



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

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

January 23, 2007

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

Dear Minister:

Re: Advantage Canada: Building a Strong Economy for Canadians

On behalf of the Investment Industry Association of Canada,¹ I would like to congratulate you and your officials on the fact-based, forward-looking and well-written *Advantage Canada: Building a Strong Economy for Canadians*, issued on November 23, 2006. It provides a clear blueprint to strengthen our economy and build a solid and secure foundation for growth and quality of life improvements for Canadians today and in the future.

With its release just prior to the holiday season, *Advantage Canada* has likely not been given the attention it deserves. We see many parallels and links between the principles espoused in *Advantage Canada* and our industry priorities. Our association will be working to expand on, incorporate and publicize *Advantage Canada's* five key points in a number of IIAC initiatives in 2007. Specifically:

- **Tax advantage:** We agree with your tax reduction targets and see the greatest benefits being derived from focusing first on tax reductions that would generate the greatest economic returns, namely lowering taxes on personal and business investment. In this regard, we hope shortly to send you an analysis on possible ways to structure capital gains changes to meet your government's election platform promise to promote investment through improving the tax treatment of capital gains.
- **Fiscal advantage:** We endorse reductions in federal debt and limiting program spending increases, for the time being, to less than the rate of economic growth. We see value in defining desired results and measuring against the targets. We support your efforts to seek to restore the fiscal balance between different levels of government.
- **Entrepreneurial advantage:** Our industry has long argued for the elimination of unnecessary regulation and a clear cost-benefit analysis before any new regulation is introduced. There has been a significant increase in regulatory burden on the financial sector over the past ten years, not only in Canada, but in countries that extend their reach into Canada, notably the U.S. We are particularly concerned by the direct regulatory fees and the indirect compliance costs imposed by regulation on

¹ On April 1, 2006, the Investment Dealers Association of Canada (IDA) legally divided into a self-regulatory organization (SRO) and IIAC – the industry association. The Association represents the position of the Canadian investment industry on regulatory and public policy issues. Its mandate is to promote efficient, fair and competitive capital markets for Canada while helping its member firms succeed in the industry.

our members and on small issuers in public markets – for *Advantage Canada* to succeed, related unnecessary costs must be addressed. We appreciate your public announcements that have encouraged regulators to take proactive steps to work together and develop proposals for reform.

We would like you also to direct attention to the costs on financial institutions from tax reporting requirements. As you know, financial institutions carry a heavy burden for tax reporting in the public interest. These costs provide no benefit to these entities' broader business operations. We believe that government has an obligation to alleviate these costs by designing reporting mechanisms that can be implemented reasonably and cost-efficiently. We would like to again offer our industry's services in developing operationally straightforward ways of effecting change so that investor returns need not be reduced by unnecessary regulatory costs.

- **Knowledge advantage:** Linked to entrepreneurial advantage, competitiveness and economic success now and for the future is knowledge management. Our industry supports, and in fact requires, continual learning. Our country also needs more investment in research and development. The brokerage industry can help get good ideas from the drawing board to the marketplace.
- **Infrastructure advantage:** We support your government's intention to develop a comprehensive infrastructure plan, public-private partnerships and provincial allocation structures. The securities industry provides the means to raise the capital to fund large projects and is also in the forefront of designing and developing mechanisms that can provide attractive savings vehicles for individual Canadians. Helping individual Canadians save for retirement and be self-sufficient is also critical to the success of your government's plan.

We appreciate your government's focus on one particular competitive advantage this country has, namely its stable financial sector, strong financial institutions and vibrant capital markets, as a way to attract capital to support economic growth. In this regard, one current area of joint work is Maple bonds. We were pleased to meet with Wayne Foster and Jean-François Tremblay of your staff last week to discuss ways to remove impediments. We have established a group to analyse and make recommendations to remove obstacles to Maple bonds and will share our findings with you once complete.

Once again, we congratulate you on the recommendations you put forward in *Advantage Canada*. We will shortly be sending you our pre-budget submission: it contains policy proposals designed to meet objectives in *Advantage Canada*, including capital gains option analyses. We look forward to working with you or your staff on your government's other economic priorities.

Yours truly,

cc: Robert Wright
Mark Carney
Bob Hamilton
Brian Ernewein
Gerry Lalonde
Rob Stewart