CVCA CANADIAN VENTURE CAPITAL & PRIVATE EQUITY ASSOCIATION

Qualified Investment Consultation
c/o Director General, Tax Legislation Division
Department of Finance Canada
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Subject: Response to the Department of Finance's Consultation on Qualified Investments for Tax-Advantaged Savings Plans

Dear Mr. Robert Demeter and Ms. Lindsay Gwyer,

I am writing on behalf of the Canadian Venture Capital and Private Equity Association (CVCA) to provide feedback on the Department of Finance's consultation regarding Qualified Investments for Tax-Advantaged Savings Plans. We appreciate the opportunity to contribute to this important discussion aimed at modernizing and simplifying the qualified investment rules of the registered plans regime.

The CVCA recommends that the government expand the definition of qualified investments to include Private Equity (PE) and Venture Capital (VC) funds in registered vehicles such as Registered Retirement Savings Plans (RRSPs) and Tax-Free Savings Accounts (TFSAs). This change would significantly enhance investment options for sophisticated investors, providing greater access to assets that are well-aligned with long-term retirement savings strategies. Additionally, it would expand the pool of investment capital available to fuel the growth of Canadian companies.

Modernization of Existing Definitions

The existing qualified investment definitions should be modernized to accommodate a broader range of asset classes. The current framework for qualified investments in registered savings plans has been incrementally expanded to include more than 40 types of assets over time.

As private capital increasingly enters mainstream finance across jurisdictions, it is important that Canadian regulation adapts to growing market demand as investors seek access to more dynamic and high-growth sectors. Today, the majority of VC and PE funds in Canada and around the world are structured as limited partnerships, which are generally not qualified investments under existing, and dated, rules.

While there are opportunities for private capital funds to be eligible – for instance, labour-sponsored venture capital corporations (LSVCCs) – these are only available under very defined settings, with requirements that would be challenging for most PE and VC investors to meet.

Therefore, modernizing definitions and simplifying rules so that private capital funds can be considered qualified investments would make the regime much more accessible and attractive for investors. CVCA would be delighted to discuss this in greater depth with your office.

Equitable Investment Opportunities

Private capital funds are particularly well-suited for retirement savings strategies with a long-time investment horizon and potentially higher returns compared to traditional assets. Large pension funds across jurisdictions including in Canada already allocate between 10-30% of their Assets Under Management to Private Equity investments, a share that has been growing in recent years. If large pension funds are allowed to diversify their strategies in this manner, average investors should also have access to these high-yield opportunities.

Allowing retail investors to hold these funds within their RRSPs and TFSAs would provide them similar advantages, fostering equity in investment opportunities. Despite strong demand, this asset class has largely remained out of reach for retail investors, other than through their pension funds. The strong interest from High-Net-Worth Individuals and Family Offices in alternative asset classes underscores the attractiveness of these investments and reflects the global shift towards private markets.

Democratizing access to private markets, while at the same time investing in the knowledge-based and future economy, would provide significant spillover benefits for Canada. It would also empower savers to participate in high-growth investment opportunities that have traditionally been reserved for wealthier investors.

Alleviating Liquidity Concerns

While concerns about illiquidity are valid, it is important to recognize that there is precedent for allowing illiquid assets in registered plans. Other illiquid assets have been successfully incorporated into these plans with appropriate regulatory safeguards. Moreover, liquidation is not a major concern as VC and PE investments are by design intended to be long-term, an extended time-horizon that aligns well with retirement planning strategies and vehicles designed for such purposes such as RRSPs.

Nevertheless, to address the illiquidity concern for VC and PE funds, the government could set consumer protections for instance by establishing thresholds similar to those defining accredited investors for individuals with incomes or assets above a certain amount. The United Kingdom, for example, has set out certain protections in its Innovative Finance Individual Savings Account (ISAs) vehicles, which are designed to include more long-term, less-liquid investments. In Canada, such measures would ensure that only investors with the financial acumen and resources to make informed decisions can participate in the asset class.

Boosting Domestic Investment and Economic Growth

By modernizing the rules to allow private equity and venture capital funds in registered vehicles, the asset class would attract and deploy more investment capital, enhancing the growth and competitiveness of local businesses. Investments in VC and PE funds directly support Canadian businesses, particularly startups and small to medium-sized enterprises (SMEs). By allowing such funds in registered plans, more capital could be directed towards innovative and high-growth sectors within Canada. This influx of investment can spur job creation, technological advancement, and overall economic growth.

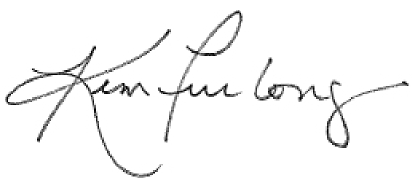
In recent years, several challenges have impacted capital formation in Canada's alternatives asset class. Fundraising and distributions have been suppressed by a combination of prolonged high interest rates, reduced IPO activity, and uncertainty surrounding Canada's tax regime due to the recent increase to the capital gains inclusion rate. Providing incentives that attract more capital to the alternatives asset class and consequently flow into Canadian businesses would be a much welcome development in the local ecosystem.

The CVCA believes that implementing the above proposed changes would offer significant benefits, including enhanced investment options for Canadians, modernization of outdated regulations, support for domestic economic growth, equitable access to high-return investment opportunities, and a stronger Canadian alternatives ecosystem with increased capital flow. With appropriate safeguards to manage risks, this move would position Canada favorably, fostering a more dynamic and resilient investment environment for Canadians.

I would appreciate the opportunity to discuss our submission further and explore the specifics of our proposed changes. Kindly contact us at avega@cvca.ca to schedule a discussion.

Thank you for considering our recommendations.

Sincerely,



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