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Written Submission for the Pre-Budget Consultations

in Advance of the 2026 Federal Budget

By: Canadian ETF Association (CETFA)

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Contact:
Eli Yufest, Executive Director
Canadian ETF Association

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List of Recommendations

Recommendation 1: That the government restore the pre-2022 Allocation to Redeemers (ATR) methodology for Canadian-listed exchange-traded funds under the Income Tax Act, effective for the 2027 taxation year.

Recommendation 2: That the government introduce a “Maple Investment TFSA,” a new Tax-Free Savings Account category restricted to Canadian-listed securities, with a federal matching grant of up to $1,000 for households earning under $90,000, to be announced in Budget 2026.

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Body of Submission

About CETFA

The Canadian ETF Association (CETFA) is the national voice of Canada's exchange traded fund industry. CETFA's members represent firms that manage approximately 96% of the more than $900 billion in Canadian-listed ETF assets under management (as of June 2026)[1]. This submission sets out the two changes CETFA believes Budget 2026 can deliver: one technical correction to the tax code, and one new savings measure for Canadian households, as of June 2026.

CETFA's mandate is to promote the adoption and sustainability of Canadian-listed ETFs. This submission recommends two targeted measures that Budget 2026 can deliver to help keep more Canadian savings working in Canada:

1. **Restore the pre-2022 Allocation to Redeemers methodology** for Canadian-listed ETFs; and
2. **Create a Maple Investment TFSA** to encourage more Canadians to invest their savings in Canadian-listed investment products.

Together, these recommendations would help improve the competitiveness of Canada's ETF industry, strengthen Canadian capital markets, and support households as they save, invest, and build long-term wealth.

Context: Canadian Savings Are Increasingly Moving to the United States

Canada's ETF industry is one of the country's great financial innovation success stories. Over the past two decades, the market has grown from just 16 products and two providers to more than $900 billion in Canadian-listed assets under management, over 2,000 products, and more than 50 providers.[2]

However, this growth should not obscure the competitive challenges facing the Canadian market.

Since 2015, the U.S. ETF market has launched roughly three times as many new products as Canada. The average U.S.-listed ETF also holds seven to eight times the assets of its Canadian counterpart. This scale advantage matters. Larger funds are often better positioned to compete on cost, liquidity, product breadth, and investor awareness.

Canadian investors now hold approximately $300 billion in U.S.-listed ETFs, representing roughly 26% of the $1.15 trillion in total ETF assets held by Canadians[3]. CETFA estimates that this shift of investment activity outside Canada represents approximately $870 million in annual GDP impact, $372 million in annual government revenue, and 5,790 jobs that could otherwise support domestic asset management,

[1] Bloomberg and National Bank Research, Canadian ETF industry data; CETFA membership records, as of June 2026.
[2] Bloomberg and National Bank Research, Canadian ETF industry data; CETFA membership records, as of June 2026.
[3] CETFA, "The Economic Impact of Investments in Canadian-Listed Exchange Traded Funds" (infographic), based on Statistics Canada Input-Output models, June 2026.

trading, custody, compliance, and related financial services activity in Canada.

Canadians have broad and easy access to these U.S.-listed products. By contrast, American investors do not have equivalent access to Canadian-listed ETFs. Without action, Canada risks seeing more savings, investment activity, jobs, and economic value migrate to the United States.

The expiry of Vanguard's patent on ETF share-class structures has catalyzed expansion of U.S.-listed ETF products, with more than 90 fund managers approved[4] to provide their existing funds in ETF form. This would permit Canadians free access to previously-unavailable and highly tax efficient U.S.-listed ETF products, putting Canadian industry and jobs at a competitive disadvantage.

Budget 2026 is an opportunity to respond. The federal government has already emphasized the importance of keeping Canadian capital working in Canada[5]. CETFA's recommendations are practical, targeted, and designed to help make that commitment real.

Recommendation 1: Restore the Pre-2022 ATR Methodology

The Issue

Canadian ETF investors expect to pay capital gains tax when they sell their investment. That is a reasonable and well-understood principle.

