June 15, 2016

Public Listing: The Weak Link in Quebec's Corporate Finance Ecosystem

– A Corrective Action Plan –

Working Group on the Shortage of

Publicly Traded Quebec Companies[1]

1 The Working Group on the Shortage of Publicly Traded Quebec Companies received logistical and financial support from the Ordre des CPA du Québec and Finance Montréal

FOREWORD

The *Working Group on the Shortage of Publicly Traded Quebec Companies* (the "Working Group") was formed at the initiative of Claude Désy, M. Fisc., FCPA, FCA, TEP, partner at law firm Dunton Rainville. The purpose of the Working Group is to identify solutions to the problem of the shortage of publicly traded Québec companies in order to mobilize the stakeholders concerned.

Members of the Working Group include around thirty experts from Québec's private equity industry, particularly chartered professional accountants (CPAs), lawyers and representatives of the Autorité des marches financiers (AMF), the TMX Group, securities brokerage firms, the Ministère des Finances du Québec (Ministry of Finance of Québec, MFQ), the Caisse de dépôt et placement du Québec (CDPQ), labour-sponsored funds and venture capital funds. The extensive experience and diversity of expertise of Working Group members contributed significantly to the quality of the work. Furthermore, the Working Group's recommendations very much reflect the shared practical experiences of its members.

To structure the Working Group's work, four subcommittees were formed:

- The *Entrepreneurship Subcommittee*, chaired by Guy Pelletier, CPA, CA and retired partner at Deloitte
- The *Listing Incentives Subcommittee*, chaired by Philippe Grubert, CPA, CA, and Partner-in-charge, Audit, at KPMG
- The *Listed Issuer Liquidity Subcommittee*, chaired by Geneviève Morin, Chief Investment Officer at Fondation CSN
- The *Listing Regulations and Maintenance Subcommittee*, chaired by M[e] Peter Villani, attorney and partner at Fasken Martineau

A Coordination Committee supervised the work of the four subcommittees. This Committee was composed of two co-chairs, Claude Désy and Sylvain Vincent, FCPA, FCA, Managing Partner for Quebec at EY, Louis Doyle, former Vice-President, Montreal, of the TSX Venture Exchange, now public and private SME advisor and Managing Director of Québec Bourse Inc., as well as Michel Magnan, Ph. D., FCPA, FCA, and Professor of Accountancy at Concordia University's John Molson School of Business.

Shortly after forming the Working Group, the Investment Capital Work Group of Finance Montréal, chaired by Gaétan Morin, President and Chief Executive Officer of Fonds de solidarité FTQ, began its activities. As one of the Investment Capital Work Group's mandates was to examine the state of investment capital in Quebec, including public financing, it was agreed that Finance Montréal would join the Working Group's efforts rather than conduct an independent study of public listing.

For its work, the Working Group received financial contributions from Finance Montréal, the Ordre des CPA du Québec, Fonds de solidarité FTQ, the TMX Group and the CDPQ. We would like to thank them. Please note that the findings and recommendations contained in this report are not in any way binding upon these organizations as a result of their financial participation. Likewise, participation in the Working Group's activities is not binding in any way upon its members, their employers or the professional associations or committees to which they belong.

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1. INTRODUCTION: A COLLECTIVE INITIATIVE TO DEVELOP AN ECOSYSTEM IN QUEBEC WITH A WEALTH-CREATING SELL SIDE

Quebec is a territory with abundant financing, both in terms of venture capital and development capital. Paradoxically, it has very few publicly traded companies. In fact, while Quebec's economic weight in Canada, measured in terms of its gross domestic product ("GDP"), is around 20% and the performance of publicly traded Quebec companies holds up well in comparison with other publicly traded Canadian companies, Quebec companies account for only around 7% of companies listed on the two main stock exchanges of the TMX Group.[1] Furthermore, this percentage has decreased in recent years.

However, a stock exchange listing gives some businesses undeniable advantages. In varying degrees, it can be:

- a tool for funding the growth of a business;
- currency for making acquisitions;
- a tool for consolidators in an industry;
- a greater source of job creation than other financing methods;
- an exit option for investor funds and other players;
- a way to encourage employee participation in shareholding;
- a way to enhance a company's reputation in local and foreign markets;
- a tool to reduce debt, which is often an obstacle to growth;
- a tool to create and maintain headquarters within Quebec's territory;
- a source of strength for Quebec's financial industry, resulting in an increase in related jobs;
- a basis for increasing tax receipts as a result of the jobs created and the higher business revenues;
- a source of financing for companies with a business model ill-suited to other types of financing (debt, etc.); and
- a tool for succession planning.

Although an initial public offering ("IPO") is not the only financing option for a sufficiently mature company, an active and dynamic IPO market is irrefutably a key feature of a strong entrepreneurial ecosystem and a dynamic financial centre. It is also clear that without a substantial number of public financings, required expertise and competencies fade over time, making it even more difficult to arrange financing from Quebec.

The Working Group's work is largely supported by observations made in recent studies, which unanimously conclude that there is a major structural deficit in listings by Quebec companies on our stock exchanges. Specific references are made to the work of Magnan and Campbell,[2] PricewaterhouseCoopers and Fraser Milner Casgrain,[3] the Business Development Bank of Canada[4] and Compass.[5] The Working Group quickly concluded that the findings of these studies are justified and the identified causes are based on evidence. As regards the latter, the studies also highlight the following:

- The long-term consequences of transferring the Montréal Exchange's stock market during restructuring in 1999.
- The growing concentration of portfolio managers in Canada at a few large financial institutions and the greater distance between entrepreneurs and portfolio managers mainly located in Toronto.

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1 Except where otherwise indicated, all data in this document concerning the listing of Quebec companies and companies in other territories on the TSX or the TSX Venture Exchange come from the TMX Group.

2 MAGNAN, Michel, and Bryan CAMPBELL, *Le premier appel public à l'épargne et les sociétés québécoises : état de la situation*, CIRANO, September 2014. Study commissioned by the MFQ.

3 PRICEWATERHOUSECOOPERS and FRASER MILNER CASGRAIN, *Toward more democratic corporate financing*, April 2011.

4 COMPASS CO, *The Global Startup Ecosystem Ranking 2015*, July 2015.

5 BUSINESS DEVELOPMENT BANK OF CANADA, *High-Impact Firms: Accelerating Canadian Competitiveness*, May 2015.

- The disappearance of small brokers that specialize in SMEs and are specifically interested in smaller issues.
- The large presence of private equity in Quebec.
- The high cost of a listing on a stock exchange and maintaining a public company status.
- Demographics that encourage low-risk investments.

The Working Group finds that due to these specific factors, the public finance ecosystem (sell side) in Quebec has gradually weakened substantially. With this in mind, the Working Group's chosen mission was to make recommendations to the main stakeholders (Government of Quebec, AMF, TMX Group, Ordre des CPA du Québec, universities, etc.) so that fast, concerted actions can be taken to revive this ecosystem and recreate a dynamic sell side. The Working Group recognizes that these measures, as a whole, are ambitious. However, it is convinced that a greater number of companies will gain access to this type of financing only if stakeholders can be rallied around concrete actions in the interest of the entire Quebec economy.

The remainder of this report is structured as follows:

- Section 2 reviews the facts relating to the shortage of publicly traded Quebec companies.
- Section 3 discusses corporate finance in Quebec.
- Section 4 reviews the causes of the shortage of publicly traded Quebec companies and recommends solutions to correct the problem.
- Finally, section 5 discusses the action plan to mobilize the stakeholders concerned.

