

BUILDING AN INNOVATIVE NATION ONE ENTREPRENEUR AT A TIME



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BUILDING AN INNOVATIVE NATION ONE ENTREPRENEUR AT A TIME

The Business Development Bank of Canada (BDC/the Bank) is helping to build strong, resilient businesses. Its financing and expertise provide a secure foundation from which tens of thousands of firms have grown and thrived. But is it enough for the future?

The global economy is increasingly competitive and complex, especially for small and medium-sized enterprises (SMEs). Canada's relatively small domestic market means it has few large anchor companies that purchase from SMEs and open doors to growth. Innovation is the key to success. Canada has all the fundamentals: a highly educated population, abundant natural resources and significant investments in research. It must rally all of these strengths and take meaningful steps toward a more prosperous future. Canada's entrepreneurs are the key to that future.

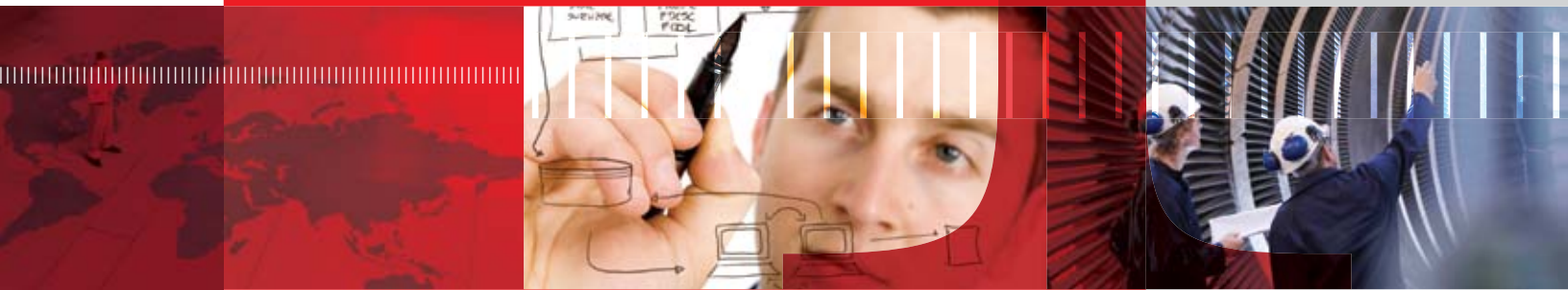
As a critical building block in Canada's business innovation ecosystem, BDC punches well above its weight. It is no coincidence that the Bank has a large concentration of high-growth, high-potential firms in its portfolio. But it can and must do more to ensure that all of Canada's entrepreneurs realize their potential by giving them the very best tools to be more innovative in what they produce and how they produce it. The time is ripe for BDC to leverage its capacity and take a bold step forward as Canada's bank for innovative entrepreneurs.

The purpose of this submission is to examine the challenges facing Canadian entrepreneurs and to provide BDC's assessment of how it can best meet their needs, today and in the future. It constitutes BDC's contribution to the 2010 review of the *Business Development Bank of Canada Act* (*BDC Act*/the Act).

The submission begins with a summary of BDC's performance since 1995 when its governing statute was last updated (Part I). Next, it sets out key changes in the world over the last 15 years and what this means for Canada and its businesses (Part II). The submission then outlines the areas of the *BDC Act* where greater flexibility is required for BDC to continue to address the needs of Canadian entrepreneurs today and in the future (Part III).

BDC

HAS PERFORMED WELL



BDC is governed by the *BDC Act*. Its mission: to create and develop Canadian business through financing, venture capital and consulting services, with a focus on SMEs. The Act dates back to 1995 (BDC's pre-1995 history can be found in Appendix 3). At that time, the central issue for SMEs was access to financing. In response, BDC's mandate was modernized to play a complementary role in business financing, while operating on a commercial basis. BDC has fulfilled this role: over the last 15 years, it has produced significant results for its clients and has been a catalyst for wealth creation in Canada. As a fiscally responsible Crown corporation with a high quality Board of Directors, it has paid \$180 million in dividends to its shareholder, the Federal Government.

WITH A STEADFAST COMMITMENT TO CANADIAN BUSINESSES, BDC FULFILLS ITS ROLE AS CANADA'S DEVELOPMENT BANK

Since 1995, BDC has extended \$33 billion in financing, subordinate financing and venture capital to over 60,000 Canadian businesses. BDC's current portfolio of approximately 29,000 clients employs over 650,000 people across Canada. They generate \$174 billion in annual revenue, equivalent to the GDP of Singapore. BDC's client satisfaction rate consistently exceeds 90%. BDC's total portfolio has grown over the past 15 years, commensurate with the market's needs. Today, it stands at close to \$19 billion (compared to \$6.1 billion at the time of its last mandate review in 2001, and \$3.2 billion in 1995).

BDC has a pan-Canadian footprint, a vast network of partners and an intimate understanding of the issues faced by Canada's entrepreneurs. It serves them across the country via more than 100 business centres. Its 500 account managers, 45 subordinate financing professionals, 35 venture capital investment professionals, 91 consulting specialists and a network of 500 external consultants reach thousands of entrepreneurs each day. To further extend this reach, BDC collaborates with many commercial financial institutions, funds, co-investment partners, business associations, not-for-profit organizations, other Crown corporations and government departments.

BDC's MISSION, VISION AND MANDATE

BDC's mission is to help create and develop Canadian business through financing, venture capital and consulting services, with a focus on SMEs.

Its vision is to accelerate the success of entrepreneurs. BDC offers:

- Long-term financing in both good and challenging times
- Local credit decisions and tailored financing solutions
- Flexible terms and conditions
- Evergreen VC fund covering a broad spectrum of technologies and development stages
- Support for growth through subordinate financing with no ownership dilution
- Affordable and professional advice that enables the business to start-up and grow

BDC BUILDS SUCCESS

- BDC clients who used both financing and consulting services had 59% higher revenue growth in their fifth year after receiving the combined support as compared to non-clients
- The long-term prospects of BDC's financing clients tend to be better than non-clients

BDC serves companies in all sectors of the economy, from the local retailer to the larger medical technologies company. It provides value to Canadian businesses of all sizes, high-risk market segments and fast-growth firms. While focusing on SMEs, BDC also provides a range of services to larger firms, working with businesses in all stages of development throughout the entire economic cycle.

Because of its unique complementary mandate, BDC looks beyond just the transaction. It takes a long-term view of business success by assessing the entrepreneur's commitment to the business and by taking on more risk to support their projects. With its high risk tolerance and strong expertise in risk assessment, it complements the services offered by other financial institutions. Indeed, all BDC clients have an established banking relationship with another financial institution.

BDC BENEFITS ENTREPRENEURS AND THE CANADIAN ECONOMY

Since receiving its new mandate in 1995, BDC's financing and subordinate financing portfolio has increased fivefold from \$3 billion to \$15 billion today. In fiscal 2010, its financing and subordinate financing volume reached a record level of \$4.4 billion, due in large part to the market needs caused by the financial crisis.

BDC's support extends beyond pure lending; account managers often play the role of business advisor to their clients or arrange for consulting colleagues to address more in-depth needs. Since 1995, BDC has delivered over 25,000 consulting mandates to SMEs, supplying them with valuable services that, due to cost, would typically only be accessible to larger enterprises. The combination of financing and consulting services has proven to be greatly effective in supporting business growth. In fact, BDC clients who used both financing and consulting services had 59% higher revenue growth in their fifth year after receiving the combined support as compared to non-clients. Moreover, the long-term prospects of BDC's financing clients tend to be better than non-clients.¹

¹ *Economic Impact Study of BDC's Financing and Consulting Services, 2009*

BDC is a key player in the venture capital (VC) sector with \$735 million in commitments, comprised of direct and indirect (through VC funds) investments. It has invested \$1.2 billion in VC in burgeoning technology firms since 2000 while the industry was, and still is, experiencing difficult fundraising and investment conditions. This support has enabled many knowledge-based companies to conduct research and development and commercialize their unique services and products.

BDC has been instrumental in business creation in Canada. The percentage of start-up businesses in its loan portfolio is double that found in the total Canadian business population.

Recognizing that entrepreneurs are at the heart of wealth creation in Canada, BDC encourages young people to embark on entrepreneurial ventures. It does this by supporting initiatives at the pre-business creation stage which develop positive entrepreneurial attitudes and business acumen in the next generation of Canadian entrepreneurs. It also celebrates the achievements of successful entrepreneurs through its hallmark pan-Canadian Small Business Week™ and the Young Entrepreneur Awards (YEA).

Further details on BDC's operational and financial performance can be found in Appendix 2.

BDC RESPONDS TO THE PUBLIC POLICY IMPERATIVE

Given BDC's reach to thousands of entrepreneurs across the country, it can and does play a key role in translating government policy objectives into operational solutions for Canadian firms. Examples include BDC's contribution to the Federal Government's Global Commerce Strategy, its innovation policies and the recent Economic Action Plan.

Going Global Strategy

BDC is active in addressing the financing needs of Canadian exporters. Upon receiving its new mandate in 1995, this focus was formalized as one of BDC's key performance indicators. BDC's role in facilitating trade has continued to be emphasized in numerous Ministerial directives. To optimize its impact, BDC combines its financing with consulting services to equip entrepreneurs

BDC VC: IN THE TOP 100

- In 2009, BDC was ranked one of the world's top 100 venture capital funds by Red Herring, a California based publication covering the technology business. After analysing more than 1,000 known and active venture capital funds across the globe, it produced a Top Global VC 100 listing. Only three Canadian funds made the list, with BDC being ranked first in Canada and 49th in the world.
- BDC, together with the Caisse de dépôt et placement du Québec and Solidarity Fund QFL, also received the Canadian Venture Capital and Private Equity Association 2009 Deal of the Year Award (in the VC category) for its investment in ViroChem Pharma, with an exit multiple of 5.3 times the original investment.

BDC CLIENTS SAY...

The Recochem Group is one of BDC's oldest clients, having received a start-up loan 50 years ago as a small family-run business. It now has over 650 employees with plants across Canada and around the world.

Recochem is a producer, formulator, contract packager and wholesaler of industrial and consumer chemical products.

"We value our long-term relationship with BDC, and have looked to BDC to partner with us in our efforts to develop new innovative production facilities to service new markets."

— *Jim Campbell, EVP,
Finance and COO,
Recochem Group,
Montreal, Quebec*

with the right knowledge (expert consultants) and tools (diagnostics) in order to reach and succeed in the global marketplace. BDC Venture Capital's Asia and Europe networks also help by giving investee firms access to partners in foreign markets, thus positioning them to better understand local market needs, adapt their products and solutions, and establish suitable distribution channels. Most recently, Foreign Affairs and International Trade Canada's (DFAIT) SME Advisory Board asked BDC to provide working capital financing to companies seeking opportunities abroad.

BDC's 5,600 exporting clients now generate over \$21 billion in export sales. In supporting these clients, BDC collaborates with many partners, including Export Development Canada (EDC), the Forum for International Trade Training (FITT) and DFAIT. In fact, DFAIT officers are co-located with Bank employees in several BDC branches across the country. In addition, BDC has established strong working relationships with development banks around the world which can be leveraged to support Canadian businesses as they begin to access customers and suppliers in foreign markets. For example, BDC is an active Board member of the Association of Development Financing Institutions in Asia and the Pacific and other such associations.

Innovation Policies

BDC supports the public policy objectives of the Federal Government related to innovation through its financing, consulting and venture capital services. Last year, it provided \$260 million in financing to help over 1,000 firms improve their productivity with new equipment and information and communication technology (ICT). BDC's consulting services have also helped thousands of entrepreneurs improve productivity through lean manufacturing diagnostics, quality improvements, ISO certification, market development and other business strategies. BDC's venture capital helps Canadian companies commercialize their technologies, bringing innovations from the lab to the marketplace in the areas of ICT, life sciences and energy.

Most recently, BDC participated in consultations on the Government's Digital Economy strategy, where BDC is positioned to play an important role in creating strong ICT companies and building the ICT receptor capacity within the Canadian SME community at large.

Support of cyclical sectors and developing markets

BDC provides unwavering support for firms with cyclical operations (e.g., tourism, construction, etc.) and businesses in developing entrepreneurial markets, such as those owned by Aboriginal Canadians. Since 1995, BDC has extended \$209 million to Aboriginal entrepreneurs. Today, it has 266 Aboriginal clients with \$112 million financing committed.

Further details on BDC's support for Ministerial Priorities since the last legislative review can be found in Appendix 4.

BDC's role in the Federal Government's Economic Action Plan

When credit conditions force private sector lenders to retrench, BDC plays a counter-cyclical role by remaining steadfast in its support. During the recent financial crisis, BDC's unique role was clearly in evidence.

BDC's commitment to creditworthy business projects during this difficult period prevented job losses and business failures. The Bank was instrumental in bolstering the Government's response to the recent financial crisis and contributed to Canada's ability to emerge from the crisis in better shape than most other countries.²

Existing clients were given extended repayment terms and provided over 4,000 postponements of capital repayment. This provided much needed breathing room to creditworthy entrepreneurs facing temporary working capital challenges.

BDC supported its existing clients and also provided refinancing to creditworthy companies that were no longer able to access private sector capital. It worked closely with other financial institutions during the crisis, providing close to \$10 billion in liquidity to Canadian businesses to help them weather the storm and seize opportunities.

Responding to sector-specific challenges, BDC ramped up support for manufacturers and created a dedicated team to help Ontario auto parts manufacturers.

BDC helped with two government-sponsored initiatives in response to the global recession

BDC was asked to participate in two initiatives from the Government's 2009 Economic Action Plan and the Extraordinary Financing Framework: the Business Credit Availability Program to facilitate access to financing, and the Canadian Secured Credit Facility to support the financing of vehicles and equipment for businesses and consumers. BDC responded well and quickly in each instance.

² *Lessons from the Recession and Financial Crisis: Lesson 2 – Public Sector Financial Institutions*
Prove Their Worth, Conference Board of Canada, January 2010, page 3

BDC CLIENTS SAY...

“We diversified our wilderness lodge business by buying an air charter company with BDC financing. That's helped to keep us strong during tough times in our industry. BDC is sensitive to the needs of businesses like ours and goes the extra mile.”

— Curt and Juanita Enns,
owners of Kississing
Lake Lodge/Wings over
Kississing, Steinbach,
Manitoba



“Observers of the Canadian financial system say this program has been a major success.”³

A) Business Credit Availability Program (BCAP)

Collaboration has been an essential ingredient to the success of BCAP. To advance the program, BDC intensified its working relationships with private lenders by participating in syndicates, *pari passu* financing and risk sharing in commercial mortgages, as well as introducing an operating line of credit guarantee. Client referrals from financial institutions rose by 65%, demonstrating both the need for BDC’s complementary role and how commercial financial institutions leveraged BDC’s balance sheet for the benefit of thousands of Canadian businesses. BDC provided \$3.5 billion under BCAP to the end of August 2010, filling a need created by the credit crisis.

B) Canadian Secured Credit Facility (CSCF)

BDC was also asked in 2009 to create and manage the CSCF, an asset-backed securities (ABS) facility. Its objectives were twofold: to stimulate sales and leasing of vehicles/equipment through purchasing term ABS; and to promote renewed investor participation and confidence in the ABS market, and in vehicle and equipment financing more broadly.

In short order, BDC developed and implemented an entirely new line of business, working in close collaboration with originators and investors in the market.

By the end of the program in March 2010, BDC had purchased \$3.7 billion in asset-backed securities through five transactions, enabling additional issuances of an estimated \$4.7 billion as at May 2010 of private and public ABS.

By packaging existing secured loans, finance companies were able to continue the cycle and provide new loans to support new equipment and vehicle acquisitions by Canadian firms. This, in turn, helped many struggling manufacturers and dealers by creating a renewed demand for their products.

In addition, the CSCF helped stop the widening of credit spreads, which made ABS transactions uneconomical for issuers, by creating a pricing benchmark through BDC’s commitment to buy ABS bonds at a stated price. The CSCF was thereby able to assist in restarting public ABS issuances after a 2-year market interruption.

BDC’s role during the recent financial crisis is a prime example of why it has been recognized as an innovator and a path breaker, and one that continues to meet the complex needs of Canadian SMEs.

³ *Lessons from the Recession and Financial Crisis: Lesson 2 – Public Sector Financial Institutions Prove Their Worth*, Conference Board of Canada, January 2010, page 4



Tailored financing provides sustained post-recession support

BCAP and the CSCF were designed to ease credit shortages during the recession. However, surveys of BDC clients clearly show that the impact of the recession is still being felt, and likely will be for some time. As the slow U.S. recovery puts stress on the working capital of Canadian firms, BDC will continue to support public policy objectives by offering flexible financing to meet specific post-recession needs, notably through:

1. The Economic Recovery Loan, an unsecured, pre-approved loan of up to \$100,000 that BDC has offered to nearly one-third of its clients. This financing fills a need for short-term working capital during the economic recovery; and
2. The Vehicle and Equipment Financing Partnership (VEFP), which will be delivered in partnership with experienced lenders and investors in the private market for asset-based financing. The VEFP is expected to expand financing options for small and medium-sized finance and leasing companies, again increasing the availability of credit for both the finance/leasing companies and ultimately for SMEs looking to finance vehicle and equipment acquisitions.

THE WORLD HAS **CHANGED**



An understanding of how the world has changed since BDC's governing statute was last updated is a critical part of the review of BDC's current and future role. This section will begin with an examination of the changing business landscape, addressing key trends of post-recession volatility, global supply chains, rising foreign investment and the importance of innovation as a differentiator. It will then set out the key challenges for Canada and its businesses.

CHANGE IS THE ONLY CONSTANT

When BDC's mandate was last modernized, the World Trade Organization had just been inaugurated. NAFTA⁴ was little more than a year old. The euro did not exist. The worldwide web was in its infancy. Cell phones were a luxury used by few.

Since that time, the business landscape has undergone a massive transformation. Emerging economies account for an increasing share of global economic growth. Chinese and Indian businesses have become fierce competitors. Not only are they low-cost providers of goods, they have become hotbeds of innovation.

Intense global competition has forced companies in every continent to innovate, developing new products, new ways of delivering services and driving new financing needs. Digitization and connectivity have accelerated global competition but have also opened doors for smaller firms that are innovative and agile enough to seize the potential to connect to clients and suppliers. The capital market has also become more sophisticated.

The pace of change will only accelerate as the world population increases and technological convergence transforms models of business, development, employment and the global financial system.

Like any major transformation, this one has left its share of battle scars: the break-up of Canada's long-time telecommunications star, Nortel, is one. The world has also witnessed the ravages of 9/11 and SARS, followed more recently by the worst global financial crisis since the 1930s. The pace of global contagion served as a stark reminder of just how interconnected the world has become.

CANADA: PART OF AN INTEGRATED WORLD ECONOMY

"Recently, we were reminded of the interdependence not only of the Americas, but also of the world, as a global economic crisis spread across borders, across continents, across oceans. A crisis that confirmed that in today's integrated economy no nation, however powerful, stands alone – or can go it alone."

— *The Honourable Tony Clement, PC, MP, Minister of Industry at the North American Competitiveness, Innovation and Clean Energy Conference, April 14, 2010*

4 The North American Free Trade Agreement

EMERGING MARKETS

“No longer can established companies treat emerging markets as a sideshow. Emerging markets will increasingly become the locus of growth in consumption, production, and – most of all – innovation.”

— *What Happens Next? Five Crucibles of Innovation That Will Shape the Coming Decade*, McKinsey & Company, 2010, page 6

THE POST-RECESSION CHALLENGES ARE ENORMOUS

The Canadian economy is showing signs of gaining momentum, as have many other markets. However, encouraging signs one day are followed the next by reminders of the formidable challenges ahead. The economy of our largest trading partner remains handcuffed by lingering unemployment, debt and government deficits. Sovereign debt burdens remain problematic in Europe and some observers worry that a second financial crisis or ‘credit crunch II’ could be looming.

As the world adjusts to a post-recession reality, attention will focus on other priority issues, adding new layers of complexity and uncertainty. Climate change has become a rallying cry from all corners of the globe. Moving up the priority list are also looming issues such as rising fuel prices, shrinking water supplies, critical food shortages and, in developed markets, populations and infrastructure that are aging.

Developed nations are facing a new reality where a large proportion of the population soon will be beyond the normal working age range. Nations will be fighting harder to attract new global talent, especially skilled and knowledge workers. Developing markets, with their burgeoning middle class and increasingly well-educated populations, will become attractive markets for talent.

Nations and their businesses must keep many balls in the air just to survive in this volatile world. At the same time, frequent and unexpected “shocks” will continue to divert our attention. Whether a new terrorist threat, collapsing infrastructure, a new virus or a cry for help from a drought-ravaged or flooded nation, these are the realities facing our interconnected world.

EMERGING MARKETS ARE BECOMING THE NEW POWERHOUSES

Nowhere has the pace of change been more apparent than in emerging markets. In the short term, 70% of the world’s growth is expected to come from emerging markets with 40% from just two countries: China and India.⁵ In 2010, China pushed Japan aside to become the second-largest economy in the world. A huge shift is underway in consumer markets, driven by

⁵ *The World Turned Upside Down – A special report on innovation in emerging markets*, The Economist, April 17, 2010, page 2

demographics and urban migration. Over 70 million people are entering the middle class each year, most in emerging economies. Consumers in developing countries are getting richer faster than their equivalents in Europe and North America. GDP per capita is forecast to rise five times faster in emerging countries than in OECD countries over the next decade.⁶

The shifting balance of economic power has had a profound impact on every aspect of global trade. And the influence of emerging markets is only going to continue to grow. While China's growth may eventually plateau as its population matures, waiting in the wings are a number of other economic juggernauts such as India, Brazil, Vietnam and Indonesia.

COMPETITION AMONG FIRMS HAS GIVEN WAY TO COMPETITION AMONG GLOBAL SUPPLY CHAINS

Driven by the emerging markets phenomenon and the technology revolution, there has been a massive transformation in the way business is conducted. Competition among firms has given way to competition among highly integrated supply chains. These chains are typically anchored by one or more multi-national companies working closely with a large number of suppliers in long-term relationships. The value proposition for these global supply chains involves locating each aspect of supply, production, human resources and other business activities wherever it makes most sense, and linking the various parts through technology.

In these global supply chains, goods and services, as well as human resources and capital, can flow back and forth many times across multiple borders. Cross-border investment has become increasingly important as companies outsource production and move other parts of their operations offshore to lower-cost destinations. Not only are companies outsourcing manufacturing to low-cost countries but they are also outsourcing services such as software development, call centres and even R&D. In fact, global trade in services is becoming a major source of value generation thanks to the declining costs of digital information exchange.

CANADA: PART OF AN INTEGRATED WORLD ECONOMY

“The complexity of running a 21st century company is exponentially higher than running a 20th century one, of any size. Companies must pay attention to more stakeholders, more regulations, more risks, and still watch to see what their customers are tweeting about them.”

— *What Happens Next? Five Crucibles of Innovation That Will Shape the Coming Decade*,
McKinsey & Company,
2010, page 25

⁶ *What Happens Next? Five Crucibles of Innovation That Will Shape the Coming Decade*,
McKinsey & Company, 2010, page 5

The rise of a new trade paradigm is reflected in the massive rise in foreign direct investment (FDI). Global FDI flows have grown a hundredfold from 1970 to 2006, far outpacing global growth in production and international trade over the same period. Instead of countries discouraging FDI inflows as they used to, they now compete to attract it. Successful economies are those that are open to trade and investment and encourage inward and outward investments.

The bottom line? For Canada, which is small in terms of consumer population and number of large anchor firms, businesses need to distinguish themselves with a unique competitive advantage while remaining open to the opportunities stemming from a global business environment.

INNOVATION IS THE GREAT DIFFERENTIATOR

Just as technology has become the great equalizer, so has innovation become the differentiator. Innovation can mean developing and commercializing new medical cures, new clean-energy solutions or other revolutionary products or services. However, not all innovation is revolutionary. It can also occur in the way companies develop, produce, market and deliver products and services, and this is equally important.

Success comes to those entrepreneurs who can go beyond developing new ideas to being able to commercialize them to generate revenue. This means having the right skills, a keen awareness of the competitive forces and, most importantly, developing a client-focussed approach to drive innovation.

Emerging economies are becoming hotbeds of innovation. China and India have joined the elite group of nations that can nurture a successful automotive sector, while Brazil has earned itself a spot as a viable competitor in the aerospace sector. Many of the largest multinationals are establishing R&D facilities in China and India to be closer to these markets and access their engineering and technological expertise. China and India combined now produce twice as many people with advanced degrees in engineering or computer science per year as the U.S.⁷

⁷ *The World Turned Upside Down – A special report on innovation in emerging markets*, The Economist, April 17, 2010, page 11

Innovation can be expected to play an even greater role in addressing entrenched global problems. With declining labour forces, the only way for the developed world to become more productive will be through innovation. And as our planet's resources become scarcer and pricier, innovation will become increasingly critical in improving resource productivity.

CANADA NEEDS MORE INNOVATION

Where does Canada stand in this ever-changing environment? The Canadian economy outperformed the U.S. in the recession and is continuing to do so in recovery. Canada's strengths remain impressive: strong fiscal situation, stable financial sector, bountiful resources, agricultural capacity, strong trading partners and an educated workforce.

Yet, the World Economic Forum, in its latest release, reports that Canada's competitiveness ranking slipped to 10th place. While the organization cites a "stable" performance by Canada over the past year, it states that there is room for improvement in key areas such as private-sector innovation, and research and development spending. Even with BDC's presence in the market and its higher risk tolerance, access to financing was also cited as one of the more problematic factors for doing business in Canada.

Year after year, the Conference Board's annual report card gives Canada a "D" on innovation. According to the Conference Board and other influential sources, Canada is not using innovation as a tool to increase prosperity the way other countries are. As a result, it is stalling while others forge ahead.⁸

FIRM SIZE IS A BARRIER TO INNOVATION IN CANADA

There are a number of barriers that impede innovation in Canada. Some of these are structural, such as a relatively small domestic market and traditional reliance on resource industries. Canada does not have many large-scale firms which typically anchor their industries by stimulating more R&D, attracting applied research and business talent, and encouraging capital flow. These firms tend to nurture a strong ecosystem of local supplier and service companies, generating business, economic and social benefits at the regional and national levels.

⁸ *How Canada Performs: A Report Card on Canada, Executive Summary*, Conference Board of Canada, 2008, page 6

Other barriers are at the firm-level, and relate primarily to the small size of firms. More than 80% of Canadian firms have fewer than 20 employees, yet these firms remain the backbone of the economy and the job creators in communities across the country. Most SMEs understand the intensity of this competitive world and the volatility it brings, but many have yet to fully adapt to or prepare for the fierce competition emanating from emerging markets. Smaller firms face resource and time constraints in developing and implementing strategies to innovate, invest in R&D or transformative technologies (such as ICT or advanced machinery and equipment) and, critically, to seek opportunities outside of their traditional markets.

Canadian entrepreneurs can meet global competition head on. The country boasts numerous global champions such as RIM, Bombardier and Cirque du Soleil, who have proven that Canadian businesses can succeed worldwide. But for the small auto parts manufacturer in Ontario, the oil field equipment producer in Alberta or the deep-sea technology leader in Newfoundland, the challenges of global competition can be daunting. It is here that BDC has a unique role to play in helping Canadian firms grow and prosper.

WHAT MAKES A SUCCESSFUL ENTREPRENEUR

Virox Technologies Inc. develops environmentally friendly cleaning and disinfectant products for dental, veterinary, industrial, healthcare and other applications. Its technology is licensed in more than 50 countries. The success of this award-winning Canadian innovator is attributable to:

- A group of visionary entrepreneurs with industry experience, capital and strong networks
- Investing in R&D by acquiring a disinfectant technology which had been in development for 10 years
- Collaborating with global industry leaders to access global supply chains leading to rapid commercialization and scale-up
- Solid business model built on a foundation of continuous improvement, rigorous quality standards, employee training and sales and marketing acumen

“Our mission is to equip global markets with infection control and state-of-the-art antimicrobial technology. BDC’s Financing and Consulting Services helped us achieve our goals.”

— *Randy Pilon, President & CEO, Virox Technologies, Oakville, Ontario*

INNOVATION AT THE FIRM LEVEL IS KEY TO CANADA'S FUTURE PROSPERITY

BDC strongly believes that the key to improving Canada's competitiveness lies at the firm level, and in the decisions made or not made by the entrepreneur. Canada's future prosperity will be built one company at a time. BDC's role is to enable increasingly multicultural entrepreneurs to invest to innovate, connect and stay connected to global markets, while maintaining their strategic, geographic vantage point in North America.

