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

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September 16, 2016

Department of Finance Canada
14th Floor
90 Elgin Street
Ottawa ON K1A 0G5
fin.pensions-pensions.fin@canada.ca

Re: Department of Finance Consultation on Pension Plan Investment in Canada: The 30 Per Cent Rule

Dear Sirs/Mesdames:

The Investment Industry Association of Canada (IIAC)[1] appreciates the opportunity to provide our comments on the usefulness of the existing provisions in the *Pensions Benefits Standards Act, 1985* (PBSA) that restrict federally regulated pension plans from holding more than 30 per cent of the voting shares of a corporation (commonly known as the "30 per cent rule").

The IIAC has been actively involved in the public policy dialogue on strategic issues impacting the investment industry, Canadian capital markets, and the retirement security of Canadians. This includes advocating for federal and provincial initiatives to bolster the Canadian retirement income system by encouraging increased private savings, and to improve incentives for capital raising for small business and small-to-medium scale infrastructure projects.

As noted in the consultation paper, the 30 per cent rule does not appear to have been effective in meeting its intended policy objective of limiting federally-regulated pension plans to passive investment in corporations, because pension plans are able to avoid the application of the rule through the use of various legal and organizational structures. The need for a more active investment strategy to generate strong enough returns to match growing liabilities as baby-boomers reach retirement, outweighs the significant cost involved in creating the legal, financial, and administrative framework necessary for a pension plan to avoid the 30 per cent rule. Thus, we agree that the rule is not only ineffective in meeting the stated policy objective, it creates significant inefficiency in the investment process.

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[1] The Investment Industry Association of Canada (IIAC) is the national association representing the position of 132 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 vast majority of financial advisory services, securities trading and underwriting in public and private markets for governments and corporations. For more information, visit **http://www.iiac.ca**.

The decision to relax or eliminate the 30 per cent rule should not be undertaken without a detailed analysis of the potential negative impact on government finances if pension plans were to avail themselves of the tax-planning structures described in the consultation paper, shifting taxable income from the businesses in which they have a controlling interest, to become non-taxable income of the pension plan. In addition to the impact on federal revenue, this potentially creates an unlevel playing field between pension funds and other Canadian investors and businesses, tipping the balance of concentration too far in favour of tax-exempt pension plans. If the Government relaxes or eliminates the 30 per cent rule, it should consider implementing the measures taken in other G-7 countries, as outlined in the consultation paper, to address the potential loss of tax revenue and to restore competitive fairness between pensions and other market participants.

We thank you for the opportunity to provide our input, and would be pleased to further discuss our views at your convenience.

Yours sincerely,

"*Ian Russell*"

Ian Russell
President and CEO
Investment Industry Association of Canada (IIAC)