

February 6, 2004

NAO QUEBEC FORUM
SUBMISSION TO THE
QUEBEC PARLIAMENTARY COMMISSION
ON PUBLIC FINANCE

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"...seeks to engage in a constructive dialogue with the Government with respect to public policy affecting early-stage and seed investing"

INTRODUCTION

This paper is submitted by the National Angel Association (NAO) Quebec Forum, the provincial chapter of Canada's national angel investor organization. It is intended to respectfully provide the Government with the NAO Quebec Forum's input in the matter of the Government of Quebec's ongoing budgetary deliberations.

The NAO Quebec Forum is a recently created entity whose membership is open to residents of Quebec who are individuals or financial entities that actively invest in start-up and seed companies. This critical stage of investment also includes the funding of technologies being transferred into the commercial domain by Quebec's world-class universities and research centers.

The NAO Quebec Forum seeks to engage in a constructive dialogue with the Government with respect to public policy affecting early-stage and seed investing. We offer our network, resources and experience in this regard.

CANADIAN NATIONAL ANGELS ORGANIZATION (NAO)

The Canadian NAO is an incorporated, not-for-profit organization that provides angel investors across Canada with a peer environment within which to network, share their experiences and discuss best practices. Additionally, the NAO provides a platform where angel investors can be collectively heard on national and provincial issues. A secure online directory provides members with: angel investor education; networking programs; and angel investor resources and studies.

The NAO's objective is to foster a more active and effective angel investor community in Canada, thus enhancing a vibrant and healthy economy.

- Vision: Better national economic competitiveness through improved angel investor success

- Mission: Help angel investors become more successful through networking, education and a collective voice

- Key Objectives:

- Provide a national, peer-to-peer network of angel investors for improved learning and investment opportunities
- Collect and share best practices and investment methodologies amongst angel investors and their advisors across Canada and the United States (through the NAO's formal association with American-based, national and regional angel organizations and their respective advisors)
- Provide a definitive source of angel investor information to angel investors and other related stakeholders
- Provide a two-way communication channel between angel investors and local, provincial, and federal governments for improved policy formation with regards to new business creation
- Make angel investment a more lucrative and attractive investment opportunity for Canada's high net worth individuals who do not currently invest in early-stage companies

NAO QUEBEC FORUM

During its third annual summit held in Montreal in November 2003, the NAO Board of Governors endorsed the creation of provincial forums that would be sanctioned and encouraged by the national organization. The NAO Quebec Forum held its first meeting in January 2004 and has formally adopted a charter, which will actively solicit membership from residents from across the province of Quebec who have sufficient net worth to participate in early stage or seed investments or have done so in the past. Membership will also extend to financial entities that invest in early-stage or seed investments.

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" Provide a two-way communication channel between angel investors and local, provincial, and federal governments..."

"Increased seed and start-up working capital..."

"...Fundamentally engaged strategic guidance, governance and experienced commercialization preparations..."

"...Engage and educate an enhanced pool of high net worth Quebec residents"

"A consolidated voice of the angel investor community in Quebec..."

"...we would like to formally add a new voice to the provincial debate"

"...Will the direct effects of this policy cause early-stage companies... to have increased access to... accomplished business-builders..."

The NAO Quebec Forum consolidates **four fundamentally strategic forces** that it seeks to bring to bear on the economy of Quebec in a more coordinated and synergistic fashion, ideally aligned with the new provincial government's priorities and incentives for economic growth, namely:

1. Increased seed and start-up working capital to provide Quebec's entrepreneurs with the funds they need prior to engaging with the venture capital industry
2. Fundamentally engaged strategic guidance, governance and experienced commercialization preparations early in Quebec's innovation cycle
3. A forum to engage and educate an enhanced pool of high net worth Quebec residents who have historically not participated in angel investing due to a lack of awareness, inexperience or relatively unattractive fiscal incentives
4. A consolidated voice of the angel investor community in Quebec that seeks to engage and be engaged in constructive dialogue with the government as a valuable partner to improve the overall economic situation of Quebec. In this regard, we also serve as a powerful independent voice to support good public policy initiatives

NAO QUEBEC FORUM'S SUBMISSION

The NAO Quebec Forum has had the opportunity to review recent submissions to the government regarding the venture capital (VC) industry in Quebec. We commend the government for its initiative in this regard. However, we would like to formally add a new voice to the provincial debate: one which, by definition, could provide a more significant number of companies with value-added early funding to execute to the state where they are engaged by Quebec's VC industry.