Innovations can be made by all entrepreneurs, regardless of size or sector. As the Council of Canadian Academies points out, "Innovation is new or better ways of doing valued things. Innovation is not limited to products but includes improved processes and new forms of business organization."⁹

The following are significant challenges facing Canada's entrepreneurs today:

1. Accessing Technologies

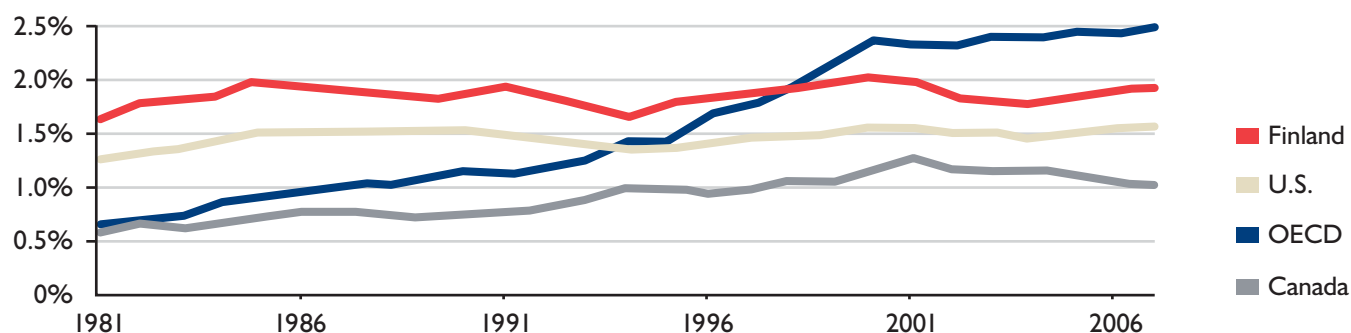
Accessing technologies is key to innovation. This can be achieved by conducting R&D internally or externally through public research facilities. Another manner in which companies can access both existing and new technologies is through licensing. Canada enjoys strong levels of government investment in R&D and in higher education research. However, Canadian business spending on R&D is significantly lower than other nations and is declining. As well, there is a tendency for SMEs to under-invest in R&D compared to larger organizations or similar-sized counterparts south of the border and elsewhere.

BDC CLIENTS SAY...

"Our technology tracks what is being said about companies on the Internet in blogs, forums, and social networking sites like Twitter and Facebook. Our growth is exponential and we now have more than 1,700 clients, including market-leading brands like Microsoft, Pepsi and Dell. BDC has been a critical ally for Radian6, contributing capital and expertise to help our company grow."

— Marcel LeBrun, CEO,
Radian6, Fredericton,
New Brunswick

Business Expenditure on R&D¹⁰ As a % of GDP, 1981-2007



9-10 *Innovation and Business Strategy: Why Canada Falls Short, Report in Focus*, Council of Canadian Academies, 2009, pages 2 and 7

EXAMPLE OF RESEARCH PULL

RIM provides scholarships to university students conducting research in mobile communications, and works with the winners to integrate their research into commercial applications.

AUTO21 is a private-public sector partnership which funds applied R&D projects at 45 universities across the country. It works with 82 industry partners to bring innovative technologies to the auto sector.

Canada's relatively small scale domestic market limits the ability of firms to generate the kind of return on investment that justifies R&D expenses. There are simply not enough large-scale firms to stimulate the level of R&D seen in other countries.

2. Commercializing technology

Many academics and think tanks have weighed in on the debate regarding Canada's innovation challenges. A key conclusion, and one that is now reshaping public policy, is that Canada is falling behind in its ability to commercialize its technology.¹¹

Commercialization is the final but necessary stage of innovation in which a new product or service is launched into the market. It is a complex process that integrates not only technological innovation but also business development and global market insights.

Canadian firms face a number of challenges in this area. Some are related to access to venture capital which provides the foundation for carrying a new invention from the lab to the market (this will be covered in further detail in the "Access to capital provides the foundation for growth" section that follows). While capital is fundamental to growth and innovation, the challenges facing entrepreneurs go well beyond this.

All too often, technology is being developed without due consideration for the end-user—the client. This frequently results in missed opportunities, delays and expensive product redevelopment. In some cases, Canadian firms lose the "first mover" advantage and are bypassed by bigger or more client-focussed competitors. According to recent research by the Council of Canadian Academies, what entrepreneurial companies lack is basic business skills related to marketing, selling and managing a business. In comparison to the U.S., Canada has proportionately fewer managerial employees with business degrees, and a much shallower pool of technology executives.¹²

Canada's universities and government research labs are among the best in the world, and Canada has a strong reputation for its research in important areas such as life sciences, technology and environment. However, the low rate of R&D expenditure by Canada's business sector limits the uptake of research. According to the Council of Canadian Academies, "commercialization is more likely to occur if the surrounding business environment is rich in firms that are

11 See for example research by the Canadian Council of Academies, the Conference Board of Canada, the Institute for Competitiveness and Prosperity and the Public Policy Forum.

12 *Innovation and Business Strategy: Why Canada Falls Short, Report in Focus*, Council of Canadian Academies, 2009, page 8

committed to science and technology-based innovation as a major business objective — i.e., more ‘market pull’ is needed to complement the ‘research push’”.¹³ Companies need access to research that will help them solve firm-specific problems and meet or exceed rapidly-changing customer needs.

3. Developing business skills and a culture of risk taking

The effectiveness of innovation is determined not so much by how *much* a company spends on R&D, but *how* it spends it. Companies need to incorporate innovation into their business strategies. Many business leaders do not have the critical business skills (such as marketing, finance, planning and governance) needed to manage a modern and growing business. Research by the Impact Group found that a chief cause of failure among young technology firms was that their founding entrepreneurs, although intelligent, capable and hard-working, were unprepared for commerce.¹⁴ A lack of business acumen can be a major obstacle for getting great ideas into the marketplace. The good news is that the process of innovation can be taught. It is a process that business leaders can and must learn to master.

Another possible explanation for Canada’s lack of innovation is a relatively low tolerance for risk. In a recent survey of corporate executives, three-quarters said an aversion to risk in their own ranks is a key factor that keeps innovation and productivity low. A similar proportion felt that a culture of complacency dampens the drive to take risk.¹⁵

Other countries such as Israel have fostered a risk-taking culture and established a vibrant venture capital industry. The results are evident in Israel’s impressive GDP growth rate which has surged ahead of Canada’s, despite that country’s political volatility.

4. Investing in Information and Communication Technology (ICT)

Whether firms are competing domestically or abroad, ICT is a required enabler to create and sustain competitive advantage. Access to up-to-date computer hardware and software is a basic expectation in the 21st century workplace. Employees expect it and so do customers. There is no doubt that companies can be more productive by using technology to make their operations more efficient. ICT enables just-in-time delivery, production agility and can be linked to quality certification in some industries. Those who use it well can reap significant competitive advantage.

¹³ Ibid, page 17

¹⁴ *Understanding the Disappearance of Early-stage and Start-up R&D Performing Firms*, The Impact Group, 2009, page 15

¹⁵ *The 20th Quarterly C-Suite Survey, Canada-U.S. Economic Outlook, Productivity and Innovation*, The Gandalf Group, 2010, page 35

BDC CLIENTS SAY...

Following a decade of R&D, BDC client Cyrium Technologies Inc. is set to revolutionize the solar energy industry. Its Concentrator Photovoltaic (CPV) technology significantly improves solar power generation while reducing its costs.

“Our success has been achieved through a global network of partners. Research is supported by the NRC, NSERC, Canadian Photonics Fabrication Centre (CPFC), and several of Canada’s best university research labs. We have investors from Silicon Valley, contract manufacturers in Asia, and customers around the world. BDC has provided us with venture capital since 2003, but their support goes way beyond that. BDC’s investment professionals have provided us with strategic advice, identified commercial applications for our technology and connected us to the talent and expertise we need to grow.”

— Harry Rozakis, President & CEO, Cyrium Technologies Inc., Ottawa, Ontario

Unfortunately, ICT investments in Canada are not being made to the same extent as in the U.S.

Comparison of Canada/U.S. ICT investment¹⁶
as a % of GDP in the business sector, 2008

	CANADA	U.S.
Total	2.82	4.09
Computers	0.71	0.77
Communication	0.69	0.91
Software	1.42	2.41

Many SMEs are simply unaware of the benefits of ICT adoption. Business owners and managers must be convinced of a direct and measurable impact on profitability if they are to adopt ICT. Again, the size of Canada's SMEs presents a hurdle. Investments in digital capacity can be made with relatively low levels of financial investment, but the problem remains that often these smaller firms do not have the infrastructure, the management capacity or the resources to effectively integrate ICT into their business practices. ICT management capacity within these firms needs to be better developed to ensure that implementation risk is mitigated.

At the same time, Canada needs to address the creation and growth of Canadian ICT firms. These firms need financing, coupled with a successful go-to-market strategy. They need exposure to a broader network of potential clients and strategic partners, both domestic and foreign. A lack of demand for ICT from domestic SMEs is often cited by Canada's ICT firms as an impediment to their growth.

¹⁶ *The Canada-US ICT Investment Gap In 2008: Gains In Communications Equipment And Losses In Computers*, Centre for the Study of Living Standards, 2009, page 6

5. Collaboration/Networking

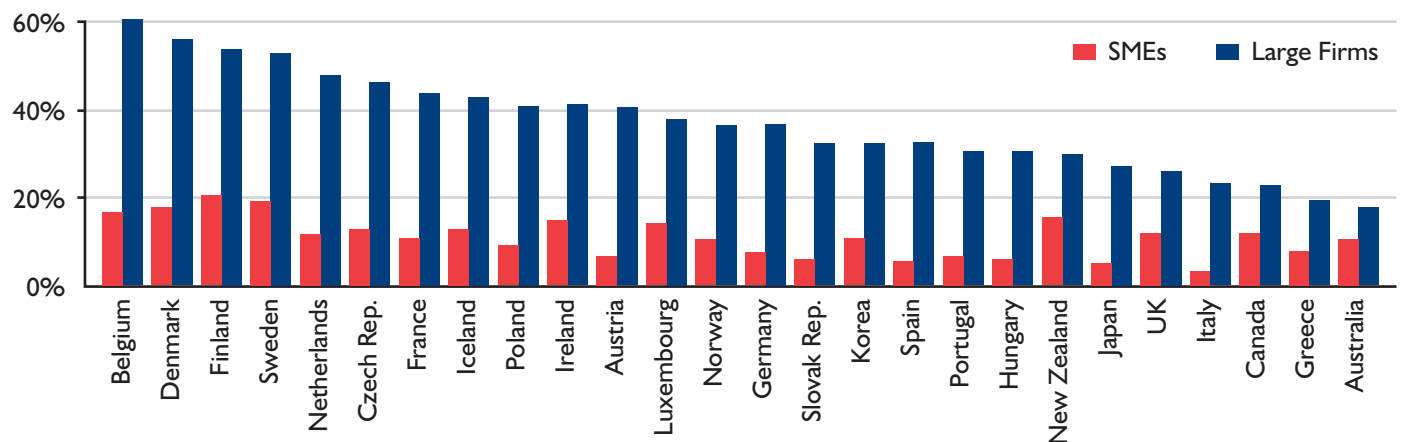
Innovation does not occur in a vacuum. It requires constant and frequent collaboration in order to generate ideas, access research and develop new markets. Entrepreneurs with strong networks and partnerships have ready access to fresh ideas and new ways to solve problems. They seek out and create partnerships with external parties, including clients, suppliers, universities, researchers and even competitors. Successful innovators also involve their clients in some the commercialization of new product ideas, by tapping into their ideas for new products and inviting them to be early adopters.

Canadian entrepreneurs are less likely to be involved in collaborative activities than their counterparts in some other nations. This shortcoming limits a firm's ability to leverage the benefits of technology to create economic value. The challenge may become greater as new open innovation techniques are introduced. Collaboration between different disciplines, sharing innovations with competitors and inviting customers into the test labs are just some of the methods being used around the world today to source the very best possible innovation ideas.

“At its core, innovation is more about people and their ability to call for, create and adopt new technologies rather than about the actual technologies themselves.”¹⁷

¹⁷ From the Research to the Marketplace: Removing Impediments to Successful Commercialization, Executive Summary, Waterloo Declaration, University of Waterloo, 2010, page 1

Firms Collaborating in Innovative Activities with Public and/or Private Partners by Size (2001-2004)



Source: State of the Nation 2008, Canada's Science, Technology and Innovation System, Science, Technology and Innovation Council, page 27

REASONS TO INTERNATIONALIZE

For reasons of sheer size and geographic proximity alone, the U.S. obviously remains Canada's most critical trade relationship. But the time has come to stop thinking of the rest of the world as secondary to our U.S. interests. Nor are these mutually exclusive; in the world of value chains and shifting comparative advantage, it is imperative to focus on both.

— Conference Board of Canada, *Re-Energizing Canada's International Trade, Strategies for Post-Recession Success*, 2010, page 24

6. Developing a global mindset

Trade is an important stimulant to innovation and to Canada's prosperity. "Trade opens markets to goods producers and service providers beyond the local economy... In sum, businesses are more successful, employees earn higher wages, and consumers see better choices and lower prices."¹⁸

Given Canada's traditional reliance on trade (80% of Canada's GDP is derived from trade, versus only 28% for the U.S.)¹⁹, a global orientation is essential. As mentioned earlier, Canada's relatively small domestic market and the consequences of an aging population are additional reasons to seek global opportunities.

Canada's entrepreneurs also face significant challenges in this area, stemming in part from our traditional reliance on trade with the U.S. It is often said that Canada is a trading nation, but not a nation of traders. Canada needs entrepreneurs with a global mindset and a willingness to venture beyond traditional markets. These are the people who can leverage global connections to access technology, knowledge, new market opportunities and global supply chains.

While there is no doubt that the U.S. trading relationship will remain vital to Canada, the opportunities for growth in the emerging markets are simply too large to ignore. Accessing emerging markets, however, can be a daunting challenge for SMEs. These markets tend to be more varied and volatile than mature ones. Cultural complexities, fast changing consumer tastes and the existence of complex distribution systems require entirely different strategies than those applicable to penetrating Canadian or U.S. markets.

Key to addressing Canada's globalization challenge is being more open to foreign investment, both into and out of Canada, and leveraging opportunities within global supply chains.

By aligning themselves with larger and more experienced players in their sector, small firms can leverage the assets of a larger partner, including its reputation and experience in particular markets. For example, when Magna set up an automotive parts manufacturing facility in Mexico, it brought some of its small Canadian suppliers along and encouraged them to invest in facilities in Mexico as well. In the process, these smaller suppliers were able to build new direct connections in the market.

¹⁸ *Trade, Innovation and Prosperity, Working Paper 14*, Institute for Competitiveness and Prosperity, 2010, page 6

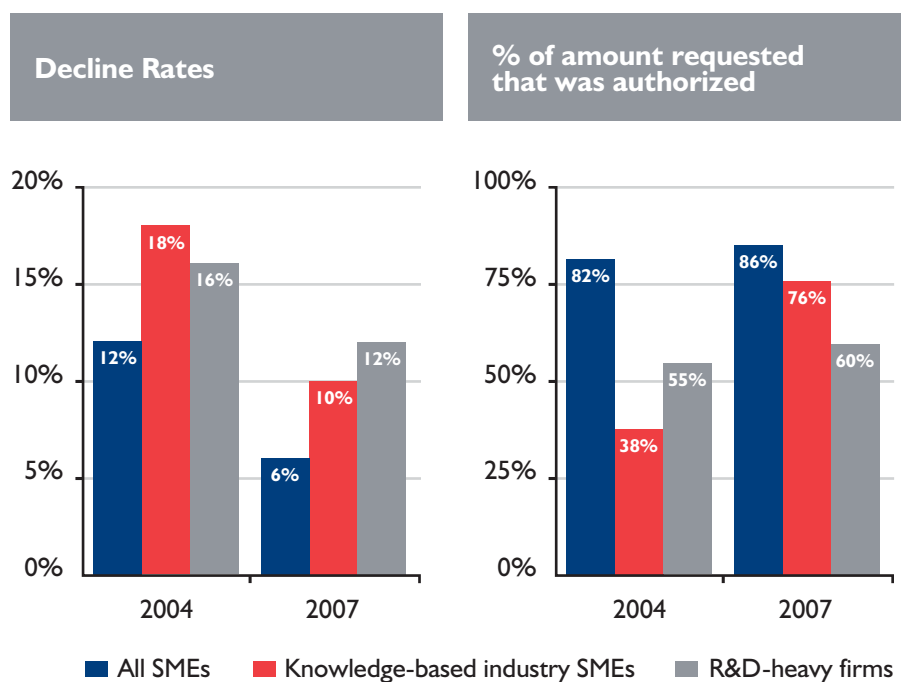
¹⁹ *Re-Energizing Canada's International Trade, Strategies for Post-Recession Success*, Conference Board of Canada, 2010, page 2

The U.S. and Europe provide abundant opportunities as destinations for Canadian investments, and constitute the vast majority of Canada's current stock of foreign investments. However, Canadian businesses are missing out on the opportunities to invest in fast-growing markets such as China and India. In 2008, these two markets together represented less than one percent of Canada's outward FDI, while other countries are positioning to capture this vast market.

7. Access to capital provides the foundation for growth

Access to capital will always be a critical building block for innovative, growth-oriented businesses. Research by Statistics Canada has found, however, that knowledge-based companies and firms with significant R&D expenditures are more likely to have credit requests declined.

Innovators may lack the tangible assets required to satisfy a commercial bank's collateral requirements. In the case of R&D intensive firms, traditional lenders may be reluctant to finance new or unproven technologies. Loan approval rates also tend to be lower for exporters and for younger, earlier stage companies which do not yet have an established track record.



Source: *The Supply of Financing to Canada's Small and Medium-Sized Enterprise Market*, Oliver Wyman, 2010, page 29. SMEs, for the purpose of this analysis, are defined as all companies with <500 employees and >\$50M in revenue. R&D-heavy firms are defined as all firms with greater than 20% of their expenditures spent on research and development.

BDC CLIENTS SAY...

Cavet is a start-up in the clean-tech sector. It has developed and patented an innovative technology for reducing electricity use and energy costs associated with lighting systems in commercial buildings.

“Our technology can reduce lighting costs in commercial buildings by 40%. While we were developing our technology, before we had any customers, it was difficult to get financing. We turned to BDC because we needed a lender who understood the Cleantech sector and the challenges of being a technology start-up.

Once we had BDC on side it was much easier to get the rest of the capital we needed.”

— *Albert Behr, President & CEO, Cavet Technologies, Toronto, Ontario*

Access to capital continues to be a challenge for the companies most likely to engage in innovation and globalization. There is an urgent and continuing need for Canada to have a strong development bank like BDC to fill these gaps.

For young technology companies, the situation is even more serious. Commercialization of new technology can involve years of investments before revenue is produced, and even longer before reaching the commercial scale required to recoup upfront costs. The ubiquitous computer mouse, for example, took over 20 years from laboratory to commercialization. These young technology firms do not yet have sales and cannot pay down debt, so they need equity backed only by a potential positive return. While only one element in the overall innovation ecosystem, a strong and resilient VC industry is critical to the creation and growth of successful technology companies.

It is therefore of great concern that Canada’s VC industry, which is much less mature and robust than that of its neighbour to the south, is in decline. Venture capital funds invested in Canada have hovered around \$1 billion for each of the last 3 years, down from a peak of almost \$4 billion in 2001. In 2009, this represented roughly 6.6% of total venture capital invested in North America, well below the roughly 10% that Canada should have (based on its GDP) and what was the actual case in 2001. Moreover, funds raised by venture capital firms or funds have matched this rate of decline. Since these funds represent the capital to be invested in *tomorrow’s* companies, this does not bode well for Canada’s VC industry or the young technology companies seeking funding in the near to mid-term.

While VC availability is a challenge, it is not the core of the issue. Many of the industry challenges are actually more structural in nature and can be attributed to the poor financial performance of the industry, which has not been profitable over the last decade (-5% net return over the last 10 years for private independent funds)²⁰. In fact, the Canadian VC industry is trapped in a vicious cycle of poor returns, reduced fund investment, subscale investment funds, investment syndicates that are often operationally impaired and underfunded technology firms.

A vibrant VC infrastructure depends on the smooth functioning of each and every element of its “virtuous” VC industry cycle. When just one link breaks down, smooth functioning of the system can be highly impeded.

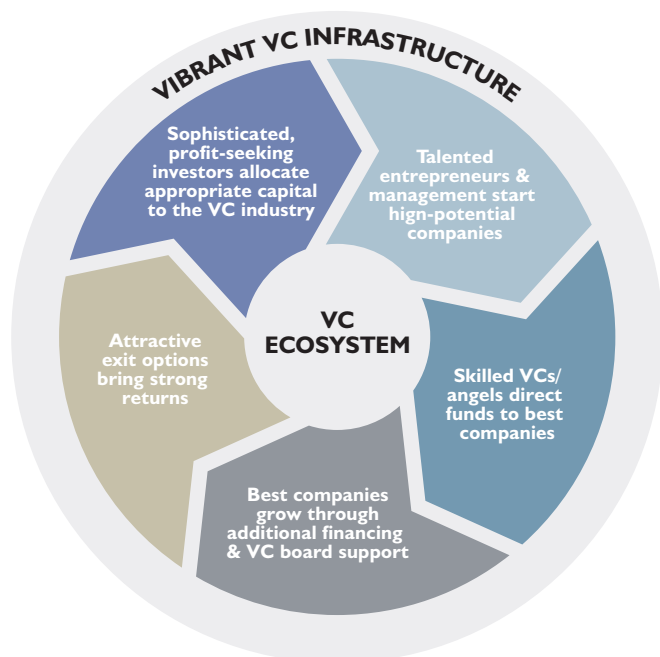
20 Source: Thomas Reuters

In Canada, there are significant gaps throughout the cycle. Key among these are:

- A shortage of skilled, globally connected entrepreneurs (and serial entrepreneurs) and management teams;
- A fragmented, shallow pool of VC fund managers that, compared to U.S. funds, are smaller in size, more capital constrained, and less connected globally, making it difficult to support investee companies;
- Angel networks that are relatively less developed than elsewhere, resulting in fewer resources for early-stage financing and mentorship;
- Investment syndicates that may sometimes lack alignment of goals and are undercapitalized, making follow-on investment difficult;
- Over investment in “early stage” at the expense of “late stage,” with inadequate capital reserves for investing later in a company’s growth cycle; and
- Lack of private investors, many of whom have left the asset class, making fundraising exceedingly difficult.

Virtuous cycle of VC

A healthy VC industry allows for a “virtuous cycle,” balancing returns with fresh capital



- 1 Investors who allocate right amount of capital to maximize risk-adjusted returns
- 2 Supply of quality companies and ideas, including favourable R&D funding/policies
- 3 Skilled (serial) entrepreneurs and management teams
- 4 Strong angel network provides adequate seed and bridge capital
- 5 Fund managers invest most in best companies while quickly cutting off under-performing companies
- 6 Adequate amount of follow-on financing of the best companies through exit
- 7 Fund managers help develop companies (including management selection) using expertise and industry networks.
- 8 Attractive Initial Public Offering and Merger & Acquisition market that has confidence in VC-backed companies
- 9 Strong network that links all players domestically and to global markets, experts, and corporations
- 10 Government policies aligned to encourage VC & entrepreneurial activity

In conclusion, access to capital will remain critical for Canadian entrepreneurs, particularly those in technology-intensive businesses. Without it, technology firms are unable to grow into large, resilient, world-class companies.

DEVELOPMENT BANKS AND INSTITUTIONS



OTHER DEVELOPMENT BANKS PROVIDE STRONG SUPPORT TO THEIR ENTREPRENEURS

Canadian entrepreneurs need to know that they are competing on a level playing field with entrepreneurs from other parts of the world who enjoy support from their own development banks (DBs). Like BDC, other DBs are evolving in response to changing market needs, and many today provide a broad range of tools for SMEs, including support for innovation and globalization.


There are over 90 DBs worldwide. In recent years, BDC has worked with many of them to exchange best practices and learn from their successes. In developed countries such as Germany, Korea and Japan, DBs are successful cornerstones of national industrial policies. They support SMEs in innovation, business internationalization and domestic infrastructure. Generally, the most sophisticated development agencies in terms of product/service offerings, scope of activities and mandates are in developed countries such as Germany, France, Finland, Korea and Japan. On the other hand, development institutions in countries such as China, India and Brazil are increasingly being utilized as economic engines for their respective countries and are large in scale.

Most DBs target SMEs, recognizing their contribution to national economic growth and prosperity. Of specific relevance to this review, the following are noteworthy areas of support:

- 41 DBs target exports and trade;
- 24 are involved in business internationalization, including financing foreign investment;
- 35 have targeted innovation support;
- 36 provide infrastructure support;
- 9 are involved in securitization.

In addition to DBs, according to the Conference Board of Canada, almost all OECD innovation leaders have government programs that encourage and even drive innovation. “They are high-priority ‘push-pull’ programs supported by the highest levels of government. These programs encourage not only a national supply of relevant science and technology but also firms to exploit it for competitive advantage.”²¹

21 *How Canada Performs: Innovation*, Conference Board of Canada, 2010, page 7
(or www.conferenceboard.ca/hcp/details/innovation.aspx)



The Small Business Innovation Research (SBIR) program in the U.S. is an example of a mechanism to strengthen the competitiveness of small, high tech firms. It facilitates the commercialization of R&D conducted by the federal government by coordinating access to procurement. Each year, 11 departments/agencies are required to reserve a portion (2.5%) of their R&D funds to award to small businesses, generating about \$2 billion per annum in disbursements. SMEs gain valuable exposure to the benefits of innovation and credibility by partnering with the U.S. government.

Emerging countries are also increasingly deploying their development banks to finance business growth. Investments in venture capital funds are a major business focus for the China Development Bank. It promotes innovation at the national level and plays an important role in accelerating the development of high-end technologies.

Governments are also using their development banks to support policies in emerging areas such as infrastructure. The Industrial Development Bank of India connects government and other stakeholders to facilitate the flow of funds towards infrastructure projects in the areas of power, telecommunications, roads, seaports, railways and logistics. This is in recognition of the fact that a productive economy should not be “bottle-necked” by inefficient and aging infrastructures.

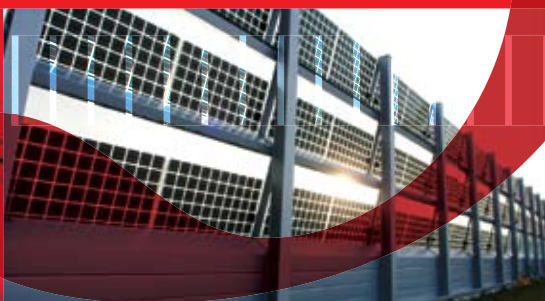
And many countries deployed their development institutions during the global financial crisis with measures to increase access to financing for business, often as part of a broader stimulus package (as was the case in Canada).

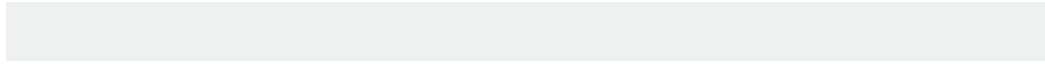
With other development banks around the world taking strong roles in supporting their entrepreneurs, Canadian entrepreneurs need a level playing field—BDC is their vehicle for achieving this.

BDC's

ROLE IS AS IMPORTANT
AS EVER

—in/no•va•tor
in•no•va•tion
thing new. 2. S





BDC has a pan-Canadian footprint, a vast network of partners and an intimate understanding of the issues faced by entrepreneurs. BDC continues to be innovative in developing financing, consulting and venture capital solutions to meet the evolving needs of Canadian entrepreneurs.

This part of the submission describes the key initiatives BDC is undertaking to provide the foundation for SME innovation and growth. It then describes the five areas of the *BDC Act* where changes are proposed in order for the Bank to continue to play an effective role in the Canadian business ecosystem.

BDC Innovation Framework		
CAPITAL		COMPETENCE
<div>CAPACITY (to support incremental innovation)</div> <div>Support ICT, R&D and M&E investment in all sizes and types of firms and other initiatives, such as finding new markets to increase their productivity and improve their competitiveness</div>	<div>CREATION (of radical innovation)</div> <div>Support the creation and growth of technology firms in sectors such as ICT, Life Sciences and Energy</div>	<div>Build SME competence by developing receptor capacity for ICT, improving productivity, enhancing business skills and building strategies that successfully take innovations to market</div>
COLLABORATION		
Help foster SME partnerships with other firms and ecosystem institutions supporting entrepreneurship		

ICT = Information and communication technologies R&D = Research and development M&E=Machinery and equipment

A. BDC’S SUPPORT FOR FIRM-LEVEL INNOVATION IS BUILT AROUND CAPITAL, COMPETENCE AND COLLABORATION



BDC provides the financing for productivity improvements and other investments in innovation, as well as the capital needed to create and grow technology-intensive firms. In fiscal 2010, BDC financed \$534.6 million of incremental innovation and business growth support through its lending and subordinate financing activities, and \$84.6 million of radical innovation support through its venture capital investments.

