CANADIAN
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Decoding The "Buzz" Around Smart Beta

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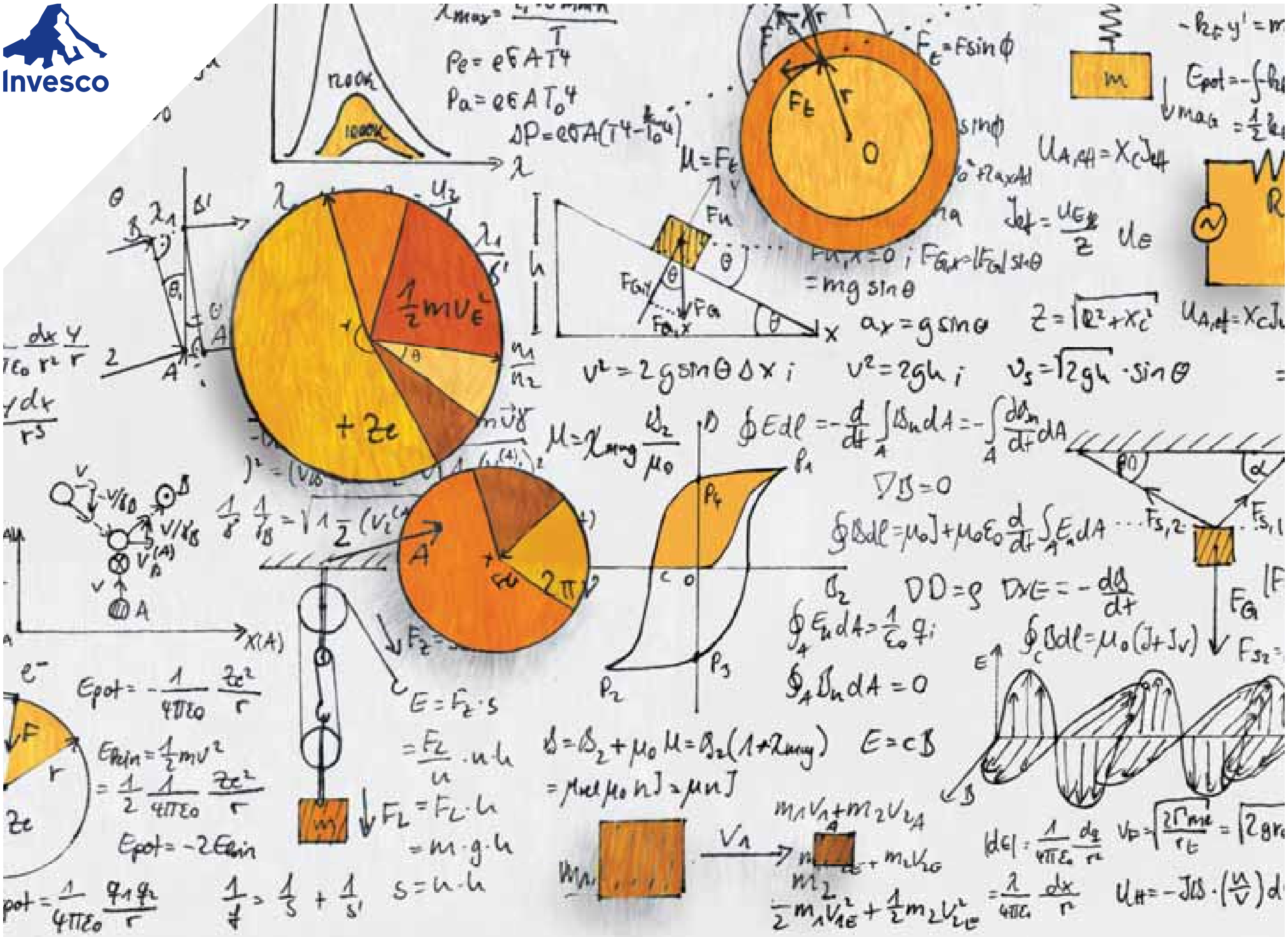

TORONTO

Fixed Income ETP flows surged in early February while Equities recovered after a rocky start.

- Global ETP inflows finished February at $27.2bn spurred on by Janet Yellen's February 11th address to Congress, which was well received by equity markets.
- Fixed Income flows of $19.6bn set a new monthly record amid expectations for continued low interest rates and low inflation.
  - US Treasuries brought in $11.4bn and Investment Grade Corporate gathered $3.6bn. High Yield Corporate added $1.4bn.
  - Despite inflows into all duration buckets, Short Maturity funds had a record month taking in $7.4bn.
- Overall Equity flows were moderate at $5.8bn with investors continuing to favour non-US Developed Markets exposures.
  - Japanese Equity inflows reached $4.1bn and Pan-European funds gathered $2.8bn as evidence continues to point toward improving growth in the region.
  - US Equity outflows totaled ($0.2bn) and Emerging Markets shed ($4.5bn).

February played out as a tale of two halves and ETPs enabled market participants to efficiently reallocate capital as sentiment shifted.

Prior to Yellen's remarks, Equity ETP redemptions reached ($21.2bn) while Fixed Income accumulated $16.8bn as investors waited out the equity market volatility that carried over from January.

Subsequently, the trend reversed with Equities recovering $27.1bn (largely US Equity) while Fixed Income cooled but still brought in an additional $2.8bn

Sources: BlackRock, Bloomberg.

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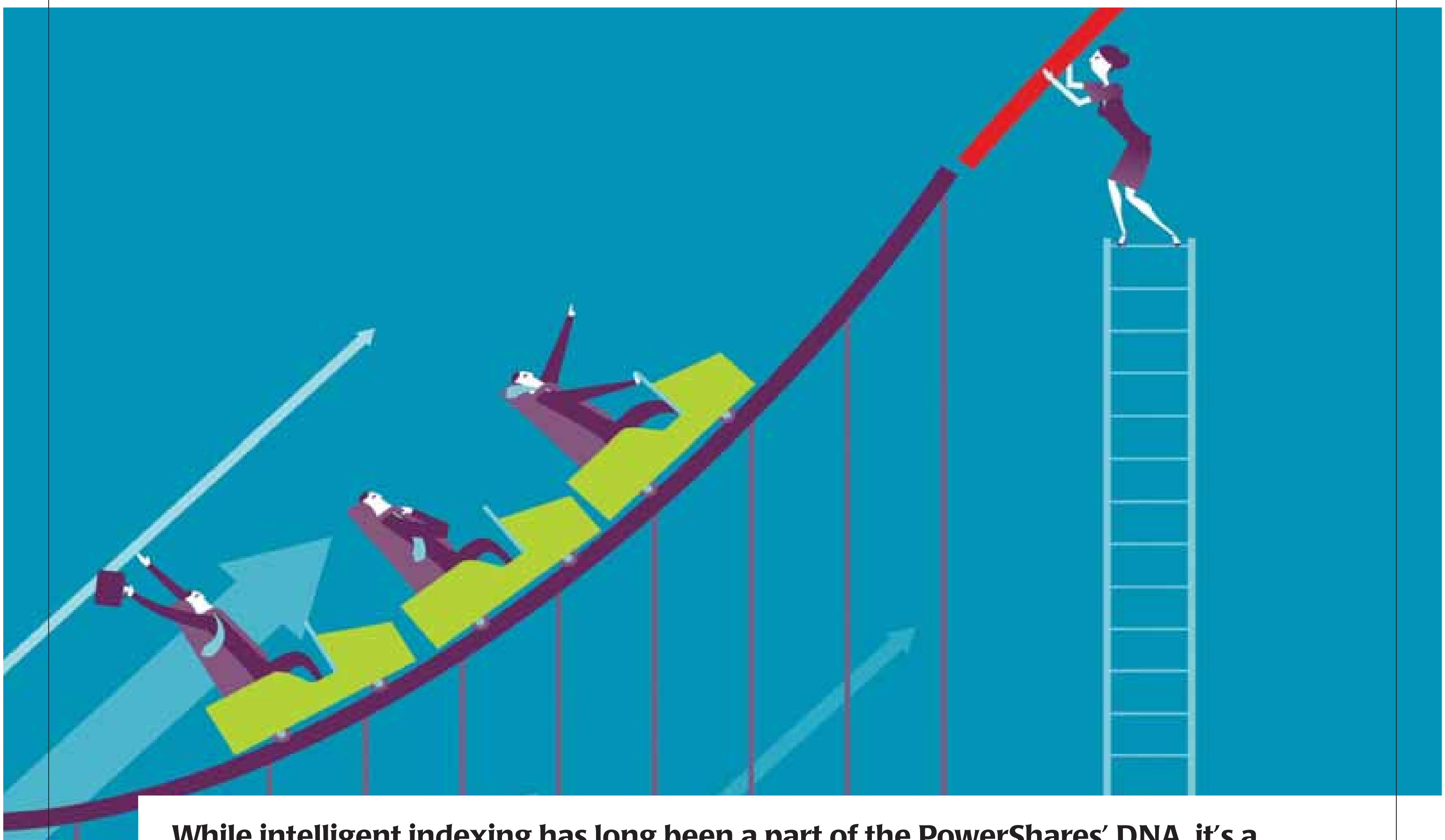
Decoding the "Buzz" Around Smart Beta



While intelligent indexing has long been a part of the PowerShares' DNA, it's a relatively new idea to many investors. A 2013 study from Cogent Research[1] shows how far Smart Beta has moved towards the mainstream of investor perception.

