

MATERIALS SUBMISSION TO HOUSE OF COMMONS STANDING COMMITTEE ON FINANCE

STUDY ON MEASURES TO
ENHANCE CREDIT AVAILABILITY
AND THE STABILITY OF THE
CANADIAN FINANCIAL SYSTEM

MARCH 31, 2009



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FINANCIAL EXECUTIVES INTERNATIONAL CANADA

Summary of Recommendations to House of Commons Standing Committee on Finance Re: Study on Measures to Enhance Credit Availability and the Stability of the Canadian Financial System

Financial Executives International Canada (FEI Canada) is pleased to present its recommendations regarding the Committee's Study on Measures to Enhance Credit Availability and the Stability of the Canadian Financial System. Our recommendations are framed around the three critical objectives listed below. These objectives, together with their anticipated outcomes shape the foundation of strong Canadian global competitiveness, facilitate expansion projects, and assist worthy corporations in human capital and product markets growth and development. These recommendations are provided in support of the achievement of the overriding objective of enhancing profitability and capital productivity.

Increase Availability of Credit to Businesses

1. Provide support to the emerging new economy, especially loans to start-up enterprises which focus on innovative new processes and technologies, and green investments.
2. Enhance existing government guarantee programs for business loans to increase the availability of credit.
 - a. Encourage financial institutions to increase the availability of long-term financing, particularly equipment lending and leasing, by providing guarantees to qualifying exposures.
 - b. Encourage lending to small and medium size businesses, by increasing the loan size provisions under the *Canada Small Business Financing Act*.
3. Encourage EDC, BDC and similar government sponsored lending agencies to increase their loan volumes to corporations requiring capital, where supported by project economics.
4. Increase investment tax credit rates refundable portion thereof, including SR&EDs, to enhance credit availability as banks would lend against this collateral.
5. Realign the requirement to fund solvency deficits of defined-benefit pension plans to better match their long-term funding period, by increasing the amortization period from 5 years to 15 years. This additional liquidity would then be available for pension sponsors to fund projects that would grow their businesses and the Canadian economy.
6. Support the creation of a new type of recession loan that would provide financial institutions with incentives for granting credit facilities five years and beyond.
7. Increase all forms of proactive communications to SMEs regarding the availability of all forms of government backed financing alternatives, as these corporations generally do not possess the human resources necessary to maintain up-to-date knowledge of all available programs.

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Efficiency of the Capital Markets

8. Work to reduce inter-provincial trade inefficiencies, for example, by moving to one national securities regulator and by encouraging the free flow of capital, goods, services and labour between Canadian provinces.
9. Simplify the regulations related to smaller TSX public companies to reduce the administrative burden and compliance cost.
10. Review the tax system to ease the burden of restructuring.
 - a. Expand flow-through share tax credits to facilitate raising equity capital for small and medium business enterprises (SMEs), particularly those SMEs not yet in a tax-paying position.
 - b. Provide relief for displaced workers and companies who must renegotiate their debt financing, by extending the period over which severance payments and capital gains on debt forgiveness are reported for tax purposes to three years.
 - c. Provide a three year tax holiday for start-ups launched by entrepreneurs coming out of employment displacement.
11. To improve liquidity and availability of short and long-term funding, assist in the restructuring of the securitization market by ensuring better transparency, accountability and reporting practices.

Rebuilding Confidence in the Economy

12. Take decisive action on economic support initiatives and act definitively to eliminate the existing level of uncertainty in the economy.
13. Increase targeted government spending on high value infrastructure projects so as to improve efficiency in the flow of goods and services through the economy, while ensuring strong financial management governance is maintained over such spending initiatives.
14. Continue to ensure Canadian financial institutions are well capitalized, through the maintenance of minimum capital requirements of OSFI and their provincial counterparts.
15. Recognizing the globalization of financial instruments, Canada should take a more active role in their international oversight.
16. Avoid creating a structural deficit to deal with the economic crisis, by mandating a balanced budget and net debt reductions within five years.

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Good morning Mr. Chairman and Committee Members. I'm pleased to present, on behalf of Financial Executives International Canada, our recommendations for your study.

FEI Canada is a voluntary professional membership association of more than 2,000 of Canada's most senior financial executives coast to coast.