2. THE SHORTAGE OF PUBLICLY TRADED QUEBEC COMPANIES

Quebec in the Canadian environment

As at December 31, 2015, 215 Quebec companies were listed on the Toronto Stock Exchange ("TSX") and the TSX Venture Exchange, which is only 7% of all listed issuers. Generally, though less numerous, these companies are on average larger in size than the companies in other provinces. As at December 31, 2015, their collective weight was 17% of the total market capitalization of Canadian companies, including exchange-traded funds ("ETFs"), structured products and foreign companies listed in Canada. By comparison, British Columbian companies accounted for 33% of the listings on both stock exchanges, but their weight was only 6% of the total market capitalization. This picture is misleading, however, as some of the large capitalizations officially belonging to Quebec companies, due to the location of their headquarters, conduct most of their activities from offices located elsewhere in Canada.

As at December 31, 2015, Quebec issuers listed only on the TSX Venture Exchange accounted for merely 6% of the listed companies and for just 5% of the market capitalization of all companies listed on that exchange.

It is interesting to note that the scant representation of Quebec companies on stock exchanges does not seem to be a synonym for underperformance. In fact, although such a comparison has its limits, Quebec companies listed on the TSX, as measured by the Morningstar National Bank Quebec Index, have nevertheless largely outperformed the S&P/TSX Composite Index in recent years.

Table 1
Comparison of the market performance of Quebec and Canadian companies
(Average annual return as a percentage)

	1 year	2 years	5 years
Morningstar National Bank Quebec Index (QXM)			
S&P/TSX Composite Index	-2.54		

Source: National Bank of Canada

The shortage of listings worsens

Recent data show that the shortage of publicly traded Quebec companies is worsening. In fact, only 9 out of a total of 223 companies across Canada that went public in 2014 were Quebec companies (6 on the TSX Venture Exchange and 3 on the TSX). This represents barely 3% of the total new listings. Only 2 of the 22 companies (9%) that became publicly traded on the TSX in 2015 were Quebec companies,[6] excluding ETFs, structured products and companies headquartered outside Canada. Quebec has only 2 new listings[7] on the TSX Venture Exchange out of a total of 62 (3%) for Canada as a whole.

Contrary to what one might believe, the higher number of listings by small businesses in the Western Canadian resource sector does not explain the relatively low number in Quebec. Even when these companies, ETFs and structured products (concentrated in Toronto) are excluded, the percentage of listings from Quebec totaled 8% in 2014 (6 out of a total of 77 listings). In 2015, only one Canadian company in the energy sector became publicly traded on the TSX Venture Exchange.[8] Only 2 oil or gas[9] companies became listed on the TSX, one of which was from the TSX Venture Exchange. The following two tables provide detailed information about both of these stock exchanges.

6 Services aux immeubles Inc. (TSX: GDI) and Stingray (TSX: RAY).
7 AlliancePharma (TSXV: APA) and BioFlex Technologies (TSXV: BFT), which has since changed its company name to Relevium Technologies (TSXV: RLV).
8 Mitra Energy (TSXV: MTE).
9 Boulder Energy (TSX: BXO) and Tamarack Valley Energy (TSX: TVE).

Table 2
New listings on the TSX (other than in the mining and oil sectors, ETFs and structured products)

Region	2010	2011	2012	2013	2014	2015	Total
British Columbia	4	2	5	3	5	2	21
Alberta	4	11	-	4	1	1	21
Prairies	-	1	1	1	--		3
Ontario	10	9	7	13	10	11	60
Quebec	4	2	2	3	2	2	15
Atlantic	-	1	-	1	1	-	3
United States	1	1	3	3	1	3	12
International	3	-	0	4	1	1	9
Total	26	27	18	32	21	20	144
Quebec's share	15.4 %	7.4 %	11.1 %	9.4 %	9.5 %	10 %	10.4 %

Source: TMX, including companies from the TSX Venture Exchange.

Table 3
New listings on the TSX Venture Exchange (other than in the mining and oil sectors and capital pool companies)

Region	2010	2011	2012	2013	2014	2015	Total
British Columbia	15	9	3	11	12	17	67
Alberta	6	7	1	6	6	2	28
Prairies	1	-	-	1	-	-	2
Ontario	11	9	18	18	27	15	98
Quebec	4	3	6	4	4	2	23
Atlantic	-	-	1	-	1	-	2
United States	7	3	2	9	6	6	33
International	7	6	-	1	-	3	17
Total	51	37	31	50	56	45	270
Quebec's share	7.8 %	8.1 %	19.4 %	8 %	7.1 %	4.4 %	8.5 %

Source: TMX, including companies from the TSX

Little use of alternative financing methods

We also observe that few Quebec companies make use of other methods of listing on a stock exchange, such as the TSX Venture Exchange's Capital Pool Company Program (the "CPC Program"), even though these methods are used elsewhere in Canada. In fact, there are no Quebec companies among the 26 capital pooling companies listed on the TSX Venture Exchange.

Table 4
Methods of listing on the Toronto Stock Exchange ("TSX")

	2012-2015 Period				
	Number	Distribution	Quebec	Rest of Canada	Number
IPO	53	32.5	4	40	9
From the TSX Venture Exchange	78	47.9	6	62	10
Others	32	19.6	2	18	12
Subtotal – issuing companies	163	100.0	12	120	31
ETFs, Structured Products, SPACS, CEFs	305		1	301	3
Total	468		13	421	34

CEF: Closed-end funds
Source: TMX Group

We have noted a new phenomenon emerging in English Canada that is totally absent in Quebec: the creation of special purpose acquisition corporations ("SPACS"). These are publicly traded companies formed for the purpose of acquiring assets or merging companies with operating companies that, once the transaction is complete, comply with the regular criteria for a listing on the TSX. There are no Quebec companies among the five newly listed SPACS, which all originate in Ontario.

Few issuing companies from the TSX Venture Exchange

As shown in Table 4, a large portion of the listings on the TSX are companies already listed on the TSX Venture Exchange. The companies then undergo what is known as an "incubation period" before joining the TSX. During the 2012-2015 period, only six of the newly listed Quebec companies on the TSX originated in the TSX Venture Exchange. This has a negative effect on our TSX listings, especially since a recent study[10] shows that the incubation period prior to joining the TSX Venture Exchange generates very handsome returns over the long term. In fact, the study shows that the performance of companies from the TSX Venture Exchange was on average 31.2 percentage points higher during the three years following their TSX listing.

3. FINANCING QUEBEC COMPANIES

A solid private equity industry in Quebec…

Quebec's financial ecosystem of private corporate finance has been very successful for many years. The growth of our venture capital industry is a source of envy for many other territories. In fact, according to the Institut de la statistique du Québec,[11] Quebec is ahead of the pack when it comes to venture capital. During the 2011-2013 period, depending on the year, Quebec consistently ranked between first and third among OECD countries in terms of the availability of venture capital expressed as a percentage of GDP. The average share of venture capital investments as a percentage of GDP, all stages and sectors combined, totaled 0.24% in Quebec, compared to 0.23% in the United States, 0.21% in Israel and 0.14% both in Canada as a whole and in Ireland. During the 2004–2013 period, Quebec ranked 6th (behind Luxembourg, Denmark, Israel, the United States and Ontario). It's clear that great progress has made in the availability of venture capital in Quebec.

10 MEOLI, Michèle; PENDES, Ari; ROBINSON, Michael, CFA, and Sylvio VISMARA, *Does Spending Time in the Minors Pay Off?* This study, which won the 2016 Hillsdale Canadian Investment Research Award of the CFA Society Toronto, concludes: "(…) we find TSX-V graduations on average outperform VC-backed IPOs by 31.2 percentage points in the three years following the TSX listing. Overall, our results indicate that the TSX-V is an effective incubator market for developing firms, and thus provide important policy and regulatory insights" (cover page).

