Submission to the Department of Finance Canada's 2026 Pre-Budget Consultations

The Canadian Forum for Financial Markets (CFFiM)

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The Canadian Forum for Financial Markets (CFFiM)/Forum Canadien des Marchés Financiers (FCMFi) is dedicated to advancing proposals that foster healthy, competitive financial markets and a resilient Canadian economy.

A. CAPITAL SOVEREIGNTY: FINANCING CANADA'S ECONOMIC INDEPENDENCE

Recommendation: The Government of Canada should recognize capital sovereignty as a core component of Canada's economic policy and systematically reform tax, regulatory and financial-market policies that unnecessarily impede the formation, retention, and productive deployment of capital in Canada.

Continued trade tensions and geopolitical realignment have exposed a broader economic vulnerability for Canada, as governments increasingly use tariffs, investment restrictions, technology controls, sanctions, and access to domestic markets as instruments of geopolitical policy. In this environment, access to capital itself can become a source of strategic leverage.

Canada benefits substantially from foreign capital and should remain an open and attractive destination for international investment.

Canada must also maintain the capacity to raise, retain, and deploy capital through competitive domestic financial markets. As a country seeking greater control over our supply chains, energy, technology, and strategic industries, we must also have the capacity to fund their development, ownership, and growth .

Tax, regulatory and financial-sector policy should therefore be assessed against a common objective: whether it strengthens Canada's capacity to finance Canadian investment, innovation, ownership, and growth.

The recommendations that follow identify specific measures through which the federal government can begin implementing this objective.

They are made with a view to positive, attainable solutions for the ultimate benefit of Canadians.

B. RE-ESTABLISH DEBT TO GDP AS CANADA'S FISCAL ANCHOR

Recommendation: Re-establish the debt-to-GDP ratio as the fiscal anchor, with a clear medium-term path back to pre-pandemic level of approximately 31% of GDP.

The government's *Spring Economic Update 2026*[1] projects persistent deficits, rising from $36.3 billion in 2024-25, to $65.3 billion in 2026-27, before declining to $53.2 billion by 2030-31, with no path to balance.

Federal debt is projected to rise from $1.27 trillion to $1.63 trillion over the same period, while

[1] Government of Canada, Canada Strong for All: Spring Economic Update 2026, April 28, 2026.

the debt-to-GDP ratio increases from 40.7% to 41.6%. Prior to the pandemic (2019-20), debt-to-GDP was 31.2%.

Public debt charges rise from $54.0 billion in 2025-26 to $80.9 billion in 2030-31 (10.6% and 13.2% of total revenue, respectively), diverting resources from tax relief and productivity-enhancing investment. Prior to the pandemic (2019-20), public debt charges were $24.4 billion (7.3% of revenue).

The $54.0 billion the federal government spent on interest payments in 2025-26 was roughly equivalent to the amount it transferred to the provinces and territories through the Canada Health Transfer ($54.7 billion).

These pressures are likely to intensify. Canada's aging population and increasing defense spending commitments will place growing pressure on public finances.

The government has introduced two new fiscal anchors to address fiscal pressures:

1. Balancing day-to-day operating spending with revenues by 2028-29; and
2. Maintaining a declining deficit-to-GDP ratio.

While these measures may improve aspects of fiscal management, neither provides a sufficient constraint on the overall accumulation of federal debt. The operating balance can be achieved while the government continues to borrow for capital and other non-operating expenditures. Similarly, the deficit-to-GDP ratio can decline even while the debt-to-GDP ratio increases, provided nominal GDP grows faster than the deficit.[2]A debt-to-GDP anchor would close this gap.

Debt-to-GDP should serve as the primary fiscal anchor because it directly measures the sustainability of accumulated federal borrowing relative to the economy's capacity to support it. Re-establishing a declining debt-to-GDP trajectory would strengthen fiscal credibility, reduce the risk that rising debt-service costs crowd out future priorities, and provide Canadians with a clear, measurable benchmark against which the government's fiscal performance can be assessed.

The government should establish a medium-term target to reduce the federal debt-to-GDP ratio from its projected peak toward approximately 31%, its 2019–20 level, with a clearly defined timetable and annual milestones. The government should also be required to publicly explain any material deviation from this trajectory and identify the measures that would return debt to the prescribed path.

[2] Office of the Parliamentary Budget Officer, *Economic and Fiscal Monitor – June 2025*, June 19, 2025.

C. DRIVE GROWTH AND COMPETITIVENESS THROUGH TAX REFORM

Canada is committing substantial public resources to defence, infrastructure, energy, and other strategic priorities. Achieving the intended economic return on these investments will require significantly greater private investment alongside them. As tax composition matters for growth, [3] tax policy should ensure that each dollar of public investment attracts more private investment, expands productive capacity, and strengthens long-term economic growth,

Corporate taxes are the most harmful, discouraging capital investment and productivity, followed by personal income taxes, which reduce incentives to work, save, invest, and undertake entrepreneurial activity. Value-added taxes such as the GST/HST affect work, saving, and investment decisions less.

Canada relies more on personal income taxes (35.9% of tax revenue vs 23.7% OECD average) and corporate income taxes (13.8% vs 11.9% OECD average), and less on value-added taxes (13.8% vs 20.5% OECD average).[4]

I) Rebalance to Consumption Taxes

Recommendations: Rebalance the tax mix toward consumption taxes. Increase the GST by 1 percentage point in 2027 and 2028, to 7%, its original level.

II) Cut Personal Income Taxes

Recommendations: Compress the five federal income tax brackets into three. Reduce the second-lowest personal income tax rate (20.5%) to 14% over six years starting in 2027, aligning it with the lowest bracket. This would help reduce elevated marginal effective tax rates (METRs) faced by middle-income earners, often amplified by income-tested benefits claw-backs. Reduce the fourth bracket rate (29%) to 26%, and the top rate (33%) to 29% to attract talent and encourage entrepreneurship.

Combined federal-provincial top marginal personal income tax rates exceed 50% in most provinces, placing Canada among the highest-tax OECD jurisdictions.[5] Canadians at all income levels in every province face higher marginal tax rates than U.S. counterparts.[6]

For example, in 2025, an individual earning C$150,000 in Canada faced a combined marginal tax rate ranging from 36.0% in Alberta to 47.46% in Quebec. By contrast, the same income in the U.S. faced marginal rates ranging from 24.0% in nine states to a maximum of 33.3% in California.

