



March 13, 2023

The Honourable Chrystia Freeland, P.C., M.P.
Deputy Prime Minister of Canada and Minister of Finance
Office of the Deputy Prime Minister
80 Wellington Street
Ottawa, ON K1A 0A2

Dear Minister Freeland,

Re. Collapse of Silicon Valley Bank (SVB) and Canadian Ventures Action Plan

Thank you again for visiting with our tech founders last August and hearing from them directly about the opportunity and challenges they face in growing Canada's innovation economy. Your leadership is critical to Canada's success and competitiveness. Canada's Tech Network ("CTN") and the Canadian Venture Capital Association ("CVCA") are here to help. Representing twenty-eight organizations servicing founders coast to coast to coast.

We also appreciate your time over the weekend, note this morning, and working with stakeholders to resolve the crisis. Although the FDIC has made some moves to calm the market on deposits, the systemic risk in the system remains and we do not believe it wise for Canada to rely on the FDIC to ensure the liquidity of the Canadian innovation economy. The UK approach we believe to ensure the assets and liabilities of the SVB were in UK hands allowing for an orderly transition quickly will be critical to stabilizing liquidity for the Canadian innovation sector.

SVB Canada had C\$959 million in assets and C\$483 million in outstanding loans as of December, according to filings with the Office of the Superintendent of Financial Institutions. There is over a C\$1B in exposure from the SVB collapse, but more concerning is the multiple spillover effects of this amount that are not fully understood, impacting the cross-border Canadian Venture funds and companies. The lack of confidence from potential cross defaults and general liquidity lockup in the innovation economy risks thousands of jobs when the tech sector is already in financial distress.

We are calibrating the impact along three key points:

(1) **Impact on Canadian companies banking with SVB** - Approximately 10% of Canadian companies doing business with SVB are directly impacted. Several companies with significant exposure are at risk of being unable to make payroll this week. Additionally, those with loans with SVB (C\$959M) will be unable to finance with other banks until the ownership of these loans is resolved. Putting 10% of the Canadian tech ecosystem unable to obtain financing.

(2) **Indirect impact of banking, liquidity and risk of delay/stop financing** - The tech and innovation ecosystem is fragile, and if there is a liquidity crisis, it will quickly turn into a full-blown crisis. Based on historical data from 2001 and 2008, we anticipate a liquidity crisis would cause between 45,000 and 58,000 job losses in the Canadian tech sector. This estimate is based on job losses calculated from peak to trough and would include the losses that have already occurred over the past few months.

(3) **Cross-border default risk/capital constraints:** The Canadian tech market is highly integrated with the US market for capital. About 60% (approx \$10B/year) of the direct funding for Canadian tech companies came from the US. The current downturn in the US capital markets will directly affect Canadian companies disproportionately and will put Canadian companies at greater risk of failing.

The leaders of Canada's tech sector strongly encourage and invite the Government of Canada to address the critical banking and liquidity crisis triggered by the collapse of Silicon Valley Bank (SVB). The government of Canada is in a powerful position to quickly help restore confidence in Canada's venture landscape by moving forward with existing allocations, relaunching existing successful programmes, and providing incremental programming that will go a long way to improving this dynamic situation and help mitigate thousands of jobs at risk.

We humbly propose four actions on how the Federal government could act quickly with targeted measures to mitigate the risk:

(1) **BDC immediately extend a second C\$300M Bridge Financing Program**: This is a proven program, targeted and an effective way to mitigate liquidity into the market swiftly. The move would also boost confidence, and the matching component will encourage the venture firms not to freeze up their capital. The program could accelerate quickly using the same proven mechanisms to get liquidity to companies over the next 90 days. Speed will be critical to forestall a bigger liquidity challenge. We recommend BDC investigate putting in place a facility for working capital loans guaranteed for Canadian companies that don't have an existing Canadian VC. Ensuring BDC has increased capitalization to support the ecosystem through the next 24 months will be key.

(2) **Accelerate the Venture Capital Catalyst Initiative ("VCCI") program deployment (approx C\$200M)**, getting liquidity into the market over the next twelve months. In order to get capital to companies quickly and responsibly, we recommend that the VCCI program consider relaxing the first close threshold to 30% capital raised instead of the current 50%, and funding directly into the Canadian Venture funds that received capital in the prior VCCI program on the condition the funds be invested evenly over the next 12 months. The almost two-year delay in this program has put a larger liquidity challenge in the Canadian venture fund market. This acceleration would get liquidity into the market and do so with a proven pathway.



(3) EDC accelerates the C\$200M already allocated by EDC's board for investments, Canadian venture firms, and tech exporters. Accelerating existing commitments to companies and venture funds to get C\$200M in existing venture and company commitments into the market on the condition the funds be invested evenly over the next 12 months.