Our recommendations are the result of consultations with our membership through a task force and a survey conducted to respond to your study.

Michael Boychuk, who is with me today, serves as a Volunteer Director of the Quebec Chapter of FEI Canada. In his day job, Mike is Treasurer of Bell Canada.

Our recommendations are framed around three goals:

- Increasing the availability of credit to business,
- Efficiency of capital markets, and
- Rebuilding confidence in the economy.

I'd like to begin by addressing **the availability of reasonably-priced credit to business.**

Achieving these goals will foster strong Canadian global competitiveness, support expansion projects and help companies develop markets, enhance profits, boost capital productivity and – most importantly – create jobs.

Our survey results confirm businesses are finding:

- Access to credit has significantly tightened,
- Its cost has risen, and
- The process of securing credit has become much more difficult.

Our survey revealed the situation is particularly difficult for smaller enterprises, businesses seeking longer-term credit facilities and companies whose loans need to be syndicated due to their size.

Increased credit availability can be accomplished in four ways:

#1: Encourage funding of small and medium size businesses, which can be done by:

- A. Adjusting the Canada Small Business Financing Act to allow larger loans [limit was increased Apr 1/09 from \$250k to \$350k, and then to \$1m],

And

- B. Supporting the emerging new economy, by both:

- A. Making funds available to early-stage enterprises that focus on innovative new processes and technologies as well as green investments.

And

- B. Funding more innovation centres to serve as incubators that nurture the development and sustainability of start-ups in the knowledge economy.

#2: Help increase the availability of longer-term credit facilities, by:

- A. Providing incentives to financial institutions that grant loans for more than five years,

And by

- B. Enhancing existing government guarantee programs for qualifying business loans, particularly in the most impacted area of equipment lending and leasing.

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#3: Help improve working capital credit availability, by increasing the rates for, and the refundable portion of, investment tax credits and scientific research & exploration development tax credits, since banks lend against this collateral.

#4: Provide relief to defined-benefit pension plans, by allowing plan sponsors to fund solvency deficits over the actual liability timeframe.

Not only would this be more equitable, it would free up capital to reinvest in the economy.

Finally, we call upon the government to encourage EDC, BDC and similar lending agencies to increase loan volumes and venture capital availability to companies requiring capital.

Our second set of recommendations deals with improving the efficiency of capital markets:

FEI Canada encourages the government to work to reduce inter-provincial trade barriers.

This would include moving to a single national securities regulator and the free flow of capital, goods, services and labour between Canadian provinces.

There must be a review of the tax system, with an eye to easing the burden of economic restructuring on Canadians.

How might this be accomplished?

1. First, expand tax credits for flow-through shares to ease the raising of equity capital for small and medium-sized businesses, particularly early stage companies not yet in a tax-paying position.
2. Provide relief to displaced workers and troubled companies, by extending to 3 years the period over which severance payments and capital gains on debt forgiveness are reported for tax purposes.
And
3. Provide a three year tax holiday for start-ups launched by entrepreneurs coming out of employment displacement.

Finally, we call upon the government to help in the restructuring of the securitization market through better transparency, accountability and reporting practices, as this will instill greater confidence and will improve liquidity and availability of short and long-term funding.

Moving to our final category of recommendations; **rebuilding confidence in the economy.**

To keep our banking system strong, we must continue to enforce capital regulations, and lead the way in international oversight of financial products. While we support some economic interventions such as infrastructure spending, it is key to ensure these monies are being spent responsibly and Canada stays fiscally prudent and avoids structural deficits.

Ladies and gentlemen, the objectives highlighted here contribute not only to the stability of our financial system, they also strengthen Canadian competitiveness and long-term prosperity.

FEI Canada thanks you for your time & for the opportunity to present our ideas to you.

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FEI Canada Member Survey RE: Credit Availability for Businesses in Canada March 2009

Background:

On March 12, 2009, FEI Canada was invited by the House of Commons Standing Committee on Finance to provide recommendations regarding its Study on Measures to Enhance Credit Availability and the Stability of the Canadian Financial System. In preparation for the development of our recommendations, FEI Canada surveyed its more than 2,000 members across Canada on March 19, 2009 and received responses from more than 10% of its members within the first 48 hours. The survey response period was closed on March 25, 2009 and garnered a total response rate of more than 18% overall and reflected responses consistent to those of the initial 10% received. This statistically-valid survey response was drawn from our coast-to-coast, membership representing all sectors of the Canadian economy.

