

The Honourable Mary Ng, P.C., M.P.  
Minister of Small Business, Export Promotion and International Trade  
125 Sussex Drive  
Ottawa, Ontario  
K1A 0G2 Canada

March 26, 2020

Dear Minister Ng,

As you are aware, Canada's small, innovation-based firms are particularly vulnerable to the liquidity challenges resulting from the measures implemented to curb the COVID-19 pandemic. However, at the same time, they also represent the job creation engine that will help drive Canada back to growth once the pandemic has been contained. Therefore, it is imperative that the government and industry work together to ensure that Canada's high growth start-up companies and overall innovation ecosystem are sustained through this crisis.

The Canadian Venture Capital & Private Equity Association (CVCA), which represents over 1,800 individual members and over 290 member organizations across the country, has actively engaged its membership to understand the liquidity challenges facing Canadian investors. Equally as important, an understanding of the challenges their portfolio companies are facing. These companies employ Canadians from coast-to-coast.

These discussions have generated three concrete actions that the Government of Canada can take to quickly help Canada's innovation-based entrepreneurs and small businesses weather this crisis. Doing so will ensure they are able to lead Canada's economic recovery once business activity normalizes:

1. **Wage subsidy program:** The proposed 10% wage subsidy for small businesses is an important step in the right direction by the government. However, far more will be needed to maintain the connection between employers and employees through this crisis. CVCA recommends that the Government of Canada implement a time-limited wage subsidy of 70%. This level of wage support would effectively maintain employment levels for a short, defined period, rather than letting employment collapse and forcing a reliance on social programs to provide financial support. Simply put, it is less expensive to preserve today's economy than to rebuild it tomorrow.

2. **Pay all Scientific Research & Experimental Development (SR&ED) tax claims on an expedited “no review” basis – first in, first out:** All current SR&ED claims have been submitted under the pretext of a normal review and audit process and therefore can be viewed as legitimate. Moving forward, to ensure compliance, each company’s CEO can provide an attestation that their claims are legitimate and agree to a future audit if the CRA should request one. These attestations should be available online so that CEOs can quickly sign-off, and have it added to their SR&ED filing. For 2020, the government can proactively pay companies an interim six-month SR&ED payment based on the prior year’s filing, which would be less administratively burdensome, and could be reconciled at the time the final payment is due. There are no incremental expenditures for the government associated with this recommendation, however, it would have an immediate, material impact on companies that make up Canada’s innovation ecosystem.
3. **Provide the Business Development Bank of Canada (BDC) with adequate capital to maintain liquidity in and the continued flow of investment dollars into Canada’s innovation ecosystem.** This is especially important as, traditionally, foreign investors have retreated in times of crisis, further compounding the liquidity challenge. Specifically, the BDC should:
  - **Offer convertible notes to venture-backed technology start-ups:** The BDC should provide matching convertible notes (loans), on a one-for-one basis with General Partners (GPs), which would accrue interest but have no payment obligations for up to 36 months, at which time the note would be converted into equity at the BDC’s discretion. In the event of an equity financing round before maturity, BDC would have the option to convert in that round. To ensure that the greatest number of companies are positively impacted by this provision, the match would be capped at \$2 million per company. The matching provision ensures proper curation and due diligence of these investments. The CVCA understands that in the past, BDC’s strategic investment group established a similar mechanism for promising early stage start-ups. In the current context, we recommend that this program be available to venture-backed companies of all stages.
  - **Close venture capital fundraising rounds that are currently open:** For GPs currently fundraising, it will be difficult to close the round due to the uncertainty in the marketplace. This will lead to prolonged fundraising timelines and the inability to start deploying capital into the market, resulting in a severely constrained flow of capital into the Canadian innovation ecosystem, especially in 2020. This situation will be compounded as foreign investment recedes from the Canadian marketplace. The BDC has an important role to play in shoring up this gap through the rapid allocation of dollars to close these funds, thereby accelerating the flow of venture capital investment



into innovative start-ups throughout 2020. Priority should be given to bridging first close.

Taken together, these three actions will provide the liquidity necessary for Canada's high growth start-ups to survive this acute time of crisis, sustaining our innovation ecosystem. In turn, the CVCA strongly encourages the Government of Canada to move on these actions immediately.

In addition to these three actions, the CVCA recommends the Government of Canada consider the following measures to further assist with the acute short-term liquidity challenges facing Canada's start-up companies and small, innovation-based firms:

- **Additional tax measures for small, growing innovation-based companies:**
  - **Accelerate payments and defer remittances of the Harmonized Sales Tax (HST) and comparable retail taxes without penalty.** Accelerating payments and deferring remittances would provide much needed working capital to Canadian businesses.
  - **Deferral of payroll taxes without penalty.** Many young, growing technology companies are not in a position to pay income tax as they are not yet in a profitable position. Therefore, the announced deferral of income tax remittances will have limited, if any, impact on these companies. However, a deferral of payroll taxes would have a positive impact on their liquidity position.
- **The BDC could temporarily modify lending parameters to increase liquidity for start-ups and innovation-based small businesses:**
  - **Deferral of principal and interest payments to the BDC:** Many companies have received investment via debt, including secured debt that is scheduled to be repaid. Simply by deferring repayment (much like banks are doing for mortgages), the BDC could provide companies with some liquidity assistance to help them overcome the crisis.
  - **Waiving of covenants to avoid default:** The BDC's investments and loans come with covenant ratios that many companies will not be able to meet, technically placing them in default, which could trigger many other lender defaults. By agreeing to waive covenants, the BDC could help companies avoid triggering covenants with other lenders or shareholder agreements.



Private equity and venture capital play a critical role in the Canadian economy. Canadian venture capital has made tremendous strides in recent years, re-establishing its domestic industry through the *Venture Capital Action Plan* and the *Venture Capital Catalyst Initiative*, with annual investments increasing from \$1.9 billion in 2013 to \$6.2B in 2019. It is imperative that government and industry work together to take immediate action to ensure safeguard its progress and to secure the future promise inherent in Canada's robust innovation ecosystem. It is within this context that I offer my full support, and that of the CVCA membership, to work with you and your team to quickly move forward with the actions and recommendations outlined in this letter.

Thank you in advance for your leadership, attention and consideration on this important matter. I look forward to working with you to support our innovative entrepreneurs and small businesses, ensuring they overcome and thrive once this crisis has passed.

Kind regards,



Kim Furlong  
Chief Executive Officer  
CVCA

c.c.:

The Honourable Chrystia Freeland, P.C., M.P.  
The Honourable Bill Morneau, P.C., M.P.  
The Honourable Navdeep Bains, P.C., M.P.  
Katie Telford, Chief of Staff to the Prime Minister