



INVESTMENT INDUSTRY ASSOCIATION OF CANADA

ASSOCIATION CANADIENNE DU COMMERCE DES VALEURS MOBILIÈRES

Highlights of Ontario Budget for the Investment Industry

Released March 27, 2012, the Ontario Budget continues to project deficit elimination by 2017-2018, however, there will be an increase in the net-debt- and accumulated-deficit-to-GDP ratio through 2014-2015.s

Taxes: Reductions in corporate income taxes (CIT) and the Business Education Tax (BET) on commercial and industrial property are frozen until the deficit is eliminated:

- The current 11.5% CIT rate will *not* decline to 11% on July 1, 2012 and 10% on July 1, 2013 but remain at 11.5% until further notice (the government is likely to announce the freeze is lifted in the budget following deficit elimination)
- The BET reduction schedule will be frozen beginning in 2013, but will be reduced in cases of re-assessment increases; certain exceptions apply for new construction.

Other tax measures that may have some impact on members or their corporate or retail clients include: a new income-tested deductible for high income seniors' use of the Ontario Drug Benefit; reviews of corporate group taxation, mining sector incentives and R&D tax credits, provincial income-allocation adjustments, more stringent employer health tax assessments through a review of the employer/employee relationship, etc.

Unclaimed Intangible Property Program: Legislation requiring the transfer of “forgotten” property, including securities, was drafted and passed some years ago, but never proclaimed. No details were available in the budget lock-up, however, this will be an administrative issue for members, as it would require the transfer of securities to the Ontario government when there has been no activity or contact with a securities or account holder for a period of time. **Note:** IIAC will monitor for developments in this area.

Personal Property Security Act: The government plans to propose legislative changes to Ontario's personal property security legislation to make it easier for businesses and financial institutions to provide or obtain a first-priority security interest in cash collateral. This is one of the conditions precedent to establishing an over-the-counter (OTC) derivatives clearing and repository regime in Canada, in line with Canada's G-20 commitments. Note: It is hoped that this will also address issues created by a June 19, 2009 Supreme Court of Canada decision in *Caisse populaire Desjardins de l'Est de Drummond v. Canada*, which risked characterizing cash collateral set-off arrangements as creating security interests. IIAC will monitor for developments in this area.

Pension Unlocking: Ontario expects to restructure the financial hardship pension unlocking program to simplify and streamline the current process by no longer requiring consent of the regulator to withdraw money. Draft regulatory amendments, allowing applicants to request withdrawals directly from their financial institutions, will be added to the Regulatory Registry for 45-day public consultation (possibly in June) after the Budget passes. The Budget cautions that the government will review the new application process in two years.

Note: IIAC indicated an interest in early discussion on these matters and will contact Bruce McNaughton, Director, Pension and Income Security Policy Branch in this regard.

Securities Act amendments: The Ontario government will be amending the Ontario Securities Act to:

- clarify the procedures for the OSC to share investigative information with other regulatory and law enforcement authorities (the *Commodity Futures Act* will be amended similarly);
- allow the OSC to conduct hearings on a timelier basis; and
- facilitate the OSC playing a greater role in educating investors and strengthening financial literacy.

The government also said that the province remains open to working with the federal and provincial governments to restructure Canada's securities regulatory framework, saying: "This should include new discussions regarding the effectiveness of the Canadian Securities Administrators in meeting Ontario's interests – safe, efficient and competitive capital markets for all Canadians."

Pensions: Ontario re-iterated its support for a modest, phased-in, fully funded enhancement to the Canada Pension Plan (CPP), with increases shared by individuals and employers. Regarding federal Pooled Registered Pension Plans (PRPPs), Ontario's position reflects a number (but not all) of the points that IIAC has raised on this topic (as well as some that IIAC does not subscribe to):

- PRPPs may simply replace one form of retirement arrangement with another, instead of expanding retirement income savings and coverage;
- it is unclear if the PRPP's fiduciary framework adequately protects plan members;
- it is uncertain whether compulsory employee contributions would be flexible enough to allow for various life events, such as divorce or periods of financial hardship;
- the extent to which PRPPs could achieve their low-cost objective is unclear; and
- each province would need to establish an effective licensing and regulatory regime — the cost of regulation must be reasonable since these costs would be passed on to PRPP participants;

The Ontario government also advised that pension innovation, including PRPPs, should be tied to CPP enhancement as part of a comprehensive approach.