Michael Cooke
Head of Distribution
PowerShares
Canada

ETFs are an ideal vehicle to gain exposure to smart beta strategies. Their flexibility, transparency and ease of implementation have led to significant growth over the past year - capturing more than 29% of U.S. ETF equity inflows and representing 19% of total December 2013 ETF assets.[2]

The Cogent study further reveals that while market-cap-weighted ETFs continued to be the most widely used ETFs, nearly one-quarter (24%) of institutional asset managers currently use smart beta ETFs – a number that's expected to rise. According to the study, the primary reason institutional decision-makers use smart beta ETFs stems from their belief that these funds "help manage volatility, increase diversification and provide access to enhanced risk-adjusted returns."

Perhaps even more noteworthy, smart beta ETFs are poised for the greatest growth relative to all other ETF categories over the next three years. The study finds that more than half (53%) of institutional decision-makers expect to increase their use of smart beta ETFs, while less than half (48%) say they intend to increase their use of market-cap-weighted ETFs.

Among U.S. registered investment advisors, the study reveals that smart beta ETF use is driven by four primary objectives: tactical asset allocation, reducing portfolio volatility, access to specific markets/sectors and enhanced tax-efficiency.

And the evidence shows that professionals using smart beta ETFs clearly recognize the value they provide. According to the study, 70% feel they effectively manage portfolio volatility and nearly as many (68%) feel smart beta ETFs provide better risk-adjusted returns than cap-weighted ETFs.

PowerShares Smart Beta Strategies

Given the rapid adoption of Smart Beta options – and how quickly many providers have introduced strategies to meet the growing demand – it's vital that investors understand the variety of options available. Whether one is looking to fulfill a core or satellite asset allocation, PowerShares Canada offers Smart Beta options in two distinct categories: **single-factor and multi-factor strategies.**

Single-Factor Strategies

Smart Beta strategies allow investors to gain access to specific investment factors – like stocks with below average volatility – in order to better manage risk or potentially outperform market-cap weighted benchmarks. While the concept of low-volatility investing is not new to investors, it has become more relevant following the financial crisis of 2008, which has arguably made investors more averse to volatility and risk. And the trend shows no sign of weakening. Within the smart beta ETF category, low-volatility funds experienced the greatest growth in 2013: an impressive 99%.[3]

The S&P 500® Low Volatility Index, provides a transparent benchmark from which to evaluate the strategy. It consists of the 100 stocks from the S&P 500 Index with the lowest realized volatility over the past 252 trading days, as of the most recent quarterly rebalancing. The index exhibited 30% less volatility than the S&P 500 Index over a 10-year period and 24% less over a 20-year period. Despite the lower volatility, the S&P 500 Low Volatility Index outperformed the S&P 500 Index by 3.99% annualized over the 10-year period and by 2% annualized over the 20-year period.[4]

A simple and cost-effective way to get exposure to a rebalanced portfolio of low-volatility Canadian equities is to invest in **PowerShares S&P/TSX Composite Low Volatility Index ETF (TSX:TLV)** or its U.S. equities counterpart, **PowerShares S&P 500 Low Volatility (CAD Hedged) Index ETF (TSX:ULV).**

PowerShares Canada also offers a strategy focusing on high dividend yielding stocks. Companies paying stable and increasing dividends prove year-after-year that they generate abundant free cash flow and are disciplined allocators of capital. **The PowerShares Canadian Dividend Index ETF (TSX:PDC)** starts with all companies that have had stable or increasing dividends over the past 5 years, screening for the 60 companies with the highest dividend yield, and then builds a portfolio of the largest 45 companies, weighted by their market capitalization. The resulting portfolio - heavy in household name, blue chip companies - has historically provided exceptional risk-return characteristics and a much higher dividend yield when compared to traditional market capitalization weighted indices.

Multi-Factor Strategies

Among PowerShares Canada's multi-factor strategies, perhaps the most prominent is the **Fundamental Equity category**, which utilizes Research Affiliates' Fundamental Index® (RAFI) methodology.

The Fundamental Index® use four measures of company size to determine a stock's weight in the index. Assigning weights based on the size of a stock's financial footprint can help to reduce the impact of price-distorting factors and provide a more objective representation of the market. In an effort to mitigate the effects of mispricing, the Fundamental Index methodology assigns weights to stocks based on four fundamental measures, sales, cash flow book value and dividends. These are objective factors that exist independently of a stock's price and seek to provide metrics of size that are not swayed by the whims of the market.

The result: The potential for higher risk-adjusted returns.

PowerShares' Fundamental Index ETF advantage is available for both Canadian and U.S. equities: **PowerShares FTSE RAFI Canadian Fundamental Index ETF (TSX:PXC)** and **PowerShares FTSE RAFI US Fundamental (CAD Hedged) Index ETF (TSX:PXU).**

Conclusion

PowerShares believes that Smart Beta strategies employ the features of both worlds, providing investors the opportunity to retain broad market exposure, with the potential to achieve long-term outperformance when compared to a traditional market-cap weighted index and reduce portfolio risk in a liquid, transparent and low-cost way.

Among smart beta ETF providers, the PowerShares brand stands out as an industry leader with more than $100 billion in assets under management worldwide. PowerShares Canada's smart beta ETFs give investors a powerful middle ground between actively managed funds and cap-weighted indexes. As a supplement to other investment strategies, this emerging fund category provides an effective tool for investors seeking to lower costs, reduce risk and provide superior risk adjusted returns.

For more information on PowerShares Canada's products, please visit **www.powershares.ca**

Michael Cooke, Head of Distribution
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1. All data sourced from Cogent Research, The Evolution of Smart Beta ETFs Report, Oct. 11, 2013, unless otherwise noted.

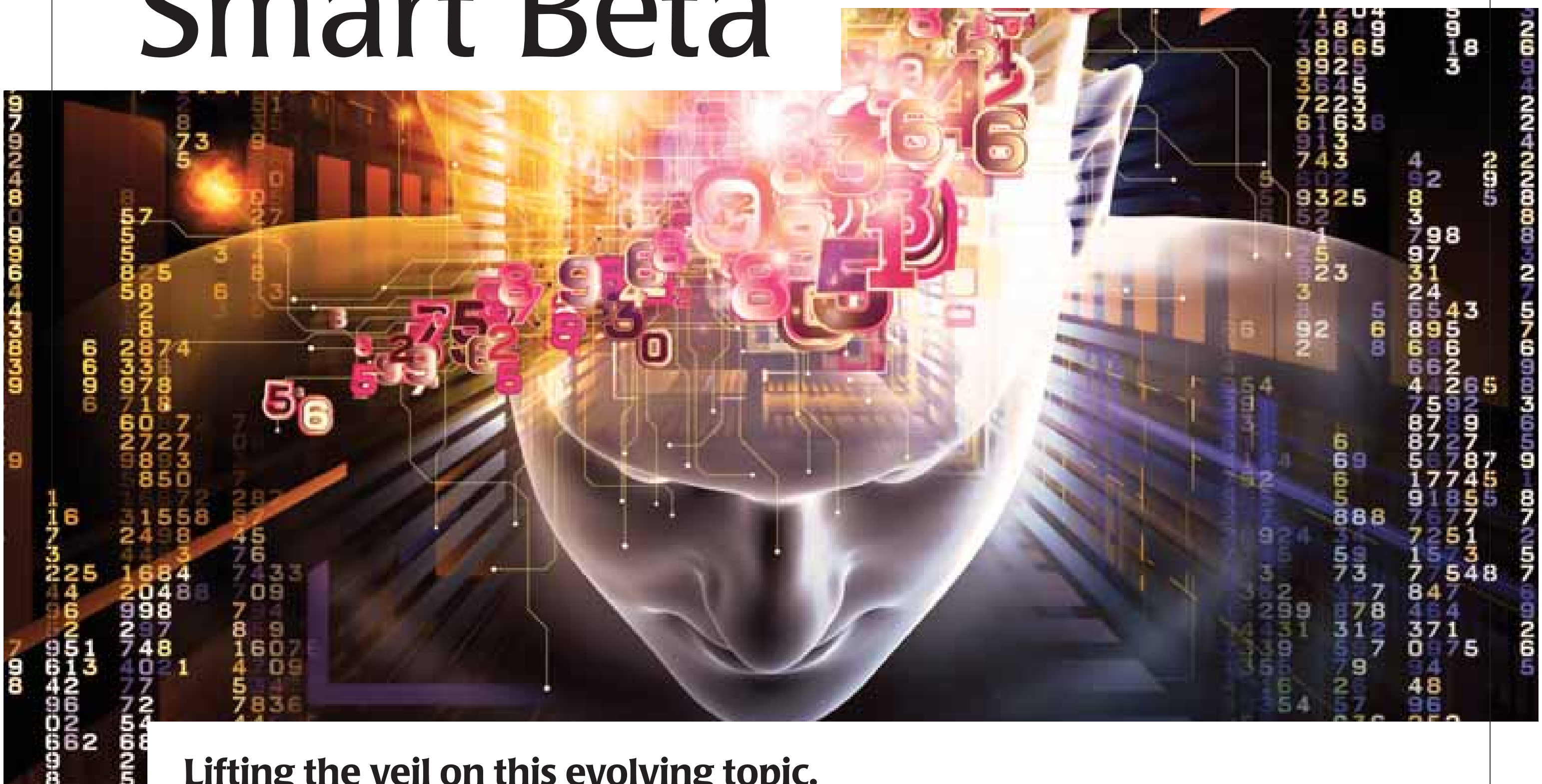
2,3,4. Source: Bloomberg LP as of Dec. 31, 2013

Commissions, management fees and expenses may all be associated with investments in exchange-traded funds (ETFs). ETFs are not guaranteed, their values change frequently and past performance may not be repeated. Please read the prospectus before investing. Copies are available from Invesco Canada Ltd. at **www.powershares.ca**.

