PMAC
PORTFOLIO MANAGEMENT ASSOCIATION OF CANADA
Advancing Standards™

Mr. Shawn Porter
Director
Tax Legislation Division
Tax Policy Branch
140 O'Connor Street,
Ottawa, Ontario
K1A 0G5

April 5, 2012

Dear Mr. Porter:

Re: Designated Stock Exchanges Expansion

We are following up on our meeting of October 27, 2011 in which we discussed the Portfolio Management Association of Canada's ("PMAC") recommendation to expand the Designated Stock Exchange list.

PMAC represents investment management firms registered to do business in Canada as portfolio managers. PMAC was established in 1952 and currently represents over 160 investment management firms that manage total assets in excess of $800 billion (excluding mutual fund assets). A high percentage of the assets under management are private client RRSPs and defined benefit and defined contribution pension plan assets.

If you recall from our meeting, at the outset we recommended that the Department of Finance discontinue having a Designated Stock Exchange list or align the list with that of some other 3rd party maintained list (eg. OECD countries or IOSCO members). We recognized in our meeting, the importance to the Department of addressing the potential tax avoidance schemes and therefore have been reviewing options for list expansion that meet the objectives of the Department and that of global asset managers. Although we acknowledge the Department of Finance's approach of using a prescribed list of designated stock exchanges may have been beneficial in the past, we believe this approach is not effective in today's ever changing global economy and fast evolving investment environment. We strongly believe that a new framework needs to be developed in order to (1) reflect the evolving definition of emerging markets and (2) allow for proper risk diversification in the asset allocation of retirement savings.

We recommend that the Department of Finance consider moving away from prescribing specific stock exchanges and allow registered investments in countries in which Canada has a signed tax treaty. This change will allow Canadians to appropriately diversify their savings and have broader access to global markets.

Below we will summarize the issues with the current Designated Stock Exchange (DSE) list and conclude with our recommendation to link the list to the countries in which we have a signed tax treaty.

Issues With Designated Stock Exchanges

As discussed in our meeting, we believe the current list of approximately 40 exchanges is problematic for 3 main reasons.

1) Risk Diversification and Optimum Asset Allocation – The current limited list of 40 exchanges does not allow for proper risk diversification or optimum asset allocation. A large majority of PMAC members view accessing emerging markets as part of a prudent investment strategy to diversify portfolios. The DSE list primarily consists of exchanges in North America (40%) and Europe (38%) and only 3 exchanges in emerging markets. With the current sovereign debt issues in Europe and ongoing US economic challenges, asset managers are regularly looking to markets outside of the DSE list. Emerging markets, which currently represent close to 15% of global equity market capitalization, are expected to grow over time. Indeed, our Federal Government recently acknowledged that exposing Canada to new markets is an ongoing priority and that we must also position Canada to compete successfully with the world's large and dynamic emerging economies.[1] The current DSE list effectively limits Canadians from investing their retirement savings in many companies listed on well respected, regulated and established exchanges in emerging markets. For example, the MSCI All Country Weight Index (ACWI) is widely used by Canadian investors to track the performance of global equity markets – both developed and emerging markets.[2] This index includes 45 country indices, 24 of which are developed market country indices and 21 of which are emerging market country indices. Although the majority of developed countries are on the DSE list, only 3 of the 21 emerging markets have an exchange on the DSE list.

2) The current process of requiring foreign exchanges to apply for "designated stock exchange" status is not practical.[3] We believe it is unrealistic to expect many foreign stock exchanges to keep up to date with Canadian tax rules and to understand the application process, particularly given our capital markets represent less than .3% of the global capital markets. Furthermore, given the practice of countries having "designated lists" is not common place, it is likely an unknown barrier to Canadian investment into other countries whose exchanges are omitted from the list. It should be noted that the only exchanges we believe that have been added in recent years is the Bermuda Stock Exchange and The Canadian National Stock Exchange, two exchanges likely well up to date on Canadian tax law. Economically, much has changed in the last 4 years and we believe the current application process is not an effective means to maintain a current list of DSEs. We note that one of the considerations when assessing whether a foreign stock exchange should qualify as a designated stock exchange is whether the host country of the exchange has commercial, legal and tax relations with Canada. We believe that expanding the DSE to include all countries with whom we have a signed Tax Treaty is in line with the Department of Finance's assessment criteria and provides a more objective way to expand the list. This is discussed in further detail below.