BDC builds SME competence through its consulting services. These consulting services help companies obtain Scientific Research & Experimental Development (SR&ED) tax credits, improve operational efficiency (lean manufacturing, ISO 9000, production and operations management, supply chain management, etc.), and develop new markets.

While BDC plays a key role in building the capital and competence of SMEs, it does not operate alone. It works closely with government agencies, particularly the Industrial Research Assistance Program (IRAP), to help commercialize new technologies. BDC's collaboration with IRAP has intensified in recent years, and it is an active member of a number of Government-supported ICT-related committees and working groups such as the ICT Federal Managers Networks and DFAIT's ICT Advisory Board. BDC also partners with a variety of different investment funds to leverage capacity for the benefit of the VC industry.

BDC is actively engaging with a number of other innovation programs to seek opportunities for further collaboration to strengthen the capacity of the Canadian innovation ecosystem.

Within the innovation framework described previously, BDC is pursuing three key innovation initiatives:

I. Strengthening the venture capital ecosystem to better support technology firms

Though VC has clearly become scarce in Canada, additional capital alone will not improve performance. On the contrary, the injection of capital with inappropriate objectives could further exacerbate industry issues. The "virtuous cycle" of venture capital (illustrated in Part II of this paper) simply has not existed in Canada in recent years. The system is broken at multiple levels, and will require further investment along with complementary non-investment activities.

A recent review of BDC VC's investment activities confirmed that BDC has been important in sustaining the VC industry and has played a pivotal role in delivering on public policy objectives. In fact, in a survey of market participants including technology entrepreneurs, investment partners and others, respondents recognized the key role BDC plays in direct investing, especially as a reliable syndicate partner, and that the industry would face even greater challenges without BDC's intervention.

Given the gaps and root causes noted previously, however, a “status quo” approach within the Canadian VC industry may lead to a continued, and in fact prolonged, industry decline. As an industry catalyst, BDC has a leadership role to play in this regard and will therefore adjust its strategy to address these deficiencies.

The objectives of this strategy are to:


1. Support more intensely the success of BDC’s investee companies in order to help build leading Canadian technology companies;
2. Build and sustain world-class Canadian venture capitalists by catalyzing the development of the next generation of high-performing fund managers;
3. Help demonstrate the viability of the Canadian VC industry in terms of profitability, both at the investment level (the business/enterprise itself) and the asset class level (venture funds themselves) so as to enable future investment and attract other support; and
4. Play a leading role in stimulating the VC and innovation ecosystems by developing initiatives to reinforce key areas, including: improving global industry connectivity; reinforcing and supporting angel networks; and developing/mentoring Canadian technology entrepreneurs.

2. Building ICT receptor capacity

BDC contributes to the Federal Government’s Digital Economy Strategy by developing SME capacity, and supporting the creation of technology-intensive firms.

ICT gives SMEs a competitive edge by helping them better understand customer needs, transform production processes, reach customers faster, customize products, improve quality and lower costs. Open source software, cloud computing, shared resources, social media and other technological advances mean that SMEs can now access leading-edge technology to enhance their operations and reach clients more efficiently, effectively removing geography and capital costs as barriers to entry.

BDC will play a lead role in promoting the importance of ICT adoption. This includes building general awareness of the benefits of adopting a digital strategy as a way of improving productivity. Entrepreneurial training and mentorship can further enhance awareness and expertise, as can promotion



of best practices and recognition of successes. BDC will conduct targeted ICT diagnostics and, by combining its consulting know-how with targeted financing and risk capital, BDC can accelerate ICT adoption and receptor capacity within SMEs. BDC's experience shows that when financing is supported by consulting advice, the growth prospects of a business are dramatically enhanced.

BDC will continue to support the creation and growth of technology-intensive firms in the ICT, Life Sciences and advanced manufacturing (including aerospace) and other high-growth sectors. In order to grow, these firms need financing, coupled with a successful go-to-market strategy. They need exposure to a broader network of potential clients and strategic partners, both domestic and foreign. Working with partners, BDC will continue its efforts to act as a global connector for Canadian firms in ICT and other sectors, helping them access the very best and relevant research, technology partners and global supply chains.

3. BDC collaborates with other innovation partners

There is much that needs to be done to improve Canada's innovation ecosystem. With hundreds of different innovation programs at the federal and provincial levels, however, adding new programs would only exacerbate the challenge that SMEs face in accessing these programs. Rather, the emphasis should be placed on strengthening relationships with existing partners and forging new ones.

BDC enjoys strong relationships with many government programs. For example, some of IRAP's regional office staff are co-located with BDC to better serve SMEs. Cross-referrals with technology incubators and accelerators across the country ensure that SMEs have access to the full range of support they need. BDC partners with many universities, research institutions and programs at all levels of government. BDC is also developing an SME marketplace to link SMEs and develop collaboration.

BDC intends to build on its existing partnerships and to establish others, particularly where these can help SMEs access research and develop the entrepreneurial skill sets needed to bring technologies to market. By connecting SMEs to the programs that can best meet their needs, BDC brings improved service to SMEs and ensures efficient program delivery. When the overall system capacity is enhanced through collaboration, the Canadian entrepreneur is the ultimate beneficiary.

B. REQUIRED CHANGES TO THE BDC ACT TO MEET THE NEEDS AND DEMANDS OF CANADIAN ENTREPRENEURS TODAY AND IN THE FUTURE

If there is one lesson learned from the the events of the past two years, it is the unpredictability of the future. While BDC has performed well in the past, how should it be equipped for the future ?

This section describes areas of the *BDC Act* to which changes are proposed in order for the Bank to continue to play an effective role in the Canadian business ecosystem. To remain responsive and continue partnering with Canadian entrepreneurs, BDC needs to demonstrate renewed agility and innovativeness. The mandate should be modernized, notably in three key areas:

- the financial instruments the Bank can deploy;
- the non-financial services it can offer; and
- the support it can provide to businesses expanding beyond the domestic market.

At the same time, BDC’s distinct attributes should be maintained. These include its complementary financing role and its particular focus on SMEs.

BDC is also suggesting other amendments to its statute that include the addition of a financial sustainability requirement, the removal of the paid-in capital limit, and the modernization of its governance structure.

The exercise of BDC powers would continue to be monitored by the Federal Government through the Bank’s annual 5-year Corporate Plan and other governance mechanisms.

The following proposed changes are *cost neutral* to the Government of Canada. BDC will continue to invest its profits in Canadian entrepreneurs who, together, represent Canada’s economic backbone and engine of growth.

The proposed changes would not all be implemented immediately. Given the long time horizon between legislative reviews, however, it is of the utmost importance to allow these changes to ensure BDC has the flexibility to support SME’s today and over the next decade.

BDC CLIENTS SAY...

“From our base on Vancouver Island, our team combs the world to bring beautiful and unique homewares to Canadian retailers. I have been a client for both BDC Financing and Consulting. The customer service is fantastic. You just feel like you matter, that someone cares and is interested enough to come and see what you’re doing.”

— Irene Gillespie,
owner, Indaba Trading
Ltd., Parksville,
British Columbia
(former client)

BDC AND THE FINANCIAL CRISIS: CSCF

“The creation of the CSCF has helped to stimulate investor interest in the Canadian automotive ABS market and has contributed to Ford Credit’s successful execution of recent retail and lease transactions.”

— *Charles Bilyeu, President, Ford Credit Canada Ltd., in a letter to BDC, July 24, 2009*

“The creation and implementation of the CSCF program was a key factor in reestablishing investor confidence... [BDC’s] efforts which concluded with an approval to purchase securities issued by Fleet Leasing Receivables Trust proved to be the catalyst which jump started the market for our ABS.”

— *Mark Johnson, Senior VP and Treasurer, PHH Vehicle Management Services Inc. in a letter to the Minister of Industry, February 19, 2010*

1. SMEs need access to a broader range of financial tools

Access to financing remains the cornerstone of growth and innovation for SMEs. Yet, structural deficiencies remain—exporters, innovators and young firms all experience lower approval rates and loan amounts than the general SME population.

While BDC will continue to play its part in addressing these structural deficiencies, there is a growing need for BDC to complement the financing tools set out in the *BDC Act* (“loans, investments and guarantees”) with other forms of financial support.

The recent financial crisis proved that both direct and indirect (supporting or refinancing other direct providers) types of financial support were needed to address the challenges at hand. Indirect financial support can be delivered via different vehicles, such as a trust. It can also be delivered via not-for-profit organizations that have extensive reach into the SME community. These organizations want BDC to support target groups of entrepreneurs and businesses.

However, BDC is limited in its ability to provide financing via trusts or not-for-profit organizations for the benefit of SMEs because the Act requires that these organizations have an amount invested in the project in order to show that they have “a continuing commitment to the enterprise.” The trust or not-for-profit organization would not meet this requirement.

BDC’s involvement with the Canadian Youth Business Foundation (CYBF) is an example. BDC provides small loans to young Canadian entrepreneurs to finance business start-ups through a partnership with CYBF. But BDC cannot provide financing directly to the organization—it must provide loans to the entrepreneurs individually. It would be much more efficient to leverage CYBF’s resources to reach this niche market. For the same reason, BDC is also impeded in its ability to provide financing directly to many of Canada’s technology incubators which are not-for-profit organizations.

Another example of indirect financial support is securitization.²² BDC’s counterparts around the world are active in securitization. Notably, the Japan Finance Corporation and Germany’s KfW (KfW Mittelstandsbank) are involved in securitization as part of their core business.

22 Securitization is a form of debt financing that relies on the pooling of illiquid assets (e.g., loans or leases) to mitigate underlying risks.

The *BDC Act* does not grant the Bank the authority to play this indirect role as part of its ongoing operations. It can only do so on a case-by-case basis pursuant to a special directive from the responsible Minister. For instance, BDC was given a special mandate as part of the Federal Government's Economic Action Plan by the Minister of Industry to manage the CSCF as detailed in Part I. Its involvement in the facility provided \$3.7 billion to alleviate pressures in the auto and equipment industries and proved to be an effective way to support a sector in crisis.

BDC should also be able to offer a broader range of financing instruments that may be available to larger firms but that SMEs have difficulty accessing. For instance, SMEs have difficulty participating in new domestic infrastructure projects because of challenges accessing indemnities or bonding services. BDC does not have the power to provide these products since they fall outside the scope of "loans, investments and guarantees." This puts Canadian SMEs at a disadvantage relative to their counterparts in other countries. KfW, the China Development Bank, the Industrial Development Bank of India and the Development Bank of Japan all provide financial support for infrastructure projects.

Broader BDC support for domestic infrastructure projects would yield benefits to Canada on several fronts. Canada's aging infrastructure represents a huge liability today, and presents a competitive disadvantage relative to the modern infrastructure of emerging markets. BDC financial support would bring incremental financial resources to the infrastructure challenge. More importantly though, it would encourage and support SME participation in such projects. When SMEs participate in large infrastructure projects such as offshore oil and gas projects, they gain valuable exposure, experience and global contacts with large multi-national firms along the supply chain.

As has been the case in the past, new approaches to financing will emerge in the future due to the changing business environment. A diminishing presence of bricks and mortar manufacturers in favour of innovative service companies and "knowledge-based" enterprises is continuing and will drive the need for new instruments. Climate change may also result in financial innovations such as trading of carbon credits. Discussions on "green" investing and the policy mechanisms to bridge the financing gap began in January 2010 at the World Economic Forum held in Davos. In addition, regulatory trends, such as the Basel Committee's capital standards for banks, and their possible impact on the availability of capital, may change the financing landscape.

The last crisis clearly demonstrated that the market can contract rapidly. Having an institution like BDC to quickly play a counter-cyclical role is essential to reducing volatility. Because the *BDC Act* currently is restrictive, the Bank's ability to innovate and introduce new financing tools is limited.

For BDC to remain agile and help Canadian firms now and in the future, the *BDC Act* should:

- be amended to allow BDC to serve its ultimate clients, the entrepreneurs, through a broader range of conduits (such as trusts and not-for-profit organizations); and
- be broad enough to allow for a wider range of financial tools.

2. SMEs need access to a wider range of non-financial services

Financing support is not the only “oil in the engine” needed to compete and win. Ready access to non-financial resources (expertise, advice, time, etc.) is also critical to the success of SMEs. For instance, a recent survey of BDC clients found that 41% simply lack the time to innovate. Whereas large firms generally have the internal resources or wherewithal to get the expertise and advice to succeed in a competitive environment, most Canadian entrepreneurs operate on a small scale and wear many hats. Scale limits their access to resources, which in turn limits their ability to build a strong foundation for growth.

SMEs are looking for access to affordable resources. While BDC's consulting services are effective in building capacity within smaller firms, more could be done if BDC's statute was not limited to “the provision of business planning services, management counselling and training and information.” In the area of technology adoption, for instance, BDC should be able to facilitate access to a fuller range of technical, advisory and financial services by structuring group arrangements for the benefit of entrepreneurs.

Other development banks have successfully introduced a variety of innovative, non-financial services to secure a spot for their clients on the world stage. India's Small Industries Development Bank (SIDBI) leverages a relationship with Intel to drive IT integration in Indian businesses. Korea's Small Business Corporation offers a BIZ-Match program to match international firms with a Korean manufacturer.

For BDC to adequately fulfill its role as a development bank and to build the competitive capacity of the SMEs it serves, the *BDC Act* should provide greater flexibility by:

- extending the range of non-financial products and services BDC can offer.

3. SMEs need support to expand beyond the domestic market

Given the relatively small scale of Canada's domestic market and the growth of China, India and Brazil, SMEs, like larger enterprises, must sell, source and invest in North America and abroad in order to grow. In the venture capital space, this is imperative. In fact, young technology companies must be born global in order to develop and implement effective, go-to-market strategies.

Companies of all sizes are pursuing opportunities to invest in the U.S. and abroad to lower production costs, improve productivity and get closer to customers. Far from displacing Canadian jobs, foreign investment benefits Canada through improved R&D, productivity and innovation. For example, BDC has been asked by automotive parts suppliers to finance foreign production facilities to permit co-location with their large multi-national automotive customers. Such financing is not readily available from private sector sources.

As explained in Part II, accessing foreign markets can be a daunting challenge for SMEs. Emerging markets are higher risk and more complex. In general, commercial financial institutions have limited appetite for offshore risk related to investing in plants, warehouses and other facilities in other countries. For smaller firms seeking to create critical linkages to suppliers and global distribution networks, such financial support is even more limited. Yet, they cannot afford to miss out on the investment potential of emerging markets.

One of the challenges for Canadian entrepreneurs is developing a global mindset. Developing contacts with Canada's Trade Commissioner Service, participating in a trade mission, and accessing BDC consulting expertise can all help the first-time exporter gain valuable expertise and contacts. Some gain global experience while sourcing raw materials or other imports into the business. For others, globalization can mean investment abroad (outward foreign direct investment or FDI-out) and/or foreign investment into Canada (inward foreign direct investment of FDI-in).

While BDC has been instrumental in facilitating some Canadian businesses' access to foreign markets, the *BDC Act* limits the Bank's reach to persons engaged "in an enterprise in Canada." This statutory limitation affects BDC on two fronts. First, from a term lender point of view, the limitation impedes BDC from financing the establishment of a foreign subsidiary (in the U.S. or outside North America) by one of its Canadian clients. It also prevents BDC from financing a Canadian company's acquisition of a foreign entity. BDC

SMEs NEED SUPPORT AND GUIDANCE TO PENETRATE FOREIGN MARKETS

The Standing Senate Committee on Foreign Affairs and International Trade recently proposed a workplan to improve Canada's competitiveness which stated that SMEs continue to "lack adequate resources in order to penetrate foreign markets, such as China, India and Russia and thereby benefit from the growth of their economies."

It recommended that "the Government of Canada should ensure that SMEs continue to receive the support and guidance they need to enter these markets."

— Standing Senate Committee on Foreign Affairs and International Trade: *A Workplan for Canada in the New Global Economy: Responding to the Rise of Russia, India and China*, June 2010

BDC CLIENTS SAY...

“Solmax International Inc. is a manufacturer of geomembranes – synthetic mats that go underground to prevent fluids seeping into the soil and contaminating water supplies.

“We’ve been a BDC client since 1996 so it was natural that we turned to BDC for financing our new plant in Malaysia... BDC informed us that their activities are limited to Canadian borrowers. It was important to Solmax that the Malaysian entity operates separately.”

— *Marc-André Gervais,
President, Varennes,
Quebec*

has had to finance these transactions via the Canadian company, with the effect of overleveraging the Canadian company’s balance sheet and stifling its future growth. Second, from a venture capital investor point of view, it limits BDC’s ability to establish global networks and strategic partnerships for the benefit of its clients and the Canadian VC industry as a whole.

In addition, the restriction in the statute limits BDC’s ability to finance innovative, growth-oriented foreign companies that could establish in Canada (directly or through joint ventures) and create jobs and wealth for the country. This, in turn, reduces opportunities for technology transfer and job creation in knowledge industries in Canada.

Finland’s development bank (Finnvera) offers an Internationalization Loan to finance the business operations of a Finnish SME abroad. The loan may be used when a subsidiary or an affiliated company abroad needs funding for investment, development or growth. It can also be used to acquire or increase a holding, or to increase the share capital in a subsidiary or affiliated company abroad.

Today’s fast-paced, global reality calls for agility and flexibility. These are qualities that entrepreneurs demand of themselves, and no less must be expected from the institutions, like BDC, that serve them. As such, BDC should have the flexibility to follow its clients in their development plans as long as the investments are creditworthy and for the benefit of Canada. SME clients expect this support and view it as a natural evolution of the relationship they have established with BDC.

The urgency of addressing SME access to foreign markets requires a collective effort. For Canada to move from a trading nation to “a nation of traders,” an array of mechanisms must be mobilized so they can seize global opportunities. BDC’s unique value proposition is its proximity to entrepreneurs and its ability to combine financing with consulting. Its more than 100 business centres across Canada, coupled with its 500 account managers on the ground, provide entrepreneurs with financial support and intimate, face-to-face business development expertise, while continuing to collaborate with other partners such as EDC and DFAIT.

For BDC to accompany the growth opportunities of SMEs and for it to contribute to the competitiveness of Canada in today’s global reality, the *BDC Act* should provide greater flexibility by:

- amending the provision which stipulates that the recipient of BDC financial support must be engaged in an enterprise in Canada, so as to migrate from a geographic criterion to one that denotes a benefit to Canada.

Foreign Direct Investment (FDI) – Benefits, Myths and Realities

FDI-IN	FDI-OUT
Foreign investment into Canada through establishment of a new facility or a purchase of an existing facility in Canada	Foreign investment by Canadian firms through establishment of a new subsidiary abroad or acquisition of an existing foreign company. Also known as Canadian Direct Investment Abroad (CDIA)
BENEFITS TO CANADA <ul style="list-style-type: none"> — Fresh, new capital into the country — Job creation and increased tax base — Access to technology and innovation — Access to new management talent, expertise and cultures — Access to global supply chains — Can be North American production centres, sometimes leading to global production centres — Business growth (and sometimes survival) 	BENEFITS TO CANADA <ul style="list-style-type: none"> — More resilient and sustainable Canadian companies — Enhanced productivity through lower-cost production — Access to technology, contacts and new markets — Increased profitability — Influence over global supply chains — Easier access to local, public procurement opportunities — Benefits from free trade agreements and work around trade barriers — Increased competitiveness
MYTH: <i>“Canada is being hollowed out”</i> REALITY: <ul style="list-style-type: none"> — Outward investment has been outperforming inward investment since the mid-1990s. — Other countries like Israel, the U.K., Australia and Korea are aggressively pursuing foreign investors — Canada has become less successful in attracting foreign investors—our share of global inward FDI stock fell from 8% in 1980 to 3% in 2008. — Foreign-controlled companies have better productivity and research records than Canadian-controlled companies (Statistics Canada) — FDI-in builds resilience as domestic firms facing more effective competition respond by “upping their game” too 	MYTH: <i>“Canada is offshoring jobs”</i> REALITY: <ul style="list-style-type: none"> — FDI-out increases domestic economic activity by improving productivity and making companies more competitive — Every dollar invested abroad generates \$2 in additional exports and \$1.70 in trade surplus (OECD) — FDI-out leads to higher levels of R&D, more jobs and more exports — Canadian companies need to build resilience—and this means investing abroad — Outsourcing strengthens a company’s strategic capacity, R&D, sales and marketing and other high-value-added work — FDI-out builds resilient companies in Canada
AUTHORITATIVE SOURCES <i>Compete to Win, Final Report, Competition Policy Review Panel, June 2008</i> <i>How Canada Performs: A Report Card on Canada, Conference Board of Canada, 2009</i> <i>Re-Energizing Canada’s International Trade, Strategies for Post-Recession Success, Conference Board of Canada, 2010</i> <i>Anticipating Needs, Delivering Results: EDC in an Evolving Trade Environment, Submission to the 2008 Legislative Review of the Export Development Act, Export Development Canada, 2008</i> <i>Report on Canada 2008: Setting our Sights on Canada’s 2020 Prosperity Agenda, Institute for Competitiveness and Prosperity, 2008</i> <i>Trade, innovation, and prosperity, Working Paper 14, Institute for Competitiveness and Prosperity, 2010</i>	Foreign Direct Investment (FDI) Canada’s Inward and Outward FDI Stock (as % of World)  <p>Source: United Nations Conference on Trade and Development, FDI Stat, 2010</p>

4. Enshrining the requirement for financial sustainability while maintaining BDC's flexibility

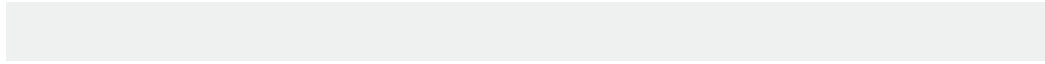
BDC is one of the few development banks in the world that is able to achieve a balance between its public policy and commercial mandates. It continues to meet its commercial mandate in terms of financial returns. BDC's financial performance is supported by its strong risk assessment expertise and the quality of its governance mechanisms. In the future, BDC believes that a requirement for financial sustainability should be enshrined in its statute.

When BDC received its new mandate in 1995, legislators could not have predicted the growth of the portfolio (from approximately \$3 billion to \$19 billion today) nor the breadth and depth of the scope of activities undertaken over the last 15 years. The volatility that characterizes today's environment suggests an even greater unpredictability of events for the next ten years. Extraordinary events (such as the recent global financial crisis) and regional emergencies, such as the SARS alert (in which BDC played a critical role in supporting businesses by offering thousands of loan payment postponements), are sober reminders of what the future may hold. Therefore, the Government must continue to have the flexibility to respond quickly to sudden developments via its development bank, which is close to the daily activities of entrepreneurs and has the capability to quickly deliver relief to them as demonstrated during the recent credit crisis.

Currently, BDC's ability to respond quickly is limited because it has reached its paid-in capital²³ limit of \$3 billion (established at \$1.5 billion in its legislation 15 years ago and increased by way of the 2009 Federal Budget). While setting this limit was deemed to be a prudent measure in 1995 when the Bank had a relatively small portfolio and untested commercial mandate, it is not as pertinent today given the evolution of BDC's role.

While BDC is not requesting additional capital at this time, it is proposing that its ceiling be removed to allow for future investments by the Federal Government, as required from time to time. Without this amendment, the Government does not have sufficient flexibility to invest in BDC and BDC would not be able to quickly undertake any future actions in support of Canadian businesses that would require a capital injection.

²³ The paid-in-capital is the contributed surplus plus any proceeds that have been prescribed as equity. The paid-in-capital as at March 31, 2010 had reached \$2.772 billion.



In addition, a requirement for BDC to remain financially sustainable as a whole should be enshrined in the *BDC Act*, thereby safeguarding the Government's future investments in the Bank.

For BDC to remain responsive to market needs over the next 10 years, the *BDC Act* should be amended to:

- add the requirement for the financial sustainability of BDC; and
- remove the paid-in capital limit.

5. Modernizing BDC's governance structure

BDC has an independent Board of Directors which ensures that the Bank is governed by the highest standard of corporate governance practices. The *BDC Act* should be modernized to align with best practices in the areas of governance and other administrative matters. One such example would be for the Board to have the ability to delegate powers to its committees.

CONCLUSION

The challenges facing Canada's entrepreneurs today are enormous, but so are the opportunities. The future belongs to Canada's innovative entrepreneurs. They are the source of employment and growth in this country. BDC understands the daunting challenges they face given their size and the complexity of the environment in which they must compete.

For Canadian entrepreneurs to succeed, they require agility and innovation from the organizations created to support them. Instead of institutional roadblocks, they need seamless services that facilitate their growth and prosperity.

BDC must continue to evolve as it has since its inception, with flexibilities that position it as an enabler. The foregoing proposals entail critical changes to the *BDC Act* to allow BDC to remain agile in a complex and unpredictable environment over the next ten years—not for its own sake but in support of Canadian businesses and for the benefit of Canada.

If the 1995 *BDC Act* remains unchanged, Canadian entrepreneurs may not reach their full potential as quickly as their peers in other countries benefitting from strong, modern development banks. While other countries increase the amount and type of support they offer to their SMEs, Canadian firms would lose traction as the headwinds get increasingly stronger. Given the stakes, Canada needs to position its entrepreneurs as the key to unlocking its future prosperity.

BDC's approach to business development makes it a unique and cost effective lever for the Federal Government to increase Canada's competitiveness. BDC has proven its relevance to the Canadian economy over the last 15 years. It is poised to do more in support of Canadian businesses and the Federal Government's priorities.

Key Sections of the BDC Act to which changes are proposed:

- Section 4: Purpose of BDC
- Section 5-13: Governance
- Sections 14-16: Scope of Financial Services;
Expansion beyond domestic market
- Section 17: Scope of Non-Financial Services
- Section 21: Special Mandate
- Section 22: Ancillary Powers
- Section 23: Paid-in Capital

ACRONYMS

ABS	Asset-backed security(ies)
BCAP	Business Credit Availability Program
BDC	Business Development Bank of Canada
CDIA	Canadian direct investment abroad
CSCF	Canadian Secured Credit Facility
CYBF	Canadian Youth Business Foundation
DB	Development bank
DFAIT	Foreign Affairs and International Trade Canada
EDC	Export Development Canada
FDI	Foreign direct investment
FITT	Forum for International Trade Training
GDP	Gross domestic product
ICT	Information and communication technology(ies)
IRAP	Industrial Research Assistance Program
ISO	International Organization for Standardization
M&E	Machinery and equipment
NAFTA	North American Free Trade Agreement
OECD	Organisation for Economic Co-operation and Development
R&D	Research and development
RIM	Research In Motion
SARS	Severe acute respiratory syndrome
SBIR	Small Business Innovation Research
SIDBI	Small Industries Development Bank of India
SME	Small and medium-sized enterprise
SR&ED	Scientific research and experimental development
VC	Venture capital
VEFP	Vehicle and Equipment Financing Partnership
YEA	Young Entrepreneur Awards

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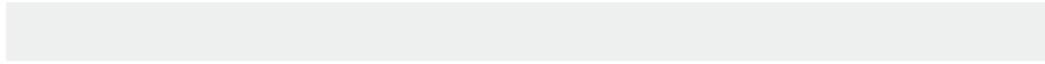
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4 APPENDICES



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6. Special Examination of BDC, Auditor General of Canada, 2009	111
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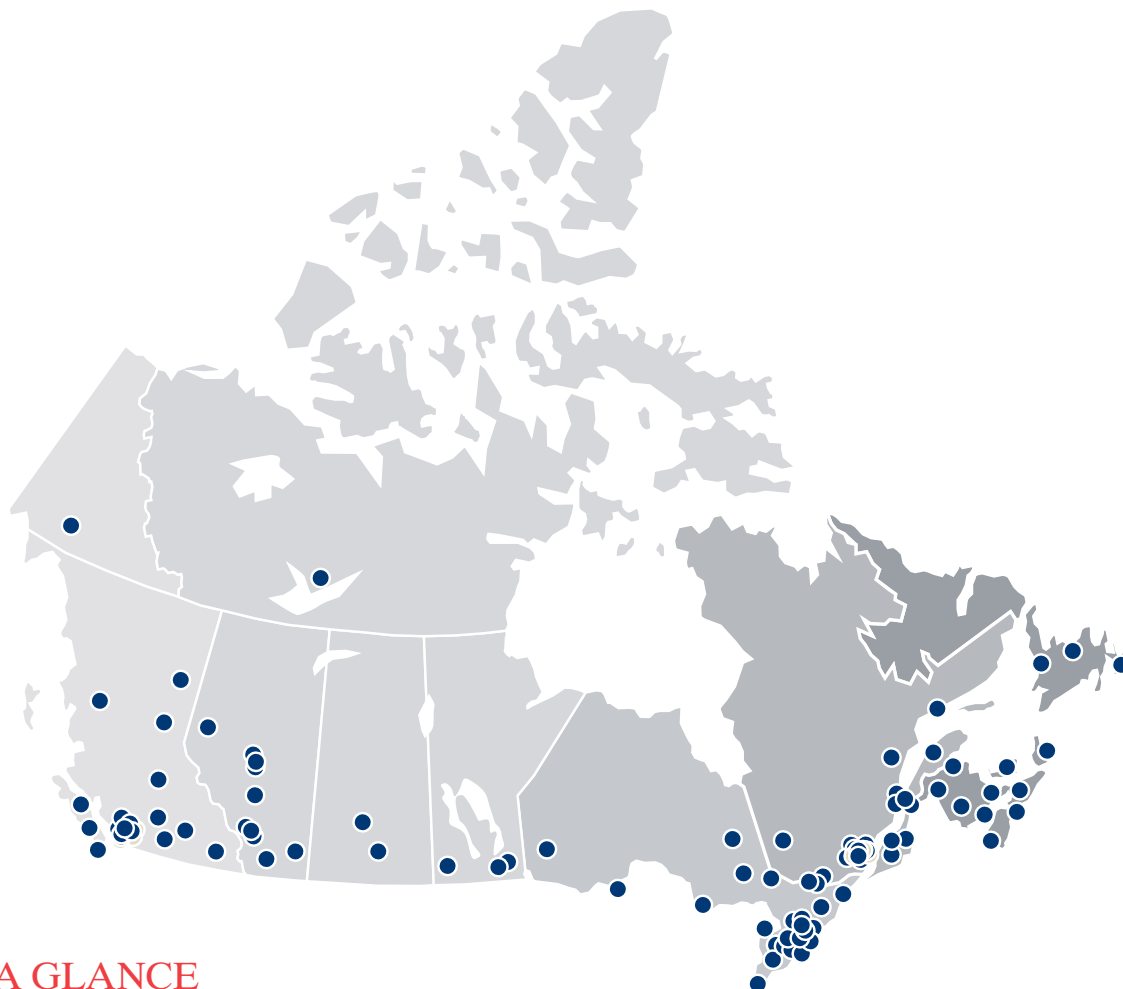
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APPENDIX I

BDC AT A GLANCE





BDC AT A GLANCE

BDC is Canada's business development bank

BDC's mission is to help create and develop Canadian business through financing, venture capital and consulting services, with a focus on SMEs. Its vision is to accelerate the success of entrepreneurs. BDC is unique in that it offers:

- A relationship that provides value to Canadian businesses of all sizes with a particular focus on SMEs
- Credit decisions that go beyond credit scoring and security considerations and take into account project viability and the entrepreneur's experience
- Local credit decisions that enable tailored financing suited to the entrepreneur's needs
- Flexible terms and conditions that allow for customized repayment schedules and postponements of principal payments based on business cycle and needs
- Financing terms and amortization periods that match an asset's useful life
- Long-term financing that provides balance sheet diversification and support during both good and bad times
- Evergreen VC fund covering broad spectrum of technologies and development stages
- Support for growth through subordinate financing with no ownership dilution
- Affordable and professional advice that enables the business to grow

BDC's services are available across Canada through a broad network of some 101 business centres and points of service divided into 4 regions. To maximize BDC's reach, smaller and more remote communities are served through satellite branches and alliances.

