PMAC
PORTFOLIO MANAGEMENT ASSOCIATION OF CANADA
Advancing Standards™

April 13, 2016

The Honourable William Francis Morneau
Minister of Finance
Department of Finance Canada
House of Commons
Parliament Buildings
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Ottawa, Ontario
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Re: 2016 Federal Budget

The Portfolio Management Association of Canada ("PMAC")[1], through its Industry, Regulation & Tax Committee, is writing to express our thoughts on certain taxation and pension changes announced in the 2016 Federal Budget (the "Budget"). We are pleased that the government has prioritized Federal and Provincial discussions on the Canada Pension Plan (CPP), along with a review of the pension investment rules. We note, with disappointment however, that the Target Benefit Plan (TBP) program was not included in the Budget nor were recommendations we have made in past submissions regarding RRSPs and GST/HST on investment management fees adopted.[2]

In regard to the tax announcements included in the Budget, we would like to communicate our more immediate concerns regarding the implementation timeline of the Budget measure to amend the *Income Tax Act* (ITA) to prevent the deferral of capital gains tax in switch funds and treat mutual fund corporation (MFC) switch fund exchanges of shares as a taxable disposition at fair market value. This new measure will apply to dispositions of shares that occur after September 2016 and will have a significant impact on some of our Members and their clients.

Taxation of Switch Fund Shares

In the Budget, the Federal government announced its intention to end a tax deferral opportunity that has historically permitted investors in a mutual fund corporation to "switch" their exposure between the corporation's various portfolios on a tax-deferred basis. The Government announced that the measure would not apply to switches between classes of shares where the only difference between the shares was attributable to the relative management fees or expenses to be borne by investors in the classes of shares (e.g., where the switch is between different series of the same class of shares).

Detailed legislation regarding this new tax measure has not yet been released nor has the government elaborated on any technical aspects of the proposed change including any commitment

[1] As background, PMAC was established in 1952 and currently represents over 220 investment management firms that manage total assets in excess of $1.4 trillion. Our mission is to advocate the highest standards of unbiased portfolio management in the interest of the investors served by Members. For more information about PMAC and our mandate, please visit our website at www.portfoliomanagement.org.
[2] See PMAC Pre-Budget Submission dated February 10, 2016 outlining recommended priorities for the 2016 Federal Budget: http://10462-presscdn-0-70.pagely.netdna-cdn.com/wp-content/uploads/2016/02/2016-Pre-Budget-Submission-FINAL.pdf.

to implementing transition rules. We believe transition rules are desirable to ensure that investors are equipped and informed of any decisions about their corporate class fund investments, including triggering unplanned switches or other consequential actions such as redemptions or dispositions. In addition, there are a number of operational and regulatory consequences to the investment industry in addition to costs and systems implications which can arise for investment fund managers and investors. Given this reality, we have concerns with the proposed timeline of October 1, 2016 and recommend that the government reconsider the timeline to implement this policy change and provide the industry with more time to allow for transition and orderly restructuring and communication to investors which will assist in avoiding a negative impact to investors.

We suggest a delayed implementation date of 6 to 12 months from the effective date of the implementing legislation and transition rules. This extended time period would be appropriate and reasonable to ensure sufficient time is provided for investment fund managers and investors to transition and respond accordingly to the new tax measure. PMAC would be pleased to consult with Finance officials on the implementing legislation and transition rules.

Pension Announcements

We are very pleased that the Budget included several announcements regarding pension issues. We applaud the government for clearly prioritizing its commitment to addressing pension gaps and streamlining pension regulations. We support proposed changes aimed at allowing for better cooperation between the federal and provincial governments to oversee the regulation of pension plans. We believe better coordination between the various levels of government could improve the savings programs and pension plan options available to Canadians and increase the effectiveness of some of these options. Provincial jurisdictional differences impede on the efficiency and coordination of pension regulation in Canada. Enhanced cooperation and dialogue on retirement savings policy development would benefit all Canadians. However, given the economic realities Canada is currently facing and the complexity of the regulatory landscape for retirement savings in Canada, it is of paramount importance that the new government looks to adopt targeted approaches to address the retirement savings gaps and a coordinated national solution.

a) Canada Pension Plan

The Budget included an announcement that the Federal government intends to launch a public consultation to give Canadians an opportunity to share their views on enhancing the CPP. The Federal government began discussions on CPP enhancement with the provinces and territories in December 2015, with the goal of making a decision on possible enhancements to the CPP by the end of 2016. We continue to support the government's efforts on this important issue. As you are aware, PMAC supports minor enhancements to CPP. However, we do not support a voluntary CPP program as announced by the previous Federal government in May 2015. A voluntary CPP program would not only be costly to set up and administer but complex to design and likely be underutilized.

We are disappointed that the Budget did not consider our recommendations regarding the tax treatment of CPP contributions. As noted in our Pre-Budget Submission, given the Federal and provincial collaboration required to make specific changes to CPP, we urge the government to consider changes to CPP taxation which is within its Federal jurisdiction, namely considering reverting to treating CPP contributions as deductions for personal income tax purposes versus tax credits. This would align the treatment of contributions with RRSPs and pension plans and would result in increased income which could be allocated to retirement savings or provide economic stimulus through consumer spending. We believe this small change would both increase the fairness of the tax treatment of different types of retirement savings and would result in an overall increase in retirement savings.

