

Written Submission for the Pre-Budget Consultations 2025

GROWING PUBLIC CAPITAL TO BUILD A RESILIENT CANADIAN ECONOMY

By: The Coalition to Support Investment in Canada

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Submitted by: The Coalition to Support Investment in Canada

SUMMARY OF RECOMMENDATIONS

Recommendations 1-4: Helping Small and Mid-size Canadian Companies (“CanCo’s”) Raise Capital

RECOMMENDATION 1: Allow for **deferral of capital gains tax** when a Canadian resident taxpayer sells publicly listed equity securities and reinvests the proceeds in an initial public offering of a CanCo. Capital gains tax will be payable when shares are sold and not reinvested in a CanCo IPO.

RECOMMENDATION 2: Provide an immediate **tax credit** of 25¢ for each \$1 of CanCo shares purchased in the market by a Canadian resident taxpayer. The tax credit will be reversed to the extent the shares are sold for over the \$.75 effective cost basis.

RECOMMENDATION 3: Allow for new **flow through structures** for all CanCos:

- For growth CanCos (i.e. those that don’t yet generate significant cashflow) to flow through loss deductions to Canadian resident shareholders.
- For mature CanCos to distribute pre-tax cash flow to Canadian resident shareholders.

RECOMMENDATION 4: Require **CPPIB to invest at least 2%** of its assets in CanCos.

Recommendations 5-7: Supporting Canada’s Companies in their Early Years

RECOMMENDATION 5: Allow for **accelerated tax deductions for IPO costs** for CanCos.

RECOMMENDATION 6: Allow for **accelerated tax deductions for capital investments** in the first five years following an IPO.

RECOMMENDATION 7: Provide CanCo’s with a **reduced corporate tax rate** for a specified period following an IPO.

Who We Are

The Coalition to Support Investment in Canada (the “Coalition”) is an informal group of market participants with longstanding experience and expertise in Canada’s public capital markets, and a strong interest in related public policy. We have been watching the decline in Canada’s public capital markets – and the impact on Canadian small and mid-size companies, Canadian investors, and the Canadian economy - with increasing concern. The recommendations set out in this submission are designed to address that decline and build resiliency in the Canadian economy.

Healthier public capital markets will provide an opportunity for Canadians to invest in Canadian companies and will support a stronger Canadian economy. Canada’s small and mid-size companies are key drivers of our productivity, and, if supported through workable public policies, will be well placed to scale up to become competitors in the global marketplace. And as Canadian companies scale up, foreign investors will take notice.

We believe that the recommendations set out in this submission will go far to facilitate investment of public market capital in small and mid-size Canadian companies, building resiliency in the Canadian economy and setting Canadian companies up for success on the world stage.

Background

Healthy public markets are a key piece of the capital ecosystem that will contribute to Canada’s growth and resiliency. Support for our public capital markets is essential to unleashing new investment, creating better jobs and higher incomes for Canadians.

Canada’s public capital markets are in decline.

- Over the past decade, the TSX has lost almost 30% of its listed operating companies, and capital raised in new IPOs for the last three years has decreased by 84% compared to the average over the 10 proceeding years.¹
- Capital issuance in the Canadian public markets averaged just under \$47billion per year for over 20 years until the end of 2021. Since then, issuance has been less than half of that, with smaller companies having the most difficulty accessing the market. There has been a particularly significant decline in issuance after 2021 in both Canada and the United States, but the US market recovered to over its 20-year average last year while Canada is still less than half of its historical levels.²

¹ The TSX and TSXV represent 95% of the market.

² National Bank Financial Inc. – See Appendix 1

- Over the past 10 years, investors have increasingly invested in money market funds over equity markets. Money market fund investments since 2016 have gone from a little over \$2T to over \$6T at the beginning of 2025. Today this is approaching \$7T - to put that into context the TSX had market capitalization of \$4.9T at the end of 2024. This is a near cash investment for retail or institutional investors not invested in the equity markets.³
- Over the last decade there has been a decrease in the level of participation by pension funds in the Canadian public markets, particularly in small and medium size companies. The Canadian Pension Plan Investment Board (CPPIB) was a large and significant participant in the Canadian public markets in the early 2000's, but since the 2008-2009 financial crisis has essentially only invested in large companies.⁴