However, changes to the Allocation to Redeemers methodology, first proposed in the 2019 federal budget[6] and enacted through Bill C-32 in November 2022, disrupted that principle for Canadian-listed ETFs. The change took effect for taxation years beginning after December 15, 2021.[7]

Under the current approach, when one investor redeems ETF units and triggers a capital gain, that gain can be allocated across remaining unitholders rather than being borne only by the redeeming investor who triggered the gain. As a result, buy-and-hold investors may receive a tax bill for gains they did not realize, did not trigger, and may never receive in cash.

This creates a structural disadvantage for Canadian-listed ETFs.

U.S.-listed ETFs do not face the same issue. Their in-kind redemption mechanisms are designed to protect continuing investors from similar tax leakage. The result is a growing after-tax competitiveness gap between Canadian-listed and U.S.-listed ETFs.

That difference matters to investors. It also matters to Canada's competitiveness.

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[4] CETFA analysis of U.S. Securities and Exchange Commission dual-class ETF structure filings, 2026.
[5] Government of Canada, Spring 2026 Economic Update.
[6] Government of Canada, Budget 2019 (Investing in the Middle Class).
[7] Bill C-32, Fall Economic Statement Implementation Act, 2022, S.C. 2022, c. 19.

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Why It Matters

The mechanics are straightforward.[8]

Consider a fund with $1,000 of accrued gains where 10% of units are redeemed, triggering $100 of the fund's gains. Under the pre-2022 methodology, that $100 gain was allocated to the redeeming unitholder, who paid the tax upon exit.

Under the current rules, that same $100 can instead be spread across remaining investors. Those investors absorb a share of a gain they did not trigger. If the value of the fund later declines, those investors may never actually receive the corresponding economic benefit.

This creates potential tax leakage, investor unfairness, and a competitive disadvantage for Canadian-listed ETFs. CETFA's analysis shows Canadian-listed ETFs can generate roughly 1.4 times more taxable income per dollar of net income received than U.S.-listed counterparts holding the same underlying assets.[9]

In practical terms, Canadian investors may be pushed toward U.S.-listed ETFs not because they prefer those products, but because Canada's tax framework makes Canadian-listed ETFs less competitive.

Scope and Intent

CETFA recognizes that the 2019 federal budget sought to address a specific concern: the use of ATR methodology by certain mutual funds to allocate capital gains to redeeming unitholders in excess of the gains those unitholders would otherwise have realized on redemption.

CETFA is not proposing to reopen that avoidance structure.

Rather, CETFA is recommending that the government restore the basic allocation principle for ordinary ETF investors: capital gains triggered by redeeming investors should be borne by the redeeming investors, not spread across buy-and-hold investors who did nothing to trigger the gain.

Independent legal and market analysis supports this view. McMillan LLP has confirmed that the traditional ATR methodology was designed to prevent double taxation and that redemption-related gains should properly be borne by redeeming unitholders.[10] RBC Capital Markets has similarly concluded that the pre-2022 approach should be understood as recognizing the appropriate tax liability, not as tax avoidance.[11]

[8] CETFA, "Allocation to Redeemers" presentations to the Department of Finance, December 19, 2025 and February 20, 2026.
[9] CETFA, internal analysis of registered-account tax outcomes.
[10] McMillan LLP, legal analysis of the Allocation to Redeemers framework.
[11] RBC Capital Markets, ETF taxation research report, May 2025.

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Why This Belongs in Budget 2026

Restoring the pre-2022 ATR methodology is a technical correction, not a new tax preference. It would require a legislative amendment to the Income Tax Act and no new program spending. Any revenue effect would primarily be a timing issue, not a permanent loss. Gains deferred under the restored methodology would still be taxed when the investor who realized the gain ultimately sells.

With the U.S. market becoming more competitive following the expiry of the Vanguard ETF share-class patent, the cost of inaction will grow each year. Canada should not allow a technical tax issue to place Canadian-listed ETFs at a structural disadvantage.

Recommendation

That the Government of Canada restore the pre-2022 Allocation to Redeemers methodology for Canadian-listed ETFs, effective for the 2027 taxation year.

Recommendation 2: Create a Maple Investment TFSA

The Issue

The Tax-Free Savings Account has been one of Canada's most successful savings policies. However, a large share of TFSA capacity remains underused or held in cash.

