Presentation
Standing Committee on Finance
Study: Measures to Enhance Credit Availability and the Stability of the Canadian Financial System
March 31, 2009

Présentation
Comité permanent des finances
ÉTUDE : Étude sur les mesures à prendre pour améliorer l'accès au crédit et la.stabilitié du système financier canadien
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Presentation to the Standing Committee on Finance
House of Commons

Thank you for asking us to present to the Committee today and to provide input on your deliberations on the Canadian financial sector, protection of investors and the stability of the Canadian Financial system.   I will keep my comments brief to allow time for questions. My colleague Tom Johnston will provide some comments and we will both be pleased to respond to any questions.

Let me begin by telling you who we are. The Investment Counsel Association of Canada represents investment management firms from across Canada. We invest the assets for individual Canadians who are saving for retirement and we invest the assets for pension plans across Canada. We have 115 companies that are members of the Association, representing every province and territory in Canada. The total assets that our members are managing for their clients are over $700B.

As you can well imagine, the turmoil in the financial sector during recent months has been a grave concern for our members and their clients. The market collapse has been broader and deeper than many downturns in recent years. With millions of baby boomers within 10 – 20 years of retirement, the urgency for an economic recovery which will restore the capital of Canadians and their confidence of as soon as possible is critical.

We would like to applaud the Federal government for some of the immediate measures announced as part of the Federal budget which we believe are important first steps towards strengthening the economy

- Stimulus package announced in budget
- Support of liquidity through various measures – Mortgage Purchase Program ($125m) and ABCP credit facility ($12B)

Government intervention is important, however we believe it is equally critical that the Federal government look at ways to regain the confidence of Canadians in investing in capital markets and to encourage saving to ensure they can meet their retirement goals. Confidence in the markets is key and confidence in the markets is necessary not only for short and medium term credit but for encouraging savings and investment in the country. What can the government do?

We will focus our recommendations on a number of initiatives we believe are critical to helping Canadian's confidence be restored in the financial system and helping Canadians begin to rebuild their lost capital. A key point in our recommendations is the need for a Single Regulator which we believe is key to Canadian and international investor confidence in the Canadian market.

Initiatives to Help Canadians Rebuild Their Capital

1) GST elimination on Investment Management Fees. If there is any lesson many Canadian's have learned during the recent months with the economic turmoil, it's the importance of good investment advice and selecting advisers who clearly understand their retirement goals, understand and are comfortable with their investment philosophy and communicate with them in a way that helps them understand their financial position.

Many Canadian's have learned during recent months the importance of professional investment advice during times of economic turmoil.

Presently, investment management fees are subject to GST. In provinces with harmonized provincial tax, the amount paid by consumers for investment management services is even higher. If Ontario moves forward with the SST, investors will pay an additional 8% on investment management services. It's important to note that the investment managers are able to reclaim GST or all harmonized sales tax (HST) paid - investors are not.

In this time when individual investors are in more need than ever of professional investment advice and pension plans are turning to their investment managers to turnaround their portfolios to meet pension plan funding commitments, it is critical that the Federal Government consider this as one way to help Canadian's rebuild their lost savings.

For this reason we urge the government to consider the elimination of GST on Investment Management Fees. This 5% reduction in fees would help restore some capital to individual Canadians and their pension plans and would encourage Canadians who could benefit from investment advice, seek it out with a professional advisor. At the very minimum however, the federal government should endeavor to prevent any additional value added tax on investment management advice/services, including additional tax that may be triggered with harmonization efforts with various provinces.

2) Former Bill C10 (Foreign Investment Entity/Non Resident Trust Rules – Income Tax Act)

According to a November 2008 report by the CD Howe Institute, for the period 2001 – 2007, Canada ranked only 25th among 98 countries in its openness to world markets as measure by cross-border investment flows as a percentage of GDP. To summarize the report, Canada's openness to world capital markets is not impressive by world standards. From an investment management perspective, this is problematic given the importance of portfolio diversification to mitigate investment risk and optimize capital returns.