Key survey components included the accessibility of credit for businesses, protection for Canadian investors and measuring the stability of the Canadian financial system as a whole. The survey is comprised of 15 questions designed to garner responses specific to public and private companies as well as large and small companies. The results of this survey have been summarized below.

Availability of Working Capital Financing:

- 46% of respondents report a significant decrease in availability of working capital financing post December 2007.
- While this appears to be consistent for all types of companies, small public companies report greater difficulty in securing working capital with 68% reporting difficulty in the availability of capital financing in recent months.
- When asked to anticipate the availability of working capital financing for the coming year, 55% of respondents reported their expectation that financing would be available.

Availability of Long-Term Financing:

- 52% of survey participants revealed a significant decline in availability of long-term financing since December 2007.
- 81% responded that long-term financing was available pre-December 2007 and only 48% supporting this statement for the period December 2008-March 2009.
- Small-to-medium sized companies appear to be slightly more disadvantaged with 55% reporting difficulty in the availability of long-term financing in the same period.

Level of Difficulty in Process for Obtaining Credit:

- For the period of December 2007 to December 2008, 67% of respondents report that the process of obtaining credit was twice as difficult and marginally even more difficult for the period from December 2008 – March 2009.
- Small-to-medium sized companies reveal a similar impact with 69% reporting that the process for obtaining credit has become more difficult during the same period.

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Cost of Credit:

- For the period of December 2007 – 2008, 67% of respondents report that the cost of credit increased significantly and marginally even more so from December 2008 to March 2009.

Additional Survey Findings:

- 65% of survey participants indicated that government assistance was somewhat transparent and has been administered with a low level of accountability.
- 43% of survey respondents confirmed their perception that government assistance has somewhat increased stability within the Canadian financial system.
- 52% of survey participants called for more stringent enforcement of Canadian securities law, 40% called for maintaining current levels and only 1% want less stringent levels.
- 71% of survey participants indicated that a move to a National Securities Regulator would improve the efficient flow of capital with 69% reporting that this would also increase overall market integrity and overall investor protection.

Survey Results Breakdown

| Summary of Results | | | Weighted Scores* | | | | | |
|--|----------------------|------------|------------------|-----------|-----------|-----------|------------|-----------|
| | | | Overall | Public | | Private | | Other |
| | | | | Large | Small | Large | Small | (NFP, CC) |
| Respondents: | | | 360 | 84 | 41 | 84 | 101 | 50 |
| 7) Availability of Working Capital Financing: | | | | | | | | |
| 0 | Not at all available | > Dec 2007 | 2.46 | 2.71 | 2.15 | 2.56 | 2.37 | 2.26 |
| 1 | Somewhat available | > Dec 2008 | 1.68 | 1.86 | 1.17 | 1.70 | 1.69 | 1.76 |
| 2 | Available | > Mar 2009 | 1.66 | 1.83 | 1.07 | 1.74 | 1.71 | 1.73 |
| 3 | Very available | | | | | | | |
| 8) Availability of Long-Term Financing: | | | | | | | | |
| 0 | Not at all available | > Dec 2007 | 2.34 | 2.66 | 2.01 | 2.44 | 2.29 | 2.14 |
| 1 | Somewhat available | > Dec 2008 | 1.58 | 1.63 | 1.13 | 1.65 | 1.61 | 1.67 |
| 2 | Available | > Mar 2009 | 1.56 | 1.64 | 1.09 | 1.66 | 1.58 | 1.62 |
| 3 | Very available | | | | | | | |
| 9) Difficulty of Process to Obtain Credit: | | | | | | | | |
| 0 | Not at all difficult | > Dec 2007 | 0.78 | 0.56 | 1.28 | 0.74 | 0.76 | 0.91 |
| 1 | Not very difficult | > Dec 2008 | 1.61 | 1.66 | 2.00 | 1.74 | 1.47 | 1.36 |
| 2 | Difficult | > Mar 2009 | 1.72 | 1.74 | 2.11 | 1.76 | 1.67 | 1.45 |
| 3 | Very difficult | | | | | | | |