As stated in our letter to you dated November 23, 2015[3], this is an exciting time for the Federal government to take a leadership role in addressing targeted pension reform in ensuring that all Canadians are saving adequately for retirement. We believe that Canadians currently have a variety of ways in which they can save and prepare for retirement. These include multiple savings vehicles as well as government sponsored options. PMAC recommends that the government aim for targeted reforms rather than creating new or significantly altering or overhauling existing retirement programs, such as the CPP. PMAC is also working closely and collaboratively with a coalition of stakeholders on developing a pension reform proposal that is both targeted in application and national in scope. We will be providing Finance officials with more details in the coming weeks.

We believe that minor enhancements to the CPP would be more desirable than Ontario's plan to move ahead with the Ontario retirement pension plan (ORPP). We oppose the ORPP and believe it would destabilize existing successful programs, force over-saving on many Ontarians that are already on track for retirement, and undermine the Pooled Registered Pension Plan (PRPP) before it has even been implemented, to the detriment of small business and the self-employed. The ORPP also diminishes the concept of personal responsibility towards retirement. Targeted reforms should instead focus on Canadians that are most at risk of under saving: low income families, single seniors, vulnerable resource works, new immigrants, etc. Targeted reforms could include minor tweaks to the CPP to ensure higher risk Canadians have adequate coverage but these discussions need to be prioritized so that an Ontario-only ORPP solution isn't implemented prematurely.

We are pleased that the Ontario government recently announced its commitment in the Ontario Budget 2016 to cooperate with the federal government and continue discussions on CPP enhancement at the upcoming regional meeting of finance ministers scheduled for June 2016. Although the Ontario government is continuing to work on the launch of the Ontario Retirement Pension Plan by 2018, it has also signaled that it is still willing to discuss CPP enhancement with the federal and other provincial governments. We believe these discussions will be critical to the retirement savings landscape in Canada and must be prioritized.

b) Target Benefit Plan

We note that the Budget does not mention TBP or the consultation launched in April 2014 by the previous federal government. We were hoping to see an announcement relating to this alternative pension plan design which has been the subject of much discussion and analysis in the pension community over the last number of years. The Federal government has made many strides in recent years to address CPP discussions, retirement savings in Canada; the development of the Pooled Registered Pension Plan (PRPP), the TBP Framework , the creation of the Tax Free Savings Account (TFSAs), to name a few. We have supported the creation of these programs and continue to support proposals that are aimed at strengthening our retirement income system and providing savings options to Canadians.

We believe the TBP provides a workable alternative to current plan options (defined benefit and defined contribution plans) and provides a more long term sustainable option for retirement savings. The flexibility and hybrid nature of the TBP may prove attractive to employers who are moving away from the costs and risks of DB plans. The balanced responsibility of risk between employers and employees is an attractive model as the TBP's shared risk model provides a workable solution to the issues and costs associated with both DC and DB plans. We recommend the Minister re-evaluate and consider adding the TBP to its agenda.

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[3] See PMAC submission dated November 23, 2015: Canadian Retirement Savings and Pension Reform available at http://10462-presscdn-0-70.pagely.netdna-cdn.com/wp-content/uploads/2015/11/PMAC-Submission-to-Minister-of-Finance-on-CPP-ORPP-Nov-2015-FINAL.pdf.

c) 30% Rule

Finally, the Budget announced that a consultation on the current limitation on pension fund investing that precludes pension fund administrators from holding more than 30% of the voting shares of any corporation (subject to limited exceptions) (the "30% Rule") will begin shortly. PMAC supports this announcement and is currently reviewing the Ontario government's recently published consultation paper on this same issue. Since the federal *Pension Benefits Standards Regulations* which contain the 30% Rule have been adopted by many provinces across Canada, including Ontario, this consultation affects pension plan administrators across the country. For this reason, PMAC believes that this rule amendment should be undertaken at a national level with the Federal government consulting with its provincial counterparts to ensure that the amendments are coordinated on a national scale and harmonized such that Provincial jurisdictional differences do not impede on the efficiency and coordination of pension regulation in Canada.

Finally, we support the Budget confirmation that legislative changes to the *Pension Benefits Standards Act* will be forthcoming to enhance the federal government's ability to coordinate the regulation of multi-jurisdictional pension plans with its provincial counterparts.

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In conclusion, we reiterate our concern with regard to the timeline for the new tax measures applicable to mutual fund corporations and switch funds. We recommend that the government reconsider the timeline to implement this policy change. This would provide the industry with more time for transition and the orderly restructuring of funds, where necessary.

Finally, PMAC recommends that the government aim for targeted and nationally coordinated pension reforms that address the needs of those Canadians who are at most risk of under saving and continue prioritizing pension reform. As mentioned above, PMAC is working closely and collaboratively with a coalition of stakeholders on developing a pension reform proposal that is both targeted in application and national in scope and will be providing Finance officials with more details in the coming weeks. We would be please to answer any questions you may have and would be happy to meet in person to discuss our recommendations.

Sincerely,

PORTFOLIO MANAGEMENT ASSOCIATION OF CANADA

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