



August 4, 2017

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RE: TMX Pre-Budget Submission

Executive Summary

TMX Group is pleased to submit recommendations to the House of Commons Finance Committee aimed at assisting Canadian entrepreneurs to become more competitive and innovative as they invest and scale their companies in pursuit of enhanced access to capital. Ultimately our objective is to contribute to the country's economic growth while enhancing its' capacity to innovate.

We acknowledge and support the efforts the government took in the past year, including the creation of the Infrastructure Bank, announcing the Global Skills Strategy and Venture Capital Catalyst Initiative.

TMX has a number of recommendations derived from the [Advancing Innovation Roundtable](#) which we are pleased to recommend to the House Finance Committee.

TMX recommends the adoption of these policies to support business, create high quality jobs across Canada, enhance Canada's capital markets strength, and help our country's entrepreneurs to compete nationally and globally.

The specific gap in capital supply is estimated at \$4 billion and growing. Together, we can enhance Canada's commercial success to help companies scale-up and to help our country compete in the global race for advantages in intellectual property, patents, economic development and employment opportunities.

Introduction

TMX Group is pleased to submit recommendations to the House of Commons Standing Committee on Finance as it considers recommendations for the 2018 federal budget. As owner of Canada's leading stock exchanges, TMX Group is focused on powering the development of an innovation economy. We welcome the federal government's commitment to innovation, productivity and competitiveness as important building blocks of a strong, diversified economy that stimulates growth and prosperity.

Canada's capital markets are vital to helping emerging companies and entrepreneurs as they start up and develop, and later in the financing chain as they commercialize and scale up to become market leaders in their respective industries.

The TMX Group recommendations are based on The Advancing Innovation Roundtable report. The Roundtable was comprised of 12-independent senior business leaders from across Canada's financial services sector. The Roundtable's objective included delivering actionable recommendations for increasing access to growth capital for Canadian companies as they expand beyond the initial seed and start-up "scale-up" stages, while improving the ecosystem foundations for the long-term benefit for the Canadian economy.

The Roundtable also had as one of its core objectives the goal of fostering greater alignment on long-term investment in the Canadian innovation economy, as it focused on solutions involving both the public and private markets that address the immediate and long-term issues facing the nation's economy.

Innovation is impacting all aspects of the economy and is integral to today's modern economic system. Our country is recognized worldwide for its skills and expertise in research and technological development, yet it currently faces a multi-billion-dollar gap in capital availability precisely at the stage where companies can be most impactful for the economy.

Canada is competing against emerging and developed economies around the world for industrial and technological investments. To ensure long-term sustainability, Canada needs to improve the foundations of the innovation ecosystem. Global competitors based in the UK utilize the Enterprise Investment Scheme (EIS) which was established to provide tax incentives to investors looking to finance startup companies and to address the need for availability of early-stage capital. The EIS model has had a profound impact in the UK as it is continuously spurring capital investment in startups; it has become the most utilized government-backed scheme created. This would make Canada one of the most innovative countries to do business and a place where investors derive proper return for the risk.

Consideration to adjust the tax code to expand the very successful flow-through share structure into innovation and alternative energy sectors could encourage greater private sector investment. Improvements to the foundations of our ecosystem would ensure all Canadians capture the benefits driven from our investments and the government's efforts.

Growth Capital Required

The size of the growth capital gap in Canada is currently estimated at \$4 Billion. Of that total, \$1 Billion is needed to fund the current wave of companies moving beyond early and start-up stages at the long term historical rates observed in Canada. This gap is expected to grow by at least \$20 million per year due to significantly higher early and start-up stage activity, potentially doubling in size to \$2 Billion within three to five years. An additional \$3 Billion is needed to address the capital gap for older, active companies who have been growing sub-optimally due to limited access to growth capital.

The Roundtable focused on solutions from both the public and private markets, and the policy recommendations developed through its work highlight the importance of fostering a competitive economy to bolster the country's economic growth, while attracting and supporting innovative companies and its growth ecosystem.

Recommendations for Government Action to Accelerate Growth and Innovation

Recommendation #1

Create a level playing field for innovative Canadian SMEs under SR&ED.

- ***Support the equal treatment for public and private SMEs under the SR&ED program, by making it more efficient and less onerous to access***

TMX has recommended the equal treatment for public and private SME's under the SR&ED program. After great analysis of the UK Enterprise Investment Scheme, TMX recognizes that additional sources of financing are needed for Canada's small and medium-sized enterprises operating in the technology and innovation sector. This financial help will enable businesses to grow and eventually reach the commercialization and scale up stages.

Currently, two mutually exclusive early stage Canadian technology and innovation companies are faced with the choice between accessing capital by listing their shares on a stock exchange, or staying private to maintain their eligibility to access significant financial benefits provided by the enhanced, refundable tax credits under the SR&ED program. TMX believes these options should not be mutually exclusive.

