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President & Chief Executive Officer

October 3, 2011

The Honourable James M. Flaherty, P.C., M.P.  
Minister of Finance  
Department of Finance Canada  
31st Floor, East Tower  
140 O'Connor Street  
Ottawa, Ontario K1A 0G5

Dear Minister:

**Re: Securities Industry Pre-Budget Recommendations**

I am pleased to provide the views of the Investment Industry Association of Canada (IIAC) on considerations for the 2012 budget. As you know, Canada faces the challenge of a sluggish global recovery, a high dollar (until recently) and turbulent capital markets. This has deterred investor participation in the markets, damaged liquidity and increased financing costs. We encourage the federal government to implement a pro-active fiscal and tax agenda to accelerate the slow-moving economic recovery through business expansion.

Our specific budget recommendations are the following:

**1. Continue to meet the Government's five-year fiscal plan, including the G20 target of halving the budget deficit by 2013 and stabilizing or reducing our government debt-to-GDP ratio by 2016.**

We were pleased your Government has renewed its commitment, as evidenced in the September 24, 2011 Statement Prepared for the International Monetary and Financial Committee of the Board of Governors of the IMF, to preserve Canada's strong financial position by returning to balanced budgets by 2014-15 – a year earlier than originally planned.

Canada's success in stabilizing public finances, in terms of budget surpluses and reduced debt load, prior to the 2008 financial crisis enabled Canada to weather the financial crisis and recessionary conditions, and begin economic recovery sooner than other countries. Your Government's commitment to lower the federal corporate tax rate to 15% by January 1, 2012 will contribute to increased investment and growth.

Returning to balanced budgets on or before schedule and following through on tax reductions will have a positive impact on business confidence. Sustained low competitive tax rates and a reduction in the debt will encourage investment and spending decisions. Equally, it will encourage investors and the general public.

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**2. Promote, as a sustainable alternative to direct Government stimulus, capital-raising and business expansion in the small and mid-sized business sectors.** We believe that specific cost-effective incentives should include the following:

- Introduce a lower capital gains tax rate for listed traded shares and/or initial and secondary public offerings, reducing the income inclusion rate below 50%
- Extend the flow-through share mechanism beyond the resource sector to other sectors with high value-added potential and long lead times to payback
- Broaden applicability of the lower corporate tax rate and investment tax credits to mid-sized businesses and/or to small and mid-sized public companies.

**3. Improve the effectiveness of private-sector savings instruments to meet retirement goals and build a pool of investible capital.**

- We believe – and this is a recommendation of a growing number of other parties – that contributions to Group RRSPs should be exempt from payroll taxes including CPP, EI and other such taxes, conditional on “locking in” at least employer contributions to these retirement funds. This exemption would not only achieve more equitable treatment across members of all plan types, but would be particularly helpful for the small businesses that find Group RRSPs the simplest plans conceptually and easiest to manage when operating in more than one province.
- We have suggested improvements to an alternative to Group RRSPs, namely, the proposed pooled registered pension plans (PPRPs). Most investment dealers would be unable to offer PPRPs cost-effectively as currently structured, which would diminish access and could lead to a shift rather than expansion in retirement coverage.

**4. Achieve greater cost-effectiveness for businesses and the Government through implementing recommendations of and to the federal Red Tape Reduction Commission.**

Our industry plays a unique and often unrecognized role in tax slip preparation for our clients to facilitate their tax payment obligations. Three-quarters of the IIAC membership qualify as small businesses under Statistics Canada’s definition, and the tax reporting burden is significant. We have identified areas that would help reduce costs for member firms and, in a number of cases, for government as well. This includes: greater reliance on integrated electronic systems for the transfer of tax information between issuers, dealers, the CRA, other parts of government and taxpayers where possible; conscious efforts to eliminate the need for paper; and dedicated CRA staff to work with the financial services industry to identify, plan for and implement targeted improvements.

We would be pleased to provide further information on our recommendations. Please do not hesitate to contact us for any information you may need.

Yours sincerely,