---

[1] See excerpt from 2012 Federal Budget speech: "For this reason our government has worked hard to open new markets for Canadian exports. Before 2006, Canada signed only three new trade agreements in 13 years. Since then our government has signed new trade agreements with nine countries, and we are in negotiations with many more. Just yesterday the Prime Minister returned from another trip to Asia, launching negotiations on new trade agreements with Thailand and Japan". Available at: http://www.budget.gc.ca/2012/rd-dc/speech-discours-eng.html

2 In 1988, MSCI launched the first comprehensive Emerging Markets Index. Since then the MSCI Emerging Markets (EM) Indices have evolved considerably over time, moving from about 1% of the global equity opportunity set in 1988 to 14% in 2010. Data based on MSCI Research based on year end data

[3] For background, please see: http://www.fin.gc.ca/n08/data/08-049_1-eng.asp.

3) 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 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 before investing in any public company. We would suggest that the practice of maintaining a list, places the Department of Finance at risk of implying an endorsement of these exchanges for RRSPs and TFSAs. If the primary concern with expanding the list is potential tax avoidance, we'd suggest converting the list to a list of countries (instead of exchanges) with whom Canada has a signed Tax Treaty.

Align Designated Stock Exchange List to Countries with Whom Canada has Signed Tax Treaty

We strongly believe that if the Department of Finance requires a DSE to exist, we recommend the list include all countries with whom Canada has a signed Tax Treaty.

We consulted with our members in terms of exchanges that they regularly access for non-registered investments and compared their recommendations to the list of countries in which Canada has a signed Tax Treaty. These lists are very closely aligned. If we simply expanded the DSE to list countries and included all countries with whom we have a signed Tax Treaty, asset managers would be in a much better position to optimize retirement saving asset allocation and diversify portfolios. This would also allow the CRA to monitor any potential tax avoidance schemes while encouraging Canadian's to prudently invest their retirement savings.

PMAC would be pleased to meet again to discuss this issue. Please let us know if you require further information.

Yours truly;

PORTFOLIO MANAGEMENT ASSOCIATION OF CANADA

K.A. Walmsley

Scott Mahaffy

Katie A. Walmsley
President, PMAC

Scott Mahaffy
Vice President, Legal
MFS McLean Budden

PORTFOLIO MANAGEMENT ASSOCIATION OF CANADA
MEMBERSHIP LIST 2012

Acuity Investment Management Inc.
Aegon Capital Management Inc.
AGF Investments Inc.
Aldersley Securities Inc.
Alitis Investment Counsel Inc.
AMG Canada
ATB Investment Management Inc.
Aurion Capital Management Inc.
Avenue Investment Management Inc.
Barometer Capital Management Inc.
Barrantagh Investment Management Inc.
Baskin Financial Services Inc.
Beaujolais Private Investment Management
Bellwether Investment Management Inc.
Beutel, Goodman & Company Ltd.
BlackRock Asset Management Canada Limited
Bloom Investment Counsel, Inc.
BMO Asset Management Inc.
BMO Harris Investment Management Inc.
BNP Paribas Investment Partners Canada Ltd.
Brandes Investment Partners & Co.
Bull Capital Management Inc.
Burgundy Asset Management Ltd.
C.A. Delaney Capital Management Ltd.
C.F.G. Heward Investment Management Ltd.
Campbell & Lee Investment Management Inc.
Canoe Financial L.P.
Canso Investment Counsel Ltd.
Cardinal Capital Management Inc.
Celernus Investment Partners Inc.
CGOV Asset Management
CIBC Global Asset Management Inc.
CIBC Private Investment Counsel
Cockfield Porretti Cunningham Investment Counsel Inc.
Coleford Investment Management Ltd.
Connor, Clark & Lunn Investment Mgmt Ltd.
Cordiant Capital Inc.
Cougar Global Investments LP
Crestridge Asset Management Inc.
Crystal Wealth Management System Ltd.
Cypress Capital Management Ltd.
Davis-Rea Ltd.
De Luca Veale Investment Counsel Inc.
Dixon Mitchell Investment Counsel Inc.
Doherty & Associates Investment Counsel
Duncan Ross Associates Ltd.
Independent Accountants' Investment Counsel Inc.
Integra Capital Ltd.
Jones Collombin Investment Counsel Inc.
Kerr Financial Advisors Inc.
LDIC Inc.
Legg Mason Canada Inc.
Leith Wheeler Investment Counsel Ltd.
Leon Frazer & Associates Inc.
Lester Asset Management
Letko Brosseau & Associates Inc.
Longview Asset Management Ltd.
Lorne Steinberg Wealth Management Inc.
Louisbourg Investments Inc.
Macdonald, Shymko & Company Ltd.
Mackenzie Global Advisors
Macnicol & Associates Asset Management Inc.
Manitou Investment Management Ltd.
Manulife Asset Management
Marquest Asset Management Inc.
Martin, Lucas & Seagram Ltd.
Mawer Investment Management Ltd.
McElvaine Investment Management Ltd.
MFS McLean Budden
MD Physician Services Inc.
Milestone Investment Counsel Inc.
Mirador Corporation
Montrusco Bolton Investments Inc.
Morgan Meighen & Associates Ltd.
Morguard Financial Corporation
Mulvihill Capital Management Inc.
Newport Investment Counsel Inc.
Nexus Investment Management Inc.
Northwood Family Office LP
NT Global Advisors , Inc.
Pacific Spirit Investment Management Inc.
Patrimonica Inc.
Perennial Asset Management Corp.
Perisen Capital Management Ltd.
Pier 21 Asset Management Inc.
Portfolio Management Corporation
Portland Investment Counsel Inc.
Rae & Lipskie Investment Counsel Inc.
RBC Phillips, Hager & North Investment Counsel Inc.
Rempart Asset Management Inc.
Ridgewood Capital Asset Management Inc.
Robitaille Asset Management Inc.