High marginal tax rates – applied to the next dollar earned – can influence economic behaviour

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[3] Tax Foundation, *Not All Taxes Are Created Equal*, Tax EDU, April 15, 2020.
[4] OECD, *Revenue Statistics 2025: Disentangling Personal Income Tax Revenue in OECD Countries*, December 9, 2025.
[5] OECD, OECD Data Explorer.
[6] Canadian Forum for Financial Markets, *Personal Income Tax Cuts Are Now a Must*, March 18, 2025.

by reducing incentives to work additional hours, save, invest, and undertake entrepreneurial activity.

III) Cut Corporate Income Taxes

Recommendation: Cut the statutory corporate income tax rate by 1 percentage point in 2027 and 2028 (from 15% to 13%).

Canada's combined federal-provincial statutory corporate income tax rate averages 25.98%, broadly in line with the U.S.'s (25.57%) and slightly above the OECD's (24.27%) combined central and sub-central rates.[7] Canada's 12.3-point corporate tax advantage over the U.S. in 2017 has disappeared, eliminating any tax advantage for locating businesses in Canada.

Small businesses are taxed at a combined federal-provincial rate of 11.57% on up to $500,000 of active business income—14.4 percentage points below large corporations. Research suggests this rate differential discourages firms from scaling.[8]

While statutory corporate income tax rates influence business location decisions, investment decisions are influenced by marginal effective tax rates (METRs) on capital. The METR reflects the full tax burden on new investments as it incorporates statutory rates, depreciation allowances, investment tax credits, and sales taxes on capital inputs. In this sense, it reflects the effective tax burden on new business investment.

METRs vary considerably across industries, and capital tends to flow to tax-advantaged sectors over those with stronger growth potential, slowing innovation and productivity.[9]

IV) Facilitate Corporate Spin-Offs

Recommendation: Introduce a dedicated de-merger provision in the *Income Tax Act* to provide a clear and predictable tax framework for qualifying corporate spin-offs, reducing reliance on complex reorganization rules or exceptions to the General Anti-Avoidance Rule (GAAR).

Corporate spin-offs can enhance competition across the economy by creating independent businesses with more focused management, clearer strategic objectives, and greater valuation transparency. As standalone companies, spun-off entities often face stronger pressure to improve efficiency, pricing, and innovation.[10]

In Canada, corporate demergers can typically be structured through "butterfly reorganizations" under section 55 of the *Income Tax Act* – a complex, multi-step process often requiring advance

[7] Tax Foundation, *Corporate Tax Rates Around the World*, December 17, 2025.
[8] Statistics Canada, *Responsiveness of small businesses to corporate income taxation in Canada: A summary of new findings*, March 26, 2025.
[9] MacDonald-Laurier Institute, *Canada is not as tax competitive as the Carney government claims*, November 19, 2025.
[10] Thomas J. Chemmanur and An Yan, *A theory of corporate spin-offs,* Journal of Financial Economics, Volume 72, Issue 2, May 2004, Pages 259-290.

CRA rulings. By comparison Section 355 of the U.S. Internal Revenue Code provides for clearer and more predictable tax treatment of spin-offs.

Rather than requiring taxpayers to structure legitimate business separations around exceptions to general anti-avoidance rules, a purpose-built provision could establish objective conditions under which qualifying de-mergers could occur on a tax-deferred basis.[11]

V) Expand Canada's Flow Through Structures

a) Improve Canada's Mining Flow-Through Share Regime

Recommendation: Expand mining flow-through share regime to include preliminary economic, pre-feasibility, and feasibility studies as eligible Canadian Exploration Expenses.

Mining is considered riskier investment because returns depend on a mix of geological uncertainty, long development timelines, and cyclical commodity markets. Bringing a new mine into production in Canada now typically takes about 18 years for projects that actually start up, but closer to 27 years when the full pipeline of advanced (including delayed) projects is considered**.** .[12] Such long development timelines require a high degree of patient capital, which is relatively scarce. As a result, a funding gap often exists, particularly for early-stage exploration companies.

Flow-through shares help bridge the funding gap by allowing exploration companies to renounce eligible Canadian Exploration Expenses (CEE) to investors. Flow-through share financing accounts for approximately 70% of the mineral exploration funding raised on Canadian stock exchanges, totaling $9.4 billion from 2016-2025, including about $1.6 billion in 2025 alone.[13]

To qualify as a Canadian Exploration Expense (CEE), expenditures must satisfy the "purpose test," meaning they are incurred for the purpose of determining the existence, location, extent, or quality of a mineral resource. Under Canada Revenue Agency administrative practice[14], expenses related to determining the economic viability or engineering feasibility of a mineral

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[11] Manu Kakkar, *A Critique of Canada's Divisive Reorganization Rules: Should Breaking Up Be So Hard To Do?* Canadian Tax Journal, Vol. 49, No. 4 / no 4 (2001). Also, CFFiM Podcast Breaking Up Should Not Be Hard to Do: The Value of Corporate Spinoffs.

[12] S&P Global Market Intelligence, "Average Lead Time Almost 18 Years for Mines Started in 2020–23," April 10, 2024, https://www.spglobal.com/market-intelligence/en/news-insights/research/average-lead-time-almost-18-years-for-mines-started-in-2020-23; S&P Global Market Intelligence data as reported in "Zambia, US, and Canada Slowest for Mine Development," *Northern Miner*, July 20, 2024, https://www.northernminer.com/news/zambia-us-and-canada-slowest-for-mine-development-sp-global/1003869733/; Benchmark Canada, "Mine Permitting Timelines in International Context," accessed September 8, 2026, https://benchmarkcanada.org/Building_Mine-Permitting-Timelines.html.

[13] Prospectors & Developers Association of Canada (PDAC), *Flow-Through Shares: Made in Canada Investment Tools*.