There are risks involved with investing in ETFs. Please read the prospectus for a complete description of risks relevant to the ETF. Ordinary brokerage commissions apply to purchases and sales of ETF units.

Most PowerShares ETFs seek to replicate, before fees and expenses, the performance of the applicable Index, and are not actively managed. This means that the Sub-advisor will not attempt to take defensive positions in declining markets and the ETF will continue to provide exposure to each of the securities in the Index regardless of whether the financial condition of one or more issuers of securities in the Index deteriorates. In contrast, if a PowerShares ETF is actively managed, then the Sub-advisor has discretion to adjust that PowerShares ETF's holdings in accordance with the ETF's investment objectives and strategies.
ETFs are not diversified investments.

There's No Debating the Intelligence of "Smart Beta"



Lifting the veil on this evolving topic.

Rohit Mehta
Senior Vice President, First Asset Exchange Traded Funds

Exchange-traded funds (ETFs) are continuing their ascent in the Canadian marketplace, which comes as no surprise given their inherent transparency, relatively low cost and liquidity – not to mention their ability to find a comfortable fit in almost any portfolio. From the cautious buy-and-hold investor to the more aggressive opportunity seeker, the ETF universe is expanding to meet the needs of all investor types.

ETFs are getting more specialized too. There is a fairly new type of ETF on the street – one that looks beyond systematic risk (beta) to other factors that tend to impact relative performance. It is called "smart beta." While the use of this term remains contentious (given the concern that by referring to these as "smart", individuals may perceive traditional ETFs as "dumb"), all smart beta ETF providers have one belief in common: that market capitalization does not capture all of the relevant information about a company's value and potential.

Smart beta ETFs strive to deliver superior risk-adjusted returns for investors, while addressing concerns that cap-weighted indices will potentially expose them to overvalued stocks and higher volatility. As a result, the smart beta market segment is growing rapidly. Some of the most well-known index providers in the world, including Morningstar, MSCI, and Russell Investments, are focused on creating sophisticated, smart beta indices to meet the evolving needs of investors.

At First Asset, smart beta indexation means "factor-based" investing. Factors are the empirically validated characteristics of stocks that demonstrate a market-cap-weighted portfolio is not the only, nor necessarily the best, way to hold a portfolio. Several of these First Asset ETFs are built using Morningstar® CPMS™ – Morningstar's proprietary equity research platform that integrates fundamental and technical data with analysts' earnings estimates for over 3,600 Canadian and U.S. stocks. First Asset has created ETFs that aim to replicate Morningstar® Indexes using quantitative models that capture value, momentum, or dividend effects for Canadian investors.

For example, First Asset Morningstar Canada Momentum Index ETF (TSX: WXM) and First Asset Morningstar Canada Value Index ETF (TSX: FXM) are designed to provide diversified exposure to Canadian issuers that have demonstrated, among other things, positive momentum in earnings and price (in the case of WXM), and "value" characteristics like low price to book and low price to earnings (for FXM). For investors who value these highly important qualities when investing in a company, WXM and FXM are effective solutions to replace or supplement a traditional cap-weighted ETF.

First Asset offers other smart beta (factor-based) ETFs that are focused on the volatility factor, including: First Asset MSCI Canada Low Risk Weighted ETF (TSX:RWC), First Asset MSCI Europe Low Risk Weighted ETF (TSX:RWE), First Asset MSCI USA Low Risk Weighted ETF (TSX:RWU) and First Asset MSCI World Low Risk Weighted ETF (RWW). All of First Asset's foreign ETFs are available in hedged and unhedged versions.

While any controversy over the term "smart beta" may remain a topic of conversation for some time, the benefits of incorporating smart beta strategies – or factor-based ETFs – into an investment portfolio are clear. When seeking an indexing strategy that offers the potential for superior risk-adjusted returns, smart beta works.

To learn more about the benefits of "smart beta" and factor-based investing with First Asset ETFs, please contact **First Asset Exchange Traded Funds** at **1.877.642.1289**.

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International Investing – Additional Factors That Can Take a Bite Out of Returns

Stephen J. Hoffman
Vice President,
Exchange Traded Funds,
RBC Global Asset Management Inc.

Investing in international equities has a wealth of diversification benefits, and a simple and cost-effective way of gaining exposure to these benefits is by using exchange traded funds (ETFs). However, in order for Canadian investors to maximize their return net of taxes, it's important to look into the potential impact of foreign withholding taxes as part of the process for selecting the best investment solution.

Many countries impose a tax on income – whether that's dividend or interest income – paid to foreign investors. While the tax rate can vary from country to country, dividend payments from U.S. companies received by Canadian investors are generally subject to a 15% withholding tax. Withholding taxes are deducted prior to the receipt of the income and can often go unnoticed by investors. However, withholding taxes can have a substantial negative impact on returns if they are not managed appropriately.

When an investor is looking to minimize withholding taxes on an ETF that provides international exposure, it is important to consider two important components of the investment: 1) how the ETF is structured and 2) the type of account in which the ETF will be held.

ETF Structure

How an ETF obtains its exposure to international markets can have a significant impact on the amount of withholding tax ultimately paid by an investor. Generally, a Canadian investor can gain exposure to international markets through ETFs in one of three ways:

1 A U.S.-listed ETF that invests directly in a portfolio of international stocks

2 A Canadian-listed ETF that holds a U.S.-listed ETF that invests in a portfolio of international stocks

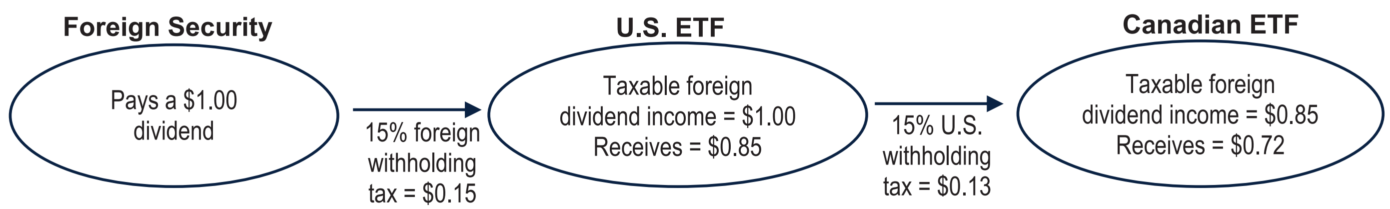
3 A Canadian-listed ETF that invests directly in a portfolio of international stocks

The differences between these three structures are subtle, but striking, when it comes to the impact they can have on the amount of withholding tax investors pay.

When an investor holds a U.S.-listed ETF to gain exposure to international stocks, they may be subject to two levels of withholding tax. First, an investor is taxed by the country where the foreign stock is domiciled. Second, they are taxed by the U.S. government when the income is distributed by the U.S. ETF to the Canadian investor's account.

Similarly, when an investor owns a Canadian ETF which gains exposure to international markets indirectly by investing in a U.S.-listed ETF (i.e. an ETF of ETFs), the Canadian ETF investor may again be subject to two levels of withholding tax. As shown below, a dividend paid by a foreign company would be subject to withholding taxes as the payments are sent to the U.S. ETF, and distributions by the U.S. ETF would be subject to U.S. withholding tax as they are sent to the Canadian ETF.

