



VIA EMAIL

August 28, 2025

The Honourable François-Philippe Champagne
Minister of Finance and National Revenue
Department of Finance Canada
90 Elgin Street,
Ottawa, Ontario
K1A 0G5

Dear Minister:

Re: PMAC Pre-Budget Submission

The Portfolio Management Association of Canada (**PMAC**) is pleased to submit the following comments to the Department of Finance (**Finance**) in connection with its Pre-Budget Consultation (the **Consultation**).

PMAC represents over 330 investment management firms registered to do business in Canada as portfolio managers with the members of the Canadian Securities Administrators. In addition to this primary registration, approximately 70% of our members are also registered as investment fund managers and/or exempt market dealers. PMAC's members encompass both large and small firms and manage total assets in excess of \$4 trillion as fiduciaries for institutional and private client portfolios.

PMAC's mission statement is "advancing standards". We are consistently supportive of measures that elevate standards in the industry, enhance transparency, improve investor protection and benefit the capital markets.

KEY RECOMMENDATIONS

- 1. Amend the *Income Tax Act* (ITA) to allow pooled investment funds to merge on a tax-deferred basis and to invest internationally without restriction**
- 2. Implement the policy proposals released by the Canadian Asset Management Entrepreneurial Alliance**
- 3. Review and revise the Qualified Investment (QI) rules in the ITA to address unintended consequences**
 - a. Allow registered plans to temporarily hold non-QIs in certain circumstances**
 - b. Extend QI lending permitted in registered plans pursuant to a fully paid securities lending program to registered investments**
 - c. Limit trustee liability in respect of a registered plan that holds a non-QI**

DISCUSSION

1. Amend the ITA to allow pooled investment funds to merge on a tax-deferred basis and to invest internationally without being limited to investing in securities listed on Designated Stock Exchanges

As Finance knows, PMAC has advocated for several years for a solution to the unfavourable tax treatment of Canadians who save for retirement through Defined Contribution (**DC**) pension plans. We wish to inform Finance that this issue is growing more pressing and will affect more and more Canadians.

Employer-sponsored DC plans and other employer sponsored saving plans (e.g., deferred profit-sharing plans) often use a type of pooled investment fund called a “Target Date Fund” (**TDF**) to invest employee savings. A TDF is typically designed such that, as the “target date” approaches (e.g., 2025, 2030, 2035, etc.), the asset mix, risk profile, and other attributes of the fund change to reflect the age and risk profile of the employees. Once the target date is reached, the TDF merges with a much larger “retirement fund” to benefit from economies of scale and to reduce duplicative management. Unlike retail mutual funds, TDFs typically do not meet the 150 unit-holder requirement to qualify as a mutual fund trust and therefore cannot merge on a tax-deferred basis.¹ Upon the merger of a TDF and a retirement fund, savers who hold TDF units outside of registered plans experience a taxable event.

TDFs are growing increasingly popular with Canadian savers in DC pension plans. According to Sun Life, 42% of all Sun Life member-invested capital is allocated to TDFs, an increase from 29% in 2018. Additionally, 52% of member contributions in 2024 were to TDFs.² Additionally, since 2021, BlackRock’s Canadian TDFs have averaged annual net new inflows of 8%. As more Canadian DC pension plan savers use TDFs, and contribute more investments to TDFs, more Canadians will face an accelerated and often unplanned tax burden - one that is not shared by Defined Benefit pension plan members or investors in conventional mutual funds and segregated funds.

Additionally, DC pension plans are generally not permitted to invest in securities that are not listed on a Designated Stock Exchange (**DSE**), requiring those plans to invest in more expensive products trading on a DSE, such as exchange-traded funds, to achieve appropriate diversification and exposure to global markets, rather than investing directly in other markets.

In December 2023, PMAC [delivered proposed draft legislation](#) to Finance that PMAC believes would resolve these issues faced by DC pension plans. We appreciate the constructive dialogue Finance has had with PMAC about the proposal, and we remain available to discuss the proposal at Finance’s convenience.

¹ This is because pooled funds such as TDFs will typically be held by DC plans on behalf of employees, rather than by the employees directly. In most cases, if the number of underlying investors in a DC plan were considered when determining whether a pooled fund has more than 150 unitholders, pooled funds would satisfy the requirements to be a mutual fund trust.

² [Designed for Savings 2025](#), Sun Life Financial, p. 18.

2. Implement the policy solutions released by the Canadian Asset Management Entrepreneurial Alliance

[AIMA Canada](#), [CFA Societies Canada](#), [EMB](#) and [PMAC](#) have jointly launched the [Canadian Asset Management Entrepreneurship Alliance \(CAMEA\)](#) as a joint initiative, advocating for Canadian entrepreneurship in the asset management industry amidst prevailing trends of global consolidation in the sector, fierce competition from foreign competitors, rising costs, growing barriers to scale and regulatory burden facing the sector.

We understand that on behalf of CAMEA, AIMA Canada has delivered a submission to the Consultation highlighting [policy solutions](#) that various stakeholders could adopt to make Canada a jurisdiction of choice for asset managers and to improve conditions for these entrepreneurs building in Canada. These solutions are wide-ranging and actionable, including the:

- allocation of investment capital to investment strategies managed by new and emerging Canadian asset management firms through a structured emerging manager program, similar to the successful [Quebec Emerging Manager Program](#);
- creation of a sector-focused economic development strategy featuring a dedicated economic development agency;
- implementation of targeted tax incentives and reforms; and
- the establishment of a more streamlined, harmonized and competitive regulatory framework.

PMAC endorses AIMA Canada's submission and recommends that Finance consider and implement CAMEA's policy solutions.