The decline in Canada's public capital markets is bad for Canadians, Canadian companies and the Canadian economy:

- Small and mid-size Canadian companies – key drivers of Canada's economy - are struggling to find capital in Canada, hindering their ability to grow and contribute to Canada's economy.
- Canadians who want to invest in Canadian companies and participate in their growth have limited options.
- Small and mid-size Canadian companies are being forced to seek capital in foreign capital markets or from foreign private equity sources, often resulting in the sale of a Canadian business to a foreign buyer. Canada is losing its small, growing companies to foreign buyers who see their potential and reap the rewards.
- Canadian companies strapped for capital can not spend appropriately on productivity improvements and R&D. Canada is consequently losing head offices, human capital, intellectual property and tax revenue, which in turn erodes Canada's economic sovereignty.

Policies that support public capital markets in Canada are an investment in Canadians, Canadian companies, and the Canadian economy.

³ National Bank Financial Inc. – See Appendix 2

⁴ https://www.cppinvestments.com/wp-content/uploads/2024/05/Canadian-Public-Disclosure_ibfs_Q4F24.html

Core Recommendations: Increasing Capital in Canada's Public Markets

The Recommendations set out below are designed with one primary goal in mind – increasing capital in Canada's public markets. The recommendations are designed to make it easier for small and mid-size Canadian companies to raise capital, and for Canadians to participate in the growth of these home-grown companies. We believe that facilitating access to capital is essential to strengthening Canada's economy, creating new jobs and growth.

Note on the definition of small and mid-size Canadian companies: For the purposes of these recommendations, we have defined “small and mid-size Canadian companies” as operating Canadian public companies (incorporated and headquartered in Canada) with a market capitalization of C\$100 million - C\$1.5 billion listed only on a Canadian Exchange (referred to as “CanCo”).⁵

RECOMMENDATION 1

Allow for **deferral of capital gains tax** when a Canadian resident taxpayer sells publicly listed equity securities and reinvests the proceeds in an initial public offering of a CanCo. Capital gains tax will be payable when shares are sold and not reinvested in a CanCo IPO. (This is similar to the “like-kind” exchange tax deferral program in the United States.)

RECOMMENDATION 2

Provide an immediate **tax credit** of 25¢ for each \$1 of CanCo shares purchased in the market by a Canadian resident taxpayer. The tax credit will be reversed to the extent the shares are sold for over the \$.75 effective cost basis.

- We believe this will provide a meaningful incentive for retail investors to provide more risk capital to growing Canadian companies.

RECOMMENDATION 3

Allow for new **flow through structures** for all CanCos:

- **For growth CanCos** (i.e. those that don't yet generate significant cashflow) to flow through **loss deductions** to Canadian resident shareholders.
 - This structure is already available for Canadian corporations in the mining, oil and gas, and renewable energy and energy conservation sectors.

⁵ There are currently 431 CanCos listed on the TSX & TSXV, which represents 95% of the market. This subset represents \$181 billion of aggregate market capitalization, with an average market cap of \$420 million.

- **For mature CanCos** to distribute **pre-tax cash flow** to Canadian resident shareholders.
 - This is similar to REITs and master limited partnerships, and to income trusts in Canada pre-November 2006. (Note that such arrangements would still only be available to small and mid-size Canadian public companies pursuant to the definition of a “CanCo”.)

RECOMMENDATION 4

Require the Canadian Pension Plan Investment Board (**CPPIB**) to **invest at least 2% of its assets** in CanCos.

- A dual mandate requiring CPPIB to generate optimal returns for Canadians while at the same time investing even a small % of its assets in CanCo’s (similar to the dual mandate of Caisse de dépôt et placement du Québec) will allow Canadians to support the growth of Canada’s small and mid size companies and reap the benefit of that growth in their retirement.
- This policy could also give Canadians confidence to make their own investments in CanCos. The government should literally put more of our money to work in Canada.
- Note: If CPPIB were to adopt this approach, provincially regulated pension funds may be encouraged to follow suit.
- Note: This would provide approximately \$14 billion in incremental capital to CanCos or an approximate 8% increase in demand for this critical element of the marketplace.