BDC Business Centres

Atlantic Region

Newfoundland & Labrador	3
Prince Edward Island	1
Nova Scotia	4
New Brunswick	5

Quebec Region

Quebec	21
--------	----

Ontario Region

Ontario	33
---------	----

Prairies & Western Region

Manitoba	3
Saskatchewan	3
Alberta	10
NWT & Nunavut	1
British Columbia & Yukon	17

Total	101
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BDC Financing

Long-term financing for specific needs such as:

Working Capital

- Growth
- Innovation
- Market expansion

Realty

- Purchase
- Expansion
- Construction

Other

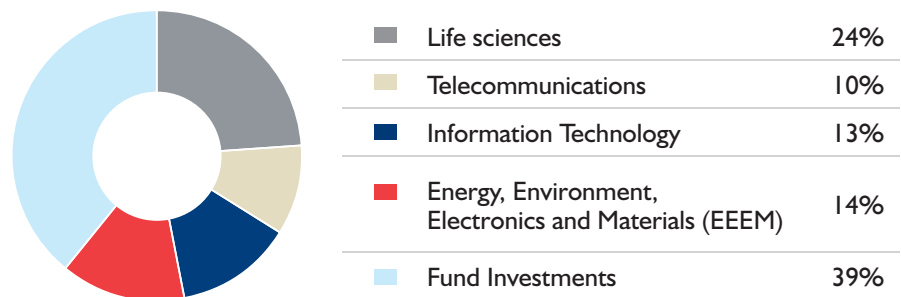
- New or used long-term assets and equipment
- Investment in global opportunities
- Business transition
- Purchase order financing
- Line of Credit Guarantee
- Restructuring

BDC Venture capital

Direct investment from pre-seed through to commercialization and expansion as well as indirect investment through private independent funds.

- Currently has \$438.4 million committed in 95 active companies and \$285.1 million committed in 22 active funds, plus one authorized fund

BDC Venture Capital by speciality – \$ Commitment (Cost plus undisbursed authorized amounts, excludes inactive companies)



VC portfolio also includes 51 inactive companies with \$11.4 million committed.



BDC Consulting

Customized business consulting services for business planning and management with a focus on:

- Innovation transition
- Globalization
- Operational efficiency
- Business ownership
- Market development
- Sustainable development

For the 12-month period ending March 31st, 2010, BDC initiated 2,504 consulting mandates

BDC Subordinate financing

Hybrid debt and equity financing instrument for situations such as:

- Business acquisition
- Management buyouts or business transfers
- Expansion
- Working capital for growth

BDC Securitization

Financing to eligible entities through purchase of term Asset-Backed Securities (ABS) backed by loans and leases on vehicles and equipment and dealer floor plan loans

All figures as at March 31st, 2010 unless otherwise stated.

BDC Portfolio

BDC FINANCING COMMITMENT BY PROVINCE (LOANS AND GUARANTEES)

<i>As at March 31st, 2010</i>	\$M COMMITTED	%	% CHANGE FROM LAST YEAR	# CLIENTS
Newfoundland & Labrador	554	3.8	17.0	1,622
Prince Edward Island	44	0.3	-0.5	125
Nova Scotia	390	2.6	19.2	990
New Brunswick	500	3.4	5.1	1,151
Quebec	4,766	32.2	19.0	9,471
Ontario	4,594	31.1	20.6	7,804
Manitoba	352	2.4	26.6	792
Saskatchewan	299	2.0	26.2	696
Alberta	1,603	10.8	30.2	2,342
NWT & Nunavut	34	0.2	1.8	63
British Columbia & Yukon	1,648	11.2	30.3	3,275
Total	14,784	100	21.4	28

BDC FINANCING COMMITMENT BY SECTOR (LOANS AND GUARANTEES)

<i>As at March 31st, 2010</i>	\$M COMMITTED	%	% CHANGE FROM LAST YEAR	# CLIENTS
Manufacturing	4,232	28.6	10.1	6,662
Wholesale	1,281	8.7	20.6	2,564
Retail	1,809	12.2	15.4	3,709
Tourism	1,844	12.5	22.7	3,126
Construction	1,086	7.4	28.6	2,293
Transport & Storage	765	5.2	20.0	1,132
Commercial Prop.	1,319	8.9	103.1	1,116
Business Services	625	4.2	10.6	2,444
Other	1,823	12.3	21.3	5,285
Total	14,784	100	21.4	28,331

BDC Portfolio

BDC ACCEPTANCES (BDC FINANCING AND SUBORDINATE FINANCING)

For the 12 months ending March 31st, 2010

	\$M ACCEPTANCES	% CHANGE FROM LAST YEAR
Financing ¹	4.296	47.2
Subordinate Financing ²	68.3	50.3

COMMITMENT OUSTANDING

As at March 31st, 2010

	\$M COMMITTED	% CHANGE FROM LAST YEAR
Financing ¹	14.784	21.4
Subordinate Financing ²	211.1	19.5
VC Direct ³	438.4	-20.2
VC Funds	285.1	12.7

1 Includes loans and guarantees

2 BDC's portion and excludes \$9 million under management of the Caisse de dépôt et placement du Québec

3 Excludes inactive companies

APPENDIX 2

OPERATIONAL AND
FINANCIAL PERFORMANCE



PART A: 10-YEAR OPERATIONAL AND FINANCIAL OVERVIEW

Operational Statistics (\$M, as at March 31, 2010)

		2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
BDC FINANCING (LOANS AND GUARANTEES)¹											
Committed to clients ²	\$	14,784	12,176	10,952	10,116	9,516	8,853	8,166	7,426	6,831	6,060
	#	28,331	27,617	27,418	26,643	25,497	24,049	22,426	21,357	20,635	19,544
Authorizations	\$	4,296	2,918	2,814	2,586	2,462	2,230	2,034	1,982	1,739	1,533
	#	8,001	7,783	8,921	9,079	8,402	7,456	7,211	6,265	5,742	5,102
Acceptances	\$	4,343	2,832	2,907	2,692				n/a		
	#	8,014	7,749	9,143	9,394				n/a		
BDC SUBORDINATE FINANCING¹											
Committed to clients ²	\$	211	177	172	169	160	161	187	168		
	#	346	351	341	316	305	321	373	380		
Authorizations	\$	68	45	47	54	47	36	48	49		
	#	65	94	103	112	104	66	56	55		
Acceptances	\$	67	46	49	58		n/a				
	#	68	92	107	130		n/a				
BDC VENTURE CAPITAL											
Committed to clients ²	\$	735	805	749	748	655	604	491	430	374	296
	#	118	159	173	192	193	202	170	164	155	13
Authorizations	\$	85	137	130	151	140	143	109	93	106	114
	#	43	55	87	71	83	80	70	61	63	71
BDC SECURITIZATION											
Committed to clients ²	\$	3,575					n/a				
Authorizations	\$	3,654					n/a				
BDC PERFORMANCE											
Client satisfaction		91%	92%	93%	93%	92%	93%	91%	91%	90%	n/a
Employee engagement		77%	75%	76%	80%	78%	74%	77%	76%	75%	n/a
Efficiency ratio ³		44.3%	41.4%	48.0%	50.2%	48.9%	48.5%	48.7%	47.8%	48.5%	52.6%
BDC Financing portfolio (gross)		13,311	11,117	10,014	9,128	8,627	7,918	7,292	6,578	6,071 ³	5,412 ³
Return on common equity ⁴		0.1%	4.8%	4.7%	8.5%	9.2%	9.7%	5.1%	2.7%	5.7%	12.6%
BDC Consulting revenue		28.1	27.4	24.8	23.5	21.6	18.9	20.0	18.2	18.2	17.7

¹ For reporting purposes, BDC Financing and Subordinate Financing data prior to fiscal 2007 are based on net authorizations

² Amount committed to clients represents portfolio outstanding and amount undisbursed, at cost

³ Includes both BDC Financing and BDC Subordinate Financing; the lower the ratio the higher the efficiency achieved

⁴ Results for BDC Securitization have been excluded in the calculations for both Fiscal 2009 and Fiscal 2010

Financial Overview (\$M, as at March 31, 2010)

	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
STATEMENT OF INCOME / COMPREHENSIVE INCOME										
NET INCOME (LOSS)										
Financing	76.2	194.0	160.9	168.0	141.1	163.7	86.8	98.6	80.4	37.2
Subordinate Financing	10.2	6.8	11.0	7.9	13.7	8.8	5.7	(4.1)		
Venture Capital	(74.1)	(106.3)	(82.8)	(33.6)	(12.8)	(56.1)	(30.3)	(59.5)	(21.0)	56.2
Consulting	(4.6)	(2.9)	(4.5)	(4.3)	(3.8)	(2.9)	(3.1)	(3.1)	(5.7)	(5.1)
Securitization	(1.6)	(1.0)					n/a			
Net Income	6.1	90.6	84.6	138.0	138.2	113.5	59.1	31.9	53.7	88.3
Other Comprehensive Income	5.7	(2.33)	(0.3)				n/a			
Comprehensive Income	11.8	88.3	84.3	138.0	138.2	113.5	59.1	31.9	53.7	88.3
BALANCE SHEET										
Asset-backed securities	3,275.0						n/a			
Loans, net of allowance for credit losses	12,525.5	10,452.2	9,481.4	8,622.6	8,129.9	7,445.9	6,813.4	6,164.2	5,669.5	5,054.3
Subordinate financing loans and investments	193.2	155.1	156.2	148.3	143.9	137.0	164.2	124.5		
Venture capital investments	362.3	441.6	476.0	505.1	431.4	383.6	345.6	301.9	271.1	206.4
Total assets	17,679.9	12,090.9	11,423.6	10,804.1	10,311.4	9,445.2	8,809.2	7,791.4	6,897.2	6,225.5
Total liabilities	14,036.9	9,901.3	9,556.3	8,996.4	8,620.1	7,875.6	7,590.7	6,621.4	5,936.9	5,302.2
Total shareholder's equity	3,643.0	2,189.6	1,867.3	1,807.7	1,691.3	1,569.6	1,218.5	1,170.0	960.3	923.3

PART B: DIVIDENDS PAID TO THE GOVERNMENT OF CANADA SINCE 1998

(Cumulative, in \$M, as at June 30, 2010)

	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
Preferred and Common Dividends Paid (Cumulative)	179.9	156.7	140.2	118.7	97.9	81.1	67.5	55.7	38.2	24.3	15.4	9.4	3.4

PART C: BDC's IMPACTS ON THE ECONOMY/ENTREPRENEUR

Operational Statics (\$M, as at March 31, 2010)

Economic impact	— BDC Financing and Subordinate Financing clients have an estimated \$174.2 billion in annual sales			
	— BDC Financing and Subordinate Financing clients have an estimated \$21.2 billion in export sales			
	— Statistics Canada estimates \$39.8 billion direct and indirect value-added economic activity was generated by BDC clients that received financing in fiscal year 2009 ¹			
	— 85% of BDC Financing and Consulting clients agree that BDC contributes to the economic development of Canada ²			
Client revenue	— 5% to 27% higher for BDC Financing clients versus non-clients ³			
	— 9% to 59% higher for (combined) BDC Financing and Consulting clients versus non-clients ³			
	— BDC Venture Capital backed companies have \$683 million in annual revenue			
% of clients surveyed who agreed that BDC financing will, directly or indirectly, help their company increase – profits, cashflow and productivity		PROFITS	CASHFLOW	PRODUCTIVITY
	NEW CLIENTS			
	Start-ups	85%	80%	70%
	Exporters	88%	86%	78%
	Manufacturers	87%	83%	80%
	Equipment	89%	87%	87%
	EXISTING CLIENTS			
	Exporters	84%	80%	71%
	Manufacturers	83%	79%	73%
	Equipment	86%	79%	74%
Client employment	— Clients that received financing in fiscal year 2009 have contributed (directly or indirectly) to sustaining an estimated 510,875 jobs ¹			
	— BDC Venture Capital companies employ 5,275 knowledge-based workers			
	— 4% to 11% higher for BDC Financing clients versus non-clients ³			
	— 41.5% increase in employment for BDC Financing clients following BDC support ²			
Support of fast-growth businesses	— 24% of BDC Financing clients are fast-growth versus 10% of industry ²			
Cure rate	— 72% (% of accounts that received a Workout Postponement and returned to current and productive status)			
Business survival	— 82% (5-year survival rate for BDC Financing clients) ⁴			
Return on Common Equity	— 7.4% in fiscal year 2009 (10-year moving average)			

1 Based on Statistics Canada Input/output model results, December 2009

2 Based on BDC Client Satisfaction Survey Results

3 Based on findings of Statistics Canada analysis of 2000-2005 period, Economic Impact Study, BDC, November 2008

4 Based on internal analysis

APPENDIX 3

HISTORICAL PERSPECTIVE



1944-1975

BEGINNINGS: POST-WAR DEVELOPMENT

Industrial Development Bank (IDB)

The Federal Government faced the daunting task of restructuring the Canadian economy after the Second World War. The Industrial Development Bank (IDB), an arm of the Bank of Canada, was created to undertake social policy initiatives: its first role was to help small manufacturers that had contributed to the Second World War efforts.

IDB's mandate was first amended in 1952 to include commercial air services. In 1961, IDB began to deliver loans to almost all types of businesses which could not find financing with reasonable conditions elsewhere. Most of IDB's activities involved medium- and long-term loans to acquire fixed assets.

In its 31 years of existence, IDB authorized about 65,000 loans to 48,000 businesses. Over 90% of these businesses were successful and repaid their loans to IDB and created thousands of new jobs. IDB became renowned as one of the most effective development banks in the world.

With this success, IDB's mandate was expanded, with a view to making it a "one-stop shop" for Canadian entrepreneurs. Its link with the Bank of Canada was severed and a new bank called the Federal Business Development Bank was created on October 2, 1975.

1945: \$3M portfolio (loans)

1975: \$1.3B portfolio (loans)

1975-1995

PIONEER OF INNOVATIVE SERVICES:

Federal Business Development Bank (FBDB)

FBDB expanded the Bank's operations twofold: a Management Services division was officially created and FBDB became a venture capital investor.

FBDB quickly became a primary policy instrument, responding to the financing and management service needs of small businesses. However, in response to increased globalization, a rapidly evolving financial services sector, a growing demand for venture capital and the shift from a resource-based to a knowledge-based economy, it became necessary for policy makers to revisit FBDB's role.

A "refocused" mandate for FBDB was created in 1995 that modernized FBDB from being a "lender of last resort" to a path breaker of innovative solutions to address the needs of the then emerging knowledge economy.

1975: \$1.3B portfolio (loans)

1995: \$3.3B portfolio (loans and venture capital)

1995 - 2002

2002 -
TODAY

CLIENT FOCUS:

Business Development Bank of Canada (BDC)

BDC's new mandate in 1995 defined BDC as a complementary lender, stating that the "loans, investments and guarantees are to fill out or complete services available from commercial financial institutions" (BDC Act).

The spirit behind BDC's complementarity was to ensure that viable Canadian businesses had a sufficient supply of financing to prosper. This concept underscored the fact that all BDC clients would have banking relationships with other private and/or public financial institutions (FIs) for traditional types of banking services.

From the outset, BDC pioneered innovative and distinct support for entrepreneurs. It was the first institution to offer flexible long-term loans to businesses, even to those that operated in cyclical and/or knowledge industries which typically fall outside the risk scope of most lenders. It was also one of the first that offered an integrated approach to business development via its financing and advice to improve the capacity of Canadian businesses to compete. BDC built sound knowledge, and fast became the ground breaker in very early stage venture capital deals. It was the first national source of venture capital and remains a pan-Canadian investor.

In April of 2002, Parliament renewed BDC's mandate for 10 years.

- BDC did not propose any changes to its legislation. BDC's mandate was reconfirmed and the *BDC Act* was maintained without amendment. This was approved by the House of Commons' Standing Committee on Industry, Science and Technology on April 25, 2002.

BDC has remained responsive to emergent market needs. Canada is one of the most trade-dependent economies in the world, with export activity significantly impacting the country's wealth. BDC has learned that "competitive" means "globally competitive" and successful global market integration demands knowledge, close relationships with entrepreneurs, an understanding of business dynamics and the ability to be a long-term committed financial partner. These are all aspects that BDC clients expect it to deliver and it does.

2002: \$7.2B portfolio (Financing, Subordinate Financing and VC)

2010: \$19.3B portfolio (Financing, Subordinate Financing, VC and Securitization)

APPENDIX 4

RECENT MINISTERIAL
PRIORITIES AND
BDC RESULTS



RECENT MINISTERIAL PRIORITIES AND BDC RESULTS

1	FOCUS ON SMEs	
2007	Continue to play an important role in supporting smaller firms	<ul style="list-style-type: none"> — Dedicated centres across Canada to serve the needs of smaller businesses and start-ups — Market Impact Strategy offering combined financing and consulting services for smaller businesses — Small Business Strategy that involves dedicated service offering, new credit scoring methodology, development of start-up key success factor grid to assess credit decisions — Annual reporting of small transactions in Corporate Plan — Partnership with Canada Youth Business Foundation
2	GLOBALIZATION	
2007	Help Canadian firms meet the challenges and opportunities of globalization	<ul style="list-style-type: none"> — BDC developed a Globalization Strategy that includes combined financing and consulting services to support globalization challenges and opportunities. Tailored services include: <ul style="list-style-type: none"> – Productivity Plus; Market Xpansion Loan™; Market Xpansion Plus Loan™; Manufacturing Plus – “Going Global” workshops and training sessions in collaboration with FITT – Development of BDC Consulting diagnostics: AGIR/COMPAS and Global Readiness Assessment tools – Partnerships with DFAIT to have Trade Commissioners “in-house” – Fall 2007 coast-to-coast broadcast “Taking on the World” showcasing globalization opportunities – Go-To-Asia, Go-To-Europe initiatives (accompanying BDC VC clients to foreign markets) — Internal Auto Working Group and formalized strategy launched in June 2008
3	MANUFACTURING	
2008	Address evolving needs of manufacturing sector	<ul style="list-style-type: none"> — Manufacturers remain an important segment for BDC, with over 6,600 clients and \$4.2B committed financing — Developed dedicated services: Productivity Plus; Market Xpansion Loan™; Market Xpansion Plus Loan™; Manufacturing Plus, Operational Efficiency mandates — Close to 2,000 acceptances for \$1B (Fiscal 2010)
4	TOURISM	
2008	Address evolving needs of tourism sector	<ul style="list-style-type: none"> — Tourism sector represents 12% of total dollar commitment — Over 3,100 clients and \$1.8B committed (Fiscal 2010) — Close to 800 acceptances for \$513M (Fiscal 2010)
5	VENTURE CAPITAL & COMMERCIALIZATION	
2006	Commission an independent study on BDC’s venture capital strategy and activities	<ul style="list-style-type: none"> — Report by Dr. Gilles Duruflé in March 2007 submitted to Minister of Industry in Summer 2007 confirmed that BDC is meeting its public policy obligations as an early-stage technology investor

2007	Continue to play an important role in supporting firms undertaking private sector R&D; Promote successful commercialization and adoption of new technologies	— 42% of BDC investees originated in the research or university labs
2008	Provide thoughts on how the Bank can continue to play a role in venture creation and early-stage development	— In Fall 2008, four national VC roundtables were conducted in Ottawa, Montreal, Toronto and Vancouver with academics and other stakeholders. Findings were consistent across the country, with the conclusion that there are systemic issues within the Canadian VC industry — Research on government intervention in VC industry
2008	Keep Industry officials apprised of progress in addressing challenges identified in the VC Study	— Ongoing briefings — Formal strategies highlighted in annual Corporate Plans
2008	Help ensure link is seamless between universities, research centres and other institutions of commercially-promising Science & Technology; build a critical mass of expertise and leadership in the identified S&T strategy priority areas; implement elements of the S&T strategy that will have the greatest demonstrable impact on growing Canada's economy	— Active investor in technology seed investments — \$130 million invested in 45 emerging companies, 34 of which remain active today — 27 spin-outs from 17 Canadian universities and research labs — Employment growth in these companies increased from 122 to 820 employees — Established four areas of focus (Life Sciences, Information & Communication Technologies, EEEM and Fund Investment) in line with the S&T Strategy priority areas

2007	Work collaboratively with other financial Crown corporations	— Formal MOU and shared best practices with Farm Credit Canada. Ongoing relationship building with EDC and contribution to their Legislative Review process
2008	Build upon and create new partnerships with other public and private sector bodies	— Financial partners: private sector financial institutions, co-investors, private independent funds such as Waterloo Tech, VanEdge and Tandem Late Stage Growth Fund spearheaded by BDC — Community Futures Development Corporations — Canada Youth Business Foundation — National Research Council (NRC), Industrial Renewal Assistance Program (IRAP) and Natural Sciences and Engineering Research Council (NSERC) — Foreign Affairs and International Trade Canada — Canadian Council for Small Business and Entrepreneurship — International Development Financial Institutions and Associations — Partners involved in promoting entrepreneurial attitudes in young entrepreneurs: Shad, Junior Achievement, ACE Canada, Impact Entrepreneurship Group

7	GOVERNANCE	
2007, 2008	Consider how to adopt the highest standards of governance, performance measurement, integrated risk management and human resource management in the financial services industry	<ul style="list-style-type: none"> — BDC Board adoption of formal charter, which describes its stewardship responsibility — Meets or exceeds the 31 governance measures of the Treasury Board's Governance Framework for Canada's Crown Corporations — Ongoing adoption of best practices in governance: recent example is the hiring of a human resources firm to advise the Human Resources Committee of the Board on compensation best practices — Annual Public Meetings which invited the public to address questions to BDC's Board in person or through the Internet — BDC has completed many phases of its Internal Control Certification (ICC) project such as planning, scoping, documentation, and disclosure controls and procedures. — BDC's Corporate Plan and accompanying strategy map are the focal point of BDC's strategic planning and measurement framework, providing a clear linkage between BDC's Mission and Vision statements, resource allocation processes and individual business unit planning. They ensure that resources, initiatives and performance measurements at all levels are aligned with BDC's Desired Outcomes — BDC has established an effective enterprise risk management process that identifies, assesses, measures, manages and reports risk, events or exposures, as well as potential opportunities. Risks are effectively identified from external sources, as well as internal sources including operational risks, both top-down and bottom-up — Employee and Board Code of Conduct, Ethics and Values are renewed annually. Board Code incorporates principles contained in Conflict of Interest Act — For the fourth consecutive year, BDC was selected in 2010 as one of Canada's Top 100 Employers — BDC was listed as one of the three highest scoring top contenders in The Conference Board of Canada/Spencer Stuart 2009 National Awards in Governance in terms of best practices in appointment processes
2008	Provide an update in the 2008-2012 Corporate Plan on developments with regard to the Bank's governance	<ul style="list-style-type: none"> — Updates provided in BDC Corporate Plans and Annual Reports
2008	Provide views with regard to the identification and nomination of future Board members	<ul style="list-style-type: none"> — Ongoing dialogue between Chairman and Minister — Consistent with best practices, BDC Board of Directors has approved a set of Board skills, which reflects the competencies and skills desired of BDC Board Members — BDC's Nominating Committee proactively selects potential candidates to the Board; the Chairman then recommends candidates to the Minister of Industry

APPENDIX 5

BUSINESS DEVELOPMENT
BANK OF CANADA ACT





CANADA

CONSOLIDATION

CODIFICATION

Business Development Bank of Canada Act

Loi sur la Banque de développement du Canada

S.C. 1995, c. 28

L.C. 1995, ch. 28

Current to September 22, 2010

À jour au 22 septembre 2010

Published by the Minister of Justice at the following address:
<http://laws-lois.justice.gc.ca>

Publié par le ministre de la Justice à l'adresse suivante :
<http://laws-lois.justice.gc.ca>

OFFICIAL STATUS OF CONSOLIDATIONS

CARACTÈRE OFFICIEL DES CODIFICATIONS

Subsections 31(1) and (2) of the *Legislation Revision and Consolidation Act*, in force on June 1, 2009, provide as follows:

Les paragraphes 31(1) et (2) de la *Loi sur la révision et la codification des textes législatifs*, en vigueur le 1^{er} juin 2009, prévoient ce qui suit :

Published
consolidation is
evidence

31. (1) Every copy of a consolidated statute or consolidated regulation published by the Minister under this Act in either print or electronic form is evidence of that statute or regulation and of its contents and every copy purporting to be published by the Minister is deemed to be so published, unless the contrary is shown.

31. (1) Tout exemplaire d'une loi codifiée ou d'un règlement codifié, publié par le ministre en vertu de la présente loi sur support papier ou sur support électronique, fait foi de cette loi ou de ce règlement et de son contenu. Tout exemplaire donné comme publié par le ministre est réputé avoir été ainsi publié, sauf preuve contraire.

Codifications
comme élément
de preuve

Inconsistencies
in Acts

(2) In the event of an inconsistency between a consolidated statute published by the Minister under this Act and the original statute or a subsequent amendment as certified by the Clerk of the Parliaments under the *Publication of Statutes Act*, the original statute or amendment prevails to the extent of the inconsistency.

(2) Les dispositions de la loi d'origine avec ses modifications subséquentes par le greffier des Parlements en vertu de la *Loi sur la publication des lois* l'emportent sur les dispositions incompatibles de la loi codifiée publiée par le ministre en vertu de la présente loi.

Incompatibilité
— lois



1995, c. 28

1995, ch. 28

An Act to continue the Federal Business Development Bank under the name Business Development Bank of Canada

Loi visant à maintenir la Banque fédérale de développement sous la dénomination de Banque de développement du Canada

[Assented to 13th July 1995]

[Sanctionnée le 13 juillet 1995]

Her Majesty, by and with the advice and consent of the Senate and House of Commons of Canada, enacts as follows:

Sa Majesté, sur l'avis et avec le consentement du Sénat et de la Chambre des communes du Canada, édicte :

SHORT TITLE

TITRE ABRÉGÉ

Short title

1. This Act may be cited as the *Business Development Bank of Canada Act*.

1. *Loi sur la Banque de développement du Canada*.

