B. Endorse New Model Intergovernmental Agreement for Implementing Foreign Account Tax Compliance Act

(FATCA) The U.S. Department of the Treasury recently published a model intergovernmental agreement ("IGA") to implement information reporting and withholding tax provisions under FATCA. The IGA provides that an IGA between the U.S. and FATCA Partner jurisdiction allows for foreign financial institutions (FFIs) to report information on certain account holders to their national tax authorities, which in turn will provide such information to the U.S. under an automatic exchange of information. We recommend the Government work with the U.S. on an IGA in order to alleviate the compliance burden on Canadian investors and those entities considered to be FFIs and caught under FATCA. C. Expand Prescribed Stock Exchange List & Move Away from Current Designated Stock Exchange (DSE) Process We have long been advocating the need to move away from the current process of prescribing stock exchanges. The current list of 40 DSEs primarily consists of exchanges in North America (40%) and Europe (38%) and only 3 exchanges in emerging markets. The main issues with the current system are: • Risk diversification and optimum asset allocation cannot be achieved; • The current process of requiring foreign exchanges to apply for DSE status is not practical; and • The current process is ineffective at monitoring and keeping pace with economic, political and other risks. We recommend the Government take the initiative to update the list through industry and expert consultation and review the current process.