11 INSTITUT DE LA STATISTIQUE DU QUÉBEC, Bulletin S@voir.stat, http://www.stat.gouv.qc.ca/statistiques/science-technologie-innovation/bulletins/savoir-stat-vol14-no4.pdf, October 2014, volume 14, issue 4, page 8.

The strength of Quebec's financial ecosystem of private corporate finance is confirmed by the recent private equity map developed by PricewaterhouseCoopers ("PwC") and made public on December 8.[12] Every year in Quebec, $10 billion is reportedly invested in equity and quasi-equity in nearly 650 individual rounds of financing.

…which masks some less attractive realities

However, some stakeholders note that this positive situation masks a much less attractive reality. In truth, Quebec companies have benefitted from a large amount of private equity for decades. Yet, private equity is a short or medium-term type of investment. This means that one day, these investors may want to liquidate their position by either asking entrepreneurs to buy it back or by selling it. In that case, the Quebec companies concerned may very well end up in the hands of foreign investors. It is also worth noting that Quebec's demographic development offers an incentive for entrepreneurs to sell off their companies, due to a lack of successors or an adequate monetization option.

The private equity available cannot meet all needs

Even though there is abundant private equity in Quebec and Canada, it does not seem to provide suitable solutions to all companies. A recent study by the Business Development Bank of Canada ("BDC")[13] talks about the importance of focusing on the potential of "high-impact" companies in Canada as a way to ensure prosperity. These are companies that invest more, innovate continuously and expand into international markets. According to the study, these companies, regardless of their size, create a tremendous number of jobs and may be behind a great deal of GDP growth. However, the BDC study shows that while a total of 91% of companies agree that it is easy to obtain traditional financing in Canada, this is hardly the case for high-impact companies with more specific financing needs, particularly because they need capital to fund new projects or technologies. Once again, this is a crucial point because the future prosperity of Canada and Quebec rides on the backs of these companies.

According to the same BDC study, Canadian companies cite higher risk financing challenges twice as often as their U.S. counterparts, despite the abundance of venture capital. The study shows that 58% of Canadian SMEs struggle to finance their growth, versus 36% of U.S. SMEs. Quebec's financing and value chain does not make it possible to fully benefit from the opportunities for creating value.

The Working Group thinks that public financing becomes even more meaningful in such a context.

Going public: a beneficial decision

The corporate executives consulted by the Working Group who have issued an IPO in the last two years noted that the experience had been positive. Some also noted that private financing also presented disadvantages at times. For example, some entrepreneurs explained to us that the reporting requirements for private investors sometimes exceed those of the stock markets, taking precious time away from entrepreneurs.

The positive benefits of listing on a stock exchange are confirmed by a PwC and Fraser Milner Casgrain ("FMC") study,[14] which concludes that the majority of the entrepreneurs consulted feel that their stock exchange listing allowed them to seize new investment opportunities, simplify bank or mandatory financing, and lower the cost of financing. This study also concludes that the primary reason for businesses to go public may not be to obtain financing. In fact, it points to debt reduction and monetization of founders' equity positions as the main reasons behind an IPO in only 37% and 38% of cases, respectively. Instead, the first three reasons are said to be creating currency for acquisitions (83% of cases), raising the capital required to finance growth or an acquisition, and, finally, strengthening the reputation and image of the company with clients, suppliers, employees and governments. Éric Boyko and François-Xavier Souvay, two executives of Quebec companies that recently went public, confirmed these perspectives to us.

According to the same PwC and FMC study, public financing would reinforce and facilitate the implementation of incentive programs for employees. It would also be easier for public companies to integrate into North American and international

12 PRICEWATERHOUSECOOPERS. *Cartographie de l'offre en capital d'investissement au Québec*, December 8, 2015, page 13.
13 BUSINESS DEVELOPMENT BANK OF CANADA, page 9.
14 PRICEWATERHOUSECOOPERS and FRASER MILNER CASGRAIN, page 4. Fraser Milner Casgrain is now known under the company name Dentons.

trade networks. The requirements imposed by regulatory authorities related to stock exchange issues would help the issuing company enhance its reputation abroad, and increase its confidence.

Nevertheless, there are few publicly traded companies

There are many instances where our companies resort to public financing because it is an attractive option that will likely help them, and our economy, develop and grow. So why are there so few Quebec companies deciding to resort to this form of financing? After a review of studies on this topic, the Working Group concluded that this situation essentially illustrates the Quebec ecosystem's weakness in supporting public financing, the entrepreneurial shortcomings and the growing importance of regulatory requirements applicable to public issuers. In short, the capital is available in Quebec. We just need a more suitable ecosystem to fully develop its value.

This is a very important issue, as the dynamism of the capital market is critical to the future of our economy. Authors Magnan and Campbell states:

> "Although the IPO is no longer the only financing option [sic] for a company that has reached a certain stage of maturity, it is clear from our interviews that an active IPO market is an essential characteristic of a dynamic financial centre, as the expertise and competencies required for IPOs fades in time with the absence of issues. In this respect, several respondents feel somewhat uncertain about Montreal's future as a financial centre"[15] [translation].

The next sections review the challenges faced by Quebec's ecosystem in supporting public financing and propose a set of recommendations to overcome them. In that regard, the Working Group does not believe that its list of proposed recommendations is exhaustive. It is clear that the observations and recommendations in this report can inspire other beneficial initiatives to give our entrepreneurs and investors a renewed desire for calculated risks.

15 MAGNAN and CAMPBELL, pages 1 and 2.

4. ACTION PLAN FOR RE-ENERGIZING QUEBEC'S PUBLIC CORPORATE FINANCE ECOSYSTEM

SUMMARY ACTION PLAN

The action plan includes 20 recommendations, the main ones being summarized hereinafter under three themes.

Enhance the visibility of public SMEs

1. Create a website dedicated to listed Québec companies together with a sponsorship network. (Recommendation 11)
2. Invite institutional investors to introduce a commission system as an incentive to public SME analysts established in Québec. (Recommendation 4)
3. Adopt tax measures to encourage the hiring of analysts based in Québec and specializing in the public SME market. (Recommendation 3)

Drive demand and liquidity through investor incentives

4. Introduce a new simplified plan for public SMEs similar to the stock savings plan and invite the tax-advantaged funds to support them. (Recommendation 10)
5. Defer capital gains if the gain is reinvested in a Québec public SME. (Recommendation 14)

Increase the supply of capital from enterprises and simplify governance for them

6. Have the TMX Group and other market players set a target of 20% of listings originating from Québec. (Recommendation 1)
7. Amend the Taxation Act so that a company and its shareholders retain their tax advantages once the company goes public (for instance, transfer and R&D tax credits). (Recommendation 15)
8. Provide financial assistance for listing. (Recommendation 16)
9. Under the leadership of the Autorité des marchés financiers, simplify and relax the regulatory framework applicable to public SMEs. (Recommendation 18)
10. Simplify the accounting requirements for public SMEs. (Recommendation 20)

DETAILED ACTION PLAN

Our public finance ecosystem is looking to regain its lost strength

Quebec's financial ecosystem scarcely uses stock exchange listings as a tool to help our SMEs grow and create value for our economy. When unlisted Quebec entrepreneurs hear about stock markets, it is usually in connection with its less pleasant aspects, such as the associated costs and regulatory requirements, the short-term vision imposed by quarterly financial reporting, the lost control of current shareholders, the mandatory disclosure of critical information that private companies can keep confidential, or even the costs and constraints linked to language requirements. In short, stock exchanges are not popular.