Our submission is prefaced with three overarching observations:

- Any public policy initiative that affects the investment community in Quebec should be tested against the question, "Will the direct effects of this policy cause early-stage companies across Quebec to have increased access to a greater number of accomplished business-builders who themselves have a vested financial interest to engage, coach and encourage entrepreneurs?" Key thesis: increased investor value earlier in the business cycle increases the potential for increased later-stage returns

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"We strongly encourage the government with its publicly stated intentions to migrate the Quebec financing industry to a more balanced and competitive public-private paradigm."

- ***Establish and clearly state the public policy framework...***
- ***...Introduce an incentive along the lines of the Innovation and Productivity Tax Credit ("IPTC")***
- ***Formally seeks out the advice of the NAO Quebec Forum...***
- ***...Fiscal policy changes are harmonized***
- ***...be implemented quickly***

- The Quebec economy has created a rich and powerful technology and human resource base for its future economic growth. The North American market cycle is on the cusp of an upswing. The time is indeed ripe to innovate in public policy also at the front end of the investment cycle (seed, early stage) with clearly articulated and possibly bold initiatives that evolve, in lieu of protracted studies and inaction that defer leadership to other provincial initiatives (e.g. B.C.) Key thesis: Quebec's public funds have created a powerful foundation which this government now has an incredible opportunity to leverage, however, the investment philosophy and fiscal environment that created the foundation is not ideally suited to the one required to enhance it

- We do not support the recommendation of a recent report to the government, which calls for the creation of a mixed public and private investment fund for early stage investing, particularly one in which the government exerts restrictions on how such investments are made or the amounts that can be invested. We strongly encourage the government with its publicly stated intentions to migrate the Quebec financing industry to a more balanced and competitive public-private paradigm. Key thesis: (1) incentive to create more pervasive early-stage private investment; (2) legislate to direct the existing publicly-supported VC infrastructure to invest more (but not everything) in locally-based private funds

The NAO Quebec Forum specifically requests that the government considers the following key **recommendations**:

- **Establish and clearly state** the public policy framework for investing which acknowledges the angel investor as a class and which places particular emphasis on the fiscal and strategic incentives and constraints
- **To encourage a more active and robust angel investment community in Quebec, introduce** an incentive along the lines of the Innovation and Productivity Tax Credit ("IPTC"). More specifically, such measures would offer a specific tax incentive for Quebec's angel investors to directly fund seed or start-up companies
- **That the government actively and formally seeks out the advice of the NAO Quebec Forum** in its elaboration of the policy principles
- **That any fiscal policy changes are harmonized** with the federal government
- **That the policy or policies be implemented quickly** with a rapid transition to any new incentive programs to stimulate the provincial economy at the early stage of the investment cycle

SUCCESS FACTORS ATTRIBUTABLE TO THE PROPOSED POLICY

The NAO Quebec Forum believes that some of the success factors that will arise from a public policy that adopts the principles and suggestions herein would include:

- An increase in the number of angel investors in Quebec (supply)
- Open the borders to non-Quebec angel investors (diversity)
- Encourage expertise sharing (breadth)
- Increase the size of investments (size)
- Capitalize on existing public sector expertise (continuity)
- Provide simple but permanent incentives (stability)
- Provide transition rules (efficiency)
- Monitor progress and report (accountability and transparency)

"...We seek to speak for a high net-worth investment class in the Province of Quebec that is prepared to more actively engage in the investment value chain under the appropriate fiscal and policy

CONCLUSION

In conclusion, the NAO Quebec Forum makes this submission mindful of its newly formed status but in the sincere hope that the government will recognize and accept that we seek to speak for a high net-worth investment class in the Province of Quebec that is prepared to more actively engage in the investment value chain under the appropriate fiscal and policy changes.

We offer:

- Our network for consultations and policy deliberation with your department officials
- Our will to participate through personal investments of capital
- Our capacity to communicate with:
 - Our members as both investors and citizens
 - All politicians in a non-partisan way
 - The public to educate and explain

We are here to stay!

We care about Quebec and its economic development!

Note: Final French version to follow.