(4) EDC guarantee secured loan on SVB deposits/Loan Refinancing: Canadian venture firms, their underlying portfolio companies, or Canadian companies that have US cash deposits/loans that are illiquid at SVB can receive a loan up to 60% of the value of those cash deposits/loans from a Canadian bank secured by SVB cash deposits and guaranteed by EDC. The loan term would be 12 months at the prime rate.

The C\$700M injection of liquidity announced largely through existing funded programs with targeted and proven stewards of redeployable, scalable and incremental programmes would be felt quickly and provide immediate relief and investor confidence in the Canadian venture landscape, without any net new investments.

What is clear, the failure of SVB and the resulting collapse in investor confidence has created a crisis in liquidity for Canada's tech sector well beyond SVB at precisely the time it was already extremely vulnerable. We are available to discuss this further and will update you as we learn more.

We sincerely appreciate your support and leadership.

Sincerely,

Chris Albinson President & CEO Communitech	Kim Furlong CEO CVCA	Beth Bailey Managing Director Canada's Tech Network	Ian McLean President & CEO Greater Kitchener Waterloo Chamber of Commerce	Don Duval CEO NORCAT
Tony LaMantia President & CEO Waterloo Region Economic Development Corporation	Doug Robertson President & CEO Venn Innovation New Brunswick	Yvonne Pilon CEO WEtech Alliance	Catherine Warren CEO Edmonton Unlimited	Joelle Foster CEO North Forge Manitoba
Jill Tipping President & CEO BC Tech Association	Greg Durocher President & CEO Cambridge Chamber of Commerce	Michael Tremblay CEO Invest Ottawa	Michelle Simms CEO Genesis Centre Newfoundland	Sébastien Tanguay GM LE CAMP Quebec
Christian Perron CEO CEIM Quebec	Matt Cooper CEO Volta Nova Scotia	Jay Krishnan CEO Accelerator Centre	Terry Rock CEO Platform Calgary	Xavier Hervé Co-Founder D3 Innovation
Dan Gunn CEO VIATeC	Matt Skynner COO ventureLAB	Steve Boese Incubation Manager Innovate Niagara	Lindsay Murray Interim CEO Startup Zone	Brea Retzlaff CEO Accelerate Okanagan
David Carter CEO Innovation Factory	Ziad Sahid Executive Director Tech Yukon	Mario Escoto Damas Executive Director Northwestern Ontario Innovation Centre		Krista Jones CDO MaRS
				Christina Fox CEO TechAlliance

CC:

1. The Honourable François-Philippe Champagne, Minister of Innovation, Science and Industry
2. The Honourable Mary Ng, Minister of International Trade, Export Promotion, Small Business and Economic Development
3. Honourable Filomena Tassi, Minister responsible for the Federal Economic Development Agency for Southern Ontario
4. Peter Bethlenfalvy, Minister of Finance Ontario
5. Mr. Michael Sabia, Deputy Minister, Department of Finance
6. Mr. Simon Kennedy, Deputy Minister, Innovation, Science and Economic Development Canada
7. Isabelle Hudon, President of the Business Development Bank of Canada
8. Mairead Lavery, President and CEO of the EDC



Appendix 1 - Background Data for reference

- The Canadian tech workforce is approximately 659,200 tech workers accounting and now the second largest globally and the fastest growing.
- In the last twelve months, tech companies have laid off approximately 2,000 employees due to economic conditions and reduced availability of financing, especially from Canadian sources.
- Based on historical data from 2001 and 2008, we anticipate an economic recession would cause between 45,000 and 78,000 job losses in the Canadian tech sector. This estimate is based on job losses calculated from peak to trough and would include the losses that have already occurred over the past few months.
- 10% of Canadian tech companies have direct banking relationships (deposits/loans) with Silicon Valley Bank either in Canada or the US.
- Of the \$17.2B invested into Technology companies in Canada in 2021, fully \$ 12.7B (74%) was invested from outside Canada, largely from the US. This makes Canada's success directly tied to continued capital flows between the US and Canadian Markets.
- Numerous founders have reached out over the weekend with direct concerns on liquidity with an inability to make payroll next week with over \$10Ms+ in deposits at SVB now inaccessible.
- We have heard directly from VCs that they are actively trying to determine which of their companies and fellow VCs have liquidity challenges and are slowing their investment pace until they have confidence in the environment
- We know companies and VCs are reevaluating other banks for potential failure and attempting to move cash resources.

The risk of systemic liquidity challenges impacting most of our companies, VCs, and multiple financial institutions is now very likely. This will not be contained to the tech sector as those employees will not be able to make mortgage payments, rent payments, or spend as consumers.