HOUSE OF COMMONS
CHAMBRE DES COMMUNES
CANADA

House of Commons Standing Committee on Finance – Pre-budget Consultations 2013

This brief is submitted by:

(•) **an organization** **Organization name:** Portfolio Management Association of Canada

or

( ) **an individual** **Name:** ____________________

Topic: Financial services and other financial issues

*Recommendation 1: Please provide a short summary of your recommendation.

Creation of a National Securities Regulator - PMAC believes the Federal government should 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.

Expected cost or savings: From the pull-down menus, please indicate the expected cost or savings of your recommendation to the federal government and the period of time to which the expected cost or savings is related.

unknown

3 years

Federal funding: Please provide a precise indication of how the federal government could fund your recommendation. For example, indicate what federal spending should be reallocated, what federal tax measure(s) should be introduced, eliminated or changed, etc.

The Government could tax securities market participants a participation fee comparable to the current fee system employed by provincial securities regulators. Provincial fees would then be reduced so that market participants are not paying double the fees but rather a slight adjusted overall increase in fees to support the new regulatory structure.

Intended beneficiaries: Please indicate the groups of individuals, the sector(s) and/or the regions that would benefit by implementation of your recommendation.

The following groups/individuals would benefit from a single securities regulator in Canada:
Canadian Investors
Canadian Financial Institutions
Capital Market Participants
Securities Registrants (investment advisers and investment dealers)
13 Provinces and Territories representing Canada
Public Sector Employees
Legal, Accounting and Consulting Entities

General impacts: Depending on the nature of your recommendation, please indicate how the standard of living of Canadians would be improved, jobs would be created, people would be trained, etc.

Canadians would have better access to an efficient capital markets system and better protection across Canada through enhanced and coordinated criminal enforcement. Similarly, registrants and other capital markets participants would benefit from a more streamlined and harmonization regulatory system to operate in with strong centralized leadership and accountability. This would also mean simpler processes for businesses, resulting in lower costs for Canadians. Increased opportunities for IPOs in multiple provinces would also benefit the economy.

Topic: Business taxation and regulatory issues

Recommendation 2: Please provide a short summary of your recommendation.

Eliminate or Expand Designated Stock Exchange List (DSE) - The current list of 40 DSEs primarily consists of exchanges in North America (40%) and Europe (38%) and only 3 exchanges in emerging markets. Main issues with current system are:

- Risk diversification and optimum asset allocation cannot be achieved
- Current application process is not practical
- Current process is ineffective at monitoring and keeping pace with global, economic, political and other risks

We recommend Finance discontinue having a DSE list, or expand the list to include additional exchanges in emerging markets.

Expected cost or savings: From the pull-down menus, please indicate the expected cost or savings of your recommendation to the federal government and the period of time to which the expected cost or savings is related.

unknown

Immediately

Federal funding: Please provide a precise indication of how the federal government could fund your recommendation. For example, indicate what federal spending should be reallocated, what federal tax measure(s) should be introduced, eliminated or changed, etc.

Eliminate the current Federal tax regime of having a DSE. This would result in cost savings to the Federal Government of maintaining the list and oversight of the application process. Eliminating the DSE would be in line with the approach taken in many other jurisdictions in the world. By requiring that Canadian registered investments only hold securities in entities that are publicly traded on a "designed stock exchange" limits asset allocation and diversification for Canadian investors.

Intended beneficiaries: Please indicate the groups of individuals, the sector(s) and/or the regions that would benefit by implementation of your recommendation.

The current DSE list effectively limits Canadians from investing their retirement savings in many companies listed on well respected, regulated and established exchanges in various parts of the world. This recommendation would benefit all investors across Canada. It would also assist investment advisers in diversifying retirement savings.

General impacts: Depending on the nature of your recommendation, please indicate how the standard of living of Canadians would be improved, jobs would be created, people would be trained, etc.

Designation status in Canada is very important for Registered Retirement Savings Plan ("RRSP") investors, as securities listed on designated stock exchanges are eligible to be held in an RRSP. Securities listed on designated stock exchanges are also eligible investments for other popular investment vehicles such as Deferred Profit Sharing Plans and Tax-Free Savings Accounts (TFSAs). The addition of additional exchanges on the DSE provides Canadian investors with the opportunity to further diversify their investment portfolios and maximize the investment returns in their tax deferred accounts.

