Investment Industry Association of Canada

About IIAC

In 1916, the Investment Dealers Association of Canada (IDA) was formed when a group of Toronto bond dealers created the Bond Dealers Section of the Toronto Board of Trade. Over the years, the IDA evolved into a decentralized national self-regulatory organization (SRO) with a dual regulatory and industry association mandate.

In 2006, the industry association role was eliminated and a new independent professional organization, the **Investment Industry Association of Canada (IIAC)**, was created. The much larger regulatory side continued growing, joining with Market Regulation Services Inc. (RS) in 2008 to form the Investment Industry Regulatory Organization of Canada (IIROC), which regulates investment dealers and advisors, as well as debt and equity trading activity on Canadian markets.

IIAC's mandate

To advance the growth and development of the Canadian securities industry, acting as a strong proactive voice to represent the interests of our members and the investing public.

IIAC Members in Ontario

IIAC's members, managing well over 90% of industry assets, range in size from small regional firms to large organizations employing thousands of investment industry professionals across the country. The past decade has seen extraordinary growth in the number of individual Ontarians participating in Canadian capital markets as they and other Canadians transitioned from being savers to investors, shifting from lower-interest-rate savings accounts and term deposits to mutual funds, debt and equity securities and other investments that earn on-average higher returns.

The majority of IIROC-regulated firms are located in Ontario, in the Greater Toronto Region.

- **62% of IIROC members are headquartered in the province (131 out of 211 firms).**
- **$350 billion – 42% of total Canadian retail assets – are held in Ontario.**
- **Over 16,000 investment dealer employees work in the province.**
- **Investment dealers underwrote 374 deals in Ontario in 2010, raising over $200 billion for productive investment.**
- **The vast majority of adults in Ontario own securities directly or indirectly through the securities industry to help build their financial well-being.**

The securities industry brings together the dollars of millions of Ontarians saving for hundreds of different reasons (new business, education, a home, travel or retirement) with those companies that need financing. These companies with an idea, resources, trade connections or other assets use the capital to grow and create jobs. For a depiction of IIAC members' role in the savings-to-investment process – a key contributor to Ontario's prosperity and Ontarians' high standard of living – see page 3).

Securities Industry Priorities in Ontario

Providing Equal Retirement Savings Opportunities: Recognizing the challenges federal and provincial governments face in finding ways to expand retirement savings, we think that proposed Pooled Registered Pension Plans (PRPPs) – while superior to an across-the-board Canada Pension Plan (CPP) increase in providing a targeted benefit for people saving for retirement – could lead to more of a shift than a broadening in retirement savings. This could be addressed by better balancing the savings options by removing payroll taxes on contributions of employers providing and employees saving in group registered retirement savings plans (RRSPs), taxes that do not apply to pension contributions.

The frequently-heard justification for levying CPP, Employment Insurance (EI), Ontario Employer Health Tax (EHT) and other payroll taxes on contributions to Group RRSPs (and RRSPs) is that these plans are not locked in and may be used for any purpose; however, we think public policy makers should consider:

- Group RRSP withdrawals are taxed (and may be used for education, living expenses in a period of unemployment, or other 'acceptable' purposes).
- The majority of Ontarians do *not* cash in RRSP savings for non-retirement purposes and neither they nor their employers should be penalized by payroll taxes on their contributions.
- Group RRSPs can be made more pension-like and lead to greater growth in assets by facilitating and encouraging employers to lock in their Group RRSP contributions.

We hope that the Ontario government, beyond removing EHT from contributions to group RRSPs, will promote the following measures to assist those perhaps most in need of retirement savings help:

- Allowing the self-employed, whose incomes may vary widely from year to year, to base RRSP contributions on average income with a carry-forward or back into years of leaner earnings.
- Letting those who leave the workforce to look after children or for education, or who lose their job, accumulate pension or RRSP room based on an average of preceding working years' contributions.

Using Flow-Through Shares for Jobs/Growth: While lower capital gains tax rates on shares of start-up companies and Scientific Research & Experimental Development (SR&ED) tax credits help some firms, they do not help most of those with long product development lead times. For these, a flow-through share concept works best. Flow-through shares have been used for years to finance capital-intensive energy and resource projects, where early revenues are small or non-existent, while exploration and development is pursued before net taxable income is earned. To attract capital for such risky ventures, qualifying expenditures are transferred through flow-through shares to taxpayers who can use the deductions. This model could be extended to other sectors with similar long-development profiles.

For example, Ontario's bio-economy, valued at over $35 billion (6% of Ontario's GDP), provides jobs for over 485,000 Ontarians. Biotech and life science companies apply chemistry, engineering, physics and computing disciplines to living organisms, creating efficient, greener, cleaner products and processes that address health, environmental, automotive, agricultural, forestry and even traditional manufacturing challenges. Firms in biotech and other high-risk sectors, like junior energy and resource companies, carry forward millions in tax losses on R&D projects and need large amounts of capital from investors that could be met via flow-through shares.