Titre abrégé

INTERPRETATION

DÉFINITIONS

Definitions

2. In this Act,

2. Les définitions qui suivent s'appliquent à la présente loi.

Définitions

“Bank”
« Banque »

“Bank” means the Business Development Bank of Canada continued by subsection 3(1);

« administrateur » Membre du conseil.

« administrateur »
“director”

“bill of lading”
« connaissance »

“bill of lading” has the same meaning as in subsection 425(1) of the *Bank Act*;

« Banque » La Banque de développement du Canada maintenue par le paragraphe 3(1).

« Banque »
“Bank”

“Board”
« conseil »

“Board” means the Board of Directors of the Bank;

« bureau » Le bureau du conseil.

« bureau »
“Executive Committee”

“by-law”
« règlement administratif »

“by-law” means a by-law of the Bank;

« connaissance » S'entend au sens du paragraphe 425(1) de la *Loi sur les banques*.

« connaissance »
“bill of lading”

“Chairperson”
« président du conseil »

“Chairperson” means the Chairperson of the Board;

« conseil » Le conseil d'administration de la Banque.

« conseil »
“Board”

“Crown”
Version anglaise seulement

“Crown” means Her Majesty in right of Canada;

« effets, denrées ou marchandises » S'entend au sens du paragraphe 425(1) de la *Loi sur les banques*.

« effets, denrées ou marchandises »
“goods, wares and merchandise”

“debt obligation”
« titre de créance »

“debt obligation” means a bond, debenture, note, investment certificate or other evidence of indebtedness or a guarantee of a corporation, whether secured or unsecured;

« entreprise » La réalisation par une ou plusieurs personnes d'une activité économique organisée.

« entreprise »
“enterprise”

“Designated Minister”
« ministre compétent »

“Designated Minister” means such member of the Queen's Privy Council for Canada as may

	be designated by the Governor in Council as the Minister for the purposes of this Act;	« filiale » S'entend au sens du paragraphe 83(6) de la <i>Loi sur la gestion des finances publiques</i> .	« filiale » "subsidiary"
"director" « administra- teur »	"director" means a member of the Board;	« ministre compétent » Le membre du Conseil privé de la Reine pour le Canada chargé par le gouverneur en conseil de l'application de la présente loi.	« ministre compétent » "Designated Minister"
"enterprise" « entreprise »	"enterprise" means an organized economic activity carried on by one or more persons;	« personne » Sont assimilées à une personne la fiducie, la société de personnes et l'association de personnes physiques ou de personnes morales.	« personne » "person"
"Executive Committee" « bureau »	"Executive Committee" means the Executive Committee of the Board;	« président » Le président de la Banque.	« président » "President"
"goods, wares and merchandise" « effets, denrées ou marchandises »	"goods, wares and merchandise" has the same meaning as in subsection 425(1) of the <i>Bank Act</i> ;	« président du conseil » Le président du conseil.	« président du conseil » "Chairperson"
"person" « personne »	"person" includes a trust, a partnership and an association of natural persons or corporations;	« récépissé d'entrepôt » S'entend au sens du paragraphe 425(1) de la <i>Loi sur les banques</i> .	« récépissé d'entrepôt » "warehouse receipt"
"President" « président »	"President" means the President of the Bank;	« règlement administratif » Règlement administratif de la Banque.	« règlement administratif » "by-law"
"resolution" « résolution »	"resolution" means a resolution of the Board;	« résolution » Résolution du conseil.	« résolution » "resolution"
"securities" « valeurs mobilières »	"securities" means the shares of any class or series of shares or the debt obligations of a corporation and includes certificates evidencing those shares or debt obligations;	« titre de créance » Obligation, débenture, billet, certificat de placement ou autre preuve d'endettement ou la garantie d'une personne morale, assortis ou non d'une sûreté.	« titre de créance » "debt obligation"
"subsidiary" « filiale »	"subsidiary" has the same meaning as in subsection 83(6) of the <i>Financial Administration Act</i> ;	« valeurs mobilières » Les actions d'une catégorie ou d'une série d'actions ou les titres de créance d'une personne morale, y compris les certificats d'actions ou de titres de créance.	« valeurs mobilières » "securities"
"warehouse receipt" « récépissé d'entrepôt »	"warehouse receipt" has the same meaning as in subsection 425(1) of the <i>Bank Act</i> .		

ESTABLISHMENT AND ORGANIZATION OF THE BANK

STATUS OF THE BANK

Continuation of Federal Business Development Bank	3. (1) The Federal Business Development Bank established by the <i>Federal Business Development Bank Act</i> is continued as a body corporate under the name "Business Development Bank of Canada".
Head office	(2) The head office of the Bank must be at a place in Canada that the Governor in Council may designate.
Capacity	(3) The Bank has, in respect of its powers, all the rights, powers, privileges and capacity of a natural person.
Agent of the Crown	(4) The Bank is for all purposes an agent of the Crown.

CONSTITUTION ET ORGANISATION DE LA BANQUE

QUALITÉ DE LA BANQUE

3. (1) La Banque fédérale de développement, constituée par la <i>Loi sur la Banque fédérale de développement</i> , est maintenue, avec la personnalité morale, sous la dénomination de Banque de développement du Canada.	Maintien de la Banque fédérale de développement
(2) Le siège social de la Banque est fixé au Canada, au lieu désigné par le gouverneur en conseil.	Siège social
(3) La Banque dispose, pour exercer ses pouvoirs, de la capacité d'une personne physique.	Capacité
(4) La Banque est à toutes fins mandataire de Sa Majesté du chef du Canada.	Mandataire de Sa Majesté

PURPOSE		MISSION	
Purpose of Bank	4. (1) The purpose of the Bank is to support Canadian entrepreneurship by providing financial and management services and by issuing securities or otherwise raising funds or capital in support of those services.	4. (1) La Banque a pour mission de soutenir l'esprit d'entreprise au Canada en offrant des services financiers et de gestion et en émettant des valeurs mobilières ou en réunissant de quelque autre façon des fonds et des capitaux pour appuyer ces services.	Mission de la Banque
Consideration to small and medium-sized enterprises	(2) In carrying out its activities, the Bank must give particular consideration to the needs of small and medium-sized enterprises.	(2) Dans la poursuite de sa mission, la Banque attache une importance particulière aux besoins des petites et des moyennes entreprises.	Encouragement des PME
BOARD OF DIRECTORS		CONSEIL	
Membership of Board	5. (1) The Bank has a Board of Directors comprised of the Chairperson, the President and not fewer than three, but no more than thirteen, other directors.	5. (1) Le conseil d'administration de la Banque se compose du président du conseil, du président et de trois à treize autres administrateurs.	Composition
Limit on directors from public service	(2) No more than two of the directors, excluding the Chairperson and President, may be appointed from the federal public administration. 1995, c. 28, s. 5; 2003, c. 22, s. 224(E).	(2) Deux administrateurs au plus, à l'exclusion du président du conseil et du président, peuvent être choisis au sein de l'administration publique fédérale. 1995, ch. 28, art. 5; 2003, ch. 22, art. 224(A).	Choix au sein de l'administration publique fédérale
Appointment of Chairperson	6. (1) The Chairperson is to be appointed by the Governor in Council to hold office during pleasure for a term that the Governor in Council considers appropriate.	6. (1) Le gouverneur en conseil nomme à titre amovible le président du conseil pour le mandat qu'il estime indiqué.	Nomination du président du conseil
Appointment of President	(2) Notwithstanding subsection 105(5) of the <i>Financial Administration Act</i> , the President is to be appointed by the Governor in Council to hold office during good behaviour for a term that the Governor in Council considers appropriate and may be removed for cause.	(2) Par dérogation au paragraphe 105(5) de la <i>Loi sur la gestion des finances publiques</i> , le gouverneur en conseil nomme à titre inamovible le président pour le mandat qu'il estime indiqué, sous réserve de révocation motivée.	Nomination du président
Reappointment	(3) The President is eligible for reappointment on the expiration of his or her term of office.	(3) Le mandat du président peut être reconduit.	Reconduction du mandat
Appointment of directors	(4) The other directors are to be appointed by the Designated Minister, with the approval of the Governor in Council, for a term not exceeding four years that will ensure, as far as possible, the expiration in any one year of the terms of office of not more than half of the directors.	(4) Les autres administrateurs sont nommés par le ministre compétent avec l'approbation du gouverneur en conseil pour des mandats respectifs de quatre ans au maximum, ces mandats étant, dans la mesure du possible, échelonnés de manière que leur expiration au cours d'une même année touche au plus la moitié des administrateurs.	Nomination des autres administrateurs
Acting directors	(5) The Governor in Council may appoint an individual to act as a director if a director is absent or unable to act.	(5) Le gouverneur en conseil peut nommer un suppléant pour remplacer un administrateur absent ou empêché.	Suppléants
Eligibility	(6) No individual is eligible to be appointed or to continue as President, Chairperson or a director if the individual is	(6) Une personne ne peut être nommée président du conseil, président ou administrateur ni admise à exercer ces fonctions si elle :	Admissibilité

(a) neither a Canadian citizen nor a permanent resident within the meaning of subsection 2(1) of the *Immigration and Refugee Protection Act*;

(b) a Canadian citizen who is not ordinarily resident in Canada;

(c) a permanent resident, within the meaning of subsection 2(1) of the *Immigration and Refugee Protection Act*, who has been ordinarily resident in Canada for more than one year after first becoming eligible to apply for Canadian citizenship;

(d) a member of the Senate or House of Commons or a member of the legislature of a province; or

(e) employed in the public service of a province.

1995, c. 28, s. 6; 2001, c. 27, s. 208; 2006, c. 9, s. 229.

a) n'est ni un citoyen canadien ni un résident permanent au sens du paragraphe 2(1) de la *Loi sur l'immigration et la protection des réfugiés*;

b) est citoyen canadien mais ne réside pas ordinairement au Canada;

c) est un résident permanent au sens du paragraphe 2(1) de la *Loi sur l'immigration et la protection des réfugiés* et a résidé au Canada pendant plus d'un an après la date à laquelle elle a acquis pour la première fois le droit de demander la citoyenneté canadienne;

d) est sénateur, député à la Chambre des communes ou membre de la législature d'une province;

e) est employée dans l'administration publique d'une province.

1995, ch. 28, art. 6; 2001, ch. 27, art. 208; 2006, ch. 9, art. 229.

Functions of Board

7. (1) The Board shall direct and manage the business and affairs of the Bank.

7. (1) Le conseil dirige et gère les affaires tant commerciales qu'internes de la Banque.

Fonctions du conseil

By-laws

(2) The Board may, by resolution, make by-laws to regulate the business and affairs of the Bank.

(2) Le conseil peut, par résolution, adopter des règlements administratifs régissant les affaires tant commerciales qu'internes de la Banque.

Règlements administratifs

Committees

(3) The Board may establish an Executive Committee, or any other committee or advisory group that the Board considers advisable, and determine its composition and duties and the tenure of its members.

(3) Le conseil peut constituer un bureau et les comités ou groupes consultatifs qu'il estime utiles, et préciser leur composition et leurs fonctions ainsi que la durée du mandat de leurs membres.

Bureau

Executive Committee

(4) The Board may delegate power to, and specify duties and authority of, the Executive Committee to act in all matters that are not by this Act or any by-law or resolution specifically reserved to be done by the Board.

(4) Le conseil peut déléguer des pouvoirs et conférer des fonctions au bureau dans les domaines que la présente loi, les règlements administratifs ou les résolutions ne réservent pas expressément au conseil.

Fonctions et pouvoirs du bureau

OFFICERS AND EMPLOYEES

DIRIGEANTS ET PERSONNEL

Duties of Chairperson

8. The Chairperson shall carry out the duties determined by by-law.

8. Le président du conseil exerce les fonctions que lui confèrent les règlements administratifs.

Fonctions du président du conseil

Duties of President

9. (1) The President is the chief executive officer of the Bank and has, on behalf of the Board, the direction and management of the business and affairs of the Bank with authority to act in all matters that are not by this Act or any by-law or resolution specifically reserved to be done by the Board or the Executive Committee.

9. (1) Le président est le premier dirigeant de la Banque. Il dirige et gère, au nom du conseil, les activités de celle-ci. À ce titre, il peut agir dans les domaines que la présente loi, les règlements administratifs ou les résolutions ne réservent pas expressément au conseil ou au bureau.

Fonctions du président

Absence or incapacity	(2) If the President is absent or unable to act, or if the office of President is vacant, the Board may authorize an officer or employee of the Bank to act as President, but that person may not act as President for a period of more than ninety days without the approval of the Governor in Council.	(2) En cas d'absence ou d'empêchement du président ou de vacance de son poste, le conseil peut autoriser un dirigeant ou un employé de la Banque à exercer les fonctions de président; toutefois, une personne ainsi autorisée ne peut exercer les fonctions de président pendant une période de plus de quatre-vingt-dix jours sans l'approbation du gouverneur en conseil.	Absence ou empêchement
Officers and employees	10. The Bank may employ such officers and employees, and may engage such agents, advisers and consultants, as it considers necessary to carry out the purpose of this Act and for the proper conduct of its business and the Bank may fix the terms and conditions of their employment or engagement.	10. La Banque peut employer les personnes et retenir les services de mandataires, de conseillers et d'experts qu'elle estime nécessaires à l'application de la présente loi et à l'exercice de ses activités. Elle peut fixer leurs conditions d'emploi ou d'exécution de services.	Dirigeants et employés
Delegation of powers and specification of duties	11. The Board may delegate power to, and specify the duties and authority of, any officer, employee or agent of the Bank to act in all matters that are not by this Act or any by-law or resolution specifically reserved to be done by the Board or the Executive Committee.	11. Le conseil peut déléguer des pouvoirs et conférer des fonctions à tout dirigeant, employé ou mandataire de la Banque dans les domaines que la présente loi, les règlements administratifs ou les résolutions ne réservent pas expressément au conseil ou au bureau.	Délégation de pouvoirs
Confidentiality	12. All directors, officers and employees of the Bank, and all agents, advisers and consultants whose services are engaged by the Bank, must, before entering on their duties, take an oath or make a solemn affirmation of office and confidentiality in the form set out in the schedule before a commissioner of oaths or other person having authority to administer the oath or solemn affirmation in the place where it is taken or made.	12. Préalablement à leur entrée en fonctions, les administrateurs, dirigeants et employés de la Banque, ainsi que les mandataires, conseillers et experts dont elle retient les services, prêtent serment ou font une affirmation solennelle selon le formulaire visé à l'annexe, devant un commissaire aux serments ou une autre personne habilitée à recevoir les serments dans le ressort en cause.	Serment professionnel
REMUNERATION AND BENEFITS			
Remuneration of directors	13. (1) The Chairperson and each director, except the President and any director employed in the federal public administration, are entitled to be paid by the Bank the remuneration fixed by the Governor in Council for their time to attend meetings of the Board or any committee of the Board and to perform their duties under this Act.	13. (1) La Banque verse au président du conseil et aux autres administrateurs — à l'exception du président et des administrateurs qui font partie de l'administration publique fédérale — la rémunération fixée par le gouverneur en conseil pour le temps qu'ils consacrent aux réunions du conseil, du bureau ou d'un autre comité du conseil et pour l'exécution des fonctions que leur confère la présente loi.	Rémunération des administrateurs
Remuneration of President	(2) The President is entitled to be paid by the Bank the remuneration fixed by the Governor in Council.	(2) La Banque verse au président la rémunération fixée par le gouverneur en conseil.	Rémunération du président
Expenses of directors	(3) Directors are entitled to be paid by the Bank reasonable travel and living expenses incurred in connection with the performance of their duties under this Act while absent from their ordinary places of residence.	(3) Les administrateurs sont indemnisés des frais de déplacement et autres entraînés par l'accomplissement, hors du lieu de leur résidence habituelle, des fonctions qui leur sont confiées en application de la présente loi.	Indemnités

Remuneration and expenses of officers, etc.	(4) Officers, employees, agents, advisers and consultants are entitled to be paid by the Bank the remuneration, expenses and benefits that the Bank may determine.	(4) La rémunération, les indemnités et les avantages à verser aux dirigeants, employés, mandataires, conseillers et experts sont fixés par la Banque.	Autres rémunérations
Pension fund	(5) The Board may make by-laws respecting (a) the establishment, management and administration of a pension fund for the officers and employees of the Bank and their dependants; (b) the contributions to be made to the fund by the Bank; (c) the provision of benefits under the fund; (d) the payment of pensions; and (e) the investment of the money of the fund. 1995, c. 28, s. 13; 2003, c. 22, s. 224(E).	(5) Le conseil peut prendre des règlements administratifs concernant la création, la gestion et l'administration d'une caisse de retraite pour les dirigeants et les employés de la Banque et les personnes à leur charge, les contributions à verser par la banque à cette caisse, le versement de prestations prélevées sur cette caisse, le service de pensions et le placement des fonds de cette caisse. 1995, ch. 28, art. 13; 2003, ch. 22, art. 224(A).	Caisse de retraite
SPECIFIC POWERS OF THE BANK		POUVOIRS SPÉCIFIQUES DE LA BANQUE	
FINANCIAL SERVICES		SERVICES FINANCIERS	
Loans, investments and guarantees	14. (1) The Bank may make loans to, or investments in, any person, or give guarantees in relation to any person.	14. (1) La Banque peut consentir des prêts à une personne, y faire des investissements ou donner des garanties à son égard.	Prêts, garanties et investissements
How loans, etc., may be made	(2) The loans, investments and guarantees may be made or given directly, through arrangements with other financial institutions or by the Bank as a member of a financing syndicate.	(2) Les prêts ou investissements peuvent se faire, ou les garanties se donner, directement, dans le cadre d'arrangements avec d'autres institutions financières ou à titre de membre d'un consortium financier.	Manière de les faire
Criteria for making loans, etc.	(3) The loans, investments and guarantees may be made or given only where, in the opinion of the Board or any committee or officer designated by the Board, (a) the person is engaged, or is about to engage, in an enterprise in Canada; (b) the amount invested, or to be invested, in the enterprise by persons other than the Bank and the character of the investment are such that the Bank may reasonably expect that those persons will have a continuing commitment to the enterprise; and (c) the enterprise may reasonably be expected to prove successful.	(3) Les prêts et investissements ne peuvent se faire, ou les garanties se donner, que si, de l'avis du conseil, d'un comité ou d'un cadre autorisé par le conseil, les conditions suivantes sont réunies : a) la personne en cause exploite ou est sur le point d'exploiter une entreprise au Canada; b) le montant et la nature de l'investissement fait ou devant être fait dans cette entreprise par des personnes autres que la Banque permettent à celle-ci de considérer comme durable la participation de ces personnes à cette entreprise; c) l'entreprise présente des perspectives raisonnables de réussite.	Critères
Complementary to commercial financial institutions	(4) The loans, investments and guarantees are to fill out or complete services available from commercial financial institutions.	(4) Les prêts, investissements et garanties doivent servir à compléter les services offerts par les institutions financières commerciales.	Complément aux autres institutions
Acquiring and dealing with property	(5) In any circumstances where the Bank may make a loan or investment to a person, or	(5) Dans le cadre des prêts ou investissements qu'elle fait à une personne, ou des garan-	Achat de biens

give a guarantee in relation to a person, under this section, the Bank may

- (a) purchase or otherwise acquire real or personal property, including accounts receivable; and
- (b) subject to any right of redemption that may exist, hold, lease to the person or subsequently sell, dispose of or otherwise deal with the property.

1995, c. 28, s. 14; 2001, c. 34, s. 9(F).

Security

15. (1) The Bank may

- (a) acquire and hold security or a security interest of any kind and in any form for the due discharge of obligations under a loan, investment, guarantee or agreement that it makes or gives;
- (b) surrender or reconvey the security or security interest and acquire and hold, in exchange, security or a security interest of any kind and in any form;
- (c) realize the security or security interest made, acquired or held by it on the loan, investment, guarantee or agreement; and
- (d) exchange, lease, sell, assign, convey or otherwise dispose of the loan, investment, guarantee, agreement, security or security interest.

Additional security

(2) Without limiting the generality of the powers of the Bank under this section, the Bank may, for the due discharge of the obligations referred to in paragraph (1)(a),

- (a) acquire and hold a warehouse receipt or bill of lading as security; or
- (b) take security on goods, wares and merchandise in the same form and manner as security on such property may be taken by a bank under section 427 of the *Bank Act*.

Warehouse receipts and bills of lading

(3) Where the Bank acquires and holds a warehouse receipt or bill of lading as security, subsections 428(1), (2), (7), (8), (9) and (12) and 435(2) and section 436 of the *Bank Act* apply, with any modifications that the circumstances require, as if the Bank were a bank under that Act.

ties qu'elle lui donne, aux termes du présent article, la Banque peut acquérir, par achat ou autrement, des biens meubles ou immeubles — y compris des comptes clients —, les détenir ou les louer à cette personne et, par la suite, sous réserve de tout droit de rachat, les aliéner, notamment par vente, ou en faire ce qu'elle entend.

1995, ch. 28, art. 14; 2001, ch. 34, art. 9(F).

15. (1) La Banque peut :

- a) acquérir et détenir des sûretés ou des droits sur une sûreté, quelles qu'en soient la nature et la forme, en garantie de la bonne exécution des obligations découlant d'un prêt, d'un investissement ou d'une garantie qu'elle consent ou d'un contrat qu'elle conclut;
- b) remettre ou rétrocéder une sûreté ou un droit sur une sûreté et acquérir et détenir en échange une sûreté ou un droit sur une sûreté de nature et de forme identiques ou différentes;
- c) réaliser les sûretés — ou droits sur celles-ci — constituées, acquises ou détenues par elle;
- d) échanger, louer, céder ou aliéner, notamment par vente ou transport, les prêts, investissements, garanties, contrats ou sûretés — ou droits sur celles-ci.

Sûretés

(2) Sans que soit limitée la portée générale des pouvoirs que lui confère le présent article, la Banque peut, en garantie de la bonne exécution des obligations visées à l'alinéa (1)a) :

- a) acquérir et détenir à titre de sûreté un récépissé d'entrepôt ou un connaissement;
- b) prendre des sûretés sur des effets, denrées ou marchandises, sous la même forme et selon les mêmes modalités que peut le faire une banque en vertu de l'article 427 de la *Loi sur les banques*.

Sûretés supplémentaires

(3) Lorsque la Banque acquiert et détient à titre de sûreté un récépissé d'entrepôt ou un connaissement, les paragraphes 428(1), (2), (7), (8), (9) et (12) et 435(2) et l'article 436 de la *Loi sur les banques* s'appliquent, avec les adaptations nécessaires, comme s'il s'agissait d'une banque.

Récépissés d'entrepôt et connaissements

Goods, wares and merchandise	(4) Where the Bank takes security on goods, wares and merchandise, section 427 and subsections 428(1), (2), (7), (8), (9) and (12) of the <i>Bank Act</i> apply, with any modifications that the circumstances require, as if the Bank were a bank under that Act.	(4) Lorsque la Banque prend des sûretés sur des effets, denrées ou marchandises, l'article 427 et les paragraphes 428(1), (2), (7), (8), (9) et (12) de la <i>Loi sur les banques</i> s'appliquent, avec les adaptations nécessaires, comme s'il s'agissait d'une banque.	Effets, denrées ou marchandises
Deemed loan or advance	(5) Where the Bank issues a guarantee or otherwise makes a promise to effect a payment, the Bank is deemed to lend money or make an advance for the purposes of subsections (3) and (4) and the provisions of the <i>Bank Act</i> that they refer to.	(5) Pour l'application des paragraphes (3) et (4) et des dispositions de la <i>Loi sur les banques</i> qui y sont mentionnées, les garanties ou autres promesses d'effectuer des paiements données par la Banque sont réputées constituer des prêts ou avances.	Présomption d'octroi de prêt
Acquisition of loans	16. The Bank may acquire and deal with as its own any loan, investment or guarantee made or given by another person if (a) the loan, investment or guarantee would meet the Bank's eligibility criteria in subsection 14(3); or (b) it is part of a block of loans, investments or guarantees the majority of which meet those criteria.	16. La Banque peut acquérir et considérer comme siens des prêts, investissements ou garanties consentis par d'autres personnes pourvu que ceux-ci, ou la majorité de ceux-ci s'ils sont acquis en bloc, répondent aux critères d'admissibilité prévus au paragraphe 14(3).	Acquisition de prêts
MANAGEMENT SERVICES		SERVICES DE GESTION	
Agreements	17. The Bank may provide, or enter into agreements for the provision of, (a) business planning services; (b) management counselling and training, including seminars, conferences and meetings; and (c) information.	17. La Banque peut offrir ou conclure des ententes pour offrir les services suivants : a) planification stratégique; b) conseils et formation en gestion, y compris des colloques, conférences et réunions; c) information.	Ententes
TREASURY ACTIVITIES		OPÉRATIONS DE TRÉSORERIE	
Borrowing powers	18. (1) The Bank may borrow money by any means, including issuing and selling or pledging debt obligations of the Bank.	18. (1) La Banque peut contracter des emprunts par tout moyen, y compris l'émission ou la vente de titres de créance, ou la création d'hypothèques sur ceux-ci.	Pouvoir d'emprunt
Debt obligations	(2) The debt obligations may, in accordance with their terms, be subordinated to secured or unsecured indebtedness of the Bank and liability under them may be limited to the remaining assets of the Bank, after payment of indebtedness ranking prior to the debt obligations.	(2) Les titres de créance peuvent, selon leurs propres termes, être de rang inférieur par rapport aux créances, garanties ou non, sur la Banque et la responsabilité peut être limitée au reliquat des éléments d'actif après acquittement des créances de rang supérieur.	Titres de créance
Investment powers	(3) The Bank may invest any money administered by it (a) in debentures, bonds, stocks, bankers' acceptances or other securities of or guaranteed by any member of the Canadian Pay-	(3) La Banque peut investir les fonds qu'elle administre : a) dans des valeurs mobilières — notamment obligations, acceptations de banque, bons et actions — émises ou garanties par le gouvernement du Canada, celui d'une pro-	Pouvoir d'investissement

	ments Association, or the government of Canada or a province; or	vince ou un membre de l'Association canadienne des paiements;	
	(b) in any other manner that the Minister of Finance may approve.	b) de toute autre façon agréé par le ministre des Finances.	
Financial management	(4) The Bank may enter into any transaction for the purpose of reducing risk in the financial management of the Bank, including any financial instrument or agreement whose object is the management of financial risks, such as interest rate or currency exchange agreements, options, futures contracts and any other similar agreements.	(4) La Banque peut conclure tout genre d'opération pour réduire les risques sur le plan de sa gestion financière, y compris tout instrument financier ou toute entente destinés à la gestion des risques financiers, tels une entente en matière de taux d'intérêt ou d'échange de devises, une option ou un contrat à terme normalisé.	Gestion financière
Pledging assets	(5) The Bank may pledge any of its assets or give deposits as security for any debt obligations issued by the Bank or as security for the due performance of its obligations under any financial management agreement.	(5) La Banque peut nantir ou hypothéquer ses éléments d'actif ou faire des dépôts en garantie des titres de créance qu'elle émet ou en garantie de la bonne exécution des obligations découlant des ententes de gestion financière.	Hypothèques
Non-application of certain provisions	(6) For greater certainty, this section has effect notwithstanding sections 100 and 101 of the <i>Financial Administration Act</i> .	(6) Il est entendu que les articles 100 et 101 de la <i>Loi sur la gestion des finances publiques</i> n'empêchent pas le présent article d'avoir effet.	Non-application de certaines dispositions
Loans to the Bank from Consolidated Revenue Fund	19. At the request of the Bank, the Minister of Finance may, out of the Consolidated Revenue Fund, lend money to the Bank on any terms and conditions that the Minister of Finance may fix.	19. Le ministre des Finances peut, à la demande de la Banque, consentir des prêts à celle-ci sur le Trésor, aux conditions qu'il fixe.	Prêts sur le Trésor
OTHER SERVICES AND PROGRAMS		AUTRES SERVICES ET PROGRAMMES	
Agreements	20. The Bank may enter into agreements with, and act as agent for, any department or agency of the government of Canada or a province, or any other body or person, for the provision of services or programs to, on behalf of or jointly with that body or person and, subject to subsection 14(3), may deliver financial assistance on their behalf under the agreement.	20. La Banque peut conclure des accords avec les ministères ou organismes fédéraux ou provinciaux, tout autre organisme ou toute personne et agir comme mandataire de ceux-ci pour la prestation de services ou de programmes, en leur nom ou conjointement avec eux, et, sous réserve du paragraphe 14(3), fournir une aide financière en leur nom.	Ententes
Entrepreneurship programs	21. The Bank may carry out duties or functions that may be assigned to it by the Designated Minister in relation to the administration of any program supporting Canadian entrepreneurship, to the extent that it is able to recover the costs of carrying out the duties or functions.	21. La Banque peut remplir les autres fonctions qui lui sont attribuées par le ministre compétent en ce qui touche la gestion de programmes favorables à l'esprit d'entreprise au Canada, dans la mesure où elle peut recouvrer les frais ainsi exposés.	Programmes favorisant l'esprit d'entreprise
ANCILLARY POWERS		POUVOIRS SUBSIDIAIRES	
Powers	22. The Bank may (a) accept deposits as security for the due performance of any arrangement or agreement with the Bank;	22. La Banque peut : a) accepter des dépôts en garantie de la bonne exécution des arrangements, ententes ou accords conclus avec elle;	Pouvoirs

- (b) determine and charge interest and any other form of compensation for services provided by the Bank in the exercise of its powers under this Act;
- (c) procure the incorporation, dissolution or amalgamation of subsidiaries and acquire or dispose of any shares in them;
- (d) acquire and dispose of any interest in any entity by any means;
- (e) acquire, hold, exchange, lease, sell or otherwise dispose of any interest in real or personal property and retain and use the proceeds of disposition; and
- (f) generally, do all other things that are incidental or conducive to attaining the purpose of this Act and the exercise of the powers of the Bank.

