



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

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President & Chief Executive Officer

February 2, 2011

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

Dear Minister:

Re: The Need for Canada to Expedite a Double Taxation Agreement with Hong Kong

On behalf of the Investment Industry Association of Canada (IIAC), I am writing to request that you consider signaling in the upcoming budget your Government's intention to initiate negotiation of a double taxation treaty with Hong Kong. I recently returned from leading the Canadian financial mission organized by the IIAC, with the Hong Kong Trade Development Council and Hong Kong Economic and Trade Office, as part of the 2011 Asian Financial Forum. During the visit, I met with senior officials in the Hong Kong Special Administrative Region (HKSAR), including John Tsang, Financial Secretary, as well as Doreen Steidle, Consul General of Canada to the HKSAR. I came away from my visit with the sense that the Hong Kong business community is disappointed with the lack of progress in advancing a double taxation agreement (DTA) with Canada. We encourage you to continue building the business-friendly environment promised in *Advantage Canada: Building a Strong Economy for Canadians* (2006) by negotiating a treaty with Hong Kong, thereby expanding savings and capital flows between our two markets.

Tax treaties have long been viewed as important instruments for encouraging economic growth. As well, Canada is developing tax information exchange (TIE) agreements to promote transparency and the effective exchange of tax information to better administer, enforce and facilitate compliance with tax laws, extending the country's international network of agreements to countries that Canada never before envisioned having tax agreements with. The following are the compelling arguments we see for action on this front with Hong Kong now.

- **Substantial benefits will accrue to Canada:** Hong Kong has deep pools of institutional and individual capital ready to be directed to external portfolio investment. Canada has longstanding and expanding ties with Hong Kong and stands to forge more. While Canada's capital markets are proportionally small globally, there are strong relationships with the

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HKSAR as Hong-Kong-born people took Canadian citizenship before sovereignty over their birthplace was restored to the People's Republic of China, and they later returned to Hong Kong, retaining strong ties to Canada. Concluding a DTA would stimulate additional interest in Canadian dividend-paying stocks, further improving the depth and liquidity of the market for these securities. Moreover, the attraction of Canadian equities would benefit Canadian financial firms expanding their wealth management business in Hong Kong and, through Hong Kong, to a market of over one billion Chinese. The DTA would also encourage Asian companies to establish subsidiaries in Canada given the opportunity to repatriate dividends cost-effectively, additionally enabling Canada to be the North-American beach-head for Asian businesses. Both inward and outward investment should help create jobs in our country.

- **Canadian companies should not risk losing out:** We believe that Canada should continue building on Canada's primacy as the lowest-business-tax jurisdiction among G7 countries. In 2010, Hong Kong completed comprehensive DTAs with Liechtenstein, France and Japan, and similar agreements are planned with the U.K., Austria, Ireland, Hungary and five others. Canada should be on that list of countries to maximize potential opportunities for Canadian companies, not just in Hong Kong, but also in China and other countries in South-East Asia.
- **Canada moves with the times:** In years past, Canada only entered into DTAs with countries where tax systems were essentially reciprocal arrangements. Some years ago, this policy changed with Canada providing treaty benefits to countries that would enter into TIE agreements enabling Canada to address tax evasion and other policy goals. While Hong Kong is a lower-tax jurisdiction, the Organisation for Economic Co-operation and Development (OECD) has recognised that Hong Kong is not a tax haven. Rather, it is a leading global financial and trading centre that does not derive its primary income from providing an environment supporting tax avoidance schemes. Hong Kong has the right to maintain a tax system independent of mainland China's until the year 2047 and it has demonstrated its commitment to international standards aimed at enhancing tax transparency. This leaves little standing in the way of negotiating an agreement.

Our discussions with officials in your Department and the Department of Foreign Affairs and International Trade have been positive and we believe supportive of a DTA with Hong Kong. We understand that your Government pledged closer economic ties to Hong Kong some time ago and a DTA would be in keeping with that pledge. Concluding an agreement would give Canadian financial institutions a springboard into Hong Kong and the Far East for further expansion, as well as help diversify our cross-border trade ties more broadly. Such an agreement would be in the interests of Canadians and Canadian companies, and contribute to growth in Canada's economy and to the nation's prosperity generally. It would be very welcome in Hong Kong and here. We would be pleased to discuss this matter with you or your officials at any time.

Yours sincerely,

