

The Honorable Chrystia Freeland, P.C., M.P.
Deputy Prime Minister and Minister of Finance
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Dear Minister Freeland:

Thank you for steering Canada's economy through some very difficult times. We appreciate your leadership and that your government has repeatedly stepped up with critical support for Canadian businesses and jobs through historic challenges.

I'm writing to you about the collapse of Silicon Valley Bank (SVB) which entered receivership on Friday. As you are aware, this is a major shock to the US Venture Capital ecosystem, as the single most important financial institution for the nascent tech sector, serving nearly half of all venture-backed companies in the US.

The contamination effects on Canada could be significant and we are seeking your support to mitigate the impacts both in the short term and into the longer term.

In Canada, it is our understanding that there could be roughly 10% of Canadian venture-capital-backed companies that had deposits with SVB, and there are a small number of companies that currently have deposits frozen at SVB in excess of the \$250,000 FDIC-insured limit. These are the companies in danger of missing payroll or shutting operations.

More broadly, there are also many VC-backed Canadian businesses that have operating lines of credit that are affected by the SVB collapse and can no longer access funds or undrawn loans. While some Canadian banks have stepped up and advanced similar credit facilities to Canadian companies on Friday and over the weekend, those that were struggling may be challenged to find capital. This may lead to job losses.

Over the longer term, there will be ripple effects now that the largest and most aggressive bank lender to the American VC ecosystem is gone. Even if the FDIC manages to find a buyer for SVB, its activities will likely be curtailed. At the same time, other US VC banks and lenders will be under tough scrutiny and will have a more difficult time deploying funds in the venture market. While signs of a chill in venture capital were emerging in the US, we expect it to worsen. The National Venture Capital Association is warning that "could have a lasting impact on the industry for years to come."

VC-backed companies are the engine for innovation and the development of lifesaving and life-changing technologies. Advances in cybersecurity, biotechnology, climate tech, and other critical technologies run the risk of major setbacks that could have profound consequences for the long-term global competitiveness of the Canadian economy.

CVCA has two immediate recommendations for the government:

Instruct BDC to deploy a bridge financing program similar to the one used at the outset of the COVID-19 crisis: \$300M deployed via convertible notes.

Accelerate the flow of venture dollars in the Canadian market by modifying the threshold at which VCCI fund of funds managers can deploy dollars in Canadian venture funds. Delays in the launch of the renewed Venture Capital Catalyst Initiative (VCCI) program mean that stream one, the Fund of Fund portion of the program, is still not in the market. Fund of Funds are expected to start their own fundraising in the weeks to come. Traditionally, 50% of their target must be locked in before they can begin making investments. To accelerate dollars flowing to venture funds and in turn companies, CVCA recommends that the government allows for a 30% threshold.

Canada's VCAP & VCCI programs are a prime example of a public-private partnership where the government invests alongside the private sector to support the commercialization of our R&D and develop amazing new technologies, from green tech and EVs to artificial intelligence and agricultural advances that will transform our society and create a booming economy. As the US VC environment retrenches, Canadian entrepreneurs will be challenged. Canada is the world's second-largest innovation ecosystem. Yet, of the \$15B that was injected into Canadian companies last year, 74% of those dollars were made by non-Canadians. We must grow the share of Canadian equity in our VC-backed companies.

I would be very pleased to discuss or answer any questions. Please do not hesitate to contact me at 416-625-3854 or at kfurlong@cvca.ca.

Sincerely,

A handwritten signature in black ink that reads "Kim Furlong". The signature is fluid and cursive, with the first letters of each name being capitalized and prominent.

Kim Furlong
Chief Executive Officer
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