[14] Government of Canada, Budget 2025, Tax Measures: Supplementary Information, Eligible activities under the Canadian Exploration Expense, pg. 351.

project – such as preliminary economic assessments, pre-feasibility studies, and feasibility studies – are generally not considered CEE and therefore cannot be renounced under the flow-through share regime. While early-stage exploration activities such as geological, geophysical, and geochemical surveys typically qualify, costs associated with technical and economic studies aimed at assessing project viability are generally excluded. However, these studies are a necessary and standard part of advancing a mineral project toward development and are often required for regulatory approvals, investment decisions, and financing purposes. Consideration should be given to including these expenses as eligible renounceable costs.[15]

b) *Expand Canada's Flow-Through Share Regime to Canadian Startups in Innovative Industries*

Recommendation: Develop and implement a targeted flow-through share regime for qualifying R&D-intensive Canadian companies, allowing eligible Canadian R&D expenditures to be renounced to investors. Eligibility should be based primarily on objective expenditure and company criteria rather than prescribed industry classifications, with appropriate limits and coordination with the SR&ED regime to prevent unintended duplication of tax benefits.

Canada's flow-through share regime demonstrates how the tax system can help finance businesses that incur substantial qualifying expenditures before generating sufficient taxable income to use the associated deductions.

This financing challenge extends beyond the resource sector. Innovative Canadian companies can incur significant research and development expenditures during their early stages while generating little or no taxable income. As a result, the immediate tax value of deductions associated with those expenditures may be limited precisely when the company has the greatest need for external capital.

The Liberal Party of Canada's 2025 platform proposed extending flow-through shares to innovation-focused startups, including companies operating in artificial intelligence, quantum computing, biotechnology, and advanced manufacturing. Under the proposal, eligible R&D expenditures could be renounced to investors, who could deduct those expenditures in calculating their taxable income.

The concept merits implementation, but eligibility should not depend primarily on whether a company falls within a government-designated industry. Innovation changes quickly, and sector-specific definitions risk becoming outdated, creating arbitrary distinctions, and encouraging businesses to structure themselves around eligibility requirements.

A more durable approach would base eligibility principally on objective criteria, including the nature and amount of qualifying Canadian R&D expenditures, the size and stage of the company, and the use of the capital raised.

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[15] Miller Thomson, *Improving flow-through shares: Aligning mining exploration expenses with NI 43-101*, January 30, 2025.

The regime should also be coordinated with the Scientific Research and Experimental Development (SR&ED) program so that the tax treatment of expenditures renounced to investors is clear and does not produce unintended duplication of tax benefits.

c) Examine A Limited Listed Income Trust Pilot

Recommendation: Develop, through substantive fiscal analysis and public consultation, a time limited listed income trust pilot. The pilot should include objective eligibility requirements, disclosure, anti-avoidance rules, published evaluation measures and transition protection.

Without reopening the tax-driven conversions that led to the Specified Investment Flow-Through (SIFT) rules, Canada should evaluate whether listed income trusts can provide suitable businesses with another route to public capital and investors with another income-producing investment.

Income trusts once formed a significant part of Canada's public markets. Their market value increased from more than $45 billion at the end of 2002 to almost $90 billion by mid-2004.[16] This rapid growth demonstrated substantial uptake by businesses, investors, and market intermediaries.

Income trusts allowed businesses to sell interests in cash-generating operations and distribute much of the resulting cash flow to investors. Bank of Canada research found that proceeds from income-trust offerings were used to finance new investment, repay debt and return capital to shareholders with limited evidence that trusts expanded financing options for firms that might otherwise have had difficulty accessing public markets. The Bank of Canada also found it gave investors risk-and-return characteristics not available from conventional stocks or bonds.[17]

Regular distributions provided by income trusts can also improve capital allocation. Businesses return cash they do not require for operations or worthwhile investment, leaving investors to decide where it should be reinvested. This can reduce the risk that surplus cash will be spent on low-return projects or acquisitions. The trade-off is that high distributions may leave a business with less money to finance future investment.[18] The structure is therefore more suitable for businesses with stable cash flow and manageable capital requirements than for pre-revenue or highly investment-intensive businesses.

Under the former regime, an operating business could make deductible payments to a trust, and the trust could generally deduct amounts distributed to investors. This moved the point of

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[16] Bank of Canada, *Bank of Canada Review, Summer 2004*. The Bank reported that income-trust market capitalization exceeded $45 billion at year-end 2002 and was approaching $90 billion by mid-2004.

[17] Bank of Canada, *Financial System Review, June 2004*, p. 26; Bank of Canada, *Financial System Review, June 2006*, pp. 45–46. The Bank described the evidence concerning expanded financing access and market completeness as limited.

[18] Michael C. Jensen, "Agency Costs of Free Cash Flow, Corporate Finance, and Takeovers," *American Economic Review*, vol. 76, no. 2 (1986), pp. 323–329.

taxation from the business to the investor. The result was particularly favourable where units were held through registered plans, pension funds or other tax-exempt or tax-deferred accounts, or by non-residents subject to withholding tax.

The former regime nevertheless created serious tax problems. The tax advantage encouraged some public corporations to convert principally to reduce tax rather than to raise new capital. The federal government responded in 2006 by introducing the specified investment flow-through, or SIFT, rules. Those rules generally prevent a publicly traded trust from deducting distributions of Canadian business income. The affected income is taxed at rates based on corporate income-tax rates, and the related distribution is treated as an eligible dividend received by the investor. Qualifying REITs remain excluded. [19]

The SIFT rules stopped tax-driven conversions, but they also largely removed the reason to use an operating income trust. The structure remains legally possible but has effectively disappeared as a distinct financing option.

Several years later, there is reason to reconsider that outcome. The TSX had only two new company IPOs and 55 delistings in 2025. [20] In January 2026, all 23 new TSX issuers were exchange-traded funds. In February 2026, 22 of the 28 new issuers were ETFs.[21] Income trusts would not reverse this trend by themselves, but they could give suitable private businesses and privately held operating assets another route into Canadian public markets.

There is an established market for investments that makes regular distributions. Canadian covered-call ETFs held approximately $57 billion in assets in 2026, compared with $3.7 billion in 2016. [22]

The demand for income producing investments also matters as Canadians finance longer retirements. In 2024, only 37.6% of paid workers were covered by a registered workplace pension. A Canadian reaching age 65 can expect to live, on average, approximately another 19 years if male and 22 years if female.[23] A listed income trust could provide another investment choice for producing retirement income.