Topic: Business taxation and regulatory issues

Recommendation 3: Please provide a short summary of your recommendation.

Revisit 150 Unit Holder Rule to Qualify for Mutual Fund Trust Status - The taxation impact on retirement savings when funds drop below 150 unit holders is detrimental to investors. 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. 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.

Expected cost or savings: From the pull-down menus, please indicate the expected cost or savings of your recommendation to the federal government and the period of time to which the expected cost or savings is related.

unknown

Immediately

Federal funding: Please provide a precise indication of how the federal government could fund your recommendation. For example, indicate what federal spending should be reallocated, what federal tax measure(s) should be introduced, eliminated or changed, etc.

The 150 unitholder rule for mutual fund trust status should be expanded to provide a look-through option for pension plans. We believe the benefits of this change to the industry would outweigh the costs associated with revising the legislation.

Intended beneficiaries: Please indicate the groups of individuals, the sector(s) and/or the regions that would benefit by implementation of your recommendation.

Investment fund manufacturers and financial institutions
Investment advisers and dealers
Canadian investors would have more investment options via funds products

The implementation of this recommendation would encourage new smaller entrants into the investment industry, further competition in the successful management of assets and increase overall asset management efficiency. It would also benefit investors by mitigating the risks of detrimental tax exposure when invested in a fund.

General impacts: Depending on the nature of your recommendation, please indicate how the standard of living of Canadians would be improved, jobs would be created, people would be trained, etc.

We believe that lowering the limit or creating a new test for certain funds (i.e. a look through) would encourage firms large and small to set up new, innovative funds which offer growth potential and optimum value for investors. The current threshold makes it difficult for firms to launch pooled funds and limits competition in the industry. When MFT drops below 150, the impact could be significantly detrimental on the remaining investors. (ex. once an MFT drops below 150 unit holders, it could lose its qualification as an investment for an RRIF, RRSP, DPSP, or RESP resulting in a penalty tax.

Please use this page if you wish to provide more explanation about your recommendation(s).

Recommendation #1: National Securities Regulator

PMAC has long advocated that Canada adopt one national securities regulator to:
• Protect against unfair and improper practices and ensure better enforcement against fraud and white-collar crime;
• Provide consistency for businesses operating across Canadian provinces through a uniform set of rules;
• Strengthen the financial system by developing faster policy responses to emerging trends;
• Reduce inefficiencies and duplication inherent in operating 13 regulatory structures: minimizing red tape will encourage foreign issuers to include Canada when offering securities; and
• Streamline the registration process for advisors and other registrants by having one national process.

We recommend that the Department of Finance work insistently and collaboratively with the Provinces and Territories to develop a more national solution to securities regulation in Canada.

Recommendation #2: Eliminate or Expand Designated Stock Exchange (DSE) List to Allow Canadians to Diversify their RRSP Investments

With the pace of change in the global markets, we suggest it is unrealistic for the Department of Finance to maintain a list that is up to date in terms of economic, political and other risks. This is the role and expertise of investment advisers / asset managers who are regulated both by professional associations and provincial securities regulators to ensure they have the expertise and experience to conduct a thorough due diligence and know-your-product assessment (along with know-your-client and suitability obligations) before investing in any public company. Ultimately, we believe expansion of the DSE or elimination of the list altogether would be beneficial for and in the best interests of Canadian investors.

Recommendation #3: Revisit 150 Unit Holder Rule to Qualify for Mutual Fund Trust Status by Providing a Look-Through for Pension Plans

We believe there are two main problems with the 150 unit holder rule. First, although many pooled funds have investors who are pension plans, the ITA currently considers each pension plan to be 1 unit holder, regardless of the number of participants in the plan. Second, since most pooled funds are redeemable by a unit holder on demand, managers of pooled funds have little or no control over the number of unit holders in the fund at any given time: in other words, if the number of unitholders is dropping to near or below 150, a pooled fund manager cannot compel new investors to come into the fund and it cannot prohibit existing investors from redeeming out of the fund. As a result, Canadians who believe that investments held in their RRSP or pension are tax-exempt are actually subject to tax indirectly at the fund level, simply because the number of investors in the fund has dropped below 150.

*Please note that at least one recommendation must be provided