Additional Recommendations: Supporting Canada's Companies in their Early Years

The Recommendations set out below are designed to support Canada's entrepreneurs and their small and mid-size companies in their early years, setting them up for success to grow and thrive in Canada.

RECOMMENDATION 5

Allow for **accelerated tax deductions for IPO costs** for CanCos.

- IPO costs are currently deductible over five years. Making the deduction fully available for CanCos in Year 1 (or as soon as the company can use it within 5 years) will provide CanCos with additional capital to reinvest in the business in the critical early stages of growth.

RECOMMENDATION 6

Allow for **accelerated tax deductions for capital investments** in the first five years following an IPO.

- Accelerating deductions for capital investments in the initial post-IPO period will provide CanCos with additional capital and allow them to continue to invest in the growth of the business in the critical early stages.

RECOMMENDATION 7

Provide CanCo's with a **reduced corporate tax rate** for a specified period following an IPO.

- Providing CanCo's with a reduced corporate tax rate in their initial years as a public company will free up capital to grow the business in these critical early years.

Other Issues to Consider Relating to Public Companies in Canada

National/Common Securities Regulator

We understand that some stakeholders have been urging the Government to revisit the idea of a national securities regulator.

Based on our experience, accessing the public market in Canada is actually very efficient, particularly as compared to the U.S. where there is a single national regulator. While we support the formation of a national securities regulator, we do not believe a national regulator will meaningfully help our public companies or address the real challenge facing small and mid size Canadian companies – the lack of access to capital. The current model, where there are multiple provincial securities regulators, may help to ensure that each of these regulators are as efficient and market sensitive as their peers.

As such, we would not recommend that Canada focus its efforts and resources on the move to a national securities regulator.

Reducing the Regulatory Burden

We understand that Canadian securities regulators are working on initiatives to reduce the regulatory burden for our public companies. While we support these efforts and believe they will assist our public markets, we feel strongly that concrete and focused measures like the ones described in this submission are needed to meaningfully improve access to capital for our small and mid size companies.

Again, although most companies would likely be pleased with a reduced regulatory compliance burden, we do not believe that such policy improvements will materially increase capital in the public market or have significant impact on the growth of Canadian companies or the resiliency of the Canadian economy.