- b) fixer et exiger des intérêts ou autre forme de rémunération pour les services qu'elle fournit dans l'exercice des pouvoirs que lui confère la présente loi;
- c) assurer la constitution, la dissolution ou la fusion de filiales et en acquérir ou aliéner les actions;
- d) acquérir et aliéner, par tout moyen, des droits sur une entité;
- e) acquérir, détenir, échanger, louer, vendre ou céder de quelque autre façon des droits sur des biens meubles ou immeubles et garder et utiliser le produit de la cession;
- f) accomplir les actes accessoires ou utiles à la réalisation de sa mission et à l'exercice de ses pouvoirs.

CAPITAL OF THE BANK

CAPITAL DE LA BANQUE

Authorized capital

23. (1) The authorized capital of the Bank consists of an unlimited number of common shares with a par value of \$100 each and an unlimited number of preferred shares without par value, but the paid-in capital of the Bank, together with any contributed surplus relating to it and any proceeds referred to in paragraph 30(2)(d) that have been prescribed as equity, must not at any time exceed \$3,000,000,000.

23. (1) Le capital autorisé de la Banque consiste en un nombre illimité d'actions ordinaires d'une valeur nominale de 100 \$ chacune et en un nombre illimité d'actions privilégiées sans valeur nominale, mais le total du capital versé, du surplus d'apport qui s'y rapporte et du produit visé à l'alinéa 30(2)d) ne peut dépasser trois milliards de dollars.

Capital autorisé

Issuance of shares

(2) The shares of the Bank may be issued only to the Designated Minister to be held in trust for the Crown.

(2) Les actions ne peuvent être émises qu'en faveur du ministre compétent, qui les détient en fiducie pour Sa Majesté.

Émission des actions

Subscription by Designated Minister

(3) Where the Board recommends that the Designated Minister subscribe for unissued shares of the Bank, the Designated Minister may, if the Minister of Finance concurs, subscribe for the amount that the Designated Minister considers desirable.

(3) Dans les cas où le conseil recommande au ministre compétent de souscrire des actions non émises de la Banque, celui-ci peut, avec l'agrément du ministre des Finances, souscrire pour le montant qu'il estime indiqué.

Souscription

Payment out of Consolidated Revenue Fund

(4) The amount of the subscription is to be paid to the Bank out of the Consolidated Revenue Fund at any time and in any amount that the Board may require.

(4) Le montant de la souscription est versé à la Banque sur le Trésor, selon les modalités de temps et de paiement fixées par le conseil.

Versement

1995, c. 28, s. 23; 2009, c. 2, s. 264.

1995, ch. 28, art. 23; 2009, ch. 2, art. 264.

Rights of common shares

24. (1) The rights conferred by common shares include

24. (1) Les droits rattachés aux actions ordinaires comprennent :

Droits rattachés aux actions ordinaires

- (a) the right to vote at any meeting of shareholders;
- (b) the right to receive dividends declared on common shares; and

- a) celui de voter aux assemblées des actionnaires;
- b) celui de recevoir des dividendes déclarés sur les actions ordinaires;

	(c) the right to receive the remaining property of the Bank on dissolution.	c) celui de recevoir le reliquat des biens à la dissolution.	
Rights of preferred shares	<p>(2) The rights conferred by preferred shares of any class or series are limited as follows:</p> <p>(a) the holders of preferred shares are not entitled to vote at meetings of shareholders;</p> <p>(b) dividends, once declared, are limited to the rate, whether fixed or variable, cumulative or non-cumulative, that may be provided for in the by-laws; and</p> <p>(c) participation in the remaining property of the Bank on dissolution is limited to the consideration paid for the shares plus any dividend accumulated or declared and unpaid, but no more.</p>	<p>(2) Les droits rattachés aux actions privilégiées sont, pour n'importe quelle série ou catégorie, restreints de la façon suivante :</p> <p>a) les détenteurs n'ont aucun droit de vote aux assemblées d'actionnaires;</p> <p>b) les dividendes, une fois déclarés, sont limités au taux — fixe ou variable, cumulatif ou non — fixé par les règlements administratifs;</p> <p>c) la participation dans le reliquat des biens à la dissolution est limitée à la contrepartie versée pour les actions et aux dividendes accumulés ou déclarés mais non versés, sans qu'il y ait possibilité d'avoir davantage.</p>	Droits rattachés aux actions privilégiées
Declaration and payment of dividends	25. (1) In any financial year of the Bank, it may declare and pay to the shareholders of the Bank any dividends out of the retained earnings or surplus account of the Bank.	25. (1) La Banque peut, pour tout exercice, déclarer et verser aux actionnaires des dividendes sur les bénéfices non répartis ou le compte d'excédents de la Banque.	Déclaration et versement des dividendes
Limitation	<p>(2) The Bank may not declare or pay a dividend if there are reasonable grounds for believing that</p> <p>(a) the Bank is, or would after the payment be, unable to pay its liabilities as they become due; or</p> <p>(b) the realizable value of the Bank's assets would, after the payment, be less than the aggregate of its liabilities and paid-up capital of all classes.</p>	<p>(2) La Banque ne peut déclarer ni verser de dividende s'il existe des motifs raisonnables de croire à l'existence de l'une ou l'autre des situations suivantes :</p> <p>a) elle ne peut, ou ne pourrait de ce fait, acquitter son passif à échéance;</p> <p>b) la valeur de réalisation de son actif serait, de ce fait, inférieure au total de son passif et de son capital versé de toutes catégories.</p>	Limite
Participation in dividends	(3) If any cumulative dividends or amounts payable on return of capital in respect of a series of shares are not paid in full, the shares of all series of the same class participate rateably in respect of accumulated dividends and the return of capital.	(3) Si des dividendes cumulatifs ou des sommes payables au remboursement de capital au titre d'une série d'actions ne sont pas acquittés intégralement, les actions de toutes les séries de la même catégorie donnent le droit de participer à proportions égales aux dividendes accumulés et au remboursement de capital.	Participation aux dividendes
Cancellation or restoration of shares	26. Shares, or fractions of them, of any class or series of shares issued by the Bank and purchased, redeemed or otherwise acquired by it must be cancelled or, if the number of them is limited and the by-laws so authorize, they may be restored to the status of authorized but unissued shares of that class or series.	26. Les actions ou fractions d'actions d'une catégorie ou d'une série qu'a émises la Banque et qu'elle acquiert, notamment par achat ou rachat, doivent être annulées ou, si leur nombre est restreint et que les règlements administratifs l'autorisent, elles peuvent être rétablies dans leur qualité d'actions autorisées mais non émises de cette catégorie ou série.	Annulation ou rétablissement d'actions
By-laws relating to shares	27. Subject to the approval of the Governor in Council on the recommendation of the Minister of Finance, the Board may make by-laws	27. Avec l'agrément du gouverneur en conseil, donné sur recommandation du ministre	Règlements administratifs relatifs aux actions

(a) setting out the rights, privileges, restrictions and conditions attaching to preferred shares, creating one or more additional classes of preferred shares and generally determining the rights and obligations of the holders of preferred shares, including

- (i) limiting the right of the shareholders to specific dividends or repayments, whether fixed or variable,
- (ii) authorizing the purchase or redemption of the shares by the Bank, either at the Bank's option or at the shareholder's request, and
- (iii) limiting or extending the rights of the shareholders in any other way;

(b) authorizing the issue of any class of shares in one or more series and authorizing the Board to fix, by resolution, the maximum number of shares in each series and to determine the designation, rights, privileges, restrictions and conditions attaching to the shares of each series, subject to any limitations set out in the by-law;

(c) determining a maximum number of shares with respect to any class or series of preferred shares;

(d) changing authorized shares without par value, whether issued or not, into shares with a par value and changing authorized shares with a par value, whether issued or not, into shares without par value;

(e) consolidating or subdividing shares;

(f) converting shares of any class into shares of another class; and

(g) increasing or reducing the issued share capital or any part of it, with or without distribution of paid-in capital or reduction of liability on any of the shares.

28. (1) With the approval of the Governor in Council on the recommendation of the Minister of Finance, the Bank may issue to persons other than the Crown hybrid capital instruments

des Finances, le conseil peut, par règlement administratif:

a) énoncer les droits, privilèges, restrictions et conditions se rattachant aux actions privilégiées, créer une ou plusieurs catégories supplémentaires d'actions privilégiées et, de façon générale, déterminer les droits et obligations des porteurs d'actions privilégiées, notamment en :

- (i) restreignant le droit des actionnaires à des dividendes ou remboursements précis, qu'ils soient fixes ou variables,
- (ii) autorisant l'achat ou le rachat des actions par la Banque, soit au gré de celle-ci, soit à la demande de l'actionnaire en cause,
- (iii) restreignant ou élargissant les droits des actionnaires de quelque autre façon;

b) autoriser l'émission d'une catégorie d'actions en une ou plusieurs séries et autoriser le conseil, sous réserve des restrictions prévues dans le règlement administratif, à fixer, par résolution, le nombre maximum d'actions de chaque série et prévoyant la désignation, les droits, les privilèges, les restrictions et les conditions se rattachant aux actions de chaque série;

c) déterminer le nombre maximum d'actions dans une catégorie ou série d'actions privilégiées;

d) changer des actions autorisées sans valeur nominale, émises ou non, en actions assorties d'une valeur nominale et changer des actions autorisées assorties d'une valeur nominale, émises ou non, en actions sans valeur nominale;

e) regrouper ou diviser des actions;

f) convertir des actions d'une catégorie en actions d'une autre catégorie;

g) augmenter ou réduire le capital-actions émis, ou toute partie de celui-ci, avec ou sans distribution du capital versé ni réduction du passif au titre de l'une ou l'autre des actions.

28. (1) La Banque peut, avec l'agrément du gouverneur en conseil donné sur la recommandation du ministre des Finances, émettre en faveur de personnes autres que Sa Majesté des instruments hybrides de capital que le gouver-

Hybrid capital instruments

Instruments hybrides de capital

prescribed, in whole or in part, as equity of the Bank under paragraph 30(2)(d).

Crown not liable (2) The Crown is not in any way liable for payment of amounts owing under an instrument issued under subsection (1).

Instruments not shares (3) For greater certainty, an instrument issued under subsection (1) is not a share within the meaning of Part X of the *Financial Administration Act*.

Appropriations 29. Moneys may be appropriated by Parliament and paid out to the Bank for use in any of its activities.

DEBT-TO-EQUITY RATIO

Limit on borrowings and guarantees 30. (1) The aggregate of
(a) the borrowings of the Bank under subsection 18(1) and section 19, and
(b) the contingent liabilities of the Bank in the form of guarantees given by it
must not at any time exceed twelve times the equity of the Bank.

Definition of equity (2) For the purpose of subsection (1), the equity of the Bank consists of
(a) the amounts paid for its shares, including any contributed surplus;
(b) the retained earnings of the Bank, which may be positive or negative;
(c) amounts paid to the Bank as capital by Parliamentary appropriation; and
(d) such proceeds of debt instruments, hybrid capital instruments or other arrangements as may be prescribed as equity by the Governor in Council.

CONFLICT OF INTEREST

Definitions 31. In section 33,
“applicant” “applicant” means a person who applies to the Bank for assistance in the form of a loan, investment, guarantee, purchase or lease;

“interested person” “interested person” means
(a) the spouse, common-law partner within the meaning of section 2 of the *Bank Act*, child, brother, sister or parent of a director,

neur en conseil considère, en tout ou en partie, comme des capitaux propres pour l'application de l'alinéa 30(2)d).

(2) Sa Majesté ne peut être d'aucune façon tenue du paiement des montants dus aux termes d'un instrument émis en vertu du paragraphe (1).

(3) Il est entendu que les instruments visés au paragraphe (1) ne constituent pas des actions au sens de la partie X de la *Loi sur la gestion des finances publiques*.

29. Le Parlement peut affecter des crédits à la Banque et lui verser les montants ainsi affectés pour usage dans l'exercice de ses activités.

RAPPORT DETTES-CAPITAUX PROPRES

30. (1) La somme des montants suivants ne peut, à aucun moment, dépasser le produit des capitaux propres de la Banque et du coefficient douze :

- a) les emprunts contractés par la Banque en vertu du paragraphe 18(1) et de l'article 19;
- b) le passif éventuel de la Banque constitué par les garanties qu'elle consent.

(2) Pour l'application du paragraphe (1), les capitaux propres de la Banque sont constitués des éléments suivants :

- a) les sommes payées pour ses actions, y compris le surplus d'apport;
- b) le montant des bénéfices non répartis de la Banque, qu'ils soient positifs ou négatifs;
- c) les crédits affectés au capital de la Banque par le Parlement;
- d) le produit des instruments d'emprunts, instruments hybrides de capital ou autres arrangements, que le gouverneur en conseil considère comme des capitaux propres.

CONFLITS D'INTÉRÊTS

31. Les définitions qui suivent s'appliquent à l'article 33.

«demandeur» La personne qui demande à la Banque de l'aide sous forme de prêt, d'investissement, de garantie, d'achat ou de louage.

«personne intéressée» Selon le cas :

- a) l'époux, le conjoint de fait au sens de l'article 2 de la *Loi sur les banques*, l'enfant,

Absence de responsabilité pour Sa Majesté

Précision

Crédits du Parlement

Plafond des emprunts et des garanties

Définition de « capitaux propres »

Définitions

« demandeur »
“applicant”

« personne intéressée »
“interested person”

	<p>(b) the spouse, or the common-law partner within the meaning of section 2 of the <i>Bank Act</i>, of a child, brother, sister or parent of a director, or</p> <p>(c) the parent, sister or brother of the spouse, or of the common-law partner within the meaning of section 2 of the <i>Bank Act</i>, of a director.</p> <p>1995, c. 28, s. 31; 2000, c. 12, s. 26.</p>	<p>le frère, la sœur ou l'un ou l'autre des parents d'un administrateur;</p> <p>b) l'époux, ou le conjoint de fait au sens de l'article 2 de la <i>Loi sur les banques</i>, de l'enfant, du frère, de la sœur ou de l'un ou l'autre des parents d'un administrateur;</p> <p>c) l'un ou l'autre des parents, la sœur ou le frère de l'époux, ou du conjoint de fait au sens de l'article 2 de la <i>Loi sur les banques</i>, d'un administrateur.</p> <p>1995, ch. 28, art. 31; 2000, ch. 12, art. 26.</p>	
Restriction	<p>32. The Bank shall not grant a loan, investment or guarantee to a director or officer of the Bank.</p> <p>1995, c. 28, s. 32; 2001, c. 34, s. 10.</p>	<p>32. La Banque ne peut consentir aucun prêt, investissement ou garantie à un de ses administrateurs ou dirigeants.</p> <p>1995, ch. 28, art. 32; 2001, ch. 34, art. 10.</p>	Restriction
Disclosure	<p>33. (1) An applicant must disclose in writing to the Bank whether the applicant is an interested person or, if the applicant is a firm or corporation, whether a partner of the firm or a shareholder, director or officer of the corporation is an interested person or a director or officer of the Bank.</p>	<p>33. (1) Le demandeur doit signaler par écrit à la Banque, le cas échéant, sa qualité de personne intéressée ou, s'il est une société de personnes ou une personne morale, la qualité de personne intéressée ou d'administrateur ou de dirigeant de la Banque de l'un des associés ou de l'un de ses actionnaires, administrateurs ou dirigeants.</p>	Communication
Submission of application to Board for approval	<p>(2) If the applicant discloses that the applicant is an interested person, or that a partner, shareholder, director or officer is an interested person or a director or an officer of the Bank, the application must be submitted to the Board for approval before the Bank enters into an agreement to provide the assistance.</p>	<p>(2) La conclusion par la Banque de toute convention d'aide est subordonnée à l'approbation par le conseil de toute demande mentionnant la qualité de personne intéressée ou d'administrateur ou de dirigeant de la Banque, soit du demandeur, soit d'un associé, d'un actionnaire, d'un administrateur ou d'un dirigeant.</p>	Présentation de la demande au conseil
Director must not be at meeting or vote	<p>(3) A director must not be present at a meeting of the Board when the Board is considering an application, or vote on a resolution relating to it, if the applicant is</p> <p>(a) a person related to the director as described in paragraph (a), (b) or (c) of the definition "interested person" in section 31; or</p> <p>(b) a firm or corporation of which the director, or a person referred to in paragraph (a), is a partner, shareholder, director or officer.</p>	<p>(3) Un administrateur ne peut voter sur une résolution ni assister aux délibérations du conseil portant sur une demande, présentée conformément au paragraphe (1), qui émane :</p> <p>a) soit d'un proche mentionné aux alinéas a), b) ou c) de la définition de « personne intéressée » à l'article 31;</p> <p>b) soit d'une société de personnes ou d'une personne morale dont lui-même ou un proche visé à l'alinéa a) est l'un des associés, actionnaires, administrateurs ou dirigeants.</p>	Abstention
Annual report	<p>(4) The amount of each agreement referred to in this section and the name of the person, firm or corporation with whom the agreement is entered into must be included in the annual report that the Bank is required to submit under subsection 150(1) of the <i>Financial Administration Act</i>.</p> <p>1995, c. 28, s. 33; 2001, c. 34, s. 11.</p>	<p>(4) Le montant de toute convention approuvée par le conseil dans le cadre du présent article ainsi que le nom ou la raison sociale du cocontractant doivent figurer au rapport annuel que la Banque est tenue de présenter aux termes du paragraphe 150(1) de la <i>Loi sur la gestion des finances publiques</i>.</p> <p>1995, ch. 28, art. 33; 2001, ch. 34, art. 11.</p>	Rapport annuel

MISCELLANEOUS PROVISIONS

MATIÈRES DIVERSES

Financial year	34. Notwithstanding section 121 of the <i>Financial Administration Act</i> , the financial year of the Bank is the period of twelve months beginning on April 1 and ending on the next March 31, unless the Governor in Council directs otherwise.	34. Par dérogation à l'article 121 de la <i>Loi sur la gestion des finances publiques</i> , l'exercice de la Banque est, sauf directive contraire du gouverneur en conseil, la période de douze mois commençant le 1 ^{er} avril et se terminant le 31 mars de l'année suivante.	Exercice
Exemption from taxes	35. The Bank is exempt from taxes imposed by the <i>Income Tax Act</i> .	35. La Banque est exemptée de tous les impôts prévus par la <i>Loi de l'impôt sur le revenu</i> .	Exonération d'impôt
Ten-year review	36. (1) Five years after this Act comes into force, and every ten years afterward, the Designated Minister must have a review of the provisions and operation of this Act undertaken in consultation with the Minister of Finance.	36. (1) Cinq ans après l'entrée en vigueur de la présente loi et tous les dix ans par la suite, le ministre compétent veille à faire effectuer un examen des dispositions et de l'application de la présente loi en consultation avec le ministre des Finances.	Examen décennal
Report to Parliament	(2) Within one year after the review is undertaken, the Designated Minister must submit to Parliament a report on the review.	(2) Dans l'année qui suit le début de l'examen, le ministre compétent présente au Parlement un rapport à ce sujet.	Rapport au Parlement
Review of report	(3) The report must be reviewed by any committee of the Senate or of the House of Commons, or any joint committee, that may be designated or established for the purpose of reviewing the report.	(3) Le rapport est examiné par un comité du Sénat et de la Chambre des communes ou un comité mixte désigné ou constitué pour l'examen du rapport.	Étude du rapport
Privileged information	37. (1) Subject to subsection (2), all information obtained by the Bank in relation to its customers is privileged and a director, officer, employee or agent of, or adviser or consultant to, the Bank must not knowingly communicate, disclose or make available the information, or permit it to be communicated, disclosed or made available.	37. (1) Sous réserve du paragraphe (2), les renseignements recueillis par la Banque sur ses clients sont confidentiels et aucun administrateur, dirigeant, mandataire, conseiller, expert ou employé de la Banque ne peut sciemment les communiquer ou les laisser communiquer ou y donner accès ou permettre à quiconque d'y donner accès.	Renseignements protégés
Authorized disclosure	(2) Privileged information may be communicated, disclosed or made available (a) for the purpose of the administration or enforcement of this Act and legal proceedings related to it; (b) for the purpose of prosecuting an offence under this Act or any other Act of Parliament; (c) to the Minister of National Revenue solely for the purpose of administering or enforcing the <i>Income Tax Act</i> or the <i>Excise Tax Act</i> ; or (d) with the written consent of the person to whom the information relates.	(2) La communication des renseignements protégés et l'accès à ceux-ci sont toutefois autorisés dans les cas suivants : a) ils sont destinés à l'application ou à l'exécution de la présente loi et des procédures judiciaires qui s'y rapportent; b) ils sont destinés aux poursuites intentées en vertu de la présente loi ou de toute autre loi fédérale; c) ils sont destinés au ministre du Revenu national uniquement pour l'administration ou l'application de la <i>Loi de l'impôt sur le revenu</i> ou de la <i>Loi sur la taxe d'accise</i> ; d) ils sont communiqués avec le consentement écrit de la personne à laquelle ils se rapportent.	Communication autorisée

Use of Bank's names or initials	<p>38. Except with the consent in writing of the Bank, a person must not in any prospectus or advertisement, or for any other business purpose, use the name of the Bank or any of the following names or initials: “Federal Business Development Bank”, “Banque fédérale de développement”, “Industrial Development Bank”, “Banque d’expansion industrielle”, “B.D. Canada”, “B.D.C.”, “B.D.B.C.”, “B.F.D.” or “F.B.D.B.”.</p> <p>1995, c. 28, s. 38; 2001, c. 34, s. 12.</p>	<p>38. Il est interdit à toute personne de se servir, dans un prospectus ou un texte publicitaire ou à toute autre fin commerciale, sans le consentement écrit de la Banque, du nom de celle-ci ou des noms ou sigles suivants: « Banque fédérale de développement », « Federal Business Development Bank », « Banque d’expansion industrielle », « Industrial Development Bank », « B.D. Canada », « B.D.C. », « B.D.B.C. », « B.F.D. » ou « F.B.D.B. ».</p> <p>1995, ch. 28, art. 38; 2001, ch. 34, art. 12.</p>	Usage des noms ou sigles de la Banque
Offence	<p>39. A person who contravenes section 37 or 38 is guilty of an offence and liable on summary conviction to a fine not exceeding \$10,000 or to imprisonment for a term not exceeding six months, or to both.</p>	<p>39. Quiconque contrevient aux articles 37 ou 38 commet une infraction et encourt, sur déclaration de culpabilité par procédure sommaire, une amende maximale de 10 000 \$ dollars et un emprisonnement maximal de six mois, ou l’une de ces peines.</p>	Infraction
“hybrid capital instrument”	<p>40. The Governor in Council may, by regulation, define “hybrid capital instrument”.</p>	<p>40. Le gouverneur en conseil peut, par règlement, définir « instrument hybride de capital ».</p>	« instrument hybride de capital »

REPEAL

41. [Repeal]

TRANSITIONAL PROVISIONS

Continuation of Federal Business Development Bank	<p>42. (1) The Bank continues for all purposes the existence of the Federal Business Development Bank established by the <i>Federal Business Development Bank Act</i>.</p>	<p>42. (1) La Banque prend sans solution de continuité la succession de la Banque fédérale de développement constituée par la <i>Loi sur la Banque fédérale de développement</i>.</p>	Maintien de la Banque fédérale de développement
Rights preserved	<p>(2) Without limiting the generality of subsection (1),</p> <p>(a) the property of the Federal Business Development Bank continues to be the property of the Bank;</p> <p>(b) the Bank continues to be liable for the obligations of the Federal Business Development Bank;</p> <p>(c) an existing cause of action, claim or liability to prosecution relating to the Federal Business Development Bank is unaffected;</p> <p>(d) a civil, criminal or administrative action or proceeding pending by or against the Federal Business Development Bank may be continued to be prosecuted by or against the Bank; and</p> <p>(e) a conviction against, or ruling, order or judgment in favour of or against, the Federal Business Development Bank may be enforced by or against the Bank.</p>	<p>(2) Sans que soit limitée la portée générale du paragraphe (1):</p> <p>a) les biens de la Banque fédérale de développement continuent d’appartenir à la Banque;</p> <p>b) la Banque continue d’être responsable des obligations de la Banque fédérale de développement;</p> <p>c) les droits d’action, les demandes ou les possibilités de poursuite relatifs à la Banque fédérale de développement ne sont touchés en rien;</p> <p>d) les actions ou autres procédures au civil, au criminel ou administratives engagées par la Banque fédérale de développement ou contre elle peuvent se continuer sous le nom de la Banque ou contre elle;</p> <p>e) les déclarations de culpabilité contre la Banque fédérale de développement ou les décisions, ordonnances ou jugements en fa-</p>	Maintien des droits et obligations

Capital vests in Bank

43. (1) The capital paid in by Canada with respect to the Federal Business Development Bank as of the coming into force of this Act is vested in the Bank as its paid-in capital and is converted into common shares of the Bank on the basis of one fully paid common share for each \$100 of paid-in capital.

Definition of "capital"

(2) The capital vested in the Bank by subsection (1) includes

- (a) amounts referred to in paragraph 28(1)(a) of the *Federal Business Development Bank Act*;
- (b) amounts paid in under subsection 28(1) of that Act; and
- (c) amounts paid in as capital by Parliamentary appropriation.

CONSEQUENTIAL AMENDMENTS

44. to 55. [Amendments]

veur ou à l'encontre de celle-ci peuvent être exécutés par la Banque ou contre elle.

43. (1) Les capitaux versés par le Canada à l'égard de la Banque fédérale de développement à la date d'entrée en vigueur de la présente loi sont dévolus à la Banque à titre de capital versé et convertis en actions ordinaires sur la base d'une action ordinaire entièrement libérée pour chaque tranche de cent dollars.

Dévolution des capitaux

(2) Les capitaux dévolus à la Banque par le paragraphe (1) comprennent :

Définition de « capitaux »

- a) les montants visés à l'alinéa 28(1)a) de la *Loi sur la Banque fédérale de développement*;
- b) les montants versés en vertu du paragraphe 28(1) de cette loi;
- c) les montants versés à titre de capital par loi de crédits.

MODIFICATIONS CONNEXES

44. à 55. [Modifications]

SCHEDULE
(Section 12)

OATH OR SOLEMN AFFIRMATION OF OFFICE

I, ..., solemnly swear (*or affirm*) that I will faithfully, truly and to the best of my judgement, skill and knowledge, perform the duties required of me as a director (*or officer, employee or agent, as the case may be*) of (*or adviser or consultant to, as the case may be*) the Business Development Bank of Canada (the “Bank”) and that properly relate to my duties as a director (*or officer, employee or agent, as the case may be*) of (*or adviser or consultant to, as the case may be*) the Bank.

I also solemnly swear (*or affirm*) that I will not communicate, disclose or make available any information relating to the business of the Bank or the affairs of its customers to any person who is not legally entitled to receive the information and I will not permit it to be communicated, disclosed or made available to such a person.

I also solemnly swear (*or affirm*) that, except as authorized by law, I will not allow any person to inspect or have access to any books or documents that belong to, or are in the possession of, the Bank and that relate to the business of the Bank or the affairs of its customers.

ANNEXE
(article 12)

SERMENT PROFESSIONNEL OU AFFIRMATION
SOLENNELLE

Je,, jure (ou j'affirme) solennellement que j'exécuterai fidèlement et loyalement, dans toute la mesure de mon jugement, de mes capacités et de mes connaissances, les obligations attachées à ma charge d'administrateur (*ou de dirigeant, d'employé ou de mandataire, selon le cas*) de la Banque de développement du Canada (*ou de conseiller ou d'expert, selon le cas*, auprès de la Banque de développement du Canada) et entrant dans l'exercice régulier de mes fonctions en cette qualité.

