Montreal, July 3, 2013

Consultations on labour-sponsored venture capital corporations
Tax Policy Branch
Department of Finance
140 O'Connor Street
Ottawa, Ontario K1A 0G5

Letter emailed to consultationsLSVCC-SCRT@fin.gc.ca

To whom it may concern:

Subject: Consultations on labour-sponsored venture capital corporations

Allow me to begin by thanking you for this opportunity to once again share our views regarding the new tax rules covering labour-sponsored venture capital corporations (LSVCCs) that phase out the federal LSVCC tax credit for these corporations. The Fédération des Chambres de Commerce du Québec (FCCQ) already expressed its reservations in a press release on March 22. After conducting a more in-depth analysis and consulting its membership, it was able to quantify the substantial contribution LSVCCs make to the Quebec economy, and **it calls for the tax rules to be maintained and urges the federal government to reverse its plans to replace the LSVCC tax credit with new venture capital programs.**

This position is based on consultations and discussions we have had with our membership, close to 150 chambers of commerce and 1,200 Quebec businesses. The FCCQ represents over 60,000 companies and 150,000 businesspeople involved in every sector of the economy throughout Quebec, so it is confident that it is faithfully portraying the economic interests at stake given that it represents the largest network of businesspeople and companies in Quebec.

As a result, we believe it is critical to point out the essential contributions of LSVCCs to Quebec's economic development and to the benefit of all Quebeckers. The facts speak for themselves.

An invaluable source of funding for entrepreneurs

- Close to $750 million invested each year in companies impacting Quebec's economy
- Investments in 2,239 Quebec businesses, of which close to 1,800 have 100 or fewer employees

- Long-term, unsecured funding to solidify a company's balance sheet
- 70% of fund-supported companies are outside Montreal

An economic driver for job creation
- Governments also benefit from these funds.
- According to a 2010 study by SECOR, KPMG and Regional Data Corporation, governments recover the tax credits granted to fund shareholders within three years on average, given increased economic activity.
- The savings invested in companies have helped create or save close to 500,000 jobs since 1990.

An ally supplementing private and institutional financial partners
- LSVCCs are an extra source of capital to new businesses on top of what the banks provide.
- Financial institutions are very supportive of these kinds of funding solutions as they solidify the balance sheets of brand new start-ups.
- Several FCCQ members relied on LSVCCs to get started by making use of the tools provided by these funds;
    - Funding that is subordinate to those from traditional financial institutions, thereby enhancing the financial health of the funded businesses.
    - Capital with no security requirements

A high-performing savings vehicle that many Quebeckers depend on
- 600,000 savers, or about 15% of the active population
- 200,000 shareholders have labour-sponsored fund RRSPs as their only savings vehicle
- Shareholders come from the middle class: average annual contribution of $2,830
- 50% of shareholders are non-unionized
- Unlike labour-sponsored funds outside Quebec, shareholders of Quebec labour-sponsored funds remain shareholders until their retirement
- Of LSVCC savers contributing to an RRSP for the first time, 80% then turned to solutions provided by other financial institutions.

Helping to improve the financial literacy of workers
- Getting workers to take control of savings: 36% of shareholders first invested in LSVCCs for an RRSP and then 80% of them went on to buy RRSPs elsewhere
- Greater understanding of the importance of business profitability and survival. We are seeing a decrease in labour disputes in 30 years: in 1983, 2.4 million person-days were lost to labour disputes, compared to 411,000 in 2011.

Potential improvement: A more directed contribution to support the export capacity of businesses
In addition to the economic benefits of retaining the provisions covering LSVCCs, we believe it is worth drawing to your attention a potential improvement that should be given greater

consideration. Our economy is heavily dependent on exports. Our financial tools therefore need to promote export development by supporting businesses with high export potential to such countries as the U.S. and emerging economies (BRICS etc.).

LSVCCs have already gone this route, although it will be worth focussing more on this approach in the coming years.

Thank you once again for your attention, and we would like to think that the economic benefits of maintaining LSVCC provisions will persuade you to reconsider your plans and allow these funds to continue supporting economic development.

Françoise Bertrand, OC QC

CEO