At the heart of the problem is that there continues to be complex tax rules and restrictions are barriers for investment managers who manage the pensions and savings of Canadians to invest internationally. Although a previous government took the very positive and overdue step of eliminating the 30% foreign content limitation on RRSP investments, there are a number of other barriers which continue to exist. **At a high level we recommend the government look at a number of changes to allow more freedom in investing internationally.**

Our Association was before this Committee in the fall of 2007 and before the Senate Banking Committee in 2008 recommending changes required in the former Bill C10 which included sweeping changes to foreign investment rules. Had the Bill passed without amendment, Canadian pension plans and retirement savings investing internationally in anything deemed to be a trust by ITA definition, would have been subject to tax in Canada. This would have resulted in over $1 trillion in Canadian pension savings being subject to tax. The industry (including pension fund representatives managing the assets of millions of Canadians) were pleased was blocked in the Senate and did not receive Royal Assent. The Department of Finance did issue a comfort letter which provided some relief for pension plans. We understand this Bill will be reintroduced into the House at some point during this sitting and urge you to take a close look at its contents to ensure Canadians retirement savings are exempt from these complex rules.

3) Expansion of the Number of Prescribed Stock Exchanges for RRSPs.
Investments on certain foreign stock exchanges are not qualified investments for RRSPs and other tax-deferred plans, even though the government has removed the foreign content limits for those plans, Canadians are still not allowed to invest in a number of established well respected exchanges. The list of allowed exchanges is out of date and we urge the government to update this list to include.

4) Restrictive Pension Investment Rules.
The Federal Government recently released Federal Pension Paper (*Strengthening the Legislative & Regulatory Framework for Private Pension plans Subject to PBSA, 1985*). Many of the provincial government's have also been studying changes to pension rules, particularly in light of recent market turmoil. Presently there are rigid restrictions which impact the investments allowed in pension plans. We are recommending these restrictions be lifted and be replaced with a "prudent person" rule which would allow investment mangers the ability to better diversify pension portfolios. (eg. Schedule 3 currently has – 30% cap on voting shares of a single entity, 10% cap of its portfolio in single investment, 5% cap in a single parcel of real estate)

5) 150 Unit Holder Rule

Canadian's presently invest over $600b in mutual funds. As this Committee is well aware, lack of confidence in the markets in recent months has resulted in many Canadians withdrawing their savings from mutual funds and keeping their funds in some form of cash. There are complex tax rules today which dictate that if a pension plan or Canadian's RRSP is in a fund which drops below 150 unitholders, that fund and ultimately that pension or RRSP becomes subject to a number of taxes. (eg. Alternative Minimum Tax) This is absurd. Canadian's retirement savings are already taking a beating without being hit by a tax simply because the fund they are in unbeknownst to them drops below a certain number. (i.e. 150) We were before this committee in 2006 as part of your pre-budget consultations and have had discussions with the dept. of Finance on the urgency to change this rule to ensure Canadian's retirement savings are not subject to tax. We are recommending the threshold be lowered to 10 unrelated unit holders as soon as possible.

6) Single Securities Regulator

The ICAC has been on record for many years supporting the need for a single securities regulator in Canada. We were pleased that this need was highlighted in the Federal budget in January and further supported by the Expert Panel on Securities Regulation in the 2008 Hockin Report.

As this Committee is well aware, since the late 1960's, there has been a plethora of task forces and reviews on this question by the federal government, the provinces, industry groups and many registrants and issuers. The most recent Hockin report provided an excellent summary of the issues with our current fragmented regulatory system. We wish to restate that the key issues underpinning our strongly held historical position on a single regulator remain the key weaknesses in the current structure, namely market inefficiencies, market protection and enforcement and global competitiveness. Any solution must address these fundamental weaknesses.

A key point in our submission to the Expert Panel was the "opt-in" model which was included as an Appendix in the Hockin Panel's final report. The "opt-in" model would allow the creation of a national regulatory system into which provincial securities regulators would opt-in. In addition, private sector participants could choose to "opt-in" which would then exclude provincial jurisdiction over those participants.

We urge the government continue to make the overhaul of our present fragmented securities regulatory system a priority and whether it is a single securities regulator or some super regulator over all financial institutions, any move forward which supports improved enforcement will benefit all Canadians and move to further protect their capital.

In summary, we believe confidence in the markets is necessary not only for short and medium term credit but for encouraging savings and investment in the country. Essential to the protection of Canadian's savings is a single securities regulator to improve market efficiency, structure, reduce costs imposed by 13 separate regulators and optimize enforcement.

We would be happy to answer any questions you may have.