Working Group members took note of the challenges facing Quebec's financial ecosystem. They are of the opinion that the ecosystem has changed a great deal in recent years and that it is no longer what it was during the Stock Savings Plan ("SSP") craze, or when a stock market (the Montréal Exchange) was present and surrounded by a complete local ecosystem. For instance, let us recall that 40 IPOs were issued in Quebec between 1986 and 1990 as part of the SSP, which is an average of 8 per year. The Working Group also believes that the gradual erosion of the sell side network focused on Quebec SMEs largely explains why few public issues have occurred in Quebec in the twenty years or so.

Remember the success stories of the many first IPOs issued in the 1980s. Indeed, it was these public offerings that led to the creation of the well-known expression “Quebec Inc.” Many of these Quebec IPOs were only a few million dollars. Yet, some of the companies raising capital at that time now have capitalizations of several hundred millions, even billions.

This is why it is important not to close the door on more modest-sized issues. After all, they may be the future standard-bearers of Quebec Inc. Imagine what the 2016 Quebec economy would look like without Jean Coutu, CGI, Alimentation Couche-Tard, Métro, Québecor and others? These companies, which are now fixtures on Quebec’s economic and financial landscape, all financed their expansion through IPOs. If it were not for a public offering, these companies could not have grown without being snapped up by foreign interests.

Listing is a complex process requiring specific expertise on the brink of disappearing from Quebec’s metropolis. This expertise is now most often found in Toronto, gradually eating away at Montreal’s status as a major financial centre. A critical mass of activities in securities (financing, listing, etc.) is also necessary to enable the AMF and other experts to maintain their high-level expertise and influence in the Canadian financial scene.

According to the Working Group, when it comes to our financial ecosystem, the shortage of publicly traded Quebec companies is largely due to the loss of one of its (sell side) pillars, rather than a lack of funds for public SMEs. Éric Boyko of Stingray, one of just two Quebec companies that issued an IPO on the TSX in 2015, also expressed surprise at the amount of capital available in Quebec. Christian Cyr of Fiera Capital, also consulted as part of this report, made similar comments. He explained that while raising capital for the Fiera II fund, he was able to raise the $18 million required for the fund he manages in a matter of minutes.

In this context, the Working Group makes a set of recommendations to revive the public corporate finance ecosystem.

4.1 Common objective and involvement of the TMX Group

The public finance ecosystem in Quebec specifically comprises the TMX Group, securities brokers participating in various issues, universities training upcoming industry professionals, current industry professionals and their associations (accountants, lawyers, etc.), the AMF, various investment funds and the companies. All these stakeholders have a role to play to ensure the presence of a dynamic sell side in Quebec. It is important to examine the shortcomings of each and approaches for correcting them. It is critical for Quebec to maintain this financing method in its territory, and for it to be accessible to our top performing companies and those with the potential to join them.

The TMX Group is an important component of the public issuer ecosystem. In addition, its issuer marketing, promotion and support activities play a critical role in enhancing the attractiveness and visibility of IPOs as a corporate finance method. Therefore, all efforts made to that end need to be adequate and consistent with an increased presence of Quebec companies on the stock exchange.

Recommendation 1

Together with the other Quebec financial industry stakeholders, the TMX Group should agree to pursue the objective of listed Quebec companies making up nearly 20% of the listings in Canada (i.e., the economic weight of Quebec). Accordingly, resources should be deployed in line with reaching this objective.

4.2 Increase knowledge of the workings and basic principles of a stock exchange listing

A gradual loss of knowledge on how public markets work has been observed in this province over several years among Quebec entrepreneurs and the advisors who assist or should assist them. To some degree, this situation reflects the gradual decrease in the presence of publicly traded Quebec companies, which has naturally resulted in a weaker support ecosystem.

Recommendation 2

The various stakeholders in Quebec's financing chain should work together more on developing training opportunities for entrepreneurs and professionals in the industry (including some for executive management managers) to increase their knowledge of the basic aspects of how stock exchanges work.

4.3 Encourage the emergence of brokers that specialize in SMEs and the hiring of financial analysts by SMEs

Financial analysts (sell side or buy side) play a fundamental role in financing companies, particularly small companies. It is very difficult for companies to raise financing without brokers who actively promote an issue. Due to the consolidation trend in the last few decades, Quebec has few brokers interested in public financing for small companies. The remaining brokers are often divisions of companies in Toronto that are more interested in substantial financing. In general, Working Group participants note that it is difficult to interest large brokers in an IPO of less than $100 million. In a healthy ecosystem, independent brokers specializing in SMEs would be able to support them.

The effect of the near disappearance of SME-specialized brokers on SME access to the stock market and the consequences of their decline in Quebec were clearly illustrated by Jacques Ménard of BMO Capital Markets in a presentation he gave in 2010.[16] He explained that out of the 2,400 IPOs issued on the TSX Venture Exchange during the 2000-2009 period:

- 28% of the issues were carried out by issuing broker syndicates, led by a broker that belonged to a large bank;
- 23% of the issues were carried out by traditional full-service brokers; and
- 49% of the issues were carried out by small brokers.

He also notes that boutique brokers were behind over two-thirds (67%) of financing under $10 million during the period considered. In other words, these brokers carried out nearly half of the issues, regardless of their size, and were also the main gateway to the stock market for SMEs. However, according to Jacques Ménard, there are virtually no more SME specialists among the brokers in Quebec, whereas their numbers are well represented in Toronto, Calgary and Vancouver.

Also, without brokers in Montreal interested in listing small companies, it is very difficult for small-cap SMEs to interest institutional investors. In this regard, Magnan and Campbell[17] note that, all things being equal, a portfolio manager is more likely to invest in a local company rather than one located outside the province, just as a securities broker is more likely to promote the IPO of a local company. Without analyst coverage, a newly-listed company may have a more challenging time drawing the interest of a securities broker that meets the dual requirement of really knowing its client and the products it offers. Another study shows that local brokers cover public SMEs and their proximity has an impact on the quality of their analyses.[18] The importance of analyst and business banker proximity to the public SME cannot be overstated. Yet, the latter are now mostly based in Toronto, and increasingly abandoning public SMEs.

Likewise, a round of financing usually begins with local capital, i.e., love money. Without this capital, it is difficult to convince other investors that the business project is relevant. In fact, an entrepreneur who has unsuccessfully tried to convince his immediate neighbours that his business plan is sound would definitely raise doubts in the minds of investors located farther away.

It should also be noted that a mere listing does not create liquidity for the securities of newly-listed SMEs. The often interesting return provided by such investments is rarely immediate. In general, this type of investment produces a considerable return when it is part of a long-term buy and hold strategy spanning several years. Investors, regardless of whether they are entrepreneurs or institutional investors, must show investors from the general public that they consider them full-fledged partners.

Therefore, love money is important local capital during the pre-IPO and post-IPO value and liquidity creation period, both financially and in terms of confidence in the investment, especially on an issuer's management team. Quebec's institutional

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16 MÉNARD, Jacques, *Perspective on the Canadian IPO Market Place*, Réseau Capital, April 29, 2010.
17 MAGNAN and CAMPBELL, pages 59 and 60.
18 O'BRIEN, Patricia C., and Hongpin TAN. *Geographic Proximity and IPO Firm Coverage*, University of Waterloo, October 2010.

capital understands this dynamic very well. This is why SME-specialist brokers not only need to be convinced to set up shop in Montreal, but the brokers associated with large financial institutions need to be convinced that they should allocate the resources required to help SMEs become listed on a stock exchange, stay listed and create value.