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| | | | | | | | | |
|------------|---|-------------|-------------|------|------|------|------|------|
| 10) | Cost of Credit: | | | | | | | |
| 0 | Not at all costly | > Dec 2007 | 0.98 | 0.85 | 1.36 | 0.77 | 1.07 | 1.05 |
| 1 | Not very costly | > Dec 2008 | 1.65 | 1.85 | 1.93 | 1.60 | 1.56 | 1.44 |
| 2 | Costly | > Mar 2009 | 1.76 | 2.00 | 2.05 | 1.74 | 1.67 | 1.47 |
| 3 | Very costly | | | | | | | |
| 11) | Transparency & Accountability of Govt Assistance: | | 0.94 | 1.05 | 0.68 | 1.04 | 0.96 | 0.84 |
| 0 | Not transparent and accountable | | | | | | | |
| 1 | Somewhat transparent and accountable | | | | | | | |
| 2 | Transparent and accountable | | | | | | | |
| 3 | Very transparent and accountable | | | | | | | |
| 12) | Extent Govt Assistance Prompted Increased Stability: | | 1.52 | 1.46 | 1.52 | 1.55 | 1.50 | 1.38 |
| 0 | Stability decreased | | | | | | | |
| 1 | No change in stability | | | | | | | |
| 2 | Stability increased | | | | | | | |
| 3 | Stability increased significantly | | | | | | | |
| 13) | Canadian Securities Laws should be Enforced: | | 1.53 | 1.44 | 1.31 | 1.58 | 1.61 | 1.60 |
| 0 | Less stringently | | | | | | | |
| 1 | At current level of enforcement | | | | | | | |
| 2 | More stringently | | | | | | | |
| 14) | Will One National Securities Regulator: | No=0, Yes=2 | | | | | | |
| | > Increase efficient flow of capital | | 1.65 | 1.66 | 1.42 | 1.72 | 1.61 | 1.71 |
| | > Increase market integrity & investor protection | | 1.57 | 1.49 | 1.38 | 1.70 | 1.60 | 1.53 |
| | > Improve ID of & reduce systemic risk | | 1.53 | 1.39 | 1.40 | 1.65 | 1.58 | 1.57 |
| | > Result in new tier of inefficient costs | | 0.56 | 0.50 | 1.15 | 0.57 | 1.51 | 0.57 |
| 15) | Extent that Govt Assistance Prompted Increased Stability in Canadian Financial System: | | 1.65 | 1.58 | 1.85 | 1.64 | 1.62 | 1.51 |
| 0 | No protection | | | | | | | |
| 1 | Low level of protection | | | | | | | |
| 2 | Satisfactory level of protection | | | | | | | |
| 3 | High level of protection | | | | | | | |

NFP: Not-for-profit Organizations CC: Crown Corporations Small Companies: Revenue < \$100MM

The results of this survey have been used by FEI Canada's Credit Availability Task Force as background for the development of recommendations to the House of Commons Standing Committee on Finance regarding its Study on Measures to Enhance Credit Availability and the Stability of the Canadian Financial System. FEI Canada thanks all its members who took the time to complete the survey.

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About FEI Canada (www.feicanada.org)

Financial Executives International Canada (FEI Canada) is an all-industry professional association for senior financial executives. With eleven chapters across Canada and more than 2,000 members, FEI Canada provides professional development, thought leadership and advocacy services to its members.

The Issues and Policy Advisory Committee (IPAC) is one of two national advocacy committees of FEI Canada. IPAC comprises more than 40 senior financial executives representing a broad cross-section of the Canadian economy who have volunteered their time, experience and knowledge to consider and recommend action on a range of topics of interest to Canadian business and governmental agencies. The composition of IPAC is formulated to address the following areas: corporate governance, capital markets, pensions, internal controls, public sector accountability, tax policy and competitiveness. In addition to advocacy, IPAC is devoted to improving the awareness and educational implications of the issues it addresses, and is focused on continually improving these areas.

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The remarks contained in this submission are those of the members of FEI Canada's Issues and Policy Advisory Committee, and do not necessarily reflect the views of their employers.