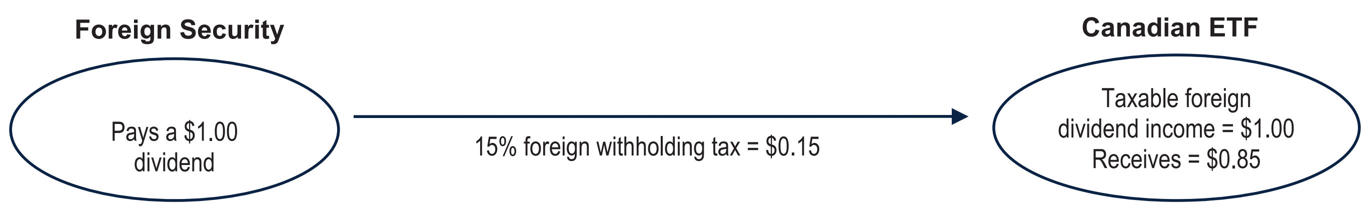
Withholding taxes for Canadian-listed ETFs investing in U.S.-listed ETFs to gain international equity exposure



Note: A 15% foreign withholding tax rate was assumed for the purpose of this example. Rates vary from country to country. Depending on the country mix, the U.S. ETF's average withholding tax rate may be more or less than 15%.

By contrast, when a Canadian invests in a Canadian-listed ETF that gains exposure to international markets by investing directly in a portfolio of international stocks, the Canadian investor is subject to only one level of withholding tax – by the country where the foreign stock is domiciled. As shown below, a dividend paid by a foreign company would only be subject to one level of withholding taxes as the payments are sent to the Canadian ETF.

Withholding taxes for Canadian-listed ETF investing directly in international equities



Note: A 15% foreign withholding tax rate was assumed for the purpose of this example. Rates vary from country to country. Depending on the country mix a Canadian ETF's average withholding tax rate may be more or less than 15%.

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Account Type

How an ETF obtains its exposure to foreign equities is only one part of the picture: there is another level of complexity to the withholding tax question. The type of account where an ETF is held is the second important factor in determining the amount of withholding tax a Canadian investor will pay. Different account types are subject to withholding taxes in different ways. There are generally three groups of accounts an individual investor may hold:

1 **Taxable Accounts** – Generally an investor can recover foreign withholding taxes paid directly via the "Foreign Tax Paid" box on your T3 or T5 slip. Withholding taxes paid indirectly are generally not recoverable.

2 **Registered Accounts (RSPs, RIFs)** – These accounts are not subject to U.S. withholding tax due to Canada-U.S. tax treaties,

3 **TFSA/RESPs** – These accounts are generally subject to withholding taxes, regardless of where they are collected. No U.S. withholding tax exemption exists for these accounts.

Understanding the effects of 1) ETF structure and 2) the type of account in which an ETF is held are two key ingredients which can help an investor minimize withholding taxes. The chart below summarizes the interaction between these two variables.

ETF Structure and Account Type Matter

		ETF Structure		
		U.S.-Domiciled ETF Holding Foreign Stocks Directly	Canadian-Domiciled ETF Holding Foreign Stocks Indirectly via a U.S. ETF	Canadian-Domiciled ETF Holding Foreign Stocks Directly
Account Type	Taxable	U.S. WHT Recoverable Foreign WHT Not Recoverable	U.S. WHT Recoverable Foreign WHT Not Recoverable	Foreign WHT Recoverable
	Registered (RSP/RIF)	U.S. WHT Exempt* Foreign WHT Not Recoverable	U.S. and Foreign WHT Not Recoverable	Foreign WHT Not Recoverable
	TFSA/RESP	U.S. and Foreign WHT Not Recoverable	U.S. and Foreign WHT Not Recoverable	Foreign WHT Not Recoverable

Other Tax Considerations

While minimizing withholding tax is an important objective, there may be other tax considerations that investors may wish to consider.

U.S. Estate Taxes – High-net-worth investors should be aware of the impact U.S. estate taxes may have on their estate upon their death. For 2014, investors with over US$5.345 million in world-wide gross assets and holding over US$60,000 in U.S. assets may be subject to U.S. estate taxes, even if they are not U.S. citizens or residents. This can result in significant, unanticipated expenses to their estate upon death. With a maximum tax rate of 40%, it's important to understand which U.S. assets may be subject to the estate tax, and if there are ways to minimize (or eliminate) this risk.

Assets such as U.S. real estate, stocks, bonds and units of U.S. domiciled ETFs are among those that are subject to the U.S. estate tax, while Canadian domiciled mutual funds and Canadian listed ETFs that invest in the U.S. or foreign markets are not. As such, high-net-worth Canadians looking to invest in U.S. or international equities may wish to consider a Canadian domiciled ETF as one potential solution that provides similar exposure, but is not subject to the U.S. estate tax.

CRA Foreign Reporting Requirements – As part of Canada's 2013 federal budget, the Canada Revenue Agency (CRA) made changes to the Foreign Income Verification Statement (Form T1135), requiring taxpayers to report significantly more detail about their foreign property ownership to the CRA than was required previously. Canadian residents are now required to report their ownership interest in a number of investments that are considered "specified foreign property" if the cumulative costs (rather than market value) of all specified foreign property exceeds C$100,000 at any time during the taxation year.

Specified foreign property generally includes (but is not limited to): shares in foreign companies (even if held in a Canadian investment account), bonds or debentures issued by foreign governments or companies and interests in or units of foreign mutual funds (including foreign-domiciled ETFs). Excluded from the reporting requirements are property held in tax-deferred accounts (such as RSPs, RIFs, RESPs, TFSAs and other registered accounts), units of Canadian registered mutual funds (including Canadian domiciled ETFs) that invest in foreign securities, and certain personal use and business properties.

Investors may wish to arrange their investment affairs, including the selection of foreign investments such as Canadian-domiciled ETFs, in such a way as to minimize their reporting obligations on these new foreign reporting requirements.

Putting It All Together

Investing in international equities has many benefits to an investment portfolio; however, it can also introduce additional complexities that must be understood and considered. By ensuring that these tax considerations are considered up-front in the decision making process, investors can ensure they maximize their returns, while minimizing taxes.

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ETF Success Still Tied to Indexing

Market-cap-weighted indexes remains key.

Atul Tiwari
Managing Director, Vanguard Investments Canada

Industry watchers continue to buzz about exchange traded funds (ETFs) based on "alterative indexes" that take active risk, and even the prospect of ETFs that follow more traditional active strategies. Lost in the cacophony is the primary reason ETFs continue to gain in popularity – the value of low-cost, broad-based, market-capitalization-weighted indexing.

But where does that value come from?

The zero-sum game

Let's start with the concept of a zero-sum game. The theory of a zero-sum game asserts that if one investor's dollars outperform the aggregate market, another investor's dollars must underperform. As a result, the dollar-weighted performance of all investors sums to equal the performance of the market.

In reality, investors pay commissions, management fees, bid-ask spreads, administrative costs, and, where applicable, taxes – which combine to reduce realized returns. As a result, most of the dollar-weighted performance of investors falls short of the aggregate market return.

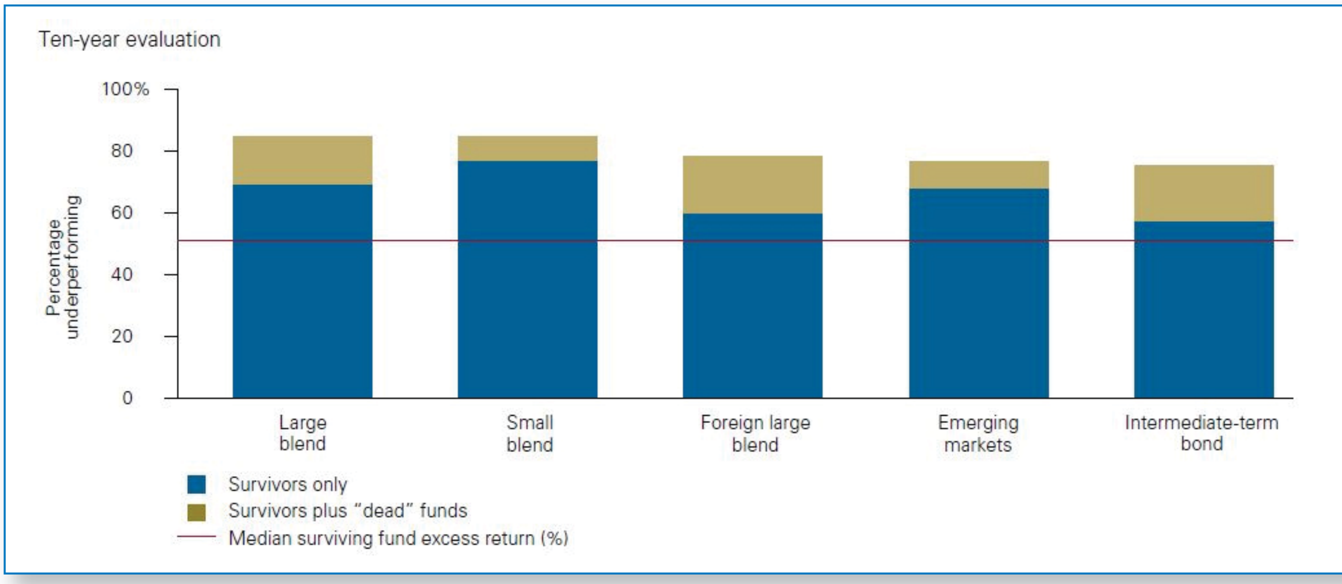
Implications for investors

Most traditional, index-based ETF have achieved returns close to those of their target benchmarks, whereas the majority of actively managed funds have failed to beat their benchmarks.