The pay for jobs in the financial industry is often above average and an attractive source of revenue for governments. They are important for Quebec's economic development and international visibility, which is why it may be beneficial to provide incentives for creating these jobs similar to those granted to other industries (e.g., video games and multimedia or television or film production, international financial centres ("IFCs")).

Recommendation 3

Brokerage firms that have locations in Quebec and are active in the transactions of public SMEs in Quebec should adopt fiscal incentives for hiring.

These fiscal incentives would specifically concern:

- *Quebec SME financing (search, by private investments and by prospectus);*
- *the listing of Quebec SMEs and financial products from Quebec on stock exchanges;*
- *merger and acquisition activities involving Quebec public SMEs.*

These measures could be managed by the MFQ and promoted by Finance Montréal.

Recommendation 4

Invite Quebec institutional investors to introduce a brokerage transaction commission to encourage the hiring of analysts by brokers from their location in Quebec. The transaction commission could include:

- *a fixed annual amount for securities brokers that hire sell or buy side analysts;*
- *an additional bonus for analysts participating in analyses of public SMEs in Quebec.*

4.4 Strengthen pre-IPO and post-IPO financing

Our consultations and the review of studies reveal that the shortage of publicly traded Quebec companies is accompanied by insufficient financing and liquidity during the growth phase on the eve of the IPO ("pre-IPO phase") as well as the period afterwards ("post-IPO" phase). According to several observers, this situation undermines Quebec companies' potential to raise funds on public markets.

The problem in the pre-IPO phase is due to the fact that, while the Canadian venture capital market is able to adequately finance companies in the start-up or growth phase, it does not seem to be able to meet the capital requirements of companies in the pre-IPO phase.

A report by consulting firm Compass also illustrates this situation very well. It ranks Montreal for the first time in its Global Start-Up Ecosystem Ranking 2015[19] of the 20 most innovative cities on the planet. The report states:

> "With its cultural diversity and high quality of life, Montreal has proven to be a fertile ground for entrepreneurs and innovative tech start-ups. From its early successes with large exits in the animation industry in the mid-90s, Montreal has grown into a top 20 start-up ecosystem with a good balance across the key indexes."

19 COMPASS CO, page 23.

The report notes the ease in which financing is found in Montreal because the city, and the province of Quebec:

> "[H]ave complemented its good institutional investor community with a number of well-organized, active angel investor groups such as Anges Québec."

However, Compass points out that Montreal's greatest weakness is the following:

> "Start-ups here still find themselves needing to cross the border to secure later-stage capital." The study adds that: "(...) there are a few areas where Montreal's start-up community seriously lags behind the top U.S. and European hubs, namely its ability to support rapidly scaling companies and its lack of large exits which are needed to energize the ecosystem."

In other words, there is capital in Quebec for the initial phases of growth and development, but problems arise when it comes time to finance the later stages of our SMEs' growth.

This observation by Compass also echoes the conclusions of a study published at the turn of the decade by PwC and FMC,[20] which points out that Canadian venture capital firms have used an IPO to liquidate their investments less often than their American competitors. The percentage is 17% in Canada versus over 30% in the United States. However, this difference is nothing new according to the study, which notes that from 1991 to 2004, barely 5.85% of the liquidated equity ended in an IPO in Canada, compared to 35.65% in the United States. The lack of venture capital funds able to support major financing rounds at the pre-IPO stage may explain this situation. Accordingly, in 2014, out of the 10 countries in the world that attracted the most venture capital investments, the average financing round in Canada raised $4.5 million, putting Canada in 9th place, far behind the United States (more than $12 million), Israel ($10 million) and the United Kingdom ($9 million).

Therefore, venture capital investment in Canada seems to be concentrated in fairly small companies, which are possibly in the initiation or start-up phase. Data recently compiled by PwC for Finance Montréal confirm this assessment for Quebec.[21] In fact, it seems that going public is not really an option for many SMEs because they do not have the financing chain to reach that stage. This is why public financing must continue to be an option available to entrepreneurs. Furthermore, the companies in which venture capital has been invested grow and reach development stages where the initial investor will want to make an exit. It is essential for Quebec's ecosystem to be able to provide public financing (if desired by companies) from Quebec.

As for the post-IPO phase, one entrepreneur who shared his experience with the Group feels that public financing is the better option for a company with a business plan based on rapid growth that wants to play the role of consolidator in its industry rather than be acquired by its often foreign competitors. In addition, as previously mentioned, entrepreneurs who recently became publicly traded on a stock exchange told us that it was easy for them to raise the funds in Quebec. However, once the IPO is completed, the liquidity of the SME's listed securities is often low, or even non-existent, which sometimes makes it difficult to continue to grow, as carrying out subsequent issues is problematic. A contributing factor to this situation is the lack of follow-up by financial analysts for this type of security.

Recommendation 5

The main stakeholders of financing in Quebec should commit to supporting high-growth companies in the pre-IPO phase in order to make it easier for them to eventually go public. *For instance, they could directly allocate a larger portion of their funds or set up (one or more) pre-IPO and post-IPO funds to support companies preparing to go public and going public as well as during the crucial period after they have gone public.*

4.5 Raise media interest in listed companies

The lack of analyses goes hand in hand with the lack of buy recommendations, but also the limited media coverage. Journalists, just like brokers, do not want to give the impression that they are encouraging investors to buy a security that has not been scrutinized by renowned analysts. The lack, or near lack, of media coverage does not at all help to raise interest

20 PRICEWATERHOUSECOOPERS and FRASER MILNER CASGRAIN.
21 THOMSON REUTERS, *Canada's Venture Capital Market in 2014,* 2015, page 16.

in the securities of Quebec SMEs. Our media could give greater coverage to listed Quebec companies and work with independent financial analysts in Quebec. The objective would be to create a new buzz around publicly traded companies in Quebec.

We believe that growth is largely a question of culture. A study conducted by Google and PwC Australia concludes that the ecosystem of start-up companies should be immersed in a culture of entrepreneurship:

> "Entrepreneurial activity is heavily influenced by the cultural environment surrounding entrepreneurs. Ecosystems where people see opportunities to start a business, where people believe in the skills and knowledge they hold, and where entrepreneurial success are highly visible in the media are good indicators of the population's entrepreneurial intentions and total early-stage entrepreneurial activity."[22]

Recommendation 6

Facilitate media efforts by creating a website dedicated to listed Quebec companies. This site would present information about these companies and actively and continuously promote them with journalists and the general public.

4.6 Increase synergies between the private capital industry and the public finance industry

The investment capital industry seems to be divided into two groups: private capital and public capital. However, these two segments of the investment capital industry are complementary and part of the same value and wealth creation chain. Also, many have observed that venture capital fund investment agreements rarely include an exit option through an IPO among the exit scenarios considered.

Recommendation 7

Professional associations representing private capital and public capital must develop activities in the short term that encourage cooperation and the development of complementary work practices (training and networking activities, seminars).

4.7 Improve the training of stakeholders on the sell side and promote better comprehension of the issues

As a result of its work, the Working Group was quickly able to conclude that many stakeholders of Quebec's financial ecosystem made little or no distinction between the buy side and the sell side of private equity within the financial sector. They also noted that the sell side of our ecosystem deserved special attention.

The sell side includes all financial transactions that consist in acquiring equity in existing or emerging companies, planning a public offering, and acting as a business bank and a financial consultant to companies and investors. These services play an important role in company development because the financial institution or related professional services (especially legal, accounting, analytical, research and other services) participate in fundraising, buy and resell the newly issued stocks, and advise entrepreneurs on this crucial process for their future. It is in fact the part of the financial system that launches the listing transactions (primary market) and then ensures a fluid secondary market that will allow investors to easily trade the securities they have acquired. These activities are essential for maintaining a strong financial ecosystem in Quebec and, more specifically, in Montreal.