The tax treatment of registered plans, pension funds, other tax-exempt investors, and non-residents would also determine the fiscal cost of the pilot. Their potential interest in the structure is part of the case for examining it, but their ability to receive distributions without immediate Canadian tax was also one of the central problems under the former regime. A new framework must address that issue directly rather than treating investor demand as sufficient justification for a tax preference.

The federal government should consider a time limited pilot (for example, possibly 5 years)

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[19] Department of Finance Canada, "Canada's New Government Announces Tax Fairness Plan" (October 31, 2006); Canada Revenue Agency, "What is a SIFT trust?" and "Trust types and codes."

[20] Reuters, "Canada's IPO market set for revival, signaling economic confidence" (January 27, 2026).

[21] TMX Group, "Equity Financing Statistics—January 2026" and "Equity Financing Statistics—February 2026.

[22] TD Securities, "Canada's ETF Industry Hits the Trillion-Dollar Club" (2026).

[23] Statistics Canada, "Pension plans in Canada, as of January 1, 2025" (July 28, 2026); Statistics Canada, "Older adults and population aging statistics" (2025

through detailed fiscal analysis and public consultation.

Eligibility should be based on objective requirements established through consultation. These should include:

- A minimum operating history supported by audited financial statements.
- A demonstrated record of positive operating cash flow.
- Reasonable debt and distribution-coverage levels.
- A credible capital expenditure plan.
- A minimum amount or proportion of primary capital raised, where raising new business capital is an objective of the transaction; and
- Evidence that the proposed distributions are supportable from operating cash flow rather than continuing borrowing or repeated returns of investors' capital.

Sector exclusions should be imposed only where a sector presents a demonstrated tax, prudential or policy risk that objective financial requirements cannot address.

The consultation should determine the:

- Types and proportion of active-business income eligible for the deduction.
- Annual and lifetime deduction limits for each trust.
- Taxation of distributions received by taxable investors.
- Treatment of registered plans, pension funds and other tax-exempt or tax-deferred investors.
- Withholding tax or other treatment applicable to non-residents.
- Treatment of losses, returns of capital and distributions financed through borrowing.
- Rules preventing indirect conversions, artificial income transfers and transactions undertaken principally to obtain the tax benefit; and
- Coordination with provincial corporate and personal income taxes.
- Appropriate governance and continuous-disclosure requirements for the trust, its operating entities, and related-party transactions.[24]

[24] Preliminary recommendations are that eligible trusts should be required to disclose to investors operating cash flow, capital spending and expected future capital requirements, debt and applicable debt covenants, distribution coverage, the portion of each distribution funded from current operating income, distributions

The pilot should be evaluated against published measures, including the amount of new primary capital raised, investor participation and secondary-market liquidity, use of offering proceeds, federal and provincial revenue costs, and evidence of avoidance, artificial transactions, or unintended market effects.

The legislation should establish conversion and transition rules from the outset so that investors are not exposed to an unexpected tax change and issuers are not forced into a disorderly restructuring if the pilot is not continued.

VI) Further Encourage Investment in Early-Stage High Growth Canadian Businesses

Recommendation: Encourage investment in early-stage, high growth business through an Enterprise Investment Scheme (EIS).

Based on the latest OECD Compendium of Productivity Indicators 2026 (using 2024 data), Canada ranks 19th among OECD countries in labour productivity (GDP per hour worked). In 1970, Canada was the 6th most productive economy. History shows that advances in productivity often come from the start-ups, the new companies led by entrepreneurs with groundbreaking ideas. Yet Canada is seeing a sustained decline in entrepreneurial activity, with nearly half as many people launching businesses as 20 years ago.[25]

To encourage investment in early-stage, unlisted businesses with high growth potential, the federal government could adopt a program like the UK Enterprise Investment Scheme (EIS). Since 1993-94, 82,175 companies (39,675 first-time) have raised £33.0 billion through the program.[26]

The EIS offers investors:

- Personal income tax relief of up to 30% on investments in EIS-eligible share purchases of up to £1m each year (or on investments of up to £2m per year if at least £1 million of that is invested in knowledge-intensive companies).[27]
- An exemption from capital gains tax for EIS shares held more than three years.
- A rollover provision exempting capital gains taxes on the sale of an asset if the proceeds are reinvested in EIS-eligible shares.

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funded through borrowing, returns of investors' capital; and material differences between accounting income, taxable income, distributable cash and distributions paid.

[25] Business Development Bank of Canada (BDC), *Nearly half as many people are launching businesses as 20 years ago*, October 16, 2023.
[26] UK Government, *Enterprise Investment Scheme and Seed Enterprise Investment Scheme*, May 2026.
[27] HM Revenue & Customs, *Apply to use the Enterprise Investment Scheme to raise money for your company*, April 6, 2026.

- An exemption from inheritance tax if shares are held a minimum of two years and at the time of death.

- Relief on losses by offsetting a loss on investment against income tax or capital gains. The effective loss is calculated after subtracting the 30% income tax relief already obtained.[28]

Investments are made by subscribing for new ordinary shares in EIS-qualifying companies—either directly or through an EIS fund that builds a portfolio of qualifying companies.

Tax expenditures of the EIS Program are estimated to be offset by taxes paid by EIS-financed firms and their employees.[29]

An evaluation of the program by His Majesty's Revenue & Customs (HMRC) is available here.

VII) Expand Canada's Investment Management Safe Harbour

Recommendation: Amend section 115.2 of the Income Tax Act to expand the definition of qualified investments and the definition of designated investment services.

Section 115.2 of the *Income Tax Act* was enacted as a safe harbour rule under which a non-Canadian investment fund (or its members) is not considered to be carrying on business in Canada if it retains a Canadian service provider (CSP) to provide "designated investment services" in respect of "qualified investments." As a result, the fund is generally not subject to Canadian income tax solely by reason of engaging a CSP, subject to the application of any relevant tax treaty.

The safe harbour is subject to conditions and applies only in respect of:

- "Designated investment services," which include investment management and advice with respect to "qualified investments", investment administration services, and the acquisition and disposition of qualified investments.