Echlin Investment Management Ltd.
18 Asset Management Inc.
ETF Capital Management
Evans Investment Counsel
Excel Investment Counsel Inc.
Falcon Asset Management Inc.
Fiera Sceptre Inc.
Focus Asset Management
Foster Asset Management Inc.
Foyston, Gordon & Payne Inc.
Galileo Global Equity Advisors Inc.
Genova Private Management Inc.
Genus Capital Management Inc.
GFI Investment Counsel Ltd.
GLC Asset Management Group Ltd.
Global Wealth Builders Ltd.
Globeinvest Capital Management Inc.
Gluskin Sheff & Associates
Greystone Managed Investments Inc.
Groundlayer Capital Inc.
Gryphon Investment Counsel Inc.
Guardian Capital LP
Heathbridge Capital Management
Hélène Dion Investment Management Inc.
Hesperian Capital Management Ltd.
Highstreet Asset Management Inc.
Highview Asset Management Inc.
Hillsdale Investment Management Inc.
Horizons Investment Management Inc.
Howard, Barclay & Associates Ltd.
HSBC Investments (Canada) Ltd.
Hutton Investment Counsel Inc.
IA Clarington Investments Inc.
Rogan Investment Management Ltd.
Rondeau Capital Inc.
Russell Investments Canada Ltd.
Scotia Asset Management L.P.
Sharp Asset Management Inc.
Silver Heights Capital Management Inc.
Sionna Investment Managers
Sprung & Co. Investment Counsel Inc.
Stanton Asset Management Inc.
State Street Global Advisors, Ltd.
Stonegate Private Counsel
Stylus Asset Management Inc.
Successful Investor Wealth Management Inc.
Summerhill Capital Management Inc.
T.E. Investment Counsel Inc.
TD Asset Management Inc.
TD Harbour Capital (Div. Of TD Asset Management)
TD Waterhouse Private Investment Counsel Inc.
Tetrem Capital Management Ltd.
TFP Investment Counsel Corp.
Thornmark Asset Management Inc.
Tulett, Matthews & Associates
UBS Global Asset Management (Canada) Co.
University of Toronto Asset Management
Van Arbor Asset Management Ltd.
Vancity Investment Management Ltd.
Venable Park Investment Counsel Inc.
Vestcap Investment Management Inc.
Vision Wealth Management Ltd.
W.A. Robinson & Associates Ltd.
Watson Di Primio Steel Investment Management Ltd.
Watt Carmichael Private Counsel Inc.
West Face Capital Inc.