That being said, the range of courses offered on the sell side in Quebec institutions of higher learning is negligible. Quebec universities have mostly abandoned applied finance in favour of portfolio management. Sell side-related subjects are divided up into several different programs, even different faculties. There are no programs focusing only on this issue and

22 GOOGLE and PRICEWATERHOUSECOOPERS, *The Startup Economy: How to support tech startups and accelerate Australian innovation*, April 2013.

the rather disparate courses on this subject do not capture students' interest.[23] In addition, there is little research in applied finance.

Recommendation 8

Create and promote a graduate degree (DESS) program in applied finance. It would be taught by practitioners and professors with related experience. To ensure the development and sustainability of this degree, it would have to gradually become a requirement when hiring individuals for private equity-related jobs.

This degree could be developed by the industry in collaboration with the Ordre des CPA du Québec and CPA Canada.

One of the objectives of this degree would be to ensure that stakeholders of Quebec's financing ecosystem have practical knowledge of how stock exchanges work and the regulatory framework for public entities (stakeholders, business finance, regulations, types of available securities, financial reporting, taxation, issued securities, financing packages, types of investment funds, etc.). Also, Quebec universities could validate their students' knowledge of how stock markets work and improve it where required.

Recommendation 9

Set up a Quebec institute of applied finance to observe and provide continuing education on the sell side in the academic world and among Quebec practitioners in finance, securities, financial reporting, law and taxation. This institute would be based on the Capital Markets Institute created by the University of Toronto's Rotman School of Management.

4.8 Promote the listing of companies in which tax-advantaged funds have been invested

Quebec tax-advantaged funds last for an unlimited period of time. The amounts they have raised in recent decades and continue to raise on an annual basis, not to mention their reinvestments, make them first-rate players in Quebec. It would be a sound approach and would also create value if tax-advantaged funds contributed their investments to public markets on a more regular basis. As with many other funds, they likely have investments in their portfolio that deserve to be monetized and better valued through a listing on a stock exchange. Tax-advantaged funds have such an energizing influence on the sell side of our financial sector that their active participation in listing and keeping companies on the stock market is key.

Recommendation 10

Introduce an incentive for monetization through listing, including the use of other listing methods, in the laws on the three tax-advantaged funds. The incentive could take the form of an increase in the respective investment standard in the case of investments in listed Quebec companies (CPCs, IPOs, secondary financings, private investment and prospectus offerings) of the companies concerned until their market capitalization has reached a certain level (e.g., $500 million). The qualifying securities for that purpose would include only the common shares with full voting rights.

For example, each $1 invested in a public SME would equal 1.5 X $1 under the tax-advantaged investment standard. This correction would compensate, to some degree, for the risk associated with small capitalization, its lack of liquidity and volatility of its value.

4.9 Create a sponsorship network

Entrepreneurs and their ambition are essential components of growth in businesses and the economy in general. Many participants pointed out that the typical winner-take-all attitude of American entrepreneurs was less prevalent here. In general, Quebec entrepreneurs may be satisfied with their situation. They may not frequently be interested in creating a

23 DESGROSEILLERS, Benoît, *Comparatif des formations en "Investment Banking,"* Finance Montréal, October 2015.

large or international company. In the summer of 2010, *Les Affaires* newspaper published an article entitled *Croître? Non merci!*, [24] which accurately reflected this state of mind.

Furthermore, Working Group members note that unlike in the period of the first SSP program, listing is not currently highly valued. However, "[i]t should be celebrated like an Olympic medal," explains Éric Boyko, the entrepreneur behind Stingray. But it is far from receiving this type of attention!

Another item that seems to encourage entrepreneurs to remain private companies is the quantity of information they have to make public in order to be listed on a stock exchange. For smaller-sized companies, this transparency requirement may give an undeniable edge to competitors, which know a lot more about the business strategies of listed companies.

It is also important to remember that one of the biggest public-financing-related fears of entrepreneurs is that their control over the company will be diluted. Indeed, new investors who gain voting rights through public financing can reduce the role and the power of a company's founder. That is why multiple voting shares should continue be one of the tools available to entrepreneurs to allay these fears.

It would definitely be false to claim that a committee's work alone can inject Quebec entrepreneurs with enough ambition to get them to instantly see listing as a new universal remedy. Nevertheless, the Working Group believes that it is necessary to better highlight the benefits of listing as a source of financing for entrepreneurs who want to ensure their companies' growth.

Recommendation 11

Create a network of entrepreneurs of listed companies who will sponsor entrepreneurs thinking about listing their companies. The Association Québec Bourse and the Ordre des CPA du Québec, among other organizations, could create a bank of entrepreneurs and specialists who could provide sponsorships (e.g., CPAs, managers, lawyers, public relations specialists, etc.).

Recommendation 12

Promote the use of the CPC incubator program of the TSX Venture Exchange by contributing to the creation of regional and sector-based CPCs in which the tax-advantaged funds and other financial institutions would participate (e.g., subscriptions to seed shares and to shares issued during a qualified transaction, such as the merger of the CPC group and a specific company).

4.10 Introduce incentives for investments in IPOs

The perception that there is not enough liquidity in Quebec to finance new listings is unfounded. Moreover, Working Group participants fully support the idea that love money is essential for financing public SMEs. In order to get individual investors to represent a larger portion of the capital raised in the first rounds of financing our public SMES, the Working Group believes that retail brokers should become more interested in Quebec public SMEs.

A company becomes attractive to a larger number of institutional investors only when it has attained a certain capitalization. Therefore, a program must be created to mobilize local capital (i.e., love money). The previous SSP II program was plagued by red tape and features that were incompatible with public venture capital. However, the members of the Working Group note that there was a large demand for the securities of SSP II funds, even though the funds had a difficult time finding investments in eligible companies where the raised funds could be invested.

The Working Group also notes that the costs associated with SSP II (around $4 million annually) were not as high as those resulting from other business support programs. However, it is clear that the low cost of the program shows that few companies took advantage of it. Nevertheless, the program's impact was highly positive. In fact, according to the Fondation de l'entrepreneuriat, the success rate of private companies in Quebec after 5 years is only 37% compared to over 90% for

24 FOURNIER, Marie-Ève, "Croître? Non merci!," *Les Affaires*, August 23, 2010.

companies that obtained eligible financing under SSP II. In terms of employment, it should be noted that the companies that took advantage of SSP II had 2,029 employees at the time of their issue, versus 3,918 as at December 31, 2013, a net increase of 1,169 employees (a 73.6% increase).

In this context, Working Group members do not understand why the SSP program ended and wonder why the Godbout Commission recommends the program not be renewed. This commission does not provide any reason to support its conclusion, other than the fact that it was little used, even though it was very popular with investors.

A strategy must be implemented and supported by an incentive program similar to SSP in order to attract specific investors and encourage them to change their behaviour in a favourable way for our public SMEs.

Recommendation 13

Introduce a new simplified SSP-type plan that could have some of the following features:

- *Refundable tax credit open to any investor*
- *Less administrative paperwork*
- *Available for capitalizations under $500 million*
- *No minimum holding period or replacement rule*

4.11 Offset the risk associated with public SMEs

Investors may be reticent to invest in small public SMES given the higher risk of the investment compared to an investment of a similar amount in a large-capitalization company. Income tax laws could be amended to encourage investors to consider selling securities that have gained value and reinvesting the proceeds of this sale into the securities of Quebec SMEs.

