



The Honourable Kevin Sorenson, P.C., M.P.
Chair of the Standing Committee on Public Accounts
House of Commons
Ottawa, Ontario K1A 0A6

Dear Colleague:

On behalf of the Government of Canada, we are pleased to respond to the Report of the Standing Committee on Public Accounts on the Venture Capital Action Plan (VCAP), pursuant to the House of Commons Standing Order 109, as effective March 7, 2005. We would like to thank the Committee for its report, and its interest in ensuring the fairness, openness, and transparency of the Government of Canada's investments in support of innovative companies.

Detailed responses to the Committee's recommendations are provided below.

Recommendation 1: The Department of Finance Canada and Innovation, Science and Economic Development Canada (ISED) need to clearly explain to the Committee—should the Government of Canada decide to develop an initiative that is similar to the Venture Capital Action Plan—how they would design the selection processes differently to ensure that they fully respect the values of fairness, openness, and transparency while meeting the purposes of the investment.

The Auditor General (AG) recommended that, when making investments that are similar to those of the VCAP, the Government of Canada should fully respect the values of fairness, openness, and transparency while meeting the purposes of the investment. ISED and Finance Canada, along with the Business Development Bank of Canada (BDC), fully agree with this recommendation.

A private sector expert panel led a competitive process to select VCAP fund of funds managers, and the final selection of managers was determined by all initial investors, including public sector and private sector investors in the funds of funds. The panel established the information requirements for applications, defined the selection criteria and evaluation methodology using industry benchmarks, and shortlisted candidates for in-person interviews prior to making final recommendations to the Minister of Finance.

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The competitive process included outreach activities to advertise the opportunity to qualified potential applicants, including an initial announcement by the Minister of Finance, press releases carried by news outlets, and communications with Canada's venture capital industry associations. However, the AG suggested that the competition could have benefited from a longer posting time period, improved explanation of the evaluation criteria to potential candidates, and greater outreach in the United States.

Should the Government of Canada decide to develop an initiative that is similar to VCAP, selection processes will balance the principles of confidentiality and flexibility for private sector partners with fairness, openness and transparency for public sector partners. Furthermore, the Government of Canada would take the following steps to address some of the issues raised in the AG report.

- First, the government would allow a longer period for candidates to prepare and submit material for the opportunity than the time periods under the selection processes for VCAP;
- Second, the government would increase its outreach activities in the venture capital community globally to create widespread awareness of the opportunity and the selection process, particularly in the United States, as suggested in the AG report; and
- Third, the government would, in a timely fashion, provide unsuccessful applicants with an opportunity to obtain feedback on why they were not selected.

Recommendation 2: The Department of Finance Canada and ISED need to provide the Committee on Public Accounts with a table outlining the type of information, including all performance indicators, about the Venture Capital Action Plan that is available to the Government of Canada, the private-sector investors, and Parliament, respectively. This table should also provide the rationale for any differences and/or non-disclosure of information.

The AG also recommended that, to increase transparency, the Government of Canada should report publicly relevant information about VCAP activities and performance.

ISED, Finance Canada and BDC agree with this recommendation. In September 2016, ISED published a report on VCAP performance metrics on its website.

During its meeting on VCAP in September 2016, the Committee on Public Accounts asked about additional information on this initiative. The government made the following additional information available on the ISED website in early February 2017:

- a list of the companies supported by VCAP, excluding companies that do not wish to be listed for commercial reasons;
- a report on the economic impact of companies supported by VCAP for which data are reported to BDC; and
- a full list of the venture capital funds that have received commitments under VCAP.

The government will report publicly all relevant information that the government and BDC collect on the activity and performance of VCAP. The exception is commercially sensitive information on an individual fund or company supported by VCAP, the disclosure of which could damage the competitiveness of that organization. That information is protected by the legal investment agreements governing investor and fund manager relations in the funds. Such sensitive information is made public only in aggregate. The requested table is provided in the appendix.

Recommendation 3: The Department of Finance Canada and ISED need to provide the Committee, and report publicly, a table that includes a breakdown of the investments by the primary, secondary and tertiary sectors of the economy (for example, natural resources extraction, manufacturing and services).

The Committee has recommended categorizing VCAP investment as follows:

Primary sector – agriculture, fishing and natural resources extraction

Business establishments in this sector could be characterized as those primarily engaged in growing crops, raising animals, harvesting fish, or extracting naturally occurring minerals, such as metals or oil.

Secondary sector – manufacturing

Business establishments in this sector could be characterized as those primarily engaged in the chemical, mechanical or physical transformation of materials or substances into new products.