3. Review and revise QI rules to address unintended consequences that may be harmful to investors

PMAC supports the work being done to review and revise the QI regime to address inefficiencies in the current rules and unintended consequences that may be harmful to investors. We wish to highlight three issues that we view as important. We look forward to further discussion and consultation with Finance on the QI regime as this work progresses.

a. Allow registered plans to temporarily hold non-QIs in certain circumstances

Currently, registered plans are prohibited from holding non-QIs for even a moment of time without triggering materially adverse tax consequences. If a registered plan holds a non-QI, even momentarily, the controlling individual of the registered plan, who is typically a Canadian individual saving for retirement, the post-secondary education of a child or a new home, may be subject to tens of thousands of dollars of unexpected tax. To preclude such consequences from arising, investment funds have been compelled to execute various types of temporary, yet costly, transactions when managing their investments to ensure that registered plan investors continuously hold only QIs.

For example, Canadian access funds that invest in underlying U.S. investment funds (**Access Funds**) often need to undertake complicated and costly transactions to preclude

the application of U.S. withholding tax while ensuring that registered plan investors are not adversely affected on the redemption of units. If a unitholder redeems their investment in an Access Fund, it is often necessary for the fund to correspondingly redeem units of the underlying U.S. fund. Redemptions of U.S. fund units are often subject to U.S. withholding tax unless all of the Access Fund's units of the U.S. fund are redeemed. To permit partial redemptions without the imposition of U.S. withholding tax, Access Funds could satisfy unitholder redemptions in kind with units of the underlying U.S. fund, which would thereafter be immediately redeemed by the unitholder. (Since the individual unitholder would be redeeming all of their units of the underlying U.S. fund, no U.S. withholding tax would be exigible). However, units of an underlying U.S. fund are not a QI and, therefore, a Canadian registered plan cannot hold such units. To address this issue, a costly and complicated transaction structure is often employed to facilitate redemptions without requiring a registered plan investor to momentarily hold a non-QI. The foregoing transaction structure is the subject of a positive advance income tax ruling issued by the Canada Revenue Agency, but is inefficient and costly compared to simply allowing a registered plan to hold a non-QI for a moment in time.

Relaxing the QI rules to allow registered plans to momentarily hold non-QIs in certain limited circumstances would increase efficiency and reduce costs for investors without offending prevailing Canadian tax policy or adversely impacting Canadian tax revenues.

b. Extend QI lending permitted in registered plans pursuant to a fully paid securities lending program to registered investments

This issue was previously raised by the Investment Industry Association of Canada (**IIAC**) in a [letter](#) to Finance, dated July 15, 2024:

Registered plans should be permitted to loan QIs pursuant to a fully paid securities lending ("**FPL**") program, provided that the FPL transaction (i) qualifies as a "securities lending arrangement," as defined in subsection 260(1) of the Tax Act and (ii) the registered plan is afforded protections, in its capacity as securities lender, that are equivalent or superior to those in rule 4600 of the *Investment Dealer and Partially Consolidated (IDPC) Rules*.

We note that the draft legislative amendments published for comment on August 15, 2025 (the **Draft Amendments**) appear to provide the relief requested in the IIAC letter. However, the relief in the Draft Amendments is limited to registered plans, and does not extend to registered investments that must also hold only QIs. In particular, a trust that has been accepted as a registered investment pursuant to section paragraph 204.4(2)(d) of the ITA would be required to pay Part X.2 tax should that trust lend a QI. In this respect, we view these registered investments as analogous to registered plans and suggest that relief similar to that provided to registered plans in the Draft Amendments be extended to registered investments that must hold only QIs.

As expressed in the IIAC letter, these transactions are subject to regulatory oversight by relevant securities regulatory bodies. There is no risk that the lending will result in a registered investment holding non-QIs. We do not see any adverse policy reason to distinguish between registered and non-registered accounts with respect to securities lending arrangements.

c. Limit trustee liability in respect of a registered plan that holds a non-QI

There are circumstances where a registered plan issuer may have no ability to control whether the registered plan subsequently holds a non-QI. If a registered plan issuer takes reasonable steps to confirm that property is a QI at the time it is acquired, the issuer should not be liable for interest, penalties and taxes in respect of the registered plan if such property subsequently becomes or gives rise to a non-QI. The registered plan issuer could not have prevented the adverse tax consequences that result from the registered plan holding the non-QI.

Examples of situations where this may occur were provided in the IIAC letter referenced above. We agree with IIAC that the risk of liability may discourage businesses from acting as registered plan trustees, creating the risk of a gap in the market. We believe this is a strong policy argument for limiting liability in these narrow circumstances, and ask Finance to consider an amendment to the ITA to effect this change, as set out in the IIAC letter.

Conclusion

We continue to believe that our proposed amendments to the ITA represent a straightforward solution to allow pooled investment funds to merge on a tax-deferred basis and to invest internationally without undue restriction. This will encourage Canadians to save for retirement and help companies provide cost-effective savings vehicles for their employees. These policy goals are more important than ever, given current pressures facing the Canadian economy and Canadian families.

We support Finance's ongoing review of the QI regime and urge you to consider the changes proposed above.

Thank you for the opportunity to participate in the Consultation. We would be pleased to continue the dialogue on these important issues and discuss the recommendations included in this submission in more detail.

Please contact us if you would like to further discuss any of our comments. You may reach Katie Walmsley at kwalmsley@pmac.org or (416) 504-7018 or Victoria Paris at vparis@pmac.org or 416-802-4347.

Yours truly,

PORTFOLIO MANAGEMENT ASSOCIATION OF CANADA

"Katie Walmsley"

Katie Walmsley
President