Recommendation 14

Amend the income tax laws to allow those who reinvest their capital gain from the sale of common shares to defer all or part of the taxed portion of the gain when it is reinvested into common shares of a new public SME.

4.12 Cancel the tax penalties related to listing

Also, under the income tax laws, sizeable tax advantages are granted to Canadian companies and their shareholders if they are Canadian-controlled private corporation ("CCPCs"). A CCPC is, among other things, a company that does not have any class of shares listed on a stock exchange. Yet, simply by listing its shares, regardless of its capitalization, a company loses its CPCC status and the tax benefits that come with it.

Recommendation 15

Change the definition of a CPCC in our income tax laws (125 [7] ITA and 21,19 QTA) so that companies and their shareholders do not lose tax benefits simply by listing shares on a stock exchange.

4.13 Compensate for the high cost of listing

There are several initiatives for companies, such as the IPO-related initiatives made public by the TMX Group last December,[25] which are aimed at reducing the high cost of an IPO. These initiatives should not be expected to have a significant effect for several years. Fiscal measures should be introduced to decrease the high cost of an IPO in the short term until the measures considered by the AMF and the TMX Group take full effect.

25 TMX Group, *Revitalizing TSX Venture Exchange: Canada's Public Venture Market,* December 17, 2015.

Recommendation 16

Introduce a financial assistance measure for listing on a stock exchange that is similar in type to the tax credit for share issue expenses incurred during an IPO under SSP II. The requirement that qualified expenses be paid to service providers in Quebec could be considered.

This measure would need to target alternative listing methods, including incorporation and the CPC-qualifying transaction.

4.14 Introduce incentives for the transition

One incentive for the capitalization used in the resource sector would be to grant shareholders of public SMEs tax deductions and tax credits linked to development and performance. The risk for other SMEs, particularly technology start-ups, is similar to the risk involved in the resource sector. In fact, companies must invest large amounts of money at great risk for several years before reaping the benefits of their efforts. If available tax deductions and tax credits could be transferred to the shareholders of public SMEs, this would provide a very attractive incentive for making the key transition to the new economy.

Recommendation 17

Examine the possibility of transferring tax deductions and tax credits linked to development and performance to the shareholders of public SMEs.

4.15 Adapt the regulations to the size of our companies

Working Group members took note of the growing complexity of securities regulations and the challenges faced by companies, mainly SMEs, in applying them. As one participant said: "A prospectus that had 28 pages twenty years ago now has 280 pages" despite the fact that the risk level has not really changed for investors. A company with a market capitalization of $100 million is subject to the same requirements and obligations as one with a market capitalization of $10 billion.

No one questions the importance of protecting investors because they represent the very vitality of the financial system. If investors are not confident in the market, they will simply refuse to finance the listed companies. However, two parallel phenomena have been noted. The first is the heavily regulated system of listed issuers, placing increasing demands on how financial information is presented. The second is an emerging system of participation funding (crowdfunding), where modest amounts of capital are being raised with more moderate disclosure requirements, but where investor protection requirements are much more restrictive at the time of subscription than those that apply to listed issuers.

A recent CROP[26] survey of 82 listed Quebec companies conducted for Québec Bourse Inc. also shows that red tape is the main concern for the executives of these companies. In fact, 89% of them name this issue as their greatest concern (60% of companies even describe it as "very important"), followed by the lack of liquidity on the markets (82%), the time commitment for executives (78%), the difficulty in finding financing (76%) and, finally, the lack of visibility of listed SMEs (63%).

When analyzing the profile of companies listed on the TSX and the TSX Venture Exchange, the Canadian stock market can be considered an SME market (with a very high percentage of listed companies that have a market capitalization of less than $500 million) compared to the rest of the world. Despite the profile of most listed Canadian and Quebec companies, securities regulations are often based on U.S. regulations, which are designed for stock exchanges and markets made up of large-cap companies.

The problem of regulatory requirements and high costs for small issuers is not limited to Quebec and Canada. This problem (and its impact on IPOs) is one of the factors that led to the announcement of the JOBS Act (Jumpstart Our Business Startups) in the United States in April 2012.

26 CROP, *Enjeux des entreprises québécoises cotées en Bourse et rôle de l'association Québec Bourse*, October 2015.

This law created a new category of issuers: emerging growth companies (“EGCs”). EGCs enjoy far more moderate regulatory requirements. Issuers in this new category now represent 85% of the IPOs issued in the United States. Also, since this legislation came into force, the number of IPOs has grown substantially in the U.S.

Table 4
Number of IPOs in the United States

2008	2009	2010	2011	2012	2013	2014	2015 (as at June 30)
35	65	162	124	133	226	291	101

Source: EY. *The* JOBS Act *2015 mid-year update: An overview of implementation and an analysis of emerging growth company trends*, September 2015.

We believe that the time has come for securities regulatory agencies to begin a complete overhaul of the regulatory framework. The adoption of the JOBS Act in the U.S. is an opportunity for the Canadian Securities Administrators to take action. We are well aware that the AMF does not act alone in Canada and that any overhaul requires the contribution and cooperation of the other provincial regulatory authorities. We believe that this situation in Canada should not prevent the system from being updated and innovative regulations from being introduced.

Recommendation 18

The Working Group recommends that securities regulatory authorities, led by the AMF, continue their efforts to simplify and lighten the regulatory framework applicable to SMEs, in collaboration with the various market participants.

One of the points that the Working Group would like regulatory authorities and market participants to consider is broadening the concept of an emerging issuer, so that a larger number of issuers can benefit from a less restrictive regulatory framework than that applicable to non-emerging issuers. In particular, regulatory authorities could consider the possibility of setting an acceptable eligibility threshold based on market capitalization.

Furthermore, the Working Group has a positive view of the U.S. Securities Exchange Commission’s (“SEC”) initiative, which set up a policy office for SMEs (Office of Small Business Policy, OBSP). This office is exclusively dedicated to SME-related issues and staffed with employees who answer public SMEs’ questions about the mandatory disclosure of particular information and other specific topics. It also acts as a liaison between the SEC and other regulatory agencies and government bodies on SME-related policies.

Another interesting SEC initiative is its annual forum on capital formation (SEC Government – Business Forum on Small Business Capital Formation). This forum gives companies, venture capitalists, regulatory agency employees, lawyers, accountants, academics and representatives an opportunity to discuss and share their comments on the obstacles they perceive in the application of regulations. Past forums have led to amendments not only to securities legislation, but also to tax laws and government assistance programs for SMEs.

It would be useful to set up continuous monitoring of market efficiency-related issues, especially as concerns SME financing.

Recommendation 19

The competent authorities (governments, regulatory authorities and others) should work together to implement systematic monitoring of public market efficiency, especially for issues affecting SME financing.

An annual forum focused mainly on capital formation that would allow stakeholders to discuss and share their points of view on the obstacles they perceive in the application of regulations should also be considered.

4.16 Simplify financial statement requirements for small issuers

Current financial reporting requirements and accounting standards for Canada’s public companies (GAAP or IFRS) do not often meet the needs of SMEs considering going public and do not take into account their resources or means. Required financial reporting is quite often too elaborate and does not meet the needs of readers. In addition, the financial reporting process has become costly, especially for small issuers. These items are often cited as being the greatest deterrent for companies considering a listing on a stock exchange.

Recommendation 20

The Ordre des CPA du Québec, in collaboration with regulatory authorities, should present the IFRS for SMEs as the reference framework for small public issuers in Canada to the authorities concerned in order to encourage authorities to adopt them. It is important to note that the IFRS for SMEs have not been adopted in Canada.

