



Recommendations to the

Red Tape Reduction Commission

Suggestions for

“Better, Faster, Smarter, More Cost-Effective” Regulation

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The Investment Industry Association of Canada (IIAC) advances the growth and development of the Canadian investment industry. We represent the interests of our registered dealer members on securities regulation, tax and other public policy matters to improve the savings and investment process and achieve efficient, liquid, competitive markets that benefit the investing and issuing public. Our 189 member firms range from regional institutional boutiques and retail firms – many of which are small businesses – to large full-service companies employing thousands of Canadians across the country.

We commend the government for establishing the Red Tape Reduction Commission to identify specific fixes and general principles to avoid regulatory creep in future. While efforts have been made to address the regulatory burden, and a lot of attention has rightly been spent on reducing red tape for *small* businesses, the costs of red tape affects firms of all sizes. Moreover – often forgotten – these costs become part of Canadian businesses' cost base, ultimately paid for by clients, shareholders and taxpayers, and possibly, over time, contribute to lost sales or lost jobs.

Laws and regulations are introduced to address perceived policy concerns. However, we have found that many have counterproductive components. Almost always introduced in haste, regulatory and administrative provisions are frequently overly complicated, can be duplicative, often have unintended consequences and can later be met more effectively due to technological advances. As new priorities arise, there is little time and few resources to fix problematic measures. We believe that we need to stand back, take stock of where we are and fix what we have.

Other countries recognize the significant and negative costs of regulation in its broadest sense. The U.K., Australia and Netherlands estimated that freeing up businesses from even a small proportion of regulatory costs would have major economic benefits:

A February 19, 2007 Australian “Productivity Commission Research Report” said:

“The ... Netherlands ... estimated cumulative savings of €900 million [CAD \$1.2 billion] over 2003 and 2004 from reduced administrative burdens on business. In the United Kingdom, it is claimed that reductions to administrative burdens obtained through the use of the Standard Cost Model will potentially increase GDP by £16 billion [CAD\$25 billion].”

Red tape reduction is particularly important today as Canada’s again-high deficit and debt mean we need to find ways other than government spending and taxes to stimulate business growth. Improvements in growth and profitability through elimination of regulatory inefficiency should mean, over time, more jobs and more taxes naturally, that is, relatively painlessly.

Specific Recommendations

We will be sending our detailed recommendations to you later this month, but in brief they are:

1. Stop the release of changes without notice or time for orderly implementation where there is no or minimal government revenue impact
2. Require and make available trust identification numbers (TINs) before the tax reporting season starts
3. Improve the T5013 and T3 filing process by extending filing requirements of public to private income and capital trusts and limited partnerships to ensure investors are not exposed to re-assessments

4. Work to address complications resulting from T3 and in future T5013 filing in XML
5. Delay withholding remittance by 12 days at year-end to reduce financial institution errors and costs
6. Address non-financial-institution-caused delays and errors that require tax slip re-mailing
7. Eliminate the requirement to mail registered plan declaration of trust updates, still making disclosures available while reducing paper use
8. Simplify the refund process for non-resident tax erroneously charged to Canadian residents
9. Confirm the tax treatment of life income fund (LIF) to registered retirement savings plan (RRSP) transfers to ensure consistent treatment of Canadians
10. Eliminate paper requirements associated with locked-in account transfers (LIRAs) and registered education savings plans (RESPs)
11. Improve the registered retirement income fund (RRIF) transfer process
12. Bring tax-free savings account (TFSA) administrative processes in synch with those for other registered plans, allowing for simpler processing and less confusion for Canadians; also, address the backlog of unmatched TFSAs that may result in TFSA deregistration and taxation of earnings as income for thousands of Canadians

13. Change the *Income Tax Act* to restore the previous tax treatment of broker warrants to return these financing mechanisms' capital-raising viability for small regional issuers and dealers
14. Improve the likelihood that pooled registered pension plans or PRPPs can be provided cost-effectively – a recommendation that requires provincial assistance.

As you can imagine from this list of recommendations alone, key beneficiaries of red tape reduction – often overlooked – are government officials themselves. Our members recognize the efforts of federal government employees with whom they interact in the Canada Revenue Agency (CRA) and other government departments with respect to client tax and social program delivery. We think – and we think that they think – that this longstanding relationship can be made more effective, which leads us to our general recommendations.

General Recommendations

One of the CRA's commitments to taxpayers and small businesses is that, when implementing legislation and regulations imposing costs that are otherwise unnecessary to the firms' operations, the provisions should be as reasonable to comply with as possible. While we understand that other political priorities may intervene from time to time, we believe that the following six principles will help provide intermediaries – and the CRA and taxpayers – with more manageable and cost-effective, while equally efficient, processes. The recommendations are:

1. Ensure effective consultations, including regulatory impact assessments with reasonable cost-benefit analyses, regarding not just amended, but also new regulations and administrative changes;

also, require periodic reviews of existing requirements to identify ones to terminate or where better alternatives exist

2. Provide appropriate notification of amendments, the status of requests and time for reasonable implementation of changes; use industry associations to help disseminate information and, where there is considerable interaction between the private sector and a government body, assign a “go-to” person to address any bottlenecks that may emerge
3. Increase electronic communication and reduce paper use to lower risk and costs
4. Promote use of industry utilities to streamline workload, improve accuracy and reduce resource requirements
5. Establish additional, and report on government adherence to, service level targets to businesses providing tax-reporting services
6. Recommend a Federal-Provincial Red Tape Reduction Commission to address administrivia in shared jurisdictions.

In preparing these remarks, we did – as usual – seek input from our members on the burden of regulation. One of our members, Tom Caldwell of Caldwell Financial Ltd., said it better than I.

“Less is more. Simpler is better.

The focus on regulations for regulation's sake is an incredible burden for smaller and mid-sized firms. It is not just about cost, but more importantly, about time and focus.

A good example would be SOX [Sarbanes-Oxley], which costs hundreds of millions of dollars and did not save one investor one

dollar. Further, it took directors' focus off corporate and systemic risk. It is seen as a contributing factor in the recent financial debacle.

Regulatory reviews are now so focused on micro issues as to be risk-enhancing. Our slavish following of poor U.S. regulations and practices adds to the Canadian burden.

Simpler is easier to police and to comply with. Focus on what is important.

Many of the staff conducting reviews have little understanding of the real risk factors and instead, focus on micro-issue "gotchas".

Set a goal to cut old, redundant or inessential regulations, then focus on simple risk and blatant conflict. That should cut the rule book in half."

While many of Tom's comments relate to securities rules, they pertain equally to tax and registered product regulation as well.

Ronald Reagan is cited as saying: "The nine most terrifying words in the English language are, 'I'm from the government and I'm here to help.'" The IIAC and its members don't subscribe to that theory. What does worry us, though, is that the recommendations that come out of this Commission may not be acted upon. Your work is very important for millions of Canadian investors, businesses and issuers and therefore to the continued success of the Canadian economy. 