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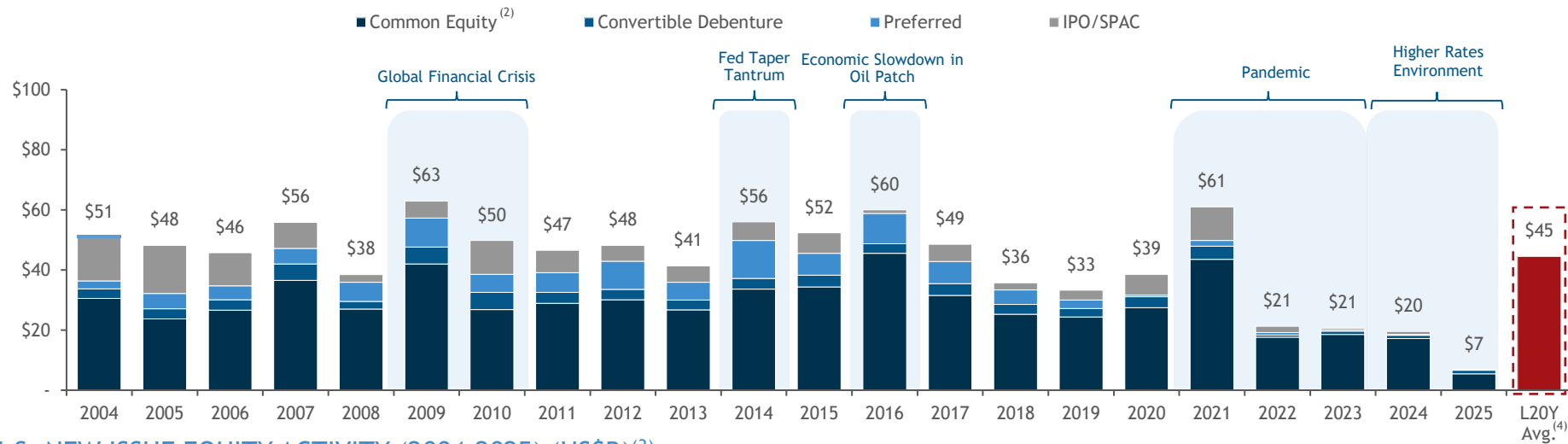
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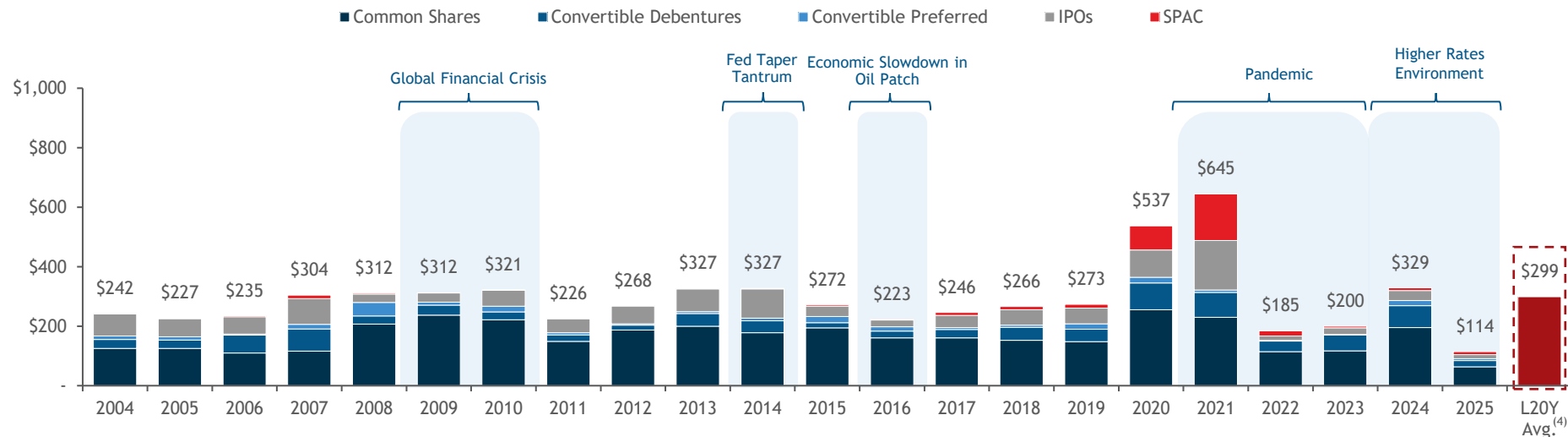
Appendix 1
Historical Volume
(See attached.)

Equity Capital Markets: Canada / U.S. New Issue Activity

CDN NEW ISSUE EQUITY ACTIVITY (2004-2025) (\$B)⁽¹⁾



U.S. NEW ISSUE EQUITY ACTIVITY (2004-2025) (US\$B)⁽³⁾



With U.S. deal flow returning to historical levels, momentum is expected to ramp back up in Canada as geopolitical uncertainty subsides

Source: Dealogic; FP Infomart; Information as at May 23, 2025.