Accordingly, regulatory authorities could amend their regulations to show that the IFRS for SMEs are appropriate for "small public companies" in Canada. However, they would need to agree on benchmarks for the definition of the concept of a "small public company" in the context of the Canadian market and establish transition rules when they no longer correspond to the definition. By amending the regulations, auditors could then certify without restriction that financial statements comply with Canadian GAAP (rather than the IFRS for SMEs).

A simpler solution could be to encourage the various stakeholders to avail themselves of "disclosure effectiveness" improvement measures in order to reduce the disclosure in the financial statements of small public companies. These measures are based on the following premises:

- Materiality – Eliminate the non-material information and give priority to information that allows users of financial statements to better understand the impact of specific transactions, other events or conditions on the financial situation of a company and its financial performance.
- Duplications and overlaps – Reduce the volume of information provided by eliminating duplications and overlaps between the various continuous disclosure documents (e.g., greater use of cross-references between the financial statements and the management discussion and analysis).
- Boilerplates – Eliminate boilerplates and give priority to information specific to the issuer in question.

There is a considerable amount of discussion around the world regarding the efficiency of reporting methods, and their implementation requires joint efforts by the CPA bodies, regulatory authorities (such as the AMF and the Ontario Securities Commission), as well as issuing companies.

This option offers some flexibility to all stakeholders without having to amend the regulations in force. It would also have the benefit of not creating confusion among the users of financial statements by introducing a new set of authoritative accounting pronouncements in Canada and of keeping with best market practices.

5. MOBILIZATION OF STAKEHOLDERS

Working Group members believe that the shortage of publicly traded Quebec companies cannot be corrected without implementing a set of targeted, assertive measures. Quebec's financial ecosystem needs to be shaken to its core. Adopting a few isolated measures will not change the outcome. On the contrary, only a comprehensive vision supported by the entire financial community will succeed in breathing new life into the ecosystem. To achieve this, all stakeholders will need to be mobilized. After all, it was the mobilization of the financial industry in the United States that led to the success of the JOBS Act. The Working Group hopes that this will be kept in mind when reading this report.

The Working Group also noticed that conditions seem favourable for an extensive review of the rules that apply to public issues. Indeed, the TMX Group is also concerned about the decrease in the number of new issues on the TSX Venture Exchange. As previously mentioned, it actually published a white paper on the subject on December 17. We salute this initiative.

Some of the proposed measures will need to be implemented over a fairly lengthy period of time. It is important that the targeted stakeholders mobilize and take the lead to ensure a follow-up on the proposed actions.

6. CONCLUSION

We would like to point out that our efforts are not necessarily aimed at increasing the funds available to our companies, but at helping them improve their performance by better matching their financial needs with sources of financing. According to the Compass[27] study, Montreal is now part of a select club of the 20 best ecosystems for start-ups. However, this study sheds light on a glaring weakness of Montreal's innovation ecosystem: the challenge in monetizing investments (exits) in these innovative companies without having to turn to our neighbours to south. Moreover, the Google and PwC study reminds us[28] that fiscal incentives are rarely the main driver of growth in innovative SMEs. That is why we also aim to re-energize Quebec's public finance ecosystem. The fluidity of public financing compared to private financing must be improved. The entire value chain of Quebec's private equity industry needs to get in step with the new economy. A company that adapts or creates technologies with sound governance has better chances of performing over the long term and becoming part of North American and international networks if it can choose the type of financing that best suits its needs and strategy.

Our proposed fiscal incentives and simpler regulations will achieve their objective only if they are part of an action plan to re-energize the SME finance ecosystem. We believe that it is in the interest of all of the industry's stakeholders, whether they are active in private or public financing and are small or large brokers or institutional or private investors, to do their share. The prosperity of Quebec depends on it!

27 COMPASS CO, *The Global Startup Ecosystem Ranking 2015,* July 2015.

28 GOOGLE and PRICEWATERHOUSECOOPERS, *The Startup Economy: How to support tech startups and accelerate Australian innovation*, April 2013.

APPENDIX 1

This report is the result of the work of four subcommittees created by the Ad Hoc Working Group of the Ordre des CPA du Québec and the subgroup of the Finance Montréal Investment Capital Work Group concerned with the problem of the shortage of publicly traded Quebec companies. Four themes were given priority: entrepreneurship, incentives, the secondary market and the regulatory framework. A subcommittee was set up for each theme. The subcommittees met in the fall of 2015. The composition of the subcommittees is as follows:

1. The Entrepreneurship and Listing Subcommittee (chaired by Guy Pelletier, CPA, CA, and retired partner at Deloitte)
   - Steve Harrar, CPA, CA, Partner, Nexia Friedman, s.e.n.c.r.l/llp
   - Daniel Holland, Executive Vice Chair of the Board and Managing Director, Beacon Securities Limited
   - Guy Leblanc, CPA, CFA, Managing Partner, PricewaterhouseCoopers
   - Stephen Jarislowsky, Concordia University
   - Hubert Manseau, President and Chief Executive Officer, Multiple Capital
   - Claude Michaud, Managing Director and Chief of Operations, DNA Capital
   - Richard Morrison, President, IRR Capital
   - Pierre-Yves Terrisse, Vice President, Institutional Sales, Euro Pacific Canada
2. Listing Incentives Committee (chaired by Philippe Grubert, CPA, CA, and Partner-in-charge, Audit, at KPMG)
   - Andrew Abdalla, CPA, CA, Partner (Accounting, Consulting, Taxation), MNP
   - Philippe Alain, Financial Sector Specialist, MFQ
   - Johanne Fortier, CPA, CA, Partner, Mazars Harel Drouin s.e.n.c.r.l.
   - Liette Leduc, attorney, Senior Director, Legal Affairs, Fonds de solidarité FTQ
   - Jean-François Pelland, attorney, Partner, McMillan Attorneys
   - Ben Vendittelli, Institutional Equity Analyst at Laurentian Bank Securities
3. Listed Issuer Liquidity Committee (chaired by Geneviève Morin, Chief Investment Officer at Fondation CSN)
   - Grégoire Baillargeon, Managing Director and Head of Investment and Corporate Banking, BMO Capital Markets
   - Nicolas Bonnafous, President and Chief Executive Officer, Odesia
   - André Brosseau, President and Chief Executive Officer, Avenue Capital Markets
   - Martin Garand, Director, Investment, Private Equity, Caisse de dépôt et placement du Québec
   - Jean Raymond, Vice Chair of the Board and Managing Director, CIBC Capital Markets
   - Gilles Leclerc, attorney, Superintendent, Securities Markets, Autorité des marchés financiers
   - Jean-Yves Bourgeois, Managing Director, Group Head, Wholesale Banking and Equity Markets, Desjardins Capital Markets

4. Regulatory Framework Committee (chaired by M^{e} Peter Villani, Partner, Fasken Martineau SENCRL)

- Mario Albert, Chief Executive Officer, Finance Montréal
- René Branchaud, attorney, Partner, Lavery, De Billy, s.e.n.c.r.l.
- Marie-Claude Frigon, CPA, CA, Partner, Richter, s.e.n.c.r.l.
- Gilles Leclerc, attorney, Superintendent, Securities Markets, Autorité des marchés financiers
- Philippe Leclerc, attorney, Partner, McCarthy Tétrault
- Yves Nadeau, CPA, CA, Partner, Richter
- Richard Provencher, attorney, Partner, Stein Monast
- Martine Valcin, Director, Listed Issuer Services, Toronto Stock Exchange (TMX Group)
- Anthony Marinelli, CPA, CA, Partner, BDO