



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

Ian C.W. Russell FCSI
President & Chief Executive Officer

May 24, 2012

The Honourable James Flaherty, P.C., M.P.
Minister of Finance
Department of Finance Canada
140 O'Connor Street
Ottawa, ON K1A 0G5

Dear Minister:

Re: Designation of Stock Exchanges for Purposes of the *Income Tax Act*

On behalf of the Investment Industry Association of Canada (IIAC), I would like to recommend that stock exchanges subject to Canadian regulation be designated pursuant to subsection 262(1) of the *Income Tax Act* so that securities listed on these exchanges become eligible for Registered Retirement Savings Plans (RRSPs) (including Registered Retirement Income Funds (RRIFs)), Deferred Profit-Sharing Plans (DPSPs) and Tax-Free Savings Accounts (TFSA's).

IIAC represents 175 members – 85% by number, and 95% by revenue, of active investment dealers regulated by the Investment Industry Regulatory Organization of Canada (IIROC). IIROC-regulated firms and IIROC-registered investment advisors play an essential role in Canada's securities industry. They build prosperity and investment security for investors and their families by pooling savings into productive capital investment in companies that create jobs and economic growth across the country. An important part of successfully helping Canadians provide for their future is enabling them to increase their assets through trades on Canada's stock exchanges.

In the 2007 Budget, the Government announced streamlining of the designation of stock exchanges for purposes of the *Income Tax Act*. The goal of the process is to ensure "investments, given their tax-deferred status for policy purposes, trade on well-governed, regulated and transparent markets" and to provide "... Canadian investors with the opportunity to further diversify their investment portfolios and maximize the investment returns in their tax-deferred accounts." Many opportunities to diversify within Canada and internationally exist through Canadian exchanges.

We support the creation of new exchanges that will promote liquidity: listed companies can benefit from a new venue that may offer faster execution and new services; small companies may be able to list for the first time. In both cases, new exchanges will encourage capital formation and growth. For this reason, we recommend the Department of Finance move

expeditiously to designate new Canadian exchanges once approved for operation by Canada's securities commissions. The commissions, in the case of domestic stock exchanges, will have considered and sought public comment on a proposed exchange's experience in facilitating listing, trading, and clearing; its corporate governance structure; and its financial resources to ensure long-term viability, among other things. New domestic exchanges will be subject to a strong regulatory framework with standards for investor protection, oversight and monitoring.

We recognize new exchanges, at inception, will lack the liquidity of longer-standing ones, however, three factors in Canada combine to mitigate this concern:

1. Extensive disclosure requirements
2. Participation by/market pressure from institutional and other sophisticated investors
3. The requirement that IIROC-regulated dealers and IIROC-registered investment advisors – when discussing the purchase, sale, exchange or holding of any security with retail investors – use due diligence to ensure that recommendations are suitable based on the customer's finances, investment knowledge and objectives, risk tolerance, as well as time horizon, investment portfolio composition and risk level.

Canada's exchanges and market participants have withstood, in a way few global competitors have, the market challenges of 2008 and beyond. We believe that Canadian exchanges, once approved by Canadian regulators for operation, should be qualified automatically as designated exchanges on which may trade investments that can be held in RRSPs, RRIFs, DPSPs and TFSAs. We believe that accelerating designation following the exhaustive approval process at the commission level will more quickly contribute to liquidity, promote capital formation and enhance the competitiveness of Canadian capital markets.

Pending your review of this general recommendation, IIAC endorses the March 23, 2012 request of Alpha Exchange Inc. for the designation of Alpha Exchange and each of its listing markets, Alpha Main and Alpha Venture Plus. We also support the TMX/TSX Venture's request for the addition of NEX to the TSX Venture Exchange's designation, as requested on April 10, 2012. We look forward to hearing of these exchanges' designation and would be pleased to discuss our views further with you. Alternatively, please contact Barb Amsden, Director, at (416) 687-5488 or bamsden@iiac.ca if you have further questions.

Yours sincerely,



Cc: Louise Levonian, Associate Deputy Minister,
Nancy Horsman, Assistant Deputy Minister – Tax Policy Branch
Jeremy Rudin Assistant Deputy Minister – Financial Sector Policy
Brian Ernewein, General Director – Tax Policy Branch