

Submission to the Standing Committee on Finance and Economic Affairs (Ontario) 2020 Pre-Budget Consultations

January 24, 2020

Executive Summary

The Investment Industry Association of Canada (IIAC) is the national association representing 120 investment 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 vast majority of financial advisory services, securities trading and underwriting in Canada's public and private markets.

Canada's investment industry is well rooted in Ontario—107 IIROC-regulated firms operate in the province with 3,194 branch offices, employing over 30,000 Ontarians. The industry is a significant economic driver, contributing an estimated \$40 billion in economic activity in the province (direct, indirect and induced impacts). Investment dealers also maintain sizeable operations and infrastructure in the province. They commit over \$250 billion in regulatory capital to facilitate extensive over-the-counter trading in debt and equity markets.

The IIAC welcomes the opportunity to put forward recommendations for the 2020 Ontario Budget. We focus our comments on the issues that pertain directly to our industry and capital markets and were included in the *2019 Ontario Economic Outlook and Fiscal Review*.

With this in mind, the IIAC recommends that the Ontario government:

1. Maintain its commitment to restore fiscal balance by 2023-23.
2. Consider a broadly-based, market-driven incentive to attract equity capital for new business formation and expansion of existing small and medium-sized businesses.
3. Develop a policy framework to harness the available capital and expertise of the private sector to fund infrastructure projects in the province aligned to our transition to a low-emissions, climate resilient and energy efficient economy.
4. Support more efficient capital markets by repealing the *Toronto Stock Exchange Act* and amending the *Securities Act* to allow the Ontario Securities Commission (OSC) to issue blanket orders.
5. Modernize the securities regulatory framework.
6. Work collaboratively and quickly with the federal and provincial/territorial governments to: i) harmonize beneficial ownership information standards across Canada in federal and provincial/territorial corporate law statutes, and ii) create a central registry to house the information.

1. **Maintain commitment to restore fiscal balance by 2023-23.** Ongoing and successful efforts to improve the effectiveness and efficiency of government programs, without jeopardizing social objectives, should be part of a long-term plan to balance the books and reduce the debt. A measure of economic prudence to cover risks arising from unforeseen economic circumstances and a contingency fund for emergency spending should also be incorporated in the budget plan (and be used to pay down the debt, if not needed). This approach will bolster business and investor confidence.
2. **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 is difficult for small businesses to access public markets. Capital raised through public markets provides successful entrepreneurs with the independence in decision making for internal growth and acquisition. A tax incentive 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.
3. **Develop a policy framework to harness the available capital and expertise of the private sector to fund infrastructure projects in the province aligned to our transition to a low-emissions, climate resilient and energy efficient economy.** There are many small and mid-sized infrastructure projects desperate for capital at the local and regional level, for example, building retrofits and telecommunications structures for smart technology. Coordinated leadership between the federal and provincial government, the financial community and industry will be key to progress. If the government can fully leverage public and private resources, more infrastructure projects would be built and operated in the province in a timely and cost-effective manner.
4. **Support more efficient capital markets by repealing the *Toronto Stock Exchange Act* and amending the *Securities Act* to allow the Ontario Securities Commission (OSC) to issue blanket orders.**
 - The repeal of the *Toronto Stock Exchange Act* represents the removal of legacy legislation from decades ago which, in the IIAC's view, no longer serves a useful purpose and causes a great deal of confusion. The TSX is now subject to other, more recent legislation—whether it be corporate law or securities law, including TMX Group and TSX Recognition Orders. The repeal of the Act will give the TMX flexibility on internal, administrative practices, in a way that aligns the TSX with practices of other Canadian corporations and exchanges. It will not change the way the TSX or its clearinghouses are overseen by regulatory authorities, or the way market participants interact with the exchange on a daily basis. The integrity of Canadian capital markets will continue to be preserved, while providing greater clarity for the Exchange and market participants.

- The IIAC concludes blanket rulings and orders are a useful tool in connection with non-contentious recurring situations and will enable the OSC to respond to new developments and products, and rectify deficiencies in the rules, in a timely and cost-effective manner. Additionally, all members of the Canadian Securities Administrators (CSA) can grant blanket exemptive relief orders, except the OSC. This undermines the strong collaborative work undertaken by CSA members to achieve responsive and harmonized regulation, eliminate undue regulatory burden, and streamline regulatory requirements while promoting market integrity and investor confidence.
5. **Modernize the securities regulatory framework.** We welcome the government's pledge to create a securities modernization task force to review the *Securities Act*. Such a review is long overdue—the last one completed in 2003. Since then, we have seen profound and rapid changes in capital markets, business models and investor behavior. At the same time, securities legislation and regulation has not kept pace. It is critical that the securities modernization task force include investment and financial sector professionals, businesses, regulators, and investors to bring forward recommendations pertaining to market conduct, disclosure and regulatory structures that will improve the effectiveness, efficiency and competitiveness of Ontario's capital markets, and will align rules and regulations with the changing times. The task force should collaborate with the OSC Burden Reduction Task Force as well as the CSA who has engaged in considerable work to enhance the client-registrant relationship (Client Focused Reforms).
 6. **Work collaboratively and quickly with the federal and provincial/territorial governments to: i) harmonize beneficial ownership information standards across Canada in federal and provincial/territorial corporate law statutes, and ii) create a central registry to house the information.** Although corporate information reporting requirements are in place at both federal and provincial levels, there are differences related to the collection, disclosure and access to this information. The BC government recently (January 17, 2020) launched consultations on the implementation of a registry of beneficial owners of private BC companies to help reduce the impact of proceeds of crime on BC businesses, economy and communities. A central registry would be of enormous benefit to securities dealers. IIAC member firms devote significant resources to customer due diligence, including beneficial ownership research. In some cases, multiple firms conduct due diligence on the same entities. For more sophisticated corporations, institutions and trust relationships, it is a complicated and time-consuming process to work through the complexity of these structures to identify beneficial owners to complete required screening at account opening and on an ongoing basis. The lack of a central registry hinders the efficiency of capital markets and the competitiveness of our industry.