- "Qualified investments", namely shares, partnership interests, trust interests and other equity interests, indebtedness, annuities, commodities, and commodity futures traded directly or indirectly on a commodities exchange, currency, and options, interests, rights, forwards, and futures agreements.

Section 115.2 no longer reflects the realities of today's investment management industry. Since the provision was introduced more than 20 years ago, the industry has evolved significantly. While traditional public equity and fixed income investing remain important, capital has increasingly shifted toward private equity, venture capital, private credit, infrastructure, real estate, digital assets, and other alternative asset classes. At the same time, many of the investment services that now characterize the investment management industry were either

[28] HM Revenue & Customs, *Venture Capital Schemes Manual*, July 30, 2026.
[29] Enterprise Investment Scheme Association (EISA), *Written evidence submitted to the Treasury Committee*, UK Parliament, October 2022.

nascent or did not exist when section 115.2 was enacted.

The provision's limitations on "designated investment services" and "qualifying investments" therefore risk placing Canadian investment managers at a competitive disadvantage relative to jurisdictions that have adopted more modern and flexible frameworks.

For example, the United Kingdom's Investment Manager Exemption (IME) is also designed to permit non-resident investment funds to engage UK-based investment managers without creating a UK tax liability, subject to specified conditions. However, the UK framework takes a broad approach. First, the UK defines an investment manager as being in the business of providing investment management services. Second, it focuses on "investment transactions" (rather than "qualified investments") and places less emphasis on the characteristics of the underlying investment assets. The transactions which are eligible for the IME are defined broadly as any transaction made by an investment fund other than one with excluded subject matter (i.e., transactions relating to UK land, physical commodities, or other physical assets). Thus, for the purposes of the IME investment transactions, included are shares, stock, commercial paper and warrants, futures (including forward) contracts, options contracts or securities of any description, any foreign currency, carbon emission credits, interest rate swaps, equity swaps, currency swaps, commodity swaps and commodity index swaps, cryptoassets, credit default swaps, whether settled physically or by cash, and other contracts for difference (but not contracts relating to UK land, physical commodities or other physical assets).

The approach taken should be suited to an investment industry in which strategies, instruments and asset classes continue to evolve rapidly.

D. DRIVE GROWTH AND COMPETITION IN FINANCIAL SERVICES THROUGH REGULATION

The government's *Spring Economic Update 2026*[30] announced the government's intention to launch a Whole-of-Government Competition Plan to ensure that competition is considered across existing and future federal policies and to reduce, where possible, the unintended effects of government policies that may restrict competition, including through regulation, procurement and industrial support. CFFiM welcomes this initiative and believes the plan should establish a clear, measurable framework for identifying and removing unnecessary barriers to competition across governments.

The U.S. approach illustrates how clear federal direction and defined timelines can accelerate regulatory reform. For example, a May 2026 White House Executive Order[31] directed federal financial regulators—including the U.S. Securities and Exchange Commission (SEC), the Commodity Futures Trading Commission (CFTC), the Federal Deposit Insurance Corporation (FDIC), the Office of the Comptroller of the Currency (OCC), the Consumer Financial

[30] Government of Canada, Canada Strong for All: Spring Economic Update 2026, April 28, 2026.
[31] The White House, Integrating Financial Technology Innovation into Regulatory Frameworks, Executive Order 14405, May 19, 2026.

Protection Bureau (CFPB), and the National Credit Union Administration (NCUA)—to review and modernize their existing regulations, guidance, supervisory practices, and application processes to facilitate fintech innovation within 90 days. The review must identify regulatory provisions that impede fintech firms from partnering with federally regulated institutions, such as insured depository institutions, credit unions, and broker-dealers. Regulators must identify ways to streamline application processes for fintech firms seeking bank charters, deposit or share insurance, and other federal licenses, while balancing safety and soundness, consumer protection, and market integrity. Within 180 days, each regulator must take concrete steps to encourage innovation based on the findings of its review, in consultation with the Assistant to the President for Economic Policy.

CFFiM recommends the following measures in support of a Whole-of-Government Competition Plan which grows Canada's financial markets for the benefit of Canadians:

I) Strengthen Federal Financial Regulators' Mandates for Competition and Growth

Recommendation: Review the *Bank Act* and federal financial regulators' mandates to ensure that international and domestic competition and market growth is an explicit objective, alongside their core mandates.

The Bank of Canada has observed that "it would also be hard to argue, on any objective measure, that Canada's banking system is anything other than an oligopoly," noting that the six largest banks collectively hold approximately 93% of all banking assets.[32] Similarly, the Competition Bureau has argued that "disruption in this sector is not a luxury—it is a necessity" and has called for greater competition from new market entrants "to shake things up".[33]

The Department of Finance should review the *Bank Act* and the statutory mandates of federal financial regulators to ensure that, alongside their primary responsibilities for prudential oversight, consumer protection, and financial stability, the competitiveness and growth of Canada's economy, including in particular the financial services sector is a core objective within their mandate.

At present, competition-focused mandates in Canada's federal financial regulatory framework are sparse. For example:

- The Office of the Superintendent of Financial Institutions (OSFI) does not have an explicit mandate to promote competition, although Section 4(3)(a) of the *Office of the Superintendent of Financial Institutions Act* states that, in protecting the rights and interests of depositors, policyholders and creditors of financial institutions, OSFI must have "due regard to the need to allow financial institutions to compete effectively and take reasonable risks."

- The Financial Consumer Agency of Canada (FCAC) has no express statutory objective to

[32] Carolyn Rogers, *Productivity's Competitive Edge*, Bank of Canada, October 2, 2025.
[33] Jeanne Pratt, *Moving Canada's Financial Sector Forward for Consumers*, Competition Bureau Canada, March 5, 2026.

promote competition, competitive markets, or consumer choice.[34]

The United Kingdom provides examples. Competition and competitiveness are reflected, for example, in the statutory objectives of both the Financial Conduct Authority (FCA)[35] and the Prudential Regulation Authority (PRA)[36]:

- The FCA has primary strategic and operational objectives to protect consumers, protect the integrity of the UK financial system, and promote effective competition in the interests of consumers.[37] Since 2023, it has also a secondary objective[38], introduced through the *Financial Services and Markets Act 2023*, to facilitate (the international competitiveness of the economy of the UK (including in particular its financial services sector), and its growth.