1. Represents Canadian equity offerings based on settlement date.

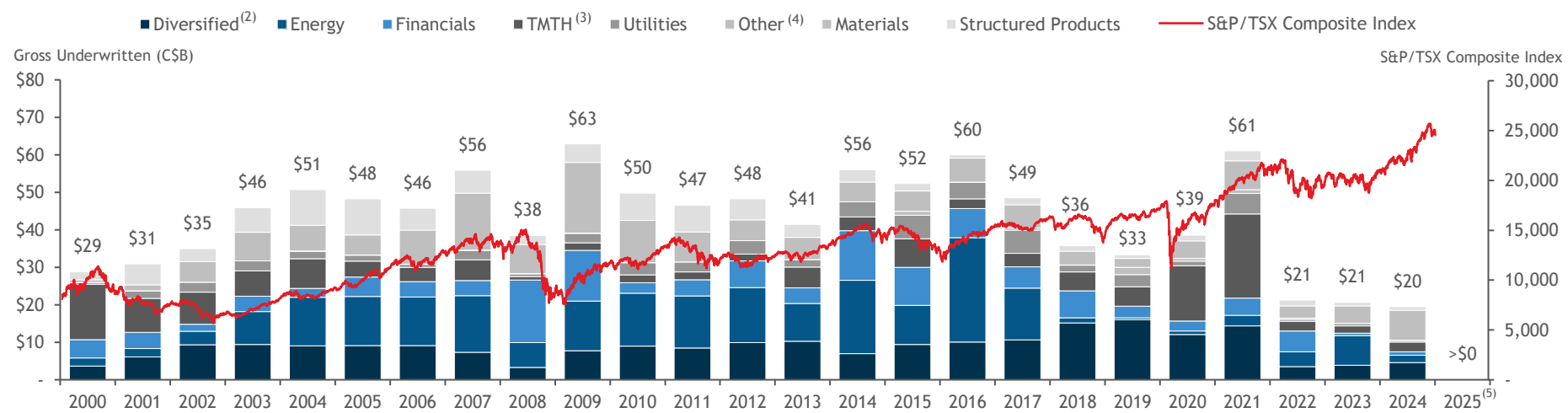
2. Includes Trust Units, Common Shares, Units (Equity & Warrants) and Other Equity.

3. Represents U.S. equity offerings based on settlement date. All values in US\$. Excludes non-convertible preferred shares (Considered DCM product in the U.S.).

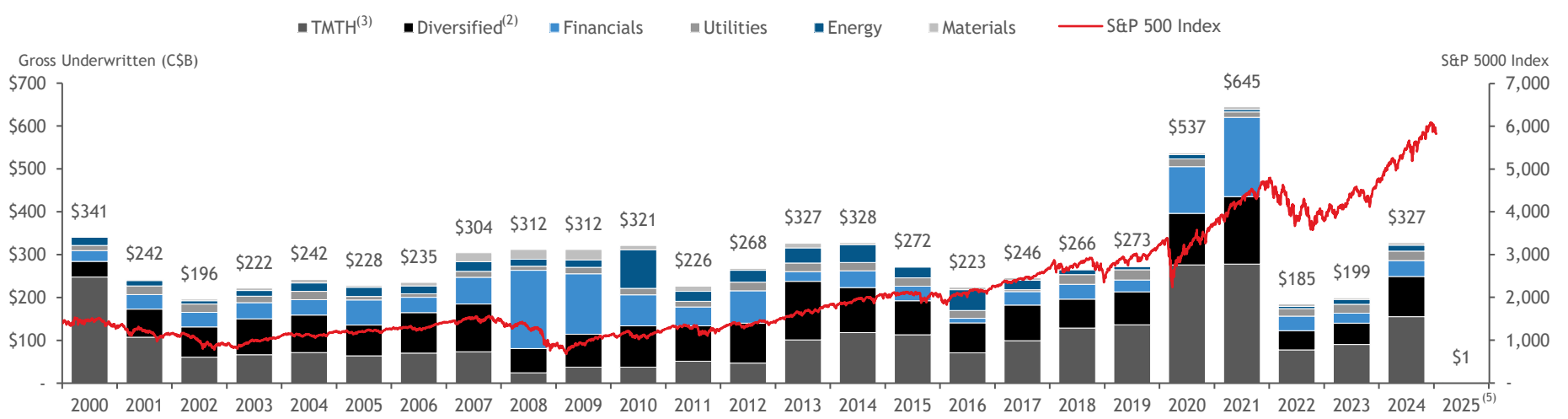
4. Excludes 2025.

Equity Capital Markets: Canada / U.S. New Issue Activity

CANADIAN NEW ISSUE EQUITY ACTIVITY (2000-2025) (\$B)⁽¹⁾



U.S. NEW ISSUE EQUITY ACTIVITY (2000-2025) (US\$B)⁽⁶⁾



2024 CDN volume met 2023 levels; U.S. deal flow in 2024 beat long-term average, momentum to continue into 2025

Sources: Bloomberg, FPIInfomart. Notes: Information as at January 13, 2025. All values in C\$ billions unless otherwise noted.

1. Represents all Canadian equity offerings based on settlement date.

2. Diversified includes: Consumer Discretionary, Consumer Staples, Industrials, Materials and Real Estate.

3. TMTH includes: Info. Tech., Communication Services and Healthcare

4. Other includes: Non-Classifiable.

5. Year-to-date as of January 13, 2025.

6. Represents U.S. equity offerings based on settlement date. All values in US\$. Excludes non-convertible preferred shares (Considered DCM product in the U.S.).