Using biotech as an example, the share price growth of the top 25 publicly-traded biotech firms in Canada outpaced the TSX/S&P index since 2008 when the global economic downturn began. To continue generating such results, the pipeline must be primed with projects from start-up to research intensification to commercialization. PWC estimates extending flow-through shares to Canada's biotech sector would generate $1 billion in new wealth. The governments' tax expenditure cost to finance flow-through shares for this is estimated at $119 million annually for the federal government and $26.4 million for Ontario. Biotech companies beginning to earn profits, and people working in the new jobs these companies create, will be taxed, creating a more than self-sustaining tax cost financing structure.

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The Canadian Securities Industry

"The financial services sector plays a critical role in a market economy, providing a means of channeling savings into various investment opportunities and driving economic growth. It provides the capital necessary for the growth of existing businesses and the start-up capital needed for new businesses. It also allows governments to finance new debt issues and support programs and services. At the same time, the sector enables Canadians to carry out their everyday financial transactions, including savings and wealth management. The sector is also a significant contributor to Canada's economic growth and to job creation."
— Department of Finance Canada, www.fin.gc.ca

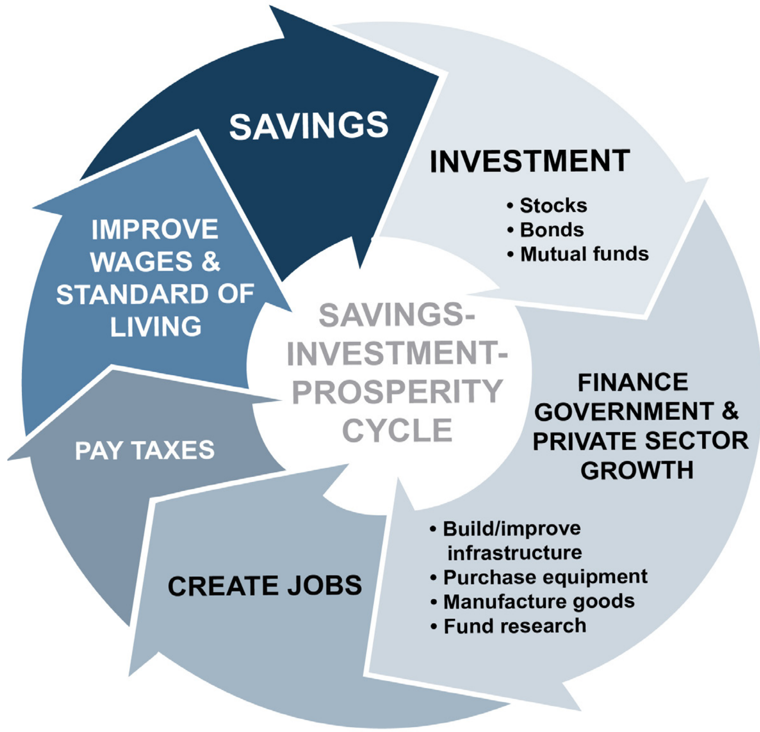
Helping Canadians save and invest

- Investment dealers help manage $1 trillion for Canadians — an amount that has increased by 20 per cent over the past five years.
- An estimated 40 per cent of all household discretionary financial assets in Canada are held in accounts managed by investment dealers:

  > Over $250 billion in registered retirement savings plans (RRSPs).

  > Over $65 billion in registered retirement income funds (RRIFs).

  > $4.5 billion in registered education savings plans (RESPs), up from virtually nothing five years ago.
- Over the past decade, the number of investment dealer firms has increased to over 200 with 40,000 employees, creating more competition and offering a wider range of products.



IIAC advances the growth and development of the Canadian investment industry, acting as a strong, proactive voice to represent the interests of our members and the investing public. Visit our web site, www.iiac.ca.

Helping Canadian businesses grow

- Investment dealers transform investor savings into a source of productive capital for Canadian companies, governments and non-profit organizations.
- In 2010, our members helped approximately 250 small-to-medium-sized companies launch offerings on Canada's stock exchanges to raise capital to expand their businesses; each of these companies, in turn, generated new opportunities for other firms in the economy.
- In 2010, investment dealers helped:

  > Finance over $170 billion in federal, provincial, municipal and Crown corporation bonds, almost double what was financed a decade ago – the money raised for governments was used to fund new capital projects and infrastructure upgrades that serve all Canadians.

  > Raise more than $130 billion in debt and equity financings for companies – money used to develop new business ideas, create new products, open new markets for Canadian goods and services, and expand our economy.

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