En outre, je jure (ou j'affirme) solennellement que je ne communiquerai ni ne laisserai communiquer aucun renseignement sur l'entreprise de la Banque ou sur les affaires de ses clients, ni ne donnerai accès à ces renseignements, à quiconque n'est pas légalement fondé à en recevoir communication ou à y avoir accès.

En outre, je jure (ou j'affirme) solennellement que j'interdirai à quiconque n'est pas légalement fondé à le faire de prendre directement ou indirectement connaissance de livres ou de documents relatifs à l'entreprise de la Banque ou aux affaires de ses clients et appartenant à celle-ci ou se trouvant en sa possession.

AMENDMENTS NOT IN FORCE

— 2010, c. 12, s. 1660

1660. Subsection 5(1) of the *Business Development Bank of Canada Act* is replaced by the following:

Membership of
Board

5. (1) The Bank has a Board of Directors comprised of the Chairperson, the President and not fewer than three, but no more than 11, other directors.

MODIFICATIONS NON EN VIGUEUR

— 2010, ch. 12, art. 1660

1660. Le paragraphe 5(1) de la *Loi sur la Banque de développement du Canada* est remplacé par ce qui suit :

Composition

5. (1) Le conseil d'administration de la Banque se compose du président du conseil, du président et de trois à onze autres administrateurs.

APPENDIX 6

SPECIAL EXAMINATION
OF BDC,
AUDITOR GENERAL
OF CANADA. 2009





Business Development Bank of Canada

Special Examination Report—2009



Office of the Auditor General of Canada
Bureau du vérificateur général du Canada





9 April 2009

To the Board of Directors of the
Business Development Bank of Canada

We have completed the special examination of the Business Development Bank of Canada in accordance with the plan presented to the Audit Committee of the Board of Directors on 29 April 2008. As required by Section 139 of the *Financial Administration Act* (FAA), we are pleased to provide the attached final special examination report to the Board of Directors.

We will be pleased to respond to any comments or questions you may have concerning our report at your meeting on 29 April 2009.

We would like to take this opportunity to express our appreciation to the members of the Board, management, and employees of the Corporation for the cooperation and assistance offered to us during the examination.

Yours sincerely,



Nancy Y. Cheng, FCA
Assistant Auditor General



Frank Di Tomaso, FCA
Partner
Raymond Chabot Grant Thornton LLP

Attach.

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Business Development Bank of Canada

Special Examination Report—2009

Main Points

What we examined

The Business Development Bank of Canada (BDC or the Corporation) supports Canadian entrepreneurship by providing financial and consulting services to small and medium-sized enterprises (SMEs). It provides financing directly to Canadian SMEs on a commercial basis, at rates commensurate with the degree of risk assumed by BDC.

BDC is a financially self-sustaining federal Crown corporation, wholly owned by the Government of Canada. It reports to Parliament through the Minister of Industry. The Corporation's activities are guided by a Board of Directors consisting of a Chairperson, the President and Chief Executive Officer (CEO), and up to 13 other members.

On 31 March 2008, BDC was in business relationships with more than 27,000 SME clients. It had more than 1,700 employees and was providing services through 94 branches across Canada. At 31 March 2008, the net loans outstanding totalled \$9.5 billion. BDC has venture capital investments in 154 Canadian companies.

We examined whether BDC's systems and practices provide it with reasonable assurance that its assets are safeguarded and controlled, its resources are managed economically and efficiently, and its operations are carried out effectively. Our examination covered the period from January 2008 to September 2008.

Why it's important

BDC has been the only financial institution solely dedicated to the development of Canadian SMEs. Through its activities, it supports SMEs at all stages of development—from start-up to expansion—and through economic cycles. BDC's consulting activities provide affordable consulting services that would typically be accessible only to larger companies.

Unlike private sector banks, BDC has not only commercial objectives but also public policy objectives: to support Canadian entrepreneurship through its activities, with particular consideration to SMEs. To the extent that commercial banks restrict credit in the

wake of the international financial crisis of 2008, BDC could face an increased demand from many Canadian entrepreneurs.

What we found

We found no significant deficiencies in BDC's systems and practices during the period covered by the examination. In several areas its systems and practices have contributed to its success:

- The Corporation has sound systems and practices in areas such as governance, strategic planning, human resources, and financing activities. For example, its strategies take the government's priorities into account and are based on analysis of the economy, developments in the Canadian SME sector, trends in SME financing and in private equity, as well as financial and operational constraints. Workforce planning and succession planning processes are effective—over the last three years the succession planning process has successfully identified candidates for promotion to positions where vacancies were expected. BDC has properly coordinated and communicated major initiatives and changes in its financing business processes.

We also found certain other areas where BDC would benefit from improving its practices:

- As noted in the 2004 special examination report, BDC needs more comprehensive indicators of performance in order to evaluate the effectiveness of its consulting strategy. The two key indicators it uses—client satisfaction and client retention—do not provide appropriate information on the contribution made by its consulting services to SMEs over the long term.
- BDC has improved its strategic planning for information technology (IT) since the last special examination. However, it has not yet identified performance indicators for most of the IT strategic objectives. Without such information, it is not clear how progress toward IT objectives can be measured and corrective action taken where indicated. In addition, BDC needs to have an overall IT security policy to protect its assets. It also needs to ensure that business cases for all approved IT projects contain cost/benefit analyses and that the new governance committee oversees the ongoing progress of IT projects.

The Corporation responded. BDC agrees with all the recommendations. Its responses follow the recommendations throughout the report.

Special Examination Opinion

To the Board of Directors of the Business Development Bank of Canada

1. Under section 131 of the *Financial Administration Act* (FAA), the Business Development Bank of Canada (BDC) is required to maintain financial and management control and information systems and management practices that provide reasonable assurance that its assets are safeguarded and controlled; its financial, human, and physical resources are managed economically and efficiently; and its operations are carried out effectively.
2. Section 138 of the FAA also requires the Corporation to have a special examination of these systems and practices carried out at least once every five years.
3. Our responsibility is to express an opinion on whether there is reasonable assurance that during the period covered by the examination—from January 2008 to September 2008—there were no significant deficiencies in the Corporation's systems and practices.
4. We based our examination plan on our survey, which included a risk analysis of the Corporation's systems and practices. On 29 April 2008, we submitted the plan to the Audit Committee of the Board of Directors. The plan identified the systems and practices that we considered essential to providing the Corporation with reasonable assurance that its assets are safeguarded and controlled, its resources managed economically and efficiently, and its operations carried out effectively. Those are the systems and practices that we selected for examination.
5. The plan included the criteria that we used to examine the Corporation's systems and practices. These criteria were selected for this examination in consultation with the Corporation. The criteria were based on our experience with performance auditing and our knowledge of the subject matter. The criteria and the systems and practices we examined are listed in **About the Special Examination** at the end of this report.
6. We conducted our examination in accordance with our plan and with the standards for assurance engagements established by The Canadian Institute of Chartered Accountants. Accordingly, it included the tests and other procedures we considered necessary in the circumstances. In carrying out the special examination, we relied on internal audits of the Treasury risk management, Portfolio risk

management, Credit risk management, Consulting group, Information Technology related audit reports and operational audits of Financing.

7. In our opinion, based on the criteria established for the examination, there is reasonable assurance that during the period covered by the examination there were no significant deficiencies in the Corporation's systems and practices.

8. The rest of this report provides an overview of the Corporation and more detailed information on our examination observations and recommendations.

Sheila Fraser

Sheila Fraser, FCA auditor
Auditor General of Canada

Montréal, Canada

Raymond Cholet Grant Thornton LLP¹

¹Chartered accountant auditor permit no. 6736

Montréal, Canada
30 September 2008

Overview of the Business Development Bank of Canada

Background

9. The Business Development Bank of Canada (BDC or the Corporation) is a Crown corporation that was established by an Act of Parliament on 20 December 1974, as the Federal Business Development Bank and continued under its current name by an Act of Parliament on 13 July 1995. The Act created BDC to support Canadian entrepreneurship.

10. The Corporation's objectives are to promote and assist the establishment and development of business enterprises in Canada, especially small and medium-sized enterprises (SMEs), by providing a wide range of lending, investment, and consulting services complementary to those of commercial financial institutions. The Act streamlined and modernized the mandate and activities of BDC's predecessors. BDC has been the only federal financial institution solely dedicated to the development of Canadian SMEs.

11. BDC is a financially self-sustaining federal Crown corporation, which the Government of Canada wholly owns. As a federal Crown corporation, BDC is accountable for its activities to Parliament, through the Minister of Industry. A Board of Directors, consisting of a Chairperson, the President and Chief Executive Officer (CEO), and a maximum of 13 other members, guides the corporation's activities.

12. BDC employs more than 1,700 people. Ninety-four branches across Canada provide client service. All the branches offer lending services, and many offer consulting services. BDC is a small, niche player, representing approximately 3.4 percent of the **term lending supply** available in financial services markets to small and medium-sized enterprises in the SME financial services markets. BDC has business relationships with more than 27,000 SME clients. BDC's major performance measures and selected financial information are presented in Exhibit 1.

Term lending supply—Amount of loans available for medium- or long-term financing, to supply cash to purchase fixed assets such as machinery, land, or buildings, or to renovate business premises.

Exhibit 1.1 BDC's major performance measures and selected financial data

	2008	2007	2006	2005	2004
Major Performance Measures					
Client satisfaction level	93%	93%	92%	93%	91%
Employee engagement level	76%	80%	78%	74%	77%
Efficiency ratio (expressed as the ratio of operating and administrative expenses over net interest and other income—the lower, the better) [includes both financing and subordinate financing]	48.5%	50.2%	48.9%	48.5%	48.7%
Financing portfolio (\$ billions)	\$10.0	\$9.1	\$8.6	\$7.9	\$7.3
Consulting Group revenue (\$ millions)	\$24.8	\$23.5	\$21.6	\$18.9	\$20.0
Return on common equity (RCO)	4.7%	8.5%	9.2%	9.7%	5.1%
Major Financial Data (\$ thousands)					
<i>Net income (loss)</i>					
Financing	\$160,878	\$167,992	\$141,060	\$163,700	\$86,805
Subordinate financing	11,007	7,945	13,682	8,818	5,750
Consulting	(4,521)	(4,326)	(3,782)	(2,887)	(3,135)
Venture capital	(82,801)	(33,604)	(12,779)	(56,143)	(30,299)
Net income	84,563	138,007	138,181	113,488	59,121
Loans, net of allowance for credit losses	9,481,449	8,622,646	8,129,880	7,445,861	6,813,344
Subordinate financing	156,158	148,290	143,901	136,977	164,200
Venture capital investments	475,985	505,118	431,379	383,649	345,624

Source: BDC's annual reports

Mandate and legislative powers

13. The Corporation's mandate is to operate as a commercial institution that supports Canadian entrepreneurship by providing financial services including loans, subordinate financing (a hybrid instrument that brings together some features of both debt financing and equity financing), venture capital investments, and consulting services. It must be self-sufficient and earn a rate of return of not less than the government's long-term cost of capital.

14. The Corporation's vision is to accelerate entrepreneurs' success. To finance its activities, BDC issues debt instruments that the Government of Canada secures. Effective 1 April 2008, the

Department of Finance's Crown Borrowing Program requires BDC and some other Crown corporations to borrow directly from the federal government, through the Department of Finance.

15. In accordance with the *Business Development Bank of Canada Act* (the BDC Act), a review of BDC's mandate was done in 2000. The report was tabled in Parliament in 2001, and recommended that the Bank's mandate be reconfirmed. The BDC Act remains unchanged. The next mandatory review is to be tabled by July 2011.

Public policy mandate

16. Unlike private sector banks, in addition to meeting its financial goals and obligations, BDC operates under the public policy mandate conferred on it as a Crown corporation. This public policy mandate stems from the provisions of the BDC Act. BDC has integrated its public policy mandate into its mission and vision statements, as well as into its strategic goals. In the context of its vision to accelerate SME success, BDC has identified two desired outcomes for public policy:

- to create and develop Canadian firms that can grow and compete successfully in changing global marketplaces, and
- to inspire and support Canadian entrepreneurship.

Corporate objectives

17. In BDC's 2009–2013 Corporate Plan, the focus is on the individual (the **entrepreneur**), the firm (the **SME**), and the **business environment** in which people and companies operate. BDC's corporate objectives are formulated on the following three areas:

- **Entrepreneur.** To inspire entrepreneurship, build managerial capacity, create and share insights, and celebrate entrepreneurial success.
- **SME.** To accelerate SME success, integrate SMEs in global **value chains**, provide innovative financing options, deliver affordable consulting, and build long-term relationships.
- **Business environment.** To be a leading development bank, work in partnership, create synergies among stakeholders, and shape the entrepreneurial environment.

Value chain—A high-level model of how businesses receive raw materials as input, add value to the raw materials through various processes, and sell finished products to customers. Value-chain analysis looks at every step a business goes through, from the gathering of raw materials to the eventual delivery of the product to the end user. The goal is to deliver maximum value for the least possible total cost.

The Corporation's services

18. In its development role, BDC offers an array of services to Canadian SMEs:

- **Financing.** BDC's provides secured term loans and specialized solutions designed particularly to support business creation and business growth, market development and expansion, investment in business growth, the acquisition and modernization of facilities and equipment, and business ownership transition. As of 31 March 2008, net loans outstanding had a value of \$9.5 billion, on average approximately \$280,000 per loan.
- **Venture capital.** BDC, through its wholly owned subsidiary (BDC Capital Inc.), provides equity investments to cover every stage of a technology-based company's development cycle, from seed funding through to expansion. The venture capital division focuses on early-stage companies with the potential to develop technologies in three target sectors: information and communication technologies (IT and telecommunications); life sciences (drug discovery and medical device technologies); and energy, environment, electronics, and materials. Beyond its direct investments in companies, BDC also makes indirect investments, through vehicles such as specialized funds and seed funds. BDC's venture capital portfolio amounted to \$476 million as of 31 March 2008.
- **Subordinate financing.** BDC offers subordinate financing that brings together some features of both debt financing and equity financing to more mature businesses to support specific growth projects. It provides this service through a partnership with the Caisse de dépôt et placement du Québec. As of 31 March 2008, the BDC's share of subordinate financing loans and investments amounted to \$156 million.
- **Consulting.** BDC offers consulting services to SMEs mainly through a national network of external professional consultants. The services are designed to help Canadian entrepreneurs manage and grow their businesses competitively. BDC's consulting services help with global market development, operational efficiency, strategic planning, human resources, business transition, and innovation strategies. For the year ended 31 March 2008, the number of consulting assignments totalled 2,770 and the revenues amounted to \$24.8 million.

Operational context

19. As the current financial crisis deepens, it is uncertain how SMEs will act and if they will defer major projects. We have been informed by BDC that financial institutions have started to refer more clients to BDC, or are asking it to share the risk on a given project. This crisis underscores BDC's complementary role in the marketplace.

Focus of the special examination

20. We examined BDC's systems and practices in the areas of governance, strategic planning, risk management, financing, venture capital investment, consulting services, treasury, human resources management, information technology, and performance management and reporting. Our objective was to determine whether those systems and practices provide BDC with reasonable assurance that its assets are safeguarded and controlled, its resources are managed economically and efficiently, and its operations are carried out effectively.

21. Further details on the audit objective, scope, and criteria are provided in **About the Special Examination** at the end of this report.

Observations and Recommendations

Corporate governance

22. Corporate governance refers to the structures, systems, and practices an organization puts in place to carry out its mandate and achieve its objectives. Sound corporate governance practices are essential to meet the statutory control objectives outlined in Part X of the *Financial Administration Act* for Crown corporations.

23. We expected that BDC would have an effective corporate governance framework to ensure that it fulfills its mandate in a manner consistent with its role in delivering financial, investment, and consulting services to small and medium-sized enterprises (SMEs).

24. In the 2004 special examination report, we noted that BDC should pay attention to enhancing the completeness and timeliness of information provided to the Board of Directors and reaffirming its values and ethics practices. We found that BDC has established and followed sound corporate governance. BDC has enhanced its communication with the Board and reviewed regularly the code of conduct for employees and code of conduct for directors. The Board also follows good practices, reporting on corporate governance, including directors' attendance and compensation, in its annual reports.

The Corporation's Board follows sound corporate governance practices

25. The Corporation is governed by a Board consisting of, at maximum, 15 members. There are currently 14 members, of which 8 new directors were appointed since the beginning of 2008. The Board has adopted a formal charter, which describes its stewardship responsibility. The charter grants Board members clearly defined roles, responsibilities, and authorities, to which all parties within the governance framework understand and agree. Five committees support the Board. Each committee operates under terms of reference, which the Board approves, and each reports periodically to the Board. The Board updates and reviews the terms of reference as required.

26. As part of managing its own succession, the Board has profiled the skills and knowledge its members require, and has communicated the profile to the Minister of Industry. The Board has established appropriate membership criteria. Its Governance/Nominating Committee nominates potential candidates and presents them to the Minister of Industry whenever vacancies are expected or occur. An orientation program also exists for new directors. It includes documentation about the Bank's code of conduct, conflict of interest, and directors' roles and responsibilities. Senior executives provide directors with orientation sessions that give them an overview of BDC's operations.

27. The Board is provided with appropriate information to provide management with strategic direction and to exercise its oversight responsibilities. Directors participate in a two-day strategic retreat annually to share their views on the Bank's strategic orientation and objectives. The Board reviewed and approved the 2009–2013 Corporate Plan as well as the Annual Report. Each quarter, the Board receives operational reports describing each major sector's activities, including an enterprise risk management report. The Board communicates effectively with the President and CEO and senior executives of the Corporation. Directors hold regular meetings without management in attendance, a practice that demonstrates the Board's independence.

28. The Board assesses its own performance annually; directors were generally satisfied with the way the Board and its committees function. Because of the number of new Board members, the Board decided to postpone its scheduled 2007 assessment. We encourage the Board to perform such assessments regularly, and the Chair to assess the performance of individual Board members. Each year, the Board also assesses the performance of the President and CEO, and sets his or her

objectives. It also reviews executive succession plans and oversees the President and CEO's role in succession planning.

Directors' appointments need to be staggered

29. The *Financial Administration Act* stipulates that as much as possible, the terms of directors should be staggered to ensure that no more than half of the members' terms expire in the same year. Staggering terms helps to maintain a Board's corporate knowledge. As previously noted, since the beginning of 2008, eight new directors have been appointed at BDC. Even if the mandated terms of the recent nominees change from three to four years, we noted that the terms of more than half of the directors will expire in a 10-month period in the 2011–12 fiscal year. This poses challenges for the Board, increasing the risk that continuity of expertise and corporate memory will be lost unless some terms are renewed.

Internal audit function complies with standards

30. The BDC's internal audit function helps the organization accomplish its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. Internal audit had an external assessment of its own practices performed, which concluded that it complies with the standards of the Institute of Internal Auditors. In our view, the assessment methodology followed was appropriate and the conclusion was supported.

The Corporation is planning for its transition to International Financial Reporting Standards

31. International Financial Reporting Standards (IFRS) are being adopted in Canada. Publicly accountable enterprises with fiscal year ends of 31 March, including Crown corporations such as BDC, are required to adopt IFRS beginning 1 April 2011. The conversion is a fundamental change in financial reporting and may significantly affect the management of Crown corporations. The responsibility for adequately planning and managing the conversion rests with management. The Board's responsibility is to oversee and ensure that an effective conversion takes place. In their respective roles, management and the Board will need to address issues that the conversion triggers, related to changes in risk, financial reporting, and internal controls.

32. We examined how the Corporation was preparing for an effective conversion. We found that BDC has taken a number of steps to prepare. To date, BDC's management has regularly updated the Audit Committee on the importance of IFRS, the status of this project, its risks, and mitigating measures. In order to manage the conversion, a project structure with steering and technical committees was put in place. In January 2008, BDC began the implementation by engaging an external accounting firm to complete a diagnostic assessment of the impacts of IFRS on BDC. At the end of September 2008, using this diagnostic, BDC started to prepare a detailed convergence plan to be presented to the Audit Committee in the fall of 2008.

33. In our view, the Corporation has taken appropriate steps to plan for its conversion to IFRS. A successful conversion will continue to require sustained attention from management and the Board of Directors.

Strategic planning

34. Strategic planning is the process of defining an organization's direction, or strategies, and the resources needed to implement those strategies. It also ensures that the members of an organization work toward the same goals. Strategic planning also assesses and adjusts an organization's direction in response to a changing environment. Strategic planning determines what an organization does, and why it does it, with a focus on the future.

35. We expected BDC to have a clearly defined strategic direction and specific measurable goals and objectives to ensure that it fulfills its mandate. BDC's strategic direction and goals should consider its environment, government priorities, major risks and opportunities, and the financial and operational implications. We found that BDC has a well-defined corporate planning process that provides clear direction for its activities.

The Corporation has a well-defined planning process

36. The planning process takes into account the internal and external environment as well as organizational strengths and weaknesses. The 2009–2013 Corporate Plan provides the overall strategic direction for the Corporation during that period. The BDC's direction and strategies were clearly communicated across the Corporation. Its operational plans, called business unit plans, are linked to the corporate plan.

37. The Corporation's direction and strategies take into account government priorities and are based on an analysis of the overall

economy, developments in the Canadian SME sector, trends in SME financing, trends in private equity, and financial and operational constraints. Input into the process comes from a number of sources, both internal and external, such as client and employee surveys, an economic profile, analysis of venture capital activities and strategies, and a market scan.

38. As an example, management and the Board discussed the impact of three economic downgrade scenarios before approving the 2009–2013 Corporate Plan. These scenarios allowed for extended downturn of the economy and possible action for BDC to take in order to face them. In early 2008, BDC started to offer more flexible loan features such as extended amortization periods and principal repayment grace periods for new loans, to help meet the evolving needs of SMEs. In light of the current financial crisis, management informed us that alternative plans, further to the scenarios it developed earlier, have been developed for discussion with the Board in preparation for the 2010–2014 Corporate Plan.

Progress has been made in articulating the Corporation's public policy mandate

39. The Corporation's stated key outcomes related to its public policy mandate are "create and develop Canadian firms which can grow and compete successfully in changing global market place" and "inspire and support Canadian entrepreneurship." In the 2004 special examination, we reported that BDC should pay particular attention to enhancing the measurement and reporting of its long-term contribution to public policy objectives.

40. We noted that the Corporation made progress in better articulating its public policy mandate and demonstrating, through its activities, that it is better able to assess and report on the extent to which it is fulfilling its public policy mandate. We noted links are well established between its operations and the achievement of its public policy mandate. For example, we noted that specific operational targets are being set for the number of loans for specific solutions and types of loans, focusing on their complementary role, such as Aboriginal banking, small loans, and young entrepreneurs.

41. Among the Corporation's other initiatives, we noted its development of four new performance indicators to reflect the achievement of its public policy mandate (see paragraph 130 on performance measurement and reporting). Since 2007, these indicators are included in the Corporation's annual report in a section presenting an analysis of how BDC is fulfilling its public policy

mandate over the long term. However, we noted that corporate targets have yet to be established for these indicators.

The Corporation is formalizing its commitment to corporate social responsibility

42. Increasingly, financial institutions are devoting attention to corporate social responsibility (CSR). While the Corporation has not yet reported on its CSR performance, it has made a commitment to address CSR in the 2009–2013 Corporate Plan. A new advisory council is being established to explore ways to improve its policies, practices, and reporting and to make recommendations to management.

43. A CSR assessment is an important starting point for developing a corporate strategy and framework. Based on its initial assessment conducted in 2008, BDC concluded that it already followed many CSR best practices. The Corporation is encouraging Canadian SMEs to explore international/global opportunities. We observed that BDC is making adjustments to its lending procedures when financing projects outside Canada to address issues such as human rights, labour conditions, health and safety, and environmental protection. The Corporation would benefit from a more thorough review of its risks, opportunities, and weaknesses related to corporate social responsibility.

Enterprise risk management

44. Enterprise risk management (ERM) is an integrated enterprise-wide process that enables BDC to identify, assess, measure, manage, and report risks, events, or exposures, as well as potential opportunities.

45. We expected that BDC would have effective risk management policies and practices in place at all levels, to help realize BDC's mandate and corporate objectives. Risks should be identified, measured, mitigated, monitored, and reported, to be kept within a level appropriate to the nature of the business, and to ensure BDC safeguards its assets. Based on our examination work, we concluded that the Corporation met this expectation and is addressing all relevant risks. We found that BDC has made progress concerning risk management. Risks are effectively identified from external sources, as well as internal sources, including operational risks, both top-down and bottom-up. Systems and practices exist to ensure proper measurement and monitoring.

The Corporation's risk management processes have improved

46. Integrated risk management. In the 2004 special examination, we reported that BDC's approach to integrated risk management needed to mature and put more emphasis on operational risks. During this audit, we found that BDC has reviewed its approach and put more emphasis on integrating operational risks. The Corporation has changed its integrated risk management function to an enterprise risk management process and has created a position of Vice President, ERM, to whom the manager responsible for portfolio risk management (PRM) now reports.

47. Enterprise risk management policy. The ERM policy has been reviewed and updated and now serves as the foundation to embed risk awareness within its culture. The Corporation has also formulated a policy to identify risks that could affect its reputation.

48. Risk control and mitigation mechanisms. The Corporation has enhanced its risk control and mitigation mechanisms, integrating them more tightly into its strategic planning and budgeting processes, as well as into its operations. Business unit plans include major risks, as well as mitigation measures, which ERM oversees. The Portfolio Risk Management unit also plays a challenging role in the planning/operational budgeting process. Given the reporting and discussions taking place, we believe that senior management is paying adequate attention to risk control and mitigation.

Financing

49. Lending is the core of BDC's business and represents the largest and the most profitable segment of its operations. As at 31 March 2008, loans (net of allowances for credit losses) had increased to \$9.5 billion from \$6.8 billion as at 31 March 2004, while net income from financing activities increased to \$160.9 million from \$86.8 million. These increases are in line with the approved lending plans.

50. We expected that lending activities would contribute to portfolio growth as well as to BDC's public policy mandate and profitability objectives, and that the activities would be carried out according to the approved lending plans.

51. In the 2004 special examination, we noted that BDC had reinforced its systems and practices for lending activities. During this audit, we found that BDC has further improved its policies, procedures, and controls, to ensure that it manages lending activities within its risk-tolerance threshold, portfolio growth, and profitability objectives.

Changes in business processes, systems, and controls are properly coordinated

52. Since the 2004 special examination, BDC has undertaken a benchmarking initiative in which lending processes have been assessed against a number of North American financial institutions. In the last year, BDC initiated a multi-year project called the Value Project. The Value Project involves all aspects of business processes, client interaction, employees' capabilities, and branch networks of BDC. The purpose of this project is to improve BDC's benefits to client and service delivery. The project comprises four major phases, two of which were completed by end of September 2008—Diagnostic and Redesign. The pre-implementation and implementation phases are scheduled over two to three years.

53. In 2007, in order to improve its services, the Corporation reviewed its business processes with the aim of increasing the distribution of resources dedicated to business development and relationship in its branches and supporting units. Improvements have already been implemented in lending processes. In this regard, the loan application process has been divided into sub-processes (Turbo, Express, Select, and Advanced) to deal with proposals on the basis of risk profile and BDC's total client commitment. The loan application, disbursement, and loan administration processes were revised in 2007.

54. We found that BDC has properly coordinated and communicated these major initiatives and changes in business processes. There is sufficient information, training, and support to ensure that all sectors of the Corporation have adequate knowledge of the business process changes.

55. In 2008, the Corporation continued to review its financing business with the goal of efficiently serving the evolving needs of SMEs and to replace as a minimum its loan origination and administration system and its intranet/extranet systems. This business process review, part of the Value Project, is called Agility and Efficiency (A&E), Core Business Processes. In the context of BDC Financing, the Value Project is highly dependent on technology. In this regard, use of technology and automation plays an important role. This project is further discussed in the Information Technology Management section of this report (paragraphs 113 and 114).

The Corporation reinforced its lending-risk management analysis and tools

56. We found that the Board approves policies related to credit risk management (CRM) including those on the total commitment acceptable per client and on the levels of authority required for

authorizing individual loans. Every quarter, the Board also reviews BDC's loan portfolio and credit risk compared to approved lending plans. This regular analysis and review of the loan portfolio enables management and the Board to identify potential concentration risk, portfolio deterioration, and accounts affected by major events, in a timely fashion.

57. The Corporation has a clear process in place to ensure that loan quality reviews are performed in a uniform way in various locations. Based on the work done by Internal Audit and during our visits and interviews in some branches, we found that BDC has appropriate policies, procedures, and controls in place to ensure that lending activities are managed within BDC's risk tolerance threshold. Internal Audit also conducts regular operational audits to ensure a uniform application of the loans process and compliance with policies and procedures.