Unfortunately, the record of such ETFs – and even traditional index mutual funds – isn't particularly extensive in Canada. As a result, our research utilizes data from the U.S. index fund market to illustrate the impact of investing in low cost index- based investments across several investment categories.

Our research takes into accounts "survivorship bias," an important consideration when measuring fund performance over time. Most databases exclude "dead funds," i.e., funds that didn't survive the full performance period because they were liquidated or merged out of existence. However, by excluding survivorship bias, the degree of underperformance by actively managed funds is understated and the proportion of active managers that outperformed the market is overstated.

Percentage of active funds underperforming the average return of low-cost index funds



Sources: Vanguard and Morningstar, Inc. Data as of December 31, 2012.

Note: The data represent the ten-year evaluation of actively managed funds across select investment styles. The data reflect the impact of survivorship bias. Index funds are represented by funds with expense ratios of 20 basis points or less as of December 31, 2012. All returns are for the investor share class. Past performance is no guarantee of future results. Note that hypothetical illustrations are not exact representations of any particular investment since you cannot invest directly in an index or fund-group average.

Investors whose portfolios have a significant allocation to such funds often achieve lower investment costs, broader diversification, and the potential for higher tax efficiency.

The indexing cost advantage

Considerable evidence exists that the odds of achieving outperformance in an investing category are increased if investors simply aim to seek the lowest possible cost for a given strategy. Compared with traditional ETFs, active funds typically have higher expense ratios because of higher operating costs.

While a fund's expense ratio is easy to measure, many other fees are hard to estimate. Turnover, or the buying and selling of securities within a fund, results in transaction costs such as commissions, bid-ask spreads, market impact, and opportunity cost. These costs are incurred by every fund and detract from its net returns but are not reflected in the fund's expense ratio.

Benefits of including indexing in portfolios

For investors seeking to achieve market returns or who wish to invest in funds with low relative volatility, traditional, index-based ETFs are suitable options. Specifically, such ETFs have three key advantages relative to active strategies.

Diversification. These ETFs typically are more diversified than actively managed funds, a by-product of the way indexes are constructed. Except for ETFs that track narrow market segments, most hold a broad range of securities in order to closely track their target indexes, which dampens the risk associated with specific securities and removes a component of return volatility.

Style consistency. Traditional ETFs maintain style consistency by attempting to approximate the key characteristics of an index. Conversely, an active manager may have a broader mandate, causing the fund to be a "moving target" from a style point of view. Even if an active manager has a well-defined mandate, the decision to over- or underweight a security versus its weighting in the index can lead to performance differences.

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Taxes. Broad ETFs may provide a tax advantage over actively managed funds. Because turnover is typically lower in both, they are less likely to realize and distribute capital gains than its average actively managed peer. That said, it's important to note that the tax efficiency of ETFs can vary tremendously, depending on the index a fund seeks to track (all else being equal, narrower indexes may have higher turnover) as well as the management process of the fund (all else being equal, a full replication strategy would likely lead to lower turnover than an optimization or sampling strategy).

The alternative index question

Of course, not all indexes are created equal. Called alternative indexing, fundamental indexing, and, in some cases, smart beta – these terms are used to describe any kind of index that follows an alternative to the traditional method of market-capitalization weighting of components. This means that to invest in an ETF based off an alternative index means you're taking a bet against the market.

A market-cap-weighted index is an "all-factor" index

Source: Vanguard

		Based on funds surviving for full period	Based on survivors plus funds closed or merged during period
1 Year	Large Blend	57%	60%
	Small Blend	68%	69%
	Foreign Large Blend	41%	45%
	Emerging Markets	24%	28%
	Intermediate Term Bond	19%	23%
3 Year	Large Blend	77%	83%
	Small Blend	73%	76%
	Foreign Large Blend	51%	60%
	Emerging Markets	36%	44%
	Intermediate Term Bond	38%	49%
5 Year	Large Blend	72%	82%
	Small Blend	69%	78%
	Foreign Large Blend	43%	57%
	Emerging Markets	48%	59%
	Intermediate Term Bond	21%	44%
10 Year	Large Blend	69%	85%
	Small Blend	74%	84%
	Foreign Large Blend	52%	73%
	Emerging Markets	60%	71%
	Intermediate Term Bond	63%	80%

Because investors end up betting against the market, the issues faced by investors considering a rules-based passive strategy are similar to those faced by investors considering actively managed funds, and suggest investors evaluate these funds using an "active lens."

However, evaluation of noncap-weighted strategies can be difficult. Many are based on back-tested data. Our research demonstrates that on average, back-tested performance does not appear to persist past the live-index date (The date an index is first published to the public and starts calculations using live data). In our view, this is possibly because benchmarks are often being chosen for new products based on their attractive past performance history. And of course, past performance is no guarantee of future results.

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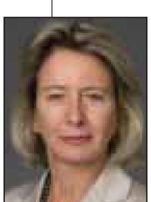
Finding Opportunities in the Growing Canadian Marketplace

The Exchange Traded Product (ETP) marketplace in Canada has grown considerably, both in size and scope, since the world's first exchange-traded, index-linked product was introduced on Toronto Stock Exchange (TSX) in 1990. Since then, the total number of TSX-listed ETPs has increased to more than 300, comprised mainly of Exchange Traded Funds (ETFs) and about a dozen Exchange Traded Notes (ETNs).



Amelia Nedovich
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These products continue to capture an increasingly large share of the investment marketplace in Canada, with ETFs taking in the lion's share. In 2013, for instance, the Canadian ETF industry saw net inflows of over $5 billion, and Canadian-listed ETF assets hit a new all-time high. According to the Canadian ETF Association's industry statistics, the ETF marketplace ended the year at over $63 billion in assets and experienced double-digit annualized growth of nearly 12%.

TSX-listed ETPs offer access and exposure to several asset classes, sectors and strategies. TSX provides the investing community – from individual investors to pension funds – with financial products to help meet their investment objectives. Whether an investor is bullish or bearish on a particular sector or the broad market, or seeking an actively or passively managed fund, TSX has a product to reflect their investment outlook and help diversify their portfolio.

Online Source for ETP Information

Given the rapid growth in both the diversity and availability of ETPs in the Canadian marketplace, a comprehensive online resource was created to help investors better understand the wide range of investment choices available to them.

Toronto Stock Exchange | TSX Venture Exchange

TMXmoney.com – TMX Group's online hub for current and helpful financial information about the capital markets – has developed an innovative portal to address the need for information, education and resources for ETP investors. The ETP Centre **(tmx.com/etp)**, as it has become known, is designed as an interactive, easy-to-access investment portal to provide detailed and up-to-date information about TSX-listed ETPs.

Among the Centre's many features – which include detailed ETF quotes, educational information, new ETF listings and much more – the ETP Directory stands out as a key tool for investors. A comprehensive directory of ETFs and ETNs listed on TSX, it provides a wealth of information based on asset class, sector and geographic region, among other search criteria. Investors can also perform advanced searches to collect more specific information.

Here is a closer look at some of the information contained in the ETP Directory. Listed below is a complete, top-level view of all the indices that TSX-listed ETFs and ETNs track.

Canadian Equities

There are currently over 70 ETFs listed on TSX that provide exposure to Canadian-based equities. The table below lists a total of 46 indices, across five index types, which track the Canadian equity market.

Canadian Equity Indices	
Dow Jones Canada Select Dividend Index	S&P*/TSX Canadian Dividend Aristocrats Index
Dow Jones Canada Select Equal Weight REIT Index	S&P*/TSX Capped Composite Index
Dow Jones Canada Select Equal Weight Utilities Index	S&P*/TSX Capped Consumer Staples Index
Dow Jones Canada Select Growth Index	S&P*/TSX Capped Energy Index
Dow Jones Canada Select Value Index	S&P*/TSX Capped Energy Index (Total Return)
Dow Jones North America Select Junior Gold Index	S&P*/TSX Capped Financials Index
FTSE Canada All Cap Index	S&P*/TSX Capped Financials Index (Total Return)
FTSE Canada All Cap Real Estate Capped 25% Index	S&P*/TSX Capped Information Technology Index
FTSE Canada High Dividend Yield Index	S&P*/TSX Capped Materials Index
FTSE Canada Index	S&P*/TSX Capped REIT Index
FTSE RAFI Canada Index	S&P*/TSX Capped Utilities Index
Jantzi Social Index	S&P*/TSX Completion Index
Morningstar Canada Dividend Target 30 Index	S&P*/TSX Composite High Beta Index
Morningstar Canada Momentum Index	S&P*/TSX Composite Low Volatility Index
Morningstar Canada Value Index	S&P*/TSX Equal Weight Diversified Banks Index
Morningstar National Bank Québec Index	S&P*/TSX Equal Weight Industrials Index
MSCI Canada Minimum Volatility Index (CAD)	S&P*/TSX Equal Weight Oil & Gas Index
MSCI Canada Risk Weighted Index	S&P*/TSX Equity Income Index
NASDAQ Select Canadian Preferred Share Index	S&P*/TSX Preferred Share Index
NASDAQ Select Canadian Dividend Index	S&P*/TSX Preferred Share Laddered Index
S&P*/TSX 60 Equal Weight Index	S&P*/TSX SmallCap Index
S&P*/TSX 60 Index	S&P*/TSX Venture Select Index
S&P*/TSX 60 Index (Total Return)	Sustainable Oil Sands Sector Index
Index Types	
Market Cap	
Capped	
Equal Weight	
Factor	
Total Return	

These indices provide exposure to a number of sectors, including: consumer staples, energy, financials, industrials, materials, real estate, social responsibility, technology and utilities. TSX-listed Canadian equity ETFs are available across several fund types, from dividend and income, growth, value and momentum, to high beta, low volatility, covered call, venture and small cap.

