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

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President & Chief Executive Officer

November 19, 2012

The Honourable James M. Flaherty, P.C., M.P.
Minister of Finance
Department of Finance Canada
31st Floor, East Tower
140 O'Connor Street
Ottawa, Ontario K1A 0G5

Dear Minister Flaherty:

Re: Impact of Financial Transaction Taxes by Foreign Jurisdictions on Canada

The Investment Industry Association of Canada (IIAC) commends your Department on the considerable attention given to voicing Canada's interests on international tax matters. Specifically, we applaud efforts to address various tax initiatives contemplated, or enacted, by foreign governments that have extraterritorial implications for Canada. Most recently, we welcomed your Department's announcement of November 8th confirming Canada's commitment to negotiate an information exchange agreement with the United States to help make more manageable Canada's obligations under the U.S. Foreign Account Tax Compliance Act (FATCA). FATCA compliance requirements will have costly and disruptive implications for Canadian financial institutions and their clients. In addition to FATCA, Canadian institutions are increasingly concerned by the recent groundswell of European support for a harmonized regional financial transaction tax (FTT). An FTT will adversely impact Canadian investors and their financial intermediaries, and distort the flow of capital in global markets. We greatly appreciate and support your stated opposition to an FTT and hope that Canada will continue to raise opposition to such a tax at future meetings of international leaders.

Many governments have considered an FTT as a mechanism to: i) raise revenues from the financial sector and ii) to deter "undesired behaviour" in financial markets. We are deeply concerned by the unintended consequences potentially arising from the global application of regional FTTs. Specifically, studies have shown that FTTs contribute to fragmented and inefficient capital markets, impair their depth and liquidity, lower returns for investors and increase the cost of capital for issuers while doing little to curb financial market excesses.[1] Given the still fragile state of global markets, unproven public policy initiatives should be avoided as they risk impeding the pace of recovery.

Despite Canada's opposition to an FTT, reinforced by objections from other foreign jurisdictions, at least ten European Union (EU) countries have expressed support for a harmonized FTT as modeled, and authorized, by the European Commission itself[2]. We are deeply concerned by the broad extraterritorial reach of the FTT. Specifically, it may tax Canadians investing in European securities even if transacted on North American financial markets. Further, Canadian financial institutions servicing these Canadian

[1] An overview of the debate around FTTs can be found in *Taxing Financial Transactions: Issues and Evidence*, IMF Working Paper/11/54, Thornton Matheson, 2011. (http://www.imf.org/external/pubs/ft/wp/2011/wp1154.pdf)Also see *Financial Sector Taxation: The IMF's report to the G20 and Background Materials*, Stijn, Keen and Pazarbasioglu 2010.

[2] The European Commission's council decision on a harmonized FTT can be viewed at: http://ec.europa.eu/taxation_customs/resources/documents/taxation/com_2012_631_en.pdf

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investors will, in effect, be required to act as agents of the foreign governments. As a result, Canadians with little or no connection to the EU country imposing the FTT will experience diminished returns on their affected investments, and Canadian financial institutions will have to bear the resources associated with collecting and remitting tax to the European governments while possibly taking on liability in that regard.

The federal government itself will lose tax revenue, both from Canadian investors who will now pay more tax to foreign jurisdictions and less to Canada, and as the costs of tax compliance obligations reduce net earnings for Canadian financial institutions.

The French government has already implemented a French FTT that includes in scope French American Depository Receipts (ADRs) listed on U.S exchanges[3]. ADRs are popular investment vehicles for Canadians looking to diversify their portfolios internationally. The implementation of the French FTT is already causing considerable confusion here in Canada and detracting resources from Canadian financial institutions that could otherwise be used in growing their business and servicing clients.

We respectfully request that the Department of Finance continue advocating to its European counterparts that regional FTTs not be extended on a global basis due to the hazards imposed on interconnected capital markets. In the case of jurisdictions that choose to proceed with an FTT, they should first be required to conduct full consultation with foreign financial institutions collecting and remitting the tax to clarify the administrative and other implications arising from the FTT. Jurisdictions, such as France, that have already implemented an FTT should defer international implementation until Canadian and other foreign financial institutions understand the administrative procedures and are given a suitable transition period.

Yours sincerely,

c.c.: Jeremy Rudin (Assistant Deputy Minister)
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[3] Tax on French ADRs is set to come into effect on December 1, 2012.