- The PRA has two primary objectives: to promote the safety and soundness of firms and, for insurers, to protect policyholders.[39] It also has two secondary objectives: to facilitate effective competition in the markets for services provided by PRA authorized persons, and to facilitate (subject to aligning with relevant international standards) the international competitiveness of the UK economy (including in particular, the financial services sector), and its growth over the medium to long term.[40]

The UK has also established enhanced reporting and accountability arrangements in support of these objectives, including annual reporting and quantitative metrics. The *Financial Services and Markets Act 2023* states: "These reports must, in particular, explain the action taken by the regulators to ensure the new objectives have been embedded in their operations, processes and decision making, and how any rules and guidance made by the regulators have advanced the new objectives".

Recommendation: Require federal financial regulators to report publicly each year on how their regulatory actions have advanced domestic and international competition, and economic growth. To support this accountability, regulators should establish transparent, measurable indicators to assess the impact of their regulatory actions. Indicators should cover areas including barriers to entry and expansion, administrative and compliance costs, innovation and technology adoption, consumer access, investment, and capital growth.

The Canadian government should strengthen the accountability framework for federal financial regulators by requiring them to report publicly on an annual basis on how their regulatory

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[34] *Financial Consumer Agency of Canada Act*.

[35] The FCA regulates the conduct of around 35,500 financial services firms in the UK and prudentially supervises around 34,000 firms. About the FCA | FCA

[36] The PRA regulates 1,254 firms. These consist of 686 deposit-takers (banks, building societies, credit unions, and designated investment firms and 568 insurers of all types (general insurers, life insurers, friendly societies, mutuals, the London market, and insurance special purpose vehicles). What is the Prudential Regulation Authority (PRA)? | Bank of England

[37] Financial Conduct Authority, *About the FCA*, July 9, 2026.

[38] Financial Conduct Authority, *Our Secondary Objective*, July 9, 2026.

[39] Bank of England, *Prudential Regulation Authority Business Plan 2026/27*, April 17, 2026.

[40] Bank of England, *Our Secondary Objectives*, July 31, 2026.

actions during the preceding year are supporting effective domestic and international competition and growth including its financial sector. Regulators should establish clear, measurable indicators against which progress can be assessed, including:

- Barriers to entry and expansion, including the time and costs associated with obtaining regulatory approvals and entering or expanding in Canadian markets.

- Administrative and compliance costs imposed on firms and the proportionality of regulatory requirements relative to the risks being addressed.

- Innovation and technology adoption, including firms' ability to develop and offer new products and services, adopt new technologies and business models, and compete with innovative firms in other jurisdictions.

- Consumer access and outcomes, including access to financial products and services, choice, affordability and the availability of innovative products and delivery channels.

- Investment and capital growth, including domestic and foreign investment flows, access to capital and the ability of Canadian firms to attract and deploy capital.

This would provide policymakers, market participants, and the public with greater transparency into the economic consequences of financial regulation.

II) Support a Competitive and Resilient Canadian Banking Sector

a) Eliminate Unnecessary Regulations

Recommendation: Conduct a public review of banking regulations to eliminate unnecessary requirements.

Lowering fixed regulatory costs can help all banks accelerate innovation and intensify price and service competition without compromising financial stability.

The Department of Finance, in consultation with OSFI and the Competition Bureau, should conduct a public review of banking regulations to identify and eliminate outdated or duplicative requirements, reduce unnecessary administrative and compliance costs, and preserve only prudential rules that deliver clear stability benefits.

b) Drive Innovation Through Open Banking

Recommendation: Drive innovation through open banking by:

- Extending streamlined participation pathways to securities market registrants.
- Supporting fair and effective access to the framework.
- Avoiding unnecessary regulatory duplication.

- Promptly establishing a technical standards body, and
- Measuring whether the framework is delivering meaningful outcomes—including increased market growth, competition, consumer choice, and product innovation.

CFFiM is supportive of the policy objectives of consumer-driven banking but recommends refinements to the Consumer-Driven Banking Regulations to ensure that the framework is practical, pro-competitive, interoperable, and proportionate while avoiding unnecessary regulatory duplication and fragmentation.

Further details are provided in our submission to Finance Canada.[41]

III) A National Approach to Capital Formation

Capital is fundamentally mobile, naturally flowing to jurisdictions that offer the most optimized risk-adjusted returns. Our current environment is characterized by persistent domestic productivity stagnation, whereby Canada lags more competitive, dynamic capital market jurisdictions. Our domestic ecosystem is constrained by realities which include capital concentration, a fragmented regulatory system, and structural aversions to risk.

Capital in Canada is concentrated within large banks and pension funds, limiting its availability for active deployment into growth-oriented opportunities. Pension capital is not consistently anchored to domestic economic growth, while the rise of passive investment vehicles (e.g., ETFs) has further reduced the pool of actively managed capital. These dynamics have contributed to a decline in IPO activity and reduced underwriting of Canadian growth equity and business risk. As a result, Canada's capital markets capabilities, particularly in the mid-market, have eroded. Fewer firms are scaling into public companies, and the cost of raising public capital has risen.

The highly fragmented nature of Canada's financial regulatory system reduces the attractiveness of Canada's capital markets. Firms must navigate a dense system of regulatory obligations and expectations, which increases costs, delay, and uncertainty for firms when raising capital. More generally, this system of diffuse decision-making results in delayed and incremental regulatory responses, which impairs Canada's ability to respond to market needs and encourage growth.

We have placed a high premium on avoiding visible short-term 'failures,' but far less weight on the significant costs of slow economic growth, reduced competitiveness, and diminished capital formation. The result is a system that appears stable but underperforms.

Recommendation: The federal government should collaborate with the provinces, territories, and securities regulators to develop and advance a coordinated national capital markets competitiveness agenda focused on strengthening capital raising and reducing unnecessary regulatory duplication.