It should be noted that not all of the ETFs in this category are index-tracking products; some are what are generally referred to as "actively-managed" or "quasi actively-managed" products.

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U.S. and International Equities

There are also currently over 100 TSX-listed ETPs that provide broad exposure to U.S. and other international markets. By tracking the 74 indices listed below, these internationally-focused funds can broaden an investor's reach and exposure in an increasingly interconnected, global economy.

U.S. and International Equity Indices	
AlphaDEX European Dividend Index	MSCI Emerging Markets Investable Market Index
AlphaShares China Index	MSCI Emerging Markets Minimum Volatility Index (USD)
BNY Mellon BRIC Select ADR Index (CAD Hedged)	MSCI Europe Quality Index (CAD Hedged)
BNY Mellon China Select ADR Index	MSCI Europe Risk Weighted Top 100 Index
BNY Mellon India Select DR Index	MSCI Europe Risk Weighted Top 100 Index (CAD Hedged)
CBOE S&P* 500 BuyWrite Index	MSCI Japan Index
CNX Nifty Index CAD	MSCI US Broad Market Index (CAD Hedged)
Cohen & Steers Global Realty Majors Index	MSCI USA Minimum Volatility Index (USD)
CRSP US Total Market Index	MSCI USA Risk Weighted Top 150 Index
Dow Jones Brookfield Global Infrastructure North American Listed Index	MSCI USA Risk Weighted Top 150 Index (CAD Hedged)
Dow Jones Industrial Average Index (CAD hedged)	MSCI World Index
Dow Jones North America Select Junior Gas Index	MSCI World Risk Weighted Top 200 Index
Dow Jones North America Select Junior Oil Index	MSCI World Risk Weighted Top 200 Index (CAD Hedged)
Dow Jones U.S. Large-Cap Banks Equal Weight Total Stock Market Index	NASDAQ 100 Index
Dow Jones U.S. Large-Cap Banks Equal Weight Total Stock Market Index (CAD Hedged)	NASDAQ 100 Index (CAD Hedged)
Dow Jones U.S. Large-Cap Health Care Equal Weight Total Stock Market Index (CAD Hedged)	NASDAQ US Dividend Achievers Select Index
FTSE China 25 Index	NASDAQ US Dividend Achievers Select Index (CAD Hedged)
FTSE Developed ex North America Index	Russell 2000 Index (CAD Hedged)
FTSE Emerging Index	S&P* 500 High Beta Index (CAD Hedged)

FTSE RAFI Developed ex US 1000 Index	S&P* 500 Index
FTSE RAFI Emerging Markets Index	S&P* 500 Index (CAD Hedged)
FTSE RAFI Japan Index (CAD Hedged)	S&P* 500 Index (Total Return)
FTSE RAFI US 1000 Index	S&P* 500 Low Volatility Index (CAD Hedged)
FTSE RAFI US 1000 Index (CAD Hedged)	S&P* Emerging Markets BMI Index
MFC Global Agriculture Index	S&P* Global 1200 Consumer Discretionary Index (CAD Hedged)
MFC Global Infrastructure Index	S&P* Global 1200 Health Care Sector Index (CAD Hedged)
Morningstar Dividend Yield Focus Index (CAD Hedged)	S&P* Global 1200 Industrials Index (CAD Hedged)
Morningstar U.S. Dividend Target 50 Index	S&P* Global Water Index
Morningstar US Momentum Target 50 Index	S&P* High Yield Dividend Aristocrats Index (CAD Hedged)
Morningstar US Value Target 50 Index	S&P* Latin America 40 Index
MSCI All Country World Minimum Volatility Index (USD)	S&P*/TSX Equal Weight Global Base Metals Index (CAD Hedged)
MSCI Brazil Index	S&P*/TSX Equal Weight Global Gold Index
MSCI EAFE Index	S&P*/TSX Global Base Metals Index
MSCI EAFE Index (CAD Hedged)	S&P*/TSX Global Gold Index
MSCI EAFE Investable Market Index	S&P*/TSX Global Mining Index
MSCI EAFE Minimum Volatility Index (USD)	S&P*/TSX North American Preferred Stock Index (CAD Hedged)
MSCI Emerging Markets Index	Zacks Global Multi-Asset Income Index

Index Types
Market Cap
Fundamental
Equal Weight
ADRs
Total Return

Canadian investors can gain exposure to a wide range of sectors globally, including: agriculture, energy, financials, healthcare, infrastructure, materials, metals and mining, real estate, technology and natural resources. The ETFs listed on TSX provide exposure to major developed markets such as Japan, Europe and the U.S., as well as emerging markets including Brazil, China, India and Latin America.

Some of the products in this category are not index-tracking products.

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Fixed Income

The fixed income ETF space has grown and diversified considerably in the past few years. Investors are increasingly turning their attention to these types of funds to build more flexibility into their investment portfolios.

Fixed Income Indices	
Barclays Capital Emerging Markets Tradable USD Sovereign Bond Index (CAD Hedged)	DEX Government Bond Barbell Index
Barclays Capital Global Aggregate Canadian Float Adjusted Bond Index	DEX HYBrid Bond Index
Barclays Capital Global Aggregate Canadian Government/Credit 1-5 Year Float Adjusted Bond Index	DEX Investment Grade 1-5 Year Laddered Corporate Bond Index
Barclays Capital U.S. High Yield Very Liquid Index (CAD Hedged)	DEX Long Term Bond Index
Barclays Capital US Treasury 2Y/10Y Yield Curve Index	DEX Long Term Corporate Bond Index
Barclays Global Aggregate Canadian Credit 1-5 Year Float Adjusted Bond Index	DEX Long Term Federal Bond Index
Barclays US Investment Grade 1 to 5 Year Corporate Bond Capped Index (CAD Hedged)	DEX Long Term Provincial Bond Index
Barclays US Investment Grade 5 to 10 Year Corporate Bond Capped Index	DEX Mid Term Corporate Bond Index
Barclays US Investment Grade 5 to 10 Year Corporate Bond Capped Index (CAD Hedged)	DEX Mid Term Federal Bond Index
DEX 1-10 Year Laddered Corporate Bond Index	DEX Mid Term Provincial Bond Index
DEX 1-10 Year Laddered Government Bond Index	DEX Real Return Bond Index
DEX 1-5 Year Corporate Bond Index	DEX RRB Non Agency Bond Index
DEX 1-5 Year Government Bond Index	DEX Short Term Bond Index
DEX 1-5 Year Laddered Government Strip Bond Index	DEX Short Term Corporate Bond Index
DEX 2014 Maturity Canadian Corporate Bond Index	DEX Short Term Federal Bond Index
DEX 2015 Maturity Canadian Corporate Bond Index	DEX Short Term Provincial Bond Index
DEX 2016 Maturity Canadian Corporate Bond Index	DEX Ultra DLUX Long Government Bond Index
DEX 2017 Maturity Canadian Corporate Bond Index	DEX Universe + Maple Short Term Corporate Bond Index
DEX 2018 Maturity Canadian Corporate Bond Index	DEX Universe Bond Index
DEX 2019 Maturity Canadian Corporate Bond Index	DEX UniverseXM Bond Index
DEX 2020 Maturity Canadian Corporate Bond Index	DLUX Capped Bond Index
DEX 2021 Maturity Canadian Corporate Bond Index	FTSE TMX Canada Universe Discount Bond Index
DEX All Canada Bond Barbell Index	J.P. Morgan EMBI Global Core Index (CAD Hedged)
DEX All Corporate Bond Index	Markit iBoxx USD Liquid High Yield Total Return Index (CAD Hedged)
DEX All Government Bond Index	Markit iBoxx USD Liquid Investment Grade Total Return Index (CAD Hedged)
DEX Convertible Bond Index	Morningstar Emerging Markets Composite Bond Index
DEX Corporate Bond Barbell Index	RAFI Bonds US High Yield 1-10 Index (CAD Hedged)
DEX FRN Index	S&P*/LSTA U.S. Leveraged Loan 100 Index CAD Hedged

Fund Types
Barbell
Total Return
Money Market
High Interest Saving
Tactical Short-Term, Mid-Term, Long-Term
Floating Rate
Senior Loan
Laddered
High Yield
Short Duration High Income
Convertible
Hybrid
Real Return

TSX-listed fixed income ETPs are available across four categories – aggregate, government, corporate and target maturity – and provide exposure to both domestic and global fixed income markets. Many of these ETFs have niche focuses, such as high yield or short duration, or contain built-in strategies such as laddering, barbell and floating rates. Some are designed to provide short-term, medium-term or long-term exposures.

