INVESTMENT INDUSTRY ASSOCIATION OF CANADA
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2019 Ontario Pre-Budget Submission

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The Investment Industry Association of Canada (IIAC) is the national association representing the position of 120 IIROC-regulated Dealer Member firms on securities regulation, public policy and industry issues. These dealer firms are the key intermediaries in Canadian capital markets, accounting for the majority of financial advisory services, securities trading and underwriting in public and private markets for governments and corporations.[1]

The IIAC is pleased to contribute policy suggestions as the government prepares for the 2019 Ontario Budget amidst difficult economic circumstances and challenges. Moody's recently downgraded the long-term rating of the province, reflecting Ontario's heavy debt-indebtedness (net debt-to-GDP ratio of nearly 40%). The housing market is moderating and Ontario households—the most indebted in the country—are more cautious in their spending habits. Business investment could provide some offset given capacity constraints in many industries and accelerated tax depreciation for new capital investments, however, there is lingering uncertainty on the trade front. Growth in the province is projected at around 1.9% in 2019 and 1.6% in 2020.

The Ontario government can take certain policy actions to launch the economy toward a higher growth trajectory.

1. Contain the deterioration in finances. Set specific timelines to restore fiscal balance and reduce Ontario's large debt. Improve the effectiveness and efficiency of government programs and closely scrutinize spending on an ongoing basis. The benefits will translate to increased business and investor confidence and greater flexibility to respond to economic and demographic challenges and unforeseen circumstances.

2. Continue with the broadly-based deregulation initiative announced in the 2018 *Ontario Outlook and Fiscal Review*. The more than 380,000 regulatory requirements in the province, almost twice as many as the next ranked province, have made it costly to operate a business and difficult to attract domestic and international business investment. All government departments and agencies should be mandated to undertake regulatory impact analysis (cost-benefit) to justify new rules and meet rule reduction targets (for example, the government should aim to remove at least two regulatory requirements for every new one until the government meets its objective to reduce red tape by 25% by 2022), with full transparency and accountability.

3. Undertake a critical review of tax expenditures (exemptions, deductions, credits and rebates) and grants. While introduced with good intentions, some may not be meeting intended policy goals or delivering

value for money. They should be eliminated or scaled back. Savings can be used to reduce Ontario's high marginal personal income tax rates and/or introduce incentives to encourage investment.

4. Consider a broadly-based, market-driven incentive to attract equity capital for new business formation and expansion of existing small and medium-sized businesses. It could be modelled after the UK Enterprise Investment Scheme (EIS). The EIS provides a 30% personal tax credit for the purchase of shares of eligible small and medium-sized businesses, an exemption from capital gains tax for shares held for more than three years, and a rollover provision exempting capital gains taxes on the sale of an asset, if the proceeds are reinvested in EIS shares. Research indicates the tax expenditures are more than offset by the revenues generated from corporate taxes, taxes paid on salaries to employees, and VAT paid by EIS-financed companies.

5. Harness private capital and private sector innovation to deliver effective public-private financing solutions to fund needed infrastructure (e.g. water and wastewater, healthcare) on cost-effective terms subject to government standards.

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[1] Ontario's securities industry contributed an estimated $40 billion to provincial GDP in 2018. The 113 securities dealers headquartered in the province directly employ 30,000 people across 3,100 offices and manage $800 billion in investment assets for Ontarians. The industry is the primary capital raising intermediary for Ontario's 1,300 publicly listed companies. Total equity capital raised by the industry for Canadian publicly listed companies amounted to $41 billion in 2018, encompassing 2,200 financing transactions. The industry helped 147 companies go public and facilitated trading in 136 billion shares in 2018.