[41] CFFiM, Proposed Consumer-Driven Banking Regulations, August 26, 2026.

a) *Strengthening Capital Raising*

The need for national capital raising agenda is underscored by developments in the United States. On May 19, 2026, the U.S. Securities and Exchange Commission (SEC) introduced sweeping proposals to promote capital formation in U.S. public markets by expanding access to shelf registration, broadening communication and offering flexibilities, and recalibrating filer-status and disclosure requirements. [42] The proposals are intended to increase efficiency, flexibility and cost savings for public companies while maintaining investor protections. The SEC's initiative reflects a recognition that regulatory reform can be an important tool for strengthening the competitiveness of public markets and encouraging companies to raise capital publicly. Canada should pursue its own regulatory modernization agenda with comparable ambition, ensuring that its capital markets remain competitive and that Canadian businesses are not placed at a disadvantage when choosing where and how to raise capital.

CFFiM has made multiple recommendations to the Canadian Securities Administrators (CSA) regarding a competition mandate, efficiency, accessibility, acceleration, certainty, the elimination of interprovincial trade barriers, sunset clauses and specific capital raising portfolios including scaled disclosure and expanding exempt market access. [43]

The CSA's current consultation on *Modernizing the Regulation of Public Companies* provides an opportunity to examine how Canada's securities regulatory framework can better support capital formation and the competitiveness of Canadian public markets. The federal government should remain informed of its progress and outcomes and consider how they can contribute to the federal government's broader economic growth, productivity, and competitiveness objectives.

b) *Eliminating Unnecessary Regulatory Duplication*

The highly fragmented nature of Canada's financial regulatory system undermines the competitiveness, efficiency, and attractiveness of Canada's capital markets.

Responsibility for securities and financial services regulation remains divided among multiple federal, provincial, and self-regulatory bodies. The CSA, the umbrella organization for provincial and territorial securities regulators and relies, oversees, and duplicates the work of the Canadian Investment Regulatory Organization (CIRO) for most aspects of the regulation of CIRO's members (investment dealers, mutual fund dealers, and marketplaces). At the same time, both address matters subject to the Office of the Privacy Commissioner of Canada and FINTRAC. The Office of the Superintendent of Financial Institutions (OSFI) and the Financial Consumer Agency of Canada (FCAC) oversee federally regulated financial institutions who have entities subject to CSA and CIRO oversight.

[42] U.S. Securities and Exchange Commission, *SEC Proposes Transformative Reforms to Help Public Companies Conduct Registered Offerings and Simplify Reporting Requirements*, Press Release No. 2026-46, May 19, 2026.
[43] CFFiM: Competing-for-Capital-Advancing-Capital-Formation-June-30.-2026-F.pdf

To operate in this environment, firms must navigate a dense system of regulatory obligations and expectations, which increases delay and uncertainty for firms when raising capital. More generally, this system of diffuse decision-making results in delayed and incremental regulatory responses, which impairs Canada's ability to respond to market needs and encourage growth.

Ontario's recent commitment to officially join the CSA passport system has been presented as an important step toward reducing interprovincial barriers and advancing a "one Canada economy."

The passport system does not address many of the structural challenges associated with Canada's fragmented securities regulatory framework. It does not improve the CSA's slow and cumbersome policy making process or eliminate the need to coordinate among regulators on multi-jurisdictional enforcement matters. Nor does the passport system materially reduce the costs associated with maintaining 13 provincial/territorial regulators along with the Canadian Investment Regulatory Organization (CIRO) which serves as a national self-regulatory organization. Provincial and territorial regulators continue to operate as separate organizations funded largely through registration and participation fees paid by market participants. Issuers raising capital across Canada remain subject to multiple filing fees, while dealers and other registrants continue to pay registration fees to multiple jurisdictions. The resulting compliance costs, including responding to multiple regulators, examinations, information requests, and policy initiatives can exceed the direct costs of regulatory fees themselves.

Achieving a truly integrated Canadian capital market and supporting a "one Canada economy" will require broader reforms that reduce institutional duplication, streamline regulatory decision-making, and improve the efficiency and competitiveness of Canada's financial regulatory framework. These objectives will require addressing the lack of a national securities regulator capable of streamlined supervision, more timely policymaking, and a unified approach to enforcement across Canada.

E. STRENGTHEN TAX-ASSISTED RETIREMENT SAVINGS

i) RRSPs

Recommendation: Increase the defined contribution pension plan and RRSP contribution limit from 18% to 30% of earned income—which scales the current maximum annual contribution room from $33,810 up to a baseline of $56,350—and fully index all limits to inflation moving forward.

Individuals may contribute up to 18% of their previous year's earned income—up to $33,810 in 2026 less any pension adjustment—to a defined contribution pension plan or RRSP. The 18% cap, established in 1992, based on demographic and economic assumptions[44] that are now outdated, was intended to provide broadly comparable retirement saving opportunities across

[44] William B.P. Robson, *Rethinking Limits on Tax-Deferred Retirement Savings in Canada*, C.D. Howe Institute Commentary, C.D. Howe Institute, issue 495, November 2017.

different types of savings plans. Today, it significantly disadvantages Canadians with RRSPs and defined contribution pension plans (common in the private sector) relative to those with defined benefit pension plans (more prevalent in the public sector). Increasing the limit would improve equity across pension arrangements.

Additionally, enhancing Canada's tax-deferred retirement savings plans would also enhance our ability to attract and retain the best and brightest people. In the U.S., for 2026, the 401(k)-plan contribution limit is US$24,500 (roughly C$34,400). Employees who are aged 50 to 59 and 64 or older may contribute US$8,000 more, or up to $32,500 annually (roughly C$45,600). Employees aged 60 to 63 may contribute US$11,250 more, or US$35,750 annually (roughly C$50,200). The 401(k) contribution limits also apply to other defined contribution plans.

The government should, increase the defined contribution pension plan and RRSP limit from 18% to 30% of earned income, increasing the current maximum annual limit from $33,810 to $56,350, and fully index the limits to inflation thereafter.

ii) RRIFs

Recommendations:

- Raise the RRSP-to-RRIF conversion age from 71 to 74. Life expectancy at 74 today (13.9 years) is roughly equivalent to life expectancy at 71 in 1992 (13.7 years) when the modern RRIF calculation was set.
- Reduce, and ultimately eliminate, mandatory RRIF withdrawal rates.