Again, some of the products in this category do not track an index.

Commodities

Pure commodity exposure through ETFs can be achieved through either physically-backed ETFs or futures contract ETFs: both types are available on TSX, as well as a few others that track specialized indices. These ETFs provide exposure to broad commodities, energy and metals.

Commodity Indices
Barclays WTI Crude Oil Pure Beta Total Return Index (CAD Hedged)
Morningstar Global Long/Flat Commodity Index
Sectors
Broad
Energy
Metals

Currency, Volatility & Alternatives and Multi-Asset

There are several currency ETPs listed on TSX, including four ETNs that provide exposure to various exchange rates and strategies. These products target currencies such as the U.S. dollar, Euro, British pound and Japanese yen.

Currency Index
Barclays Optimized Currency Carry Index
Currencies
Euro/U.S. Dollar
U.K. Pound/U.S. Dollar
U.S. Dollar
Yen/U.S. Dollar

Some of the TSX-listed ETPs in the Volatility and Alternatives category track various futures contracts while others are actively managed.

Volatility & Alternatives Indices
Auspice Broad Commodity Excess Return Index
Auspice Managed Futures Excess Return Index
Morningstar Broad Hedge Fund Index
S&P* 500 Dynamic VIX Futures Total Return Index
S&P* 500 VIX Mid-Term Futures Total Return Index
S&P* 500 VIX Short-Term Futures Index
S&P* 500 VIX Short-Term Futures Total Return Index (CAD Hedged)

Finally, there are a dozen TSX-listed ETFs in the Multi-Asset category, some of which are "actively-managed" while others are "funds of funds." These products do not track indices.

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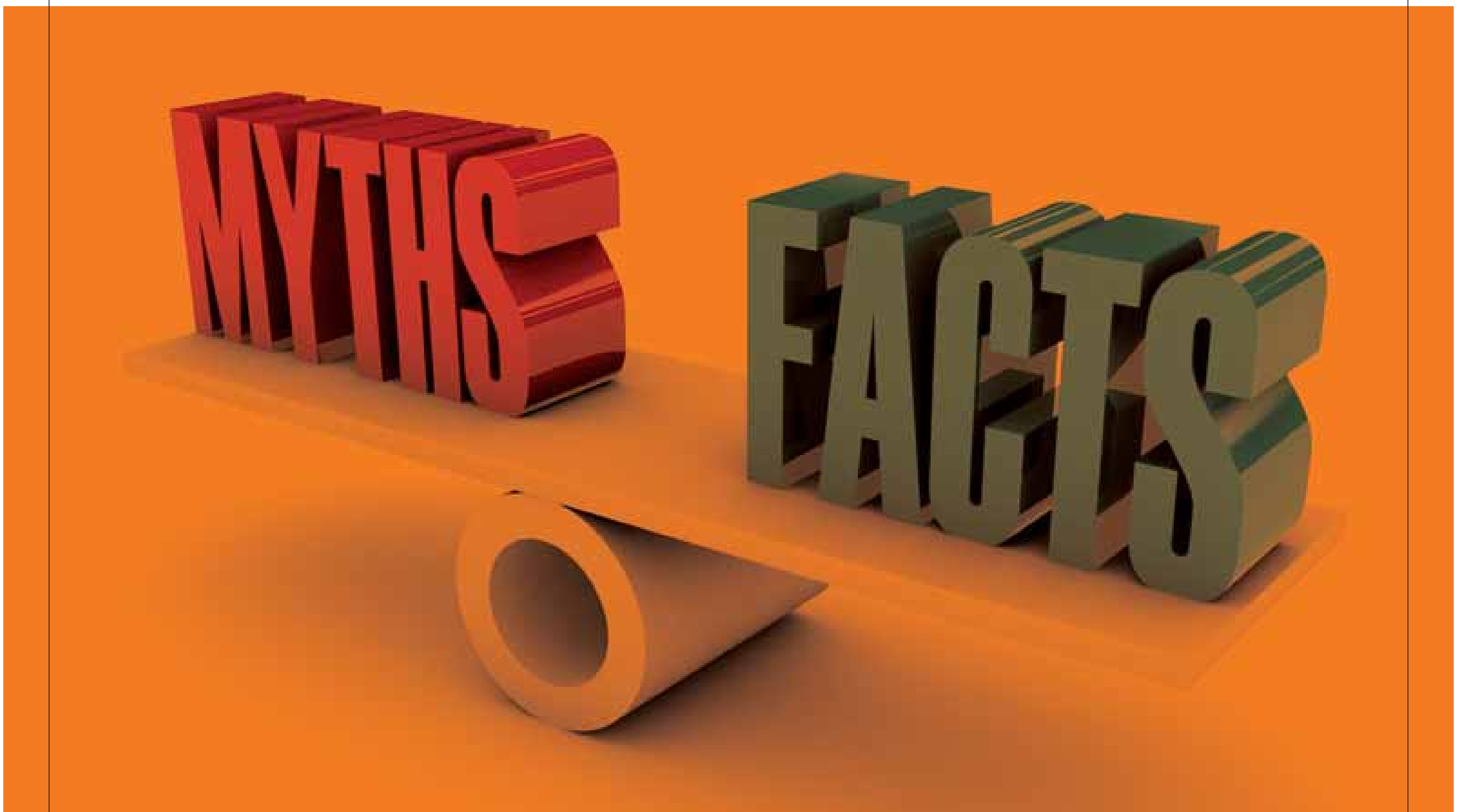
All figures as of February 28, 2014.

The #1 ETF Myth



The most common misconception I encounter about ETFs concerns their liquidity. An ETF's liquidity is not determined, like regular stocks, by the number of shares that trade daily on the stock exchange. Instead, ETFs are as liquid as the underlying securities they hold. I think that it is important for investors to know this, and to understand why.

Howard Atkinson
*President,
Horizons ETFs
Management
(Canada) Inc.*

Like mutual funds, ETFs are open-ended investment companies. This means that new shares can be created daily, on a continual basis, if and whenever needed. New shares are created with the help of Market Makers, who are large institutional investors, such as banks. Market Makers can deliver new ETF shares to the secondary market if there are too few sellers in the market at that time; or they can buy ETF shares from the secondary market if there too few buyers. The cost that Market Makers charge for this service is priced into the bid/ask spread they offer to investors. This cost is typically very small, usually only 1¢ to 2¢ per share.

Market Makers also provide another important function. They generally maintain a tight bid/ask spread through arbitrage trading, so that the market price of an ETF closely approximates the ETF's net asset value (NAV) throughout the trading day. They do this by buying or selling shares from their own inventory if bid or ask prices get too far from the ETF's NAV. For example, if a particular ETF was underpriced relative to the value of its holdings, the Market Maker would buy the ETF and simultaneously sell the underlying shares, reaping an immediate profit. This transaction would close the gap in price between the ETF and its underlying constituents.

The point I'm making is that investors don't have to worry about being able to buy or sell shares of an ETF at a fair price, even if they see little or no volume on the exchange. They should feel comfortable placing an order whenever they choose to execute a trade. For large orders – typically 10,000 shares or more – working with a broker or trading desk is recommended.

If you would like to know more about why ETF liquidity is not determined by daily trading volume, I would encourage you to read Horizons ETFs' brochure Volume vs. Liquidity on our website, horizonsetfs.com.

Howard Atkinson, President, Horizons ETFs Management (Canada) Inc. ***hatkinson@horizonsetfs.com***

What does the Canadian FATCA Intergovernmental Agreement with the United States mean for Canadian Investment Funds?

On February 5, 2014, Canada announced that it had signed a Foreign Account Tax Compliance Act (FATCA) intergovernmental agreement (IGA) with the United States (US). In addition, Finance released draft legislation to implement the IGA under Canadian law.

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The draft legislation provides further guidance for FATCA implementation including reporting deadlines and penalties for non-compliance. Since FATCA will now be implemented under Canadian domestic law, Canadian investment funds will need to comply with FATCA when the provisions take effect on July 1, 2014, even if they do not receive any income from sources within the US. This article will briefly describe key provisions of the Canadian IGA and discuss the impact of the Canadian IGA on Canadian investment funds and other entities treated as Canadian financial institutions (FIs).