Under the current SR&ED eligibility criteria, Canadian entrepreneurs and early-stage private companies are led towards private sources of funding, such as Venture Capital (VC) or Private Equity (PE), because doing so allows them to retain access to the full benefits under the SR&ED program (the enhanced, refundable 35% tax credit). However, once a company goes public the investment tax credit (ITC) drops from 35% to 15% and becomes non-refundable—this applies to *all* public companies regardless of size or cash flow.

However, Canadian-controlled private corporations (CCPCs) and companies listed on TSXV, Canada's public venture capital market, are often similar in terms of stage of development, size and value. Eligibility criteria under SR&ED already has a threshold that considers the size and stage of financial maturity of the applicant company. This is an appropriate cut-off that, if surpassed, renders the applicant ineligible. That said, we believe that the supplemental eligibility test requiring the company to be a CCPC to access the enhanced, refundable ITC is not only redundant, it works against the public policy objective of the SR&ED program itself.

There are over 275 technology and innovation companies listed on TSXV, many of which are burgeoning—the vast majority of them have revenues under \$1 million. These young companies develop promising innovative technologies, and funding provided by SR&ED is often a crucial source of operating funds. We believe more entrepreneurs would consider taking their idea or business to new heights if launching an IPO did not negatively impact their SR&ED status.

Moreover, extending the benefits of SR&ED to small and early stage technology and innovation companies listed on a public market in Canada would also help keep them growing in Canada and grow the base of Canadian businesses. In many cases, VC or PE-funded companies who stay private to enjoy the full benefits under SR&ED end up being acquired by large firms outside of Canada. Conversely, by offering SR&ED's full benefits to early stage public companies on the same basis as CCPCs of the same size, the program would serve the very companies that it is designed to support. This would also provide further incentive to access public growth capital in Canada to position these companies for further expansion beyond start-up and initial commercialization.

Recommendation # 2

Include digital infrastructure for project eligibility with the new Canada Infrastructure Bank.

- ***Treat digital infrastructure and technologies as strategic and critical national infrastructure.***

Digital infrastructure is as important as physical infrastructure. The Canada Infrastructure Bank has received legislative approval. As it begins its work, it is recommended the inclusion of digital infrastructure projects be considered by the Infrastructure Bank. This inclusion would be of high importance to projects that help position Canada as a leader in key areas such as artificial intelligence, cybersecurity, data privacy, Internet of Things enablement, to name a few.

Recommendation # 3

Revamp the Build in Canada Innovation Program.

- ***Reduce barriers for productivity and technology adoption within the Innovation Economy through collaboration between Innovation Sector companies and Canada's strategically important industries.***

The Build in Canada Innovation Program (BCIP) is designed to provide businesses with the opportunity to test and sell pre-revenue technologies to the Government of Canada. This program allows business to make their technology first sale to Government. It also provides for a forum to gather feedback that can support the competitiveness of the business in the market.

Overhauling the BCIP to enable the government to procure pre-revenue technologies for as a first reference customer, will allow significant new revenue opportunities for companies that are in their initial stages of their growth.

Revamping the program will also permit the federal and provincial governments to be better aligned with the needs of Canadian businesses and their respective industries. By doing so, the government will in return benefit from innovation in the digital and e-commerce transformation.

Altering the BCIP could include the development of early adopter programs, the establishment of advisory boards and professional services engagements, and validation of market analysis. Given the compound benefit to both the growth of the country's innovative economy, any modest incentives that may be required for Canadian corporates to participate, grow and become more competitive should be offered.

Recommendation #4

Develop collaboration and acceleration infrastructure

- ***Focus on growing companies addressing strategically important industries for Canada.***

Diversification of industries is important to ensure the success of the country's economy.

The government should adopt measures that bring traditional manufacturing, transportation, oil and gas, mining, construction, health care, finance and energy sectors together with the technology companies working to improve and transform them. Just as accelerators and incubators across the country have fostered a dynamic start-up ecosystem, we believe the next focus should be greater collaboration between the sectors discussed above, which are all important drivers of economic development, and the technology companies that are focused on making them "cleaner," more efficient and more globally competitive.

Creating dedicated hubs to permit better and quicker piloting of new technologies with a focus on commercial applications is required. We recommend a central point of collaboration and learning can prove invaluable in informing product development, market and customer understanding, ultimately accelerating sales and improving cycle time for product iterations, perhaps with the ISED Innovation Hub as the private public lead.

Conclusion

The recommendations proposed in this submission have the potential to provide Canada with the momentum to enhance its' capital markets strength, create high quality jobs across the country, and help entrepreneurs to commercialize important discoveries and technologies in the sectors that will define the post-industrial knowledge economy. TMX Group is committed to helping Canadian companies succeed as they grow from startup to scale up to multinational enterprises. Ultimately, Canada's capital markets play a vital, intrinsic role in the success and competitive strength of Canada's economy and its future prosperity. Encouraging investment in ideas and nurturing an environment where those ideas can grow and be commercialized is a pivotal part of any growing economy.

We appreciate the review of this submission and welcome any questions from committee members. We would also be pleased to appear as witnesses during the pre-budget Finance Committee hearings.

Sincerely,



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