A national RBC-Ipsos poll found that 42% of TFSA holders keep a significant portion of their account in cash[12]. While cash can play an important role in household finances, unused or uninvested TFSA room does little to help Canadians build long-term wealth, save for retirement, or support Canadian businesses and capital markets.

For Canadians who do invest within their TFSA, the current framework provides no reason to choose a Canadian-listed investment product over a U.S.-listed alternative.

The Solution

CETFA recommends the creation of a **Maple Investment TFSA**.

The Maple Investment TFSA would be a new TFSA category designed to encourage Canadians to invest more of their savings in Canada. Eligible investments would include Canadian-listed equities, fixed-income securities, and ETFs.

The account would include a federal matching grant of up to $1,000 for households earning under $90,000.

[12] RBC/Ipsos, TFSA cash-holding poll, 2021, as reported by Global News (globalnews.ca/news/5783278).

The policy would build on a proven model: the RESP. The RESP demonstrated that when government attaches a matching grant to a registered account, household behaviour changes. Families save more because the incentive is simple, visible, and directly tied to their own financial goals.

The Maple Investment TFSA would apply the same logic to domestic investment.

It would not require a new administrative system. It could operate through existing TFSA infrastructure, using financial institutions that already report TFSA contributions to the CRA.

Most importantly, the direct beneficiary would be the Canadian saver. Any government matching contribution would be deposited into an individual's own registered account, owned and controlled by that household. The purpose of the incentive would be to help more Canadians move from passive saving to long-term investing, particularly those who may not otherwise have the financial capacity, confidence, or incentive to begin investing.

This distinction matters. A well-designed Maple Investment TFSA would not provide payments to fund manufacturers, advisors, dealers, or any other market participant. Nor would it direct Canadians into any specific company, fund, issuer, or product. Canadians would remain free to choose from a broad range of eligible Canadian-listed investments based on their own circumstances, risk tolerance, and financial goals.

Fiscal Design

The Maple Investment TFSA can be designed in a fiscally responsible way.

A $1,000 matching grant could be offered to eligible households earning under $90,000. The matching rate can also be adjusted to fit the government's fiscal framework. For example, the government could begin with a lower-cost pilot, such as a 20% match, as a proof of concept.

This makes the proposal scalable. It is not an open-ended commitment. The government can set the matching rate, annual cap, eligibility criteria, and phase-in period according to fiscal capacity.

Why This Belongs in Budget 2026

The Maple Investment TFSA directly supports the federal government's goal of keeping more Canadian capital working in Canada.

It would help Canadians build wealth, encourage more productive use of existing savings, and support investment in Canadian-listed products. It would also complement broader efforts to strengthen Canadian capital markets and improve economic resilience.

The proposal also has broad public appeal. CETFA's May 2026 national research found that ETF ownership is spread broadly across the Canadian electorate, with no meaningful variation by political

affiliation[15]. A policy that helps Canadians save more, invest more, and direct more capital into Canada should not be viewed as partisan.

The Maple Investment TFSA is a practical, made-in-Canada solution to a growing competitiveness challenge.

Recommendation

That the Government of Canada announce the Maple Investment TFSA in Budget 2026, either at the full $1,000 matching rate or through a lower-cost pilot as a proof of concept.

Conclusion

Canada's ETF industry is a national success story, but its long-term competitiveness should not be taken for granted.

Canadian investors are increasingly directing ETF assets to the United States. Some of that reflects product choice and market scale. But some of it reflects structural policy disadvantages that Canada can and should address.

CETFA's two recommendations are targeted, practical, and directly aligned with the federal government's stated objective of keeping Canadian capital working in Canada.

Restoring the pre-2022 ATR methodology would correct a technical tax issue that disadvantages Canadian-listed ETFs and can unfairly affect buy-and-hold investors.

Creating a Maple Investment TFSA would give Canadian households a clear and positive incentive to invest more of their savings at home.

Both measures would strengthen Canadian capital markets, support Canadian investors, and help ensure that more Canadian savings contribute to Canadian jobs, businesses, communities, and long-term economic growth.

CETFA would welcome the opportunity to appear before the Committee and to work with Finance Canada officials on the technical design and implementation of either recommendation.

[15] SAGO, national survey commissioned by CETFA, May 2026 (n=3,001).