INVESTMENT INDUSTRY ASSOCIATION OF CANADA
ASSOCIATION CANADIENNE DU COMMERCE DES VALEURS MOBILIÈRES

Pre-Budgetary Consultations House of Commons Standing Committee on Finance

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Opening Remarks

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Good morning.

I appreciate this opportunity to appear before the House of Commons Standing Committee on Finance, and participate in your pre-budget consultation discussion.

The Investment Industry Association of Canada represents over 200 member firms, which employ over 40,000 Canadians from coast to coast.

Our members fulfill two vital roles in the Canadian economy. They advise clients on their savings and investments. That’s the vast majority of Canadians, invested in the stock market and bond markets, as individual investors or through mutual funds. And our members advise and assist corporations and governments in raising capital.

The investment industry contributes to the economic growth and wealth creation in the country by channeling scare resources and savings to productive investment opportunities.

Last September, our investing clients have seen their portfolios devastated. The ability of millions of Canadians to afford a secure retirement is at risk. Our corporate clients have seen their ability to raise capital squeezed – undermining the capacity of our economy to grow.

Canada's Economy

Canada's economy continued to contract in 2009, reflected in 10 consecutive months of negative GDP growth. The current environment has brought about a massive deleveraging in the marketplace, a flight to low-risk assets, and a continued uncertainty about the economic outlook.

After tumbling as much as 40% to 50% in 2008, global equity markets have made good recovery, and stabilized, but still remain well below the peak levels of 2007 and early 2008. Credit markets, while significantly improved, continue to exhibit pockets of illiquidity that restrict the flow of credit to corporate borrowers. This reflects continued uncertainty and market infrastructure inefficiencies.

Continued strains on Canada's manufacturing sector, rebounding and volatile resource prices, and an export sector hampered by the appreciation of the Canadian dollar, are delaying Canada's economic recovery. Business and consumer spending remains modest. Investor portfolios affected by the market collapse will require significant time to recoup losses, leading to heightened concerns about a retirement savings shortfall in Canada.

Encouraging the Supply of Risk Capital

The IIAC commends the federal government for undertaking a judicious mix of public spending and growth initiatives to improve the functioning of Canada's economy and capital markets. Canada's fiscal position remains sound and compares favourably, to other jurisdictions, notably with the United States. There is no doubt about the priority for policy makers: renewing growth in the Canadian economy. A vibrant economy will improve investor, consumer and business confidence, the functioning of credit markets, and prospects for a sound retirement.

The federal government should encourage productive risk-taking and enterprise by the strategic and careful reduction in the capital gains tax rate. Current high capital gains tax rates discourage the flow of scarce capital to productive opportunities. These rates also deter the shift of invested capital from less productive to more productive uses.

A reduction in capital gains tax rates – particularly on common equity shares – would spur business and job creation, enhance productivity and economic activity, and promote overall wealth creation and prosperity for Canadians.

The additional tax expenditure and impact on the federal budget from lower capital gains tax rates could be mitigated if the rate reductions are restricted to common equity shares, particularly to those small companies ineligible for lower corporate tax rates, the R&D tax credits and the $750,000 lifetime capital gains exemption.

Reinforcing Credit Facilities

The 2009 federal budget introduced several initiatives under the Extraordinary Financing Framework to strengthen the capacity of Canadian financial institutions to provide support to the credit markets. These initiatives have worked well and contributed to the recovery of capital markets.

We urge the government to confirm a longer term commitment to the Insured Mortgage Purchase Program and the Canadian Secured Credit Facility. The size of the facilities should also be kept flexible to ensure funding can be tailored to demand.

Alleviating the Retirement Savings Shortfall

One of the most important and complex issues facing Canadians today is retirement savings reform. We are pleased the government has established a federal-provincial working group on Retirement Income Adequacy, chaired by the Honourable Ted Menzies. It is important that the Working Group focus on the retirement savings shortfall faced by older Canadians, as well as make recommendations that promote increased retirement savings over a longer time frame.

For example, existing RRSP savings could be supplemented by allowing retroactive contributions to Tax Free Savings Accounts (TFSAs), compensating for previous pension portfolio losses for older Canadians. It has been estimated that the retroactive application of TFSAs could provide older Canadians close to retirement with approximately $160,000 in additional tax-free retirement investment room. Additionally, supplementary contributions would be costeffective for government as investors transfer after-tax income to TFSA contributions.

Governments should also consider greater flexibility to allow Canadians to recoup accumulated tax-assisted retirement savings lost as a result of the collapse in the markets, even with some recovery in recent months. The government could consider replacing the annual RRSP contribution limit with a defined lifetime tax retirement savings allowance. This would provide Canadians with greater flexibility to recoup losses in their retirement portfolios. It would also place Canadians relying on RRSPs on a similar footing with defined benefit pension plans that fund market losses to meet pension commitments.

We also recommend the removal of minimum annual withdrawal limits from RRIFs to give Canadians the flexibility to better manage their savings in retirement.

In closing, I should remind the Committee that while the economic initiatives of Canada's federal and provincial governments have been impressive, our economic future continues to be marked by uncertainty.

Our economic success turns on our ability to compete in global markets. We recognize the challenges faced by the federal government to promote economic growth and preserve a strong fiscal position, and the limited maneuverability of federal finances. However, we are convinced that tax policy can be engineered creatively to limit strains on the fiscal position and encourage investment-led growth.

Thank you.