Background

FATCA is a US law designed to combat tax evasion by US citizens and US residents through the use of offshore accounts and investments. This law focuses on reporting by FIs in Canada and other countries to the Internal Revenue Service (IRS) about financial accounts and substantial financial interests held by US taxpayers. The 30% FATCA withholding tax on certain US source income is used as a penalty to compel Canadian FIs to provide information about US account holders and US owners. Broadly speaking, most investment funds controlled and managed in Canada and regulated investment fund managers will be required to comply with FATCA regardless of their investments or investor base.

KPMG
cutting through complexity

Highlights of the Canadian IGA

The Canadian IGA has clarified and, in some instances, streamlined the FATCA compliance obligations for Canadians.

Registration and Reporting

Canadian FIs that have a reporting obligation (i.e. Reporting Canadian FIs) will need to register with the IRS in order to obtain a Global Intermediary Identification Number (GIIN) that will be used for FATCA compliance. Canadian FIs that register by April 25, 2014, will be listed on the first IRS FFI list that will be published in June 2014. Otherwise, Canadian FIs must register before December 22, 2014 in order to be on the IRS FFI list to be published in January 2015 and avoid the 30% FATCA withholding tax imposed on certain US source withholdable payments (e.g. interest, dividends) to Canadian FIs beginning January 1, 2015.

Under the IGA, there is no requirement for a reporting Canadian FI to enter into an FI agreement with the IRS to comply with FATCA. This is different from the final FATCA regulations. FATCA reporting by Canadian FIs will be provided to the Canada Revenue Agency (CRA) which will in turn provide the information to the IRS. Canadian FIs will need to file their FATCA reports with the CRA by May 2 of each year. The first FATCA report will be due May 2, 2015 (under the draft Canadian implementation legislation).

The IGA does not require a Canadian FI to appoint a responsible officer to certify the accuracy of its FATCA report. However a responsible officer will need to be named for purposes of registering the Canadian FI with the IRS.

Reporting Canadian FI FATCA Obligations

Under the IGA, a Reporting Canadian FI must perform certain due diligence procedures with respect to their preexisting and new Financial Accounts (defined below) in order to identify accounts held by certain US persons[1] (US Reportable Accounts[2]) and accounts held by Nonparticipating FIs (i.e. FIs that are not on the IRS FFI list). Certain information related to these reportable accounts must then be provided annually to the CRA in order to satisfy a Canadian Reporting FI's annual FATCA reporting obligations. Reporting Canadian FIs that comply with their FATCA obligations will not be subject to FATCA withholding and will not be required to close an account held by a recalcitrant account holder (generally, a person that fails to comply with requests by the FI for certain information required for FATCA due diligence).

Non-Reporting Canadian FIs and Excluded Accounts

Annexes I and II of the IGA exclude certain Canadian entities, accounts and financial products from the FATCA reporting requirements because such entities and financial products have a low risk of being used by US persons to evade taxes.

Under the IGA, only a Reporting Canadian FI is required to comply with the FATCA due diligence and reporting requirements. A Reporting Canadian FI is defined as any Canadian FI that is not a Non-Reporting Canadian FI under the IGA. Annex II describes various categories of Non-Reporting Canadian FIs including Exempt-Beneficial Owners (EBOs) and Deemed-Compliant FIs (DCFIs). An EBO includes the Bank of Canada, certain international organizations operating in Canada and certain Canadian retirement or pension funds. The listing of DCFIs in Annex II includes certain Canadian FIs with substantially all Canadian resident customers, certain "small" Canadian deposit-taking institutions, certain Canadian FIs with only small accounts and certain restricted funds. Investment funds that only have Canadian resident investors may qualify as DCFIs (e.g. as restricted funds) if various requirements are satisfied, including performing a full review of their investor accounts for US indicia. Qualifying EBOs and DCFIs should also not be subject to FATCA withholding.

Generally, a Financial Account means an account maintained by an FI, including non-regularly traded equity or debt interests in certain FIs. However, the definition of a Financial Account under the IGA does not include any of the Canadian financial products and accounts contained in Annex II. Such excluded products, for which no due diligence or reporting is required, include registered accounts such as Registered Retirement Savings Plans (RRSPs), Registered Retirement Income Funds (RRIFs), Registered Pension Plans (RPPs), Registered Education Savings Plans (RESPs), Registered Disability Savings Plans (RDSPs), Tax-Free Savings Accounts (TFSAs) and Deferred Profit Sharing Plans (DPSPs) as well as certain eligible funeral arrangements and escrow accounts.

Annex II also identifies certain categories of Financial Accounts for which Reporting Canadian FIs do not need to perform due diligence procedures including:

1. preexisting individual Financial Accounts that have a balance of less than US$50,000 as of June 30, 2014; and
2. preexisting entity Financial Accounts that have a balance of less than US$250,000 as of June 30, 2014.

In general, Reporting Canadian FIs do not need to review, identify or report on these Financial Accounts unless the balance of these accounts subsequently exceeds US$1,000,000.

Reporting Canadian FI Due Diligence Procedures

Annex I to the IGA contains procedures for identifying US Reportable accounts and accounts held by Nonparticipating FIs. The due diligence procedures to be performed by Reporting Canadian FIs generally depend on whether the holder of the account is an individual or an entity and whether the account is a new account or a preexisting account (i.e. an account in existence on June 30, 2014).

In general, for preexisting individual accounts:

1. with a value of between US$50,000 and US$1,000,000 as of June 30, 2014, Reporting Canadian FIs must electronically search their records for certain US indicia (i.e. factors that indicate that the account holder may be a US person);
2. with a value above US$1,000,000 as of June 30, 2014 (High-Value Accounts), a Reporting Canadian FI must perform a paper search of its current customer master file, and certain other information collected, for US indicia if the electronically searchable information does not include all the required US indicia. In addition, if the account is assigned to a relationship manager, the FI must inquire as to whether the relationship manager has actual knowledge that the account holder is a US person.

If US indicia is found, then the Reporting Canadian FIs must treat such accounts as US Reportable Accounts unless the Reporting Canadian FI obtains self-certification from the individual that he or she is not a US citizen or US resident and certain other documentation.

For new individual accounts opened after July 1, 2014, a Reporting Canadian FI needs to obtain self-certification from the individual as to whether the account holder is a US citizen or US resident and if so, the Reporting Canadian FI must also obtain his or her tax identification number.

Continued on page 26

Continued from : What does the Canadian FATCA... page 25

For preexisting Entity accounts, Reporting Canadian FIs must review information maintained, including information collected from AML/KYC procedures, to identify US Reportable Accounts.

For new Entity accounts opened after July 1, 2014, the Reporting Canadian FI must generally obtain self-certification from the account holder as to its status as either a Specified US Person, FI or Active or Passive NFFE (and any Controlling Persons).

Canadian Reporting FI due diligence on preexisting accounts must generally be completed by June 30, 2016. However, the deadline for completing due diligence for High-Value Accounts is June 30, 2015.

Information to be Reported

For US Reportable Accounts, a Reporting Canadian FI must provide certain information on its annual FATCA report to the CRA including:

1 Name, address, TIN of each Specified US Person or Passive NFFE (having Controlling Persons who are US citizens or US residents) and each Specified US Person who is a Controlling Person of such Passive NFFE;
2 Account number;
3 Name and GIIN of reporting FI;
4 Gross income paid (beginning with the 2015 reporting period and thereafter)
5 Gross proceeds paid (beginning with the 2016 reporting period and thereafter)

Further, Reporting Canadian FIs must annually report payments to Nonparticipating FIs.

What Canadian FIs Should Be Doing?

With the signing of the IGA, Canadian investment funds and investment advisors and managers should now consider their potential FATCA compliance obligations, including:

1 Confirming their FATCA entity classification under the IGA;
2 Registering Reporting Canadian FIs with the IRS;
3 Reviewing and revising new investor onboarding procedures to collect certification and other document required for new accounts;
4 Performing account due diligence procedures for preexisting accounts; and
5 Preparing for reporting by reviewing systems to ensure account information that needs to be reported is being collected and can be easily retrieved.

Since the provisions of FATCA are scheduled to take effect July 1, 2014, Canadian investment funds and advisors should take action now to determine the impact of FATCA on them.

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[1] In general, a U.S. person is an individual who is a U.S. citizen or a U.S. resident; a corporation or partnership organized in the U.S.; a trust subject to U.S. law that is controlled by U.S. citizens or U.S. residents; or a testamentary trust of a decedent that was a U.S. citizen or a U.S. resident at the time of death.

[2] A U.S. Reportable Account is a Financial Account held by: (1) one or more Specified U.S. Persons (generally, U.S. persons other than specifically excluded persons listed in the IGA such as, for example, corporations whose shares are regularly traded on an established securities market); or (2) a Passive Non-Financial Foreign Entity (NFFE) that has as Controlling Persons one or more U.S. citizens or U.S. residents. A Passive NFFE generally includes a non-regularly traded entity that earns significant (>50%) passive income (e.g. interest or dividends) or has significant (>50%) assets that generate passive income. A Controlling Person is generally a natural person who exercises "control", as defined in the IGA, over an entity.

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