Tertiary sector – services and the rest of the economy

This sector could be defined as covering the rest of the economy, such as wholesale, retail, transportation and all other services.

In general, venture capital invests in new technologies or business models and, therefore, rarely invests in the primary sector. None of the companies supported by VCAP are engaged directly in primary agriculture production or natural resources extraction, which would place them in this sector. Rather, some of the companies supported by VCAP are developing enabling technologies for business customers in that sector.

Similarly, venture capital is optimized for companies with significant technology and market risk and is not usually invested in the traditional manufacturing sector. A small minority of VCAP-backed companies have niche operations to manufacture their products, either in-house or outsourced, creating products such as bespoke circuit boards or small electronics. These firms are considered to be technology companies rather than manufacturing companies because of the nature of the manufacturing and that the firm's primary value is derived from its intellectual property.

In general, the large majority of venture capital investments are in the tertiary sector of services and the rest of the economy, including those investments made through VCAP. Given the significant focus on technology, a breakdown of firms by the following categories better describes the nature of the activity. These categories are also used by the venture capital industry:

Information and communication technologies, which consists of companies developing technologies in the fields of mobile, telecommunications, Internet, e-commerce, information technology (IT) infrastructure, software, digital media hardware, electronics, and semiconductors.

Life sciences, which consists of companies developing technologies in the fields of biotechnology, pharmaceuticals, medical devices and IT for the health services sector.

Energy and clean technologies, which consists of companies developing technologies in the fields of alternative energy; process and energy efficiency; chemicals and materials; and natural resources exploration and extraction.

ISED reports VCAP investments on its website. The latest results are as follows:

Economic Sector	Amount invested (\$ millions)	Number of companies
Information and communication technologies	201	104
Life sciences	147	16
Energy and clean technologies	105	6
Total	453	126

Table: Economic sector of Canadian companies supported by VCAP up to March 31, 2016

As noted in the response to Recommendation 2, in February 2017, ISED made available on its website a list of the individual Canadian companies supported by VCAP, including their names, locations and industry sectors. This information will be updated annually, and will allow Parliament and the public to have a detailed understanding of the nature of the companies supported by VCAP.

Sincerely,



The Honourable Navdeep Bains, P.C., M.P.
Minister of Innovation, Science
and Economic Development



The Honourable Bill Morneau, P.C., M.P.
Minister of Finance

Enclosure

APPENDIX
**Venture Capital Action Plan: Type of Information Available to Private Sector,
Government, and Public and Parliament**

Metrics by element of VCAP initiative	Level of detail received, by recipient		
	<i>Private Sector Funds of Funds</i>	<i>Government and BDC</i>	<i>Public and Parliament</i>
Investors in funds of funds			
Profile of investor name of the investor; location of the investor; type of investor (government, pension fund, financial institution, corporate, individual)	Complete	Complete	Aggregate
Investment information total amount committed by the investor in the fund of funds; amount of cash the investor paid in against that commitment; cash returned to the investor for those investments; fair value of the investor's active investment in the fund of fund	Complete	Complete	Aggregate
Funds of funds			
Profile of fund of funds name of the fund of funds; total amount raised by the fund of funds	Complete	Complete	Complete
Investment information total amount committed by the fund of funds to venture capital funds; amount of cash the fund of fund paid in against the commitment; cash returned to the fund of funds for those investments; fair value of the active investments made by fund of funds	Complete	Complete	Aggregate
Canadian venture capital funds supported by VCAP			
Profile information name of venture capital fund; sector focus of fund; location of fund	Complete	Complete	Complete
Investment information total amount raised by fund; amount invested by fund to companies; cash returned from the fund's investments; fair value of the fund's active investments	Complete	Complete	Aggregate
Canadian companies supported by VCAP			
Profile information name of company; industry sector of company; location of company	Mostly complete	Mostly complete	Mostly complete
Economic impact company's revenue, employees, location, research and development expenditures, and revenue growth	Mostly complete	Mostly complete	Aggregate

Key for the above table

Complete	The full set of detailed information on this metric is provided to the recipient.
Aggregate	The information on this metric is provided to the public and Parliament only in aggregate. That is because it is commercially sensitive information on an individual fund or company supported by VCAP, the disclosure of which could damage the competitiveness of that organization and is precluded through confidentiality requirements of the limited partnership agreements governing investor and fund manager relations in the funds.
Mostly complete	A detailed set of information on this metric is provided for many of the VCAP-backed companies. A portion of the companies are excluded, either because the information is commercially sensitive and its release could be damaging to the company's competitiveness, or because the information has not yet been reported by the company.