INVESTMENT INDUSTRY ASSOCIATION OF CANADA

Letter from the President

IIAC in Ottawa: Making the Case for Increased Savings and Investment

Capital Gains Tax Relief

The challenge of accessing equity capital undermined capital business spending in Canada last year, and threatens to continue to undercut spending by small and mid-sized companies. That is why, on behalf of the Investment Industry Association, I appeared before the House of Commons Standing Committee on Finance on October 21st to recommend targeted budget incentives to promote savings and investment – thereby boosting capital formation and economic growth.

In our presentation, the Association noted that the pace of common equity financing, after rebounding strongly last year, has slowed through 2010. Common equity offerings in public and private markets in the first half of this year were down about 21 per cent year-over-year. Even more seriously, the estimated value of small business financings, proxied by issuance size of $10 million or less, in 2009-2010 was one-third less than the level in the bull market 2006-2007. Reports from small and mid-sized dealers across the country indicate that small listed companies are encountering difficulty in accessing scarce equity capital in public and private markets. Start-up and emerging companies also find financing conditions tough as angel investors and venture capital sources have pulled back.

Can the Canadian economy afford a financing and investment crunch slowing down the small companies and start-ups on which Canada depends for economic growth and jobs? The answer clearly is no, and the solution – which the Association has argued for – is lowering the effective tax rate on capital gains by reducing the income inclusion rate below 50 per cent to provide a larger incentive for risk-taking, and to limit tax expenditures and mitigate the administrative tax burden. Investors respond to incentives; if Canadians are to invest, we have to remove some of the disincentives.

Boosting Retirement Savings: Increase RRSP/TFSA Limits, Review RRIF Withdrawal Rates Annually

The Senate Banking Committee report on retirement savings *Canadians Saving for Their Future: A Secure Retirement* made the point clearly: The "three pillar" retirement system functions fairly well for many, but some middle income Canadians – particularly those without an occupational pension plan or the self-employed – need improved options.

The most efficient way to solve the shortcomings of the existing system is for improvement in RRSP contribution limits, as suggestions such as a voluntary national retirement plan are costly and complex, and face difficulties in achieving needed consensus among Canadian governments. The Association also supports the Senate Banking Committee recommendations including $100,000 lifetime contribution to TFSA accounts to supplement individual savings; extension of RRSP contributions to age 75 from 71; and an annual review of minimal withdrawal rates from RRIFs. People are living longer – they have to be able to save more.

11 King Street West, Suite 1600, Toronto, Ontario M5H 4C7 • Tel: 416.865.3036 • Fax: 416.364.4861 • irussell@iiac.ca • www.iiac.ca

Building Financial Literacy: A Key Step to Increased Savings

The Association agrees with the federal government and Senate Banking Committee that improving the financial literacy of Canadians is a key element of the savings process. A lot of good financial material has been produced, particularly by the provincial securities commissions, and is available to the investing public. The challenge is to convey to Canadians the importance of supplementing existing retirement savings, to draw attention to informational sources to build knowledge, and to provide guidance in how to find a qualified investment advisor. The Association has established a working group of professionals in the wealth management business to achieve those goals. The working group will design a strategic plan to identify existing financial materials, and increase the awareness of individual Canadians about the importance of building savings and where to look to find the materials and qualified investment advice.

Conclusion: Reduced Capital Gains Tax Rates = Improved Savings, Increased Risk-Taking – and Greater Economic Growth

Canadian companies' difficulties in obtaining external capital contributed to the collapse in business spending last year. It is important to overcome this obstacle to economic growth – among small and mid-size businesses and start-ups as well as larger companies.

The pull back by individual Canadians from equity markets has been an important factor underlying weak financing conditions in public and private markets. Timely and cost-effective incentives to improve savings flows and increase the appetite for risk-taking could have a significant positive impact on equity markets and the capital-raising process. The Association has encouraged provincial governments to support a reduction in the capital gains tax rate to stimulate capital-raising by local small businesses. This neutral market-driven incentive is the most effective mechanism, particularly for smaller regional companies listed on the TSX Venture Exchange, to channel equity capital to these businesses.

Yours sincerely,

Ian C.W. Russell, FCSI
President & CEO, IIAC

November 2010
Vol. 35