Mandatory RRSP-RRIF conversions at age 71, along with mandatory minimum withdrawals, are outdated. When the modern RRIF calculation was set in 1992, life expectancy at 71 was 13.7 years; today it is about 16.1 years. The overall survival rate at age 95 has increased from 7.5% in 1992 to 14%. Longer lifespans increase the risk of outliving retirement savings.[45]

Canadians should have greater flexibility to manage retirement savings according to their individual circumstances and in the most tax efficient manner.

The fiscal cost of reducing RRIF minimum withdrawal rates is likely modest on a present-value basis. Eliminating annual mandatory minimum withdrawals altogether would primarily defer, rather than forgo, government revenue, as withdrawals remain taxable when taken voluntarily or upon death.

See CFFiM Submission to Finance Canada.

[45] Statistics Canada, *Life expectancy and other elements of the complete life table, three-year estimates, Canada, all provinces*, January 13, 2026.

iii) Qualified Investments in Registered Plans

Recommendation: Expand qualified investments in registered savings plans to include private capital funds.

Expanding the range of qualified investments would provide Canadians with greater portfolio diversification.

Qualified investment rules could be modernized on a prospective basis to permit investments in eligible Private Equity (PE) and Venture Capital (VC) funds within registered plans, broadening access to high-growth investment opportunities that have traditionally been limited to institutional investors, high-net-worth individuals, and family offices.

Private capital investments are particularly well suited to retirement savings given their long-term investment horizon and potential to generate enhanced returns over time. Allowing eligible private capital funds within registered plans would also increase the pool of patient capital available to Canadian businesses, particularly innovative startups, and high-growth firms. This could strengthen domestic capital formation, support business scaling, accelerate innovation and productivity, create high-value jobs, and contribute to stronger long-term economic growth.

SCHEDULE A

SUMMARY OF RECOMMENDATIONS

CAPITAL SOVEREIGNTY: FINANCING CANADA'S ECONOMIC INDEPENDENCE

Recommendation: The Government of Canada should recognize capital sovereignty as a core component of Canada's economic policy and systematically reform tax, regulatory and financial-market policies that unnecessarily impede the formation, retention, and productive deployment of capital in Canada.

The recommendations that follow identify specific measures through which the federal government can begin implementing this objective.

RE-ESTABLISH DEBT TO GDP AS CANADA'S FISCAL ANCHOR

Recommendation: Re-establish the debt-to-GDP ratio as the fiscal anchor, with a clear medium-term path back to pre-pandemic level of approximately 31% of GDP.

DRIVE GROWTH AND COMPETITIVENESS THROUGH TAX REFORM

Rebalance to Consumption Taxes

Recommendations: Rebalance the tax mix toward consumption taxes. Increase the GST by 1 percentage point in 2027 and 2028, to 7%, its original level.

Cut Personal Income Taxes

Recommendations: Compress the five federal income tax brackets into three. Reduce the second-lowest personal income tax rate (20.5%) to 14% over six years starting in 2027, aligning it with the lowest bracket. This would help reduce elevated marginal effective tax rate (METRs) faced by middle-income earners, often amplified by income-tested benefits claw-backs. Reduce the fourth bracket rate (29%) to 26%, and the top rate (33%) to 29% to attract talent and encourage entrepreneurship.

Cut Corporate Income Taxes

Recommendation: Cut the statutory corporate income tax rate by 1 percentage point in 2027 and 2028 (from 15% to 13%).

Facilitate Corporate Spin-Offs

Recommendation: Introduce a dedicated de-merger provision in the *Income Tax Act* to provide a clear and predictable tax framework for qualifying corporate spin-offs.

Expand Canada's Flow Through Structures

a) Improve Canada's Mining Flow-Through Share Regime

Recommendation: Expand mining flow-through share regime to include preliminary economic, pre-feasibility, and feasibility studies as eligible Canadian Exploration Expenses.

b) Expand Canada's Flow-Through Share Regime to Canadian Startups in Innovative Industries

Recommendation: Develop and implement a targeted flow-through share regime for qualifying R&D-intensive Canadian companies, allowing eligible Canadian R&D expenditures to be renounced to investors. Eligibility should be based primarily on objective expenditure and company criteria rather than prescribed industry classifications, with appropriate limits and coordination with the SR&ED regime to prevent unintended duplication of tax benefits.

c) ***Examine A Limited Listed Income Trust Pilot***

Recommendation: Develop, through substantive fiscal analysis and public consultation, a time limited listed income trust pilot. The pilot should include objective eligibility requirements, disclosure, anti-avoidance rules, published evaluation measures and transition protection.

d) Further Encourage Investment in Early-Stage High Growth Canadian Businesses

Recommendation: Encourage investment in early-stage, high growth business through an Enterprise Investment Scheme (EIS).

e) Expand Canada's Investment Management Safe Harbour

Recommendation: Amend section 115.2 of the Income Tax Act to expand the definition of qualified investments and the definition of designated investment services.

DRIVE GROWTH AND COMPETITION IN FINANCIAL SERVICES THROUGH REGULATION

Strengthen Federal Financial Regulators' Mandates for Competition and Growth

Recommendation: Review the *Bank Act* and federal financial regulators' mandates to ensure that international and domestic competition and market growth is an explicit objective, alongside their core mandates

Recommendation: Require federal financial regulators to report publicly each year on how their regulatory actions have advanced domestic and international competition, and economic growth. To support this accountability, regulators should establish transparent, measurable indicators to assess the impact of their regulatory actions. Indicators should cover areas including barriers to entry and expansion, administrative and compliance costs, innovation and technology adoption, consumer access, investment, and capital growth.

Support a Competitive and Resilient Canadian Banking Sector

Recommendation: Conduct a public review of banking regulations to eliminate unnecessary requirements.

j) *Drive Innovation Through Open Banking*

Recommendation*:* Drive innovation through open banking by i) extending streamlined participation pathways to securities market registrants. ii) Supporting fair and effective access to the framework. iii)Avoiding unnecessary regulatory duplication. iv)Promptly establishing a technical standards body, and v) Measuring whether the framework is delivering meaningful outcomes—including increased market growth, competition, consumer choice, and product innovation.

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Recommendation: The federal government should collaborate with the provinces, territories, and securities regulators to develop and advance a coordinated national capital markets competitiveness agenda focused on strengthening capital raising and reducing unnecessary regulatory duplication

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