



**BY ELECTRONIC MAIL:** [dayja@sen.parl.gc.ca](mailto:dayja@sen.parl.gc.ca); [nffn@sen.parl.gc.ca](mailto:nffn@sen.parl.gc.ca)

February 19, 2013

Senator Joseph A. Day, Chair  
The Standing Senate Committee on National Finance  
The Senate of Canada  
Ottawa, Ontario  
K1A 0A4

Dear Senator Day:

**Re: Bill C-377 - An Act to amend the Income Tax Act (Requirements for Labour Organizations)**

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We are writing to raise a concern on behalf of the Members of The Investment Funds Institute of Canada ("IFIC") with respect to Bill C-377, which is currently being debated during Second Reading in the Senate, and may be referred to your Committee. We have also filed a similar letter with the chair of the Standing Senate Committee on Banking, Trade and Commerce in the event it's referred to that Committee.

Our concern is that the legislation inadvertently creates a reporting requirement for retail mutual funds that imposes a costly, unnecessary administrative burden that ultimately will be borne by the millions of Canadians who own them.

The concern we express is similar to that which was previously noted by the Canadian Life and Health Insurance Association (CLHIA) and other associations. IFIC is the national association of the Canadian mutual funds industry. Our Members comprise investment fund managers that sponsor, manage and administer funds, dealer and broker firms that distribute funds' securities, and the industry service organizations. As of January 2013 the mutual fund industry in Canada represented about CAD \$850 billion in total assets under management in highly-regulated, publicly offered mutual funds.

We acknowledge that the Bill has been amended to address concerns raised by other commentators, including the Privacy Commissioner; however we believe that the definition of "labour trust" remains overbroad and must be amended to avoid serious unintended consequences for the investment management industry.

The Bill's stated intention is to require public disclosure of financial information of labour organizations. In section 149.01, the Bill defines "labour trust" to include (in relevant part) "a trust or fund... maintained in whole or in part for the benefit of a labour organization, its members or the persons it represents".

Applying a plain interpretation, we believe this definition captures as a "labour trust", and therefore applies the Bill's full reporting obligations to, any trust or fund that is offered for sale to the public if that trust has even one unitholder or beneficiary that is a member of a labour organization. In other words, a publicly distributed mutual fund with thousands of public unitholders would be caught, and be subject to reporting obligations, if even one unitholder is employed in a unionized workplace and is a member of the union in that workplace.

An individual's personal investment in a public mutual fund is very remote from the activities of the union of which the person may happen to be a member. It is doubtful that reporting on the personal investment or savings activities of individual labour union members was the intention of the drafters or promoters of this Bill, since to capture publicly distributed funds clearly goes far beyond the objective of enhanced financial transparency from a labour organization.


As an administrative matter, managers of public mutual funds have no practical way to determine if any particular investor in a fund is a member of a labour organization. An investor's union affiliation, if any, is irrelevant to his/her personal investment decision, or to the assessment of which fund(s) would be suitable to recommend to that individual. As such, union membership is not information that investment advisers request from investors in the normal course of providing them with investment advice. Fund companies and distributors therefore have no information as to whether or not any particular investor is a union member. With all of the various fee structures that are available to investors, a mutual fund typically has more than one series of units. Currently in Canada there are over 9,000 series of mutual funds, each of which could be considered a labour trust under the current definition and our plain interpretation described in this letter. Therefore each of these 9,000 fund series could be subject to this reporting requirement. This is a very significant and costly administrative burden to potentially place on this industry and ultimately all unitholders of these funds.

Our comments have focused on the impact on mutual funds, as these represent the majority of our members' business, but we believe the definition also extends the Bill's application and requirements to any other trusts and pension plans that may have a member of a labour organization as a participant, even if the trust or fund is not created primarily, specifically or exclusively for, or directed by, a labour organization or its members. Adding all of the other pension trusts and other trust and fund types that we believe are inadvertently captured by the current definition of "labour trust", increases the administrative burden on the asset management industry many times over.

To remedy this overbroad interpretation we support the recommendation presented by CLHIA in its letter to the Committee dated January 31, 2013<sup>1</sup>, that there needs to be a more substantial connection between the fund and the labour organization. We propose that the definition be amended to read "**a trust or fund... wholly maintained in whole or in part for the benefit of a labour organization, its members or the persons it represents**". We also support the additional recommendations to amend the Bill proposed by CLHIA in its letter to ensure that a significant substantive connection to a labour organization is required for a fund or trust to be considered a "labour trust".

Thank you for considering our comments on this important issue. We would be pleased to discuss our concerns in greater detail with you or the Committee. Should you have any questions or wish to discuss these comments, please contact me directly by phone at 416-309-2300 or by email at [jdelaurentiis@ific.ca](mailto:jdelaurentiis@ific.ca) or Ralf Hensel, General Counsel, Corporate Secretary and Director of Policy (Fund Manager Issues) by telephone at 416-309-2314 or by email at [rhensel@ific.ca](mailto:rhensel@ific.ca).

Yours truly,  
THE INVESTMENT FUNDS INSTITUTE OF CANADA

  
By: Joanne De Laurentiis  
President & CEO

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<sup>1</sup> A copy of the CLHIA submission to the Committee is available at [http://www.clhia.ca/domino/html/clhia/clhia\\_lp4w\\_Ind\\_webstation.nsf/page/17142E3E79B934A285257B09006AC5B9/\\$file/Day\\_Senate\\_Banking\\_re\\_C-377\\_Labour\\_Organizations\\_ENG.pdf](http://www.clhia.ca/domino/html/clhia/clhia_lp4w_Ind_webstation.nsf/page/17142E3E79B934A285257B09006AC5B9/$file/Day_Senate_Banking_re_C-377_Labour_Organizations_ENG.pdf).