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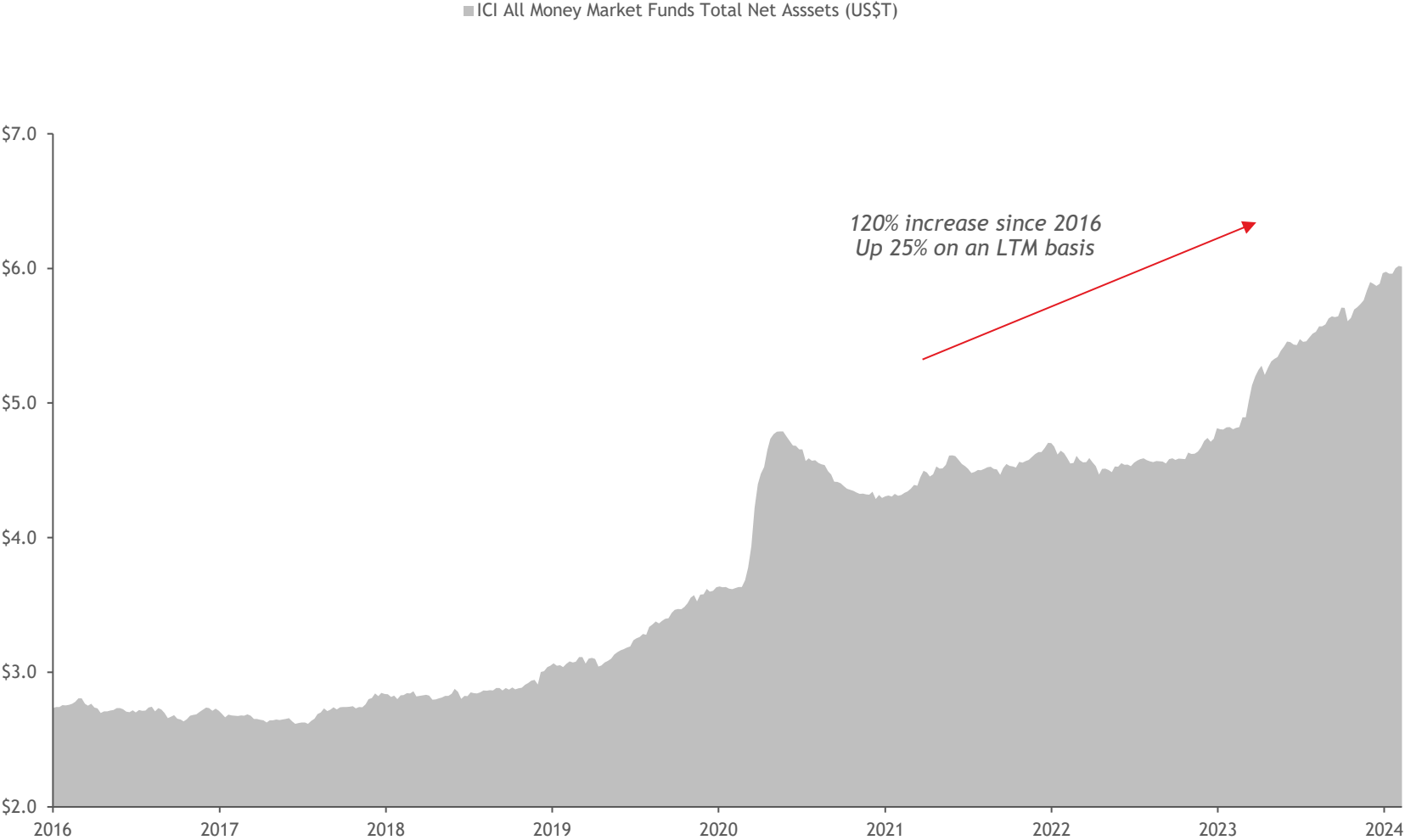
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Appendix 2
Money Market Fund Flows
(See attached.)

Money Market Fund Flows Continue to Rise



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