58. The Corporation monitors, reviews, and enhances financing solutions on an ongoing basis, to allow it to meet client needs and identify potential areas for improvement. Despite the lack of a structured process for developing financing solutions in the past, BDC has recently implemented a new product development function and process. This should provide better assurance that BDC meets its clients' needs as well as achieves its related profitability objectives.

The Corporation needs to improve its methods and tools for collecting client feedback

59. As reported in the 2004 special examination report, we again found that BDC collects little information when it rejects a loan, when entrepreneurs decline its offers, or when a business relationship with a client is interrupted. We also noted there is no systematic recording and reporting of feedback from financial institutions and stakeholders, which would help BDC refine its business solutions and assess whether it meets market needs. During the 2003–04 fiscal year, BDC began developing a software program called the Customer Relationship Evolving Manager (CREM) that was intended to sustain BDC's growth, increase work efficiency, and manage client relationships by integrating business development, client relationship, and loan management.

60. After the 2004 special examination, BDC stated that CREM would be used to rectify its lack of systematic collection of feedback from all stakeholders. We noted that information pertaining to client business and their history with BDC is recorded in CREM. However,

extraction of this data by the system is difficult and analyses often have to be performed manually. The system does not provide a comprehensive view of client business or relationships with financial institutions or other stakeholders. This information would also be helpful in assessing the extent to which the Corporation meets market needs, and in refining its business solutions. The Corporation is now in the process of replacing its CREM system and it is too early to tell if the new system will offer that capacity in a more effective way.

61. Recommendation. The Business Development Bank of Canada (BDC) should ensure that the replacement system will make it possible to systematically collect, record, and assess feedback from all stakeholders, including information when it rejects a loan, when entrepreneurs decline its offers, and when a business relationship with a client is interrupted.

The Corporation's response. The Corporation agrees with this recommendation. BDC does collect quantitative information on loans that are declined and can measure the percentage of projects that were postponed by the clients, or loans declined due to insufficient earnings and other reasons. Similarly, BDC is able to measure the points of contact with stakeholders such as financial institutions. BDC agrees that, although recorded, qualitative feedback from all stakeholders is not structured in a way that makes its usefulness apparent. However, it does provide BDC with insight when needed.

BDC agrees that it needs to improve its assessment of the feedback collected from its stakeholders. It will improve its Customer Survey and its Market Intelligence Capability. In fact, BDC is currently doing in-depth market research (Client Segmentation Study) that will provide need-based information to support BDC's business strategy in the foreseeable future.

BDC's Agility and Efficiency Project will improve data collection on loans and will help in developing its ability to analyze captured information.

Improvements are needed to address new requirements under the *Canadian Environmental Assessment Act*

62. Environmental concerns have become more important for federal Crown corporations like BDC as a result of changes to the *Canadian Environmental Assessment Act* (CEAA) that came into effect in June 2006. The CEAA is intended to minimize or prevent environmental effects and to incorporate environment factors into decision making. As a federal authority under the CEAA, BDC is now required to conduct an environmental assessment prior to providing loans to many of its clients. This new obligation applies when the

Corporation is considering providing financing for new projects. Under the CEAA, “projects” generally relate to a physical work (for example, infrastructure such as buildings and roads).

63. We expected that BDC would have established and implemented policies, procedures, and practices to ensure that it addresses its new responsibilities under the CEAA.

64. Prior to June 2006, BDC worked with the Canadian Environmental Assessment Agency and adapted its existing environmental policy and procedures as well as its client questionnaire and internal forms. Under BDC’s environmental policy, lending staff in the branches are responsible for conducting the environmental assessments and deciding on the significance of potential environmental effects.

65. The Corporation developed a new manual and provided its lending staff with some training about the new CEAA requirements. However, BDC has not evaluated the effectiveness of its training programs. Given that non-specialists are performing environmental assessments, we expected the training to go beyond general requirements and to include detailed guidance on conducting an environmental assessment.

66. In the 2007–08 fiscal year, more than 1,900 environmental assessments were completed. We noted that BDC generally takes a generic approach to the assessments it performs. It has not tailored its process to reflect the different kinds of environmental risks inherent in the various projects it supports through its loans. In the files we reviewed, BDC had made a final determination about the potential environmental impacts of a project before it authorized and disbursed a loan. However, we observed a lack of proper documentation in the loan credit file to demonstrate the analysis and overall conclusion. For example, projects are not described in sufficient detail. There is usually no clear description of the natural environment that the project would affect. Neither potential environment effects nor mitigation measures associated with a proposed project are clearly identified or documented. These are fundamental elements of an environmental assessment.

67. Recommendation. The Business Development Bank of Canada (BDC) should improve its systems and practices related to the *Canadian Environmental Assessment Act*, by improving the training it provides to branch managers and other lending staff, and by improving its environmental assessment analysis and documentation in its loan credit file.

The Corporation's response. *The Corporation agrees with this recommendation. BDC did establish and implement policies and procedures to address its new responsibilities, in an integrated approach, as opposed to creating a stand-alone system segregated from our successful due diligence practices established in the early 90s.*

Training—BDC field personnel, especially those who have joined BDC since 2006, will benefit from revised training material divided into two separate training sessions that will address the following:

- *the due diligence procedures that focus on the historical and current status of the sites and the activities conducted thereon (these sessions should be completed before the end of March 2009), and*
- *the due diligence required to perform a screening of the effects of the project on the environment in accordance with CEAA and the Crown Corporations Involved in the Provision of Commercial Loans Environmental Assessment Regulations (these sessions should be completed before the end of September 2009).*

Whenever possible, BDC will invite a representative from the agency administering the Act to add value to the training sessions. The traditional due diligence training under the first session is essential to gain solid knowledge prior to undertaking a screening of the effects of the project on the environment.

Documentation—BDC will improve its documentation of the project description, natural environment, and mitigation measures in its screening assessments. Consideration will be given to obtaining more specific information related to the project from the proponent and BDC field personnel. BDC will look into ways of recording on a file-by-file basis the analysis process supporting its conclusions on the potential residual effects of the project. Improved documentation should be in place by the end of the 2009–10 fiscal year.

Venture capital investment

68. Since the 2004 special examination, BDC Venture Capital has been growing its portfolio to take into account the government priorities for an investment strategy that focuses on seed, start-up, and early-stage companies. In 2005, the government injected \$250 million to help commercialize Canadian research and new technologies. BDC's portfolio is concentrated in early-stage investments, compared to other players in the venture capital sector. Since 2004, BDC has implemented a new indirect investment strategy and taken a stronger leadership role in helping in new investment funds.

69. The highly risky nature of BDC's venture capital investments has resulted in significant volatility of earnings. Variations in fair value, operating expenses, and disposal of investments generated a loss in previous years. As of 31 March 2008, the fair value of investments is lower than cost by \$125 million (fair value of \$476 million compared to cost of \$601 million).

70. In the 2007–08 fiscal year, venture capital loss of \$83 million was significantly higher than the objective in its corporate plan, which was to break even. The Corporation explained this variance by two factors: realized income was lower because of limited exit opportunities, and the reduction of investments' value was much greater than planned.

71. We expected that venture capital investment activities would permit BDC to select its initial investments according to strategic objectives, and to monitor existing investments to ensure that it maximized exit opportunities and met its risk and profitability targets. We found that management recently made changes to its systems and practices to help meet its risk and profitability targets.

The Corporation recently changed its authorization and monitoring process for investments

72. The Internal Venture Capital Committee, currently composed of senior managers to whom BDC plans to add external experts, reviews all investment transactions and approves those within the committee's delegated limits. For larger transactions, this Committee makes recommendations to the Credit/Investment and Risk Committee of the Board for approval. The Corporation recently changed its process for authorizing investments in order to reduce delays between a client's initial request and the official approval process. Although the former process was adequate to select investments according to their strategy, it was such that, at the time of approval, most of the parameters were already agreed on by the different parties to the transaction. As a result, minor modifications to parameters requested by approval bodies could mean an extra round of negotiation. The changes to the process included reviewing the organizational structure and authorization forms, and reducing delays associated with approval bodies. Those changes allow a greater possibility to change investment parameters at the moment investment files are submitted to the management and approval bodies.

73. Portfolio managers are responsible for monitoring their investments. We found that there are weekly and quarterly activity report processes that the venture capital management team take part

in, with special emphasis being placed on non-performing investments during quarterly reviews. We also noted that BDC is currently developing more centralized and integrated monitoring tools for investments and for providing new investments analysis and review capabilities.

74. At the corporate level, the Corporation changed financial reporting of investments following the introduction of the fair value evaluation requirements. Before this introduction in 2006, BDC did not systematically report its investment milestone achievements or any minor inconsistencies related to the determination of risk. Since then, we noted that BDC has improved the method it uses to determine the level of risk its investments involve. This is an important improvement because determining the individual risk level of investments is essential in determining the overall risk exposure of BDC venture capital investments.

The Corporation has formalized its investments and divestures policy

75. In the 2004 special examination, we noted the need for BDC to formalize its investment and divestiture practices as a corporate policy. We found that BDC has since implemented an investment and divestiture policy that contains investment and divestiture principles approved by the Board.

76. Since the introduction of the policy, BDC has categorized its investments in four categories (which it calls Portfolio Triage) based on the potential of the companies and on the quality of management's execution. In September 2008, BDC developed objectives on the strategies to adopt for the investments in each category (Portfolio Triage Objectives).

77. We noted that the managers remained responsible for monitoring and managing non-performing investments until divestiture. The Corporation was also in the process of setting up a Special Accounts group to manage liquidations and to assist portfolio managers in supporting other portfolio enterprises that do not meet performance expectations.

Consulting

78. According to its mission, BDC considers consulting services an integral part of the value it brings to its clients by strengthening Canadian entrepreneurial competitiveness.

79. Since the 2004 special examination, BDC Consulting Services has pursued a growth strategy. BDC began 2,770 consulting

assignments in the 2007–08 fiscal year, an increase of 47 percent over the 2005–06 fiscal year, and consulting revenues increased from \$19 to \$25 million over the same period.

80. We expected that BDC Consulting Services would deliver quality solutions linked to market needs, to help create and expand SMEs in Canada. While we found that systems and practices are in place to meet these expectations, we identified areas that needed further improvements.

Better information is needed to assess performance of consulting services

81. The 2004 special examination underlined the importance of developing an integrated framework to evaluate the implementation and overall effectiveness of BDC's strategy, using adequate performance indicators. We noted that client satisfaction and retention are the main indicators used by BDC for evaluating its consulting services. However, it still lacks appropriate performance information to assess the long-term impact of its consulting services on SMEs and to achieve its objective. According to its Corporate Plan, BDC Consulting Services is forecast to generate a net loss of approximately \$4 million per year for the next few years.

82. The 2004 special examination also pointed out that BDC should better document its analysis of the consulting market and the needs of its clients. We found that BDC generally has comprehensive information about the consulting market and client needs to support its decision making and solutions development. The Corporation has recently completed an in-depth market study of the Canadian consulting market and the needs of its clients, the first one since 2001. The strategic planning process would have benefited from a more frequent update of the market information.

83. Recommendation. The Business Development Bank of Canada (BDC) should gather better performance information to assess the impact of its consulting services, as well as market information, on a regular basis to support its strategic planning process.

The Corporation's response. *The Corporation agrees with this recommendation. Management is committed to obtaining continuous market information either as direct consulting initiatives (such as the market study referred to above) or as collaborating with other BDC initiatives (as is the case in the Client Segmentation Study). BDC is also engaged in quantifying the impact of consulting assignments on our clients. This effort was started this year and will continue in future years.*

The Corporation needs to strengthen its consulting systems and practices

84. The Corporation adopted a policy in 2006 for managing its external consultants used in the consulting sector's activities. We noted that information about consultant skills and performance was more complete and relevant. The Corporation has begun to shift from an administrative management practice, where each region would use desired consultants, to a more strategic and centralized practice, where consultants are centrally authorized, allowing it to better distribute the skills offered by the consultants within a region and to better respond to its clients' needs.

85. While BDC has formalized the majority of its administrative processes, information from the post-assignment evaluations prepared by the clients on the performance of external consultants was not always considered in the decision to retain the consultants.

86. **Recommendation.** The Business Development Bank of Canada (BDC) should strengthen its consulting systems and practices by ensuring that post-assignment evaluations are considered in the decision to re-engage a consultant.

The Corporation's response. The Corporation agrees with this recommendation. Management believes that post-assignment evaluations do in fact play a key role in the decision to retain an external consultant and BDC recognizes that the documentation trail related to these activities may sometimes be insufficient. BDC is committed to more rigorously documenting post-assignment evaluations by the end of March 2009.

Treasury and investment management

Derivatives—In a financial context, derivatives are financial instruments whose values are obtained from the value of something else (known as the underlying value). The underlying value on which a derivative is based can be an asset (e.g., commodities, equities (stocks), residential mortgages, commercial real estate, loans, bonds), an index (e.g., interest rates, exchange rates, stock market indices, consumer price index), or other items (e.g., weather conditions, or other derivatives). Credit derivatives are based on loans, bonds, or other forms of credit.

87. The Corporation's treasury and investment units are responsible for managing BDC's cash and liquidity position, providing funding to support its lending activities, and managing risk in its treasury operations.

88. The Corporation depends primarily on borrowing to finance its activities. Formerly, it issued a variety of structured debt instruments in domestic and international markets to finance its activities, which exposed it to foreign currency and equity market risks. It managed those risks by using **derivatives** to alter the structure of its debts, thereby increasing its exposure to **counter-party credit risk**. Since 21 April 2008, BDC no longer issues debt and now borrows directly from the federal government, through the Crown Borrowing Program. However, it remains exposed to counter-party credit risk until its last structured debt instrument matures in 2022.

Counter-party credit risk—Otherwise known as default risk, this is a risk incurred that an organization does not pay out on a credit derivative, credit default swap, credit insurance contract, or other trade or transaction when it is supposed to.

89. We expected that BDC would have treasury and investment strategies, systems, and practices in place that comply with legal provisions and treasury risk policies, and which support sound investment and borrowing decisions within defined risk tolerances. We found that BDC's systems and practices for treasury and investment strategies met these expectations.

Treasury management systems and practices support sound investment and borrowing decisions

90. The Corporation is exposed to various financial risks. To manage or limit its exposure, BDC has established policies and procedures that are consistent with the guidelines the Minister of Finance established for Crown corporations. The Board and the Asset/Liability Management Committee (ALCO), composed of senior executives, review, update, and approve these policies annually. These policies address credit risk inherent in treasury operations. They include exposure limits for derivatives and investment counterparties that have an acceptable credit rating. The policies also require that adherence to these limits be monitored daily and that action be taken in the event that the limits are exceeded.

91. The Corporation recently modified its policies to reflect the fact that its liquidity needs were reduced after it implemented the Crown Borrowing Program. Borrowings from the federal government only include simple debt instruments denominated in Canadian dollars. This will therefore reduce the need for derivatives to manage the exposure to foreign currency and equity market risks. Given that transactions will be simpler, BDC has also lowered its operational risk.

92. The Corporation has not been affected by the non-bank **asset-backed commercial paper** crisis, because it did not hold any exposure to this type of investment. As good governance practice, BDC refined its policies by increasing restrictions on this type of investment.

93. Three separate groups within BDC undertake treasury activities: Treasury, which initiates transactions; Finance, which records, processes, and reports transactions; and Middle Office, which monitors risk exposures and compliance with risk management policies, and reports cases of non-compliance to the ALCO and the Board. Using three separate groups, each with its own reporting structure, effectively segregates duties in treasury operations.

94. Furthermore, our review of documentation shows that the ALCO and the Board receive appropriate information, allowing them

Asset-backed commercial paper—an investment in securities backed by a variety of assets including mortgages, car loans, and credit card balances.

to exercise their oversight role. They receive quarterly reports about risk exposures and policy compliance.

Monitoring the impact of interest-rate fluctuations is critical to managing the Corporation's net income

95. Interest-rate fluctuations pose a risk because sensitivity to interest-rate changes can cause wide swings in both net income and the value of assets and liabilities. Therefore, monitoring the impact of interest-rate fluctuations is critical to managing BDC's net income. We noted that BDC has continued to improve its management of interest-rate risk, by introducing tighter interest-rate limits.

96. The Corporation uses several tools to measure and monitor interest-rate sensitivity. We identified that BDC could further enhance its measurement of interest risks by considering the embedded options included in its loans. These options include the opportunity for borrowers to prepay a loan, and a 60-day fixed-rate guarantee. These options may increase the uncertainty of the timing of cash flow, and make it more difficult to measure and monitor interest-rate risk, thereby reducing the accuracy of BDC's ability to measure interest-rate sensitivity. The Corporation has recently conducted a review of these options and determined that the impact would be minimal. In our view, it may be desirable to reassess this position periodically.

Human resources management

97. The Corporation recognizes that competent, high-performing employees are critical to its business success. Its strategic human resources plan focuses on addressing challenges related to recruitment, retention, leadership, and staff training and development.

98. We expected that BDC would have systems and practices in place to manage its human resources economically and efficiently, in a manner that provides the Corporation with the core competencies and skills it requires to meet its strategic and operational objectives. We found that BDC met these expectations.

The Corporation has effective workforce planning and succession planning processes

99. Each year, BDC develops a Strategic Human Resources Plan aligned with its Corporate Plan. The Human Resources Committee of the Board reviews the plan, and the full Board approves it. The plan is comprehensive, identifying critical jobs that require people with particular qualifications, and presenting specific, often multi-year initiatives to address them. Regular reports about progress in important

areas and on specific initiatives, including turnover data, are made to the Human Resources Committee of the Board. In addition, BDC regularly surveys its employees and uses the survey results to adjust its human resources policies and programs.

100. The Corporation undertakes a succession planning exercise each year for management positions at the regional level, for executive positions at the vice-president level and above, and for any unique positions that senior executives deem critical to BDC's success. It invested in the training and development of those named in the plan, ensuring that potential candidates get appropriate development to allow them to assume increased responsibilities, including enrolment in a transitional leadership program, as well as other assignments. Over the past three years, the succession planning process has effectively identified candidates who are promoted when the related positions become vacant.

101. The Corporation has data about the entire organization's performance concerning the participation of people from both official languages groups and employment equity target groups. That data demonstrates that BDC meets and in some cases exceeds the participation of groups in the Canadian workforce. However, this data is not integrated into BDC's overall human resource and succession planning processes. This would help ensure that BDC continues to meet or exceed its targets in these areas.

Long-term incentive plans are administered according to Board approval

102. The Corporation has a compensation plan that includes base salary, variable pay, benefits, and three long-term incentive plans for senior officers, employees in Subordinate Financing, and employees in Venture Capital. Employees not included in the long-term incentive plans can voluntarily participate in an employee savings plan, which has partial matching contributions from the Corporation, paid out over two years.

103. We found that the information the HR Committee of the Board and the Board receive about compensation plans and results is complete, supported by underlying documentation and benchmarking against comparable groups in the private-sector financing and banking sectors. The various plans are administered according to Board approval.

The Corporation needs to address some *Canada Labour Code* provisions

104. We expected that systems and practices are in place to ensure that the work environment promotes a sufficient and sustainable workforce, and that the Corporation ensures a safe and healthy work environment.

105. As a Crown corporation, BDC is subject to the *Canada Labour Code* and needs to comply with its provisions. While BDC has many aspects of a sound occupational safety and health regime in place, it needs to address some provisions of Part II of the *Canada Labour Code*. The main issues involved

- unclear roles and responsibilities for occupational health and safety,
- an out-of-date occupational health and safety policy, and
- a lack of operating occupational health and safety policy and workplace committees with appropriate representatives.

106. While the risk of incidents is low because of the nature of the work and the workplace, nonetheless, BDC could find itself exposed to charges under the *Canada Labour Code* should a serious accident or incident occur in the workplace or when its employees visit clients' workplaces.

107. Recommendation. The Business Development Corporation (BDC) should address certain provisions of Part II of the *Canada Labour Code* by clarifying the roles and responsibilities for occupational health and safety, by creating an appropriate policy, and by establishing workplace occupational health and safety committees with appropriate representatives.

The Corporation's response. *The Corporation agrees with this recommendation. Although BDC is a professional low-risk environment, the steps to deliver on these particular provisions are already underway. Human Resources have retained the services of a Health and Safety consultant who possesses the expertise to support BDC with the implementation. A new policy has already been drafted and the framework is being defined to establish a policy committee and a national health and safety committee that will clarify the roles and responsibilities of regional committees and representatives and ensure full compliance.*

Information technology management

108. The Corporation operates in a highly automated environment, where information technology (IT) is essential to its operations and to its ability to meet its objectives. To ensure integrity, its systems have to

be up and running at all times, adequately safeguarded, and tested. The Corporation must also adequately prioritize its information technology efforts and align them with corporate objectives.

109. We expected that BDC should have planned, developed, and implemented information management systems that support the Corporation's strategic and operational objectives, ensure business continuity, provide security, and satisfy informational needs, with due consideration for cost/benefit and timeliness. While we found that these expectations were met, we identified areas that need further improvement.

The IT strategic plan continues to need improvement

110. The IT strategic planning process has changed significantly since the 2004 special examination. There is a specific group responsible for developing the IT Strategic Plan, and that has also made improvements to the strategic planning process.

111. The IT strategic planning process now includes the participation of all business units of BDC, to incorporate their needs. Also, Business and Information Technology are now represented at the Information Technology Executive Committee, which oversees all IT projects. The IT Strategic Plan demonstrates IT's alignment with BDC activities and priorities. The IT Strategic Plan presents a vision and mission that focuses on supporting the Corporation's business needs. It outlines organizational and technological priorities, costs, benefits, and capacity.

112. The IT Strategic Plan incorporates the need for performance indicators so that progress can be measured. However, we noted that performance indicators have not yet been identified for most of the IT strategic objectives. Without this information, it is unclear as to how IT will be able to measure its progress against its objectives and whether corrective action would be needed.

113. The Agility and Efficiency (A&E) IT initiative is one of the main projects BDC is undertaking within its broader Value Project. A strategic partner was selected in March 2008 to help BDC review its current lending processes and applications, and to propose the most appropriate set of applications so that the lending process could be automated from end to end. During the summer of 2008, a preliminary solution was presented to the Senior Executive Committee. This initiative is expected to cost over \$50 million and take four years to complete. This renewal will lead to significant changes to over

70 percent of the current IT infrastructure and it poses significant challenges to both BDC lending processes and IT. The Corporation has identified significant risks, including acceptance by the users, the ability of IT to support these new applications, and changes to the existing infrastructure.

114. This solution also means that BDC will replace the Customer Relationship Evolving Manager, a major application put in place four years ago. Given that this initiative is expected to replace existing lending systems and have a major impact on the existing IT infrastructure, we would have expected to see in the IT Strategic Plan a more detailed discussion of the context, main objectives of the A&E initiative, the strategy adopted, and potential impact on the current IT infrastructure.

115. The Corporation has informed us that they understand the risks involved in this project and that they are addressing them in the detailed business case that will be completed and presented for the Board's approval in the fall of 2008. We expect that this business case will include an analysis of the risks as well as the ability of the IT group to deliver and maintain the new environment.

116. Recommendation. The Business Development Bank of Canada (BDC) should improve its information technology strategic planning process and incorporate measurable performance indicators in its strategic plan.

The Corporation's response. *The Corporation agrees with this recommendation. The IT strategic planning process has been significantly modified since the 2004 special examination and is now aligned with the overall planning process of BDC and its corporate strategies. All business units are involved in producing the IT Strategic Plan; it is reviewed and approved by the senior executives at the IT Governance Committees (Information Technology Business Committee [ITBC] and Information Technology Executive Committee [ITEC]). Recently, BDC introduced measures to track its progress on the priorities stated in the Strategic Plan. For example, one of BDC's priorities is to "resolve obsolescence." In order to accomplish this, it defined a measure that tracks its progress in reducing the number of components that are getting very close to becoming obsolete, such as our Windows Operating System—Win2000. BDC plans to continue to define measures to track its progress with respect to the priorities of our IT Strategic Plan and accepts the recommendation to incorporate performance indicators.*

Also, in order to ensure a more complete IT Strategic Plan, BDC will incorporate its top IT risks and recommended mitigation strategies, as already documented in its Enterprise Risk Management Reports, as part of its next version of the IT Strategic Plan.

The Corporation needs an overall IT security policy

117. In the 2004 special examination, we noted that the security officer reported to the Director, IT Planning and Administration, who in turn reports to the Vice President, System and Technology. We indicated that BDC would benefit from modifying its IT security reporting relationship, to better segregate duties. We noted that change was made recently and that the IT security officer now reports to the IT Vice President and also to the ERM Vice President.

118. We also found that there is no overall IT security policy. An overall IT security policy would provide the foundation for securing and protecting BDC's assets. As well, this policy would establish baseline security requirements and formalize the accountability structure for the delivery of the security program. Without such policy, BDC does not have an overall view of how well it is addressing security issues and whether it is at risk.

119. Recommendation. The Business Development Bank of Canada (BDC) should have an overall information technology security policy that delineates the roles and responsibilities for implementing IT security and makes the necessary connections to other policies and standards that relate to IT security.

The Corporation's response. *The Corporation agrees with this recommendation. BDC addresses security in all its policies, including those that are part of the Code of Conduct. BDC is, however, committed to the review of its policies with the objective of producing, over the next year, an overall IT Security Policy that will apply to the overall Corporation.*

The Corporation still needs to improve its IT project management practices

120. In the 2004 special examination, we noted that standardized reporting on projects as well as cost/benefit analysis would have improved project management. Since then, BDC has adopted a formal project management methodology, which applies to all of its projects. However, for many of the projects that we reviewed, we found that the cost/benefit analysis was not always done. Also, project statements lacked options analysis. Without this analysis, it is difficult to select the best solution.

121. We also found that progress status reports did not provide an overall view of projects, but discussed only a project's current phase. These reports are an important management and communication tool, whose main goal is to inform people about the status of the project. Incomplete reports could lead managers to make decisions without knowing the overall project status.

122. IT undertakes more than 30 projects every year. A review of this list reveals that many projects are related to what would normally be considered maintenance. However, all projects are subject to the standard project management methodology. This involves using the project management templates and following all the steps of the BDC System Development Life Cycle. This could lead to an unnecessary burden placed on the delivery of these projects. We found that for these projects, there were many instances where the methodology was not followed. We were informed that Information Technology has recently clarified the definition of projects. Many of the above projects will no longer be subjected to project management methodology and will instead be part of the operational budget, which should simplify the oversight.

123. In the past year, changes to project governance have been put in place, including new senior committees that oversee the projects at the approval phase and the ongoing progress. We have seen improvement in the approach that is being followed for the A&E initiative. Nevertheless, several aspects of project management still need to be improved.

124. Recommendation. The Business Development Bank of Canada (BDC) should ensure options and cost/benefit analysis are included in proposals for IT development projects. In addition, its new senior project oversight committees should oversee overall progress of those IT projects.

***The Corporation's response.** The Corporation agrees with this recommendation. With respect to project management, BDC now has a sound methodology based on Project Management Institute (PMI) practices, and several employees are certified PMI project managers. Over the past year, it has set up a Project Management Office, which ensures that the methodology is applied as required. All its projects are tracked in a central repository and the health of all the projects are communicated on a regular basis to the new ITBC governance committee.*

Now that this new governance is in place, BDC is in a position to increase the rigour with which it approves and tracks projects. This will be achieved

by ensuring that business cases are presented for each project approval request. These business cases will include options as well as outline the impact of not moving ahead with each project. BDC will also work to refine the current project reporting to ensure that ITBC has sufficient information to oversee the overall progress of all IT projects.

Performance measurement and reporting

125. Clear measurement and reporting of performance is essential to sound management and to meeting expectations for accountability and transparency. A good performance measurement process and comprehensive performance indicators should provide an overview of the results achieved and allow an organization to report on performance internally, for decision making, and externally, for accountability.

126. We expected BDC to have specific and measurable objectives consistent with its mandate and government priorities, and to monitor and report against those objectives to enable management, the Board of Directors, Parliament, and other stakeholders to meaningfully assess the Corporation's performance. Overall, we found that BDC has a good structure and processes in place to measure, monitor, and report its performance against its objectives.

Performance measures are in place for some important aspects of the Corporation's activities

127. The Corporation has developed performance indicators to measure the output of its financing, venture capital investments, and consulting activities, and updates them regularly. BDC's business units are required to set objectives and targets related to the desired key outcomes and explain how they intend to reach them by detailing their strategies and initiatives. However, we found that performance indicators for Information Technology have not yet been developed. Activity reports are provided regularly to senior management and the Board of Directors. We noted that BDC's annual report provides information on BDC's performance in relation to its Corporate Plan objectives and how it meets them, as well as examples of initiatives in different sectors and areas of the country.

128. To measure the achievement of its objectives, BDC is relying on performance indicators such as the level of client satisfaction, the number and value of loans authorized, and the number and value of venture capital investments.

129. The nature of BDC's business is such that there is a long period of time before the impact of activities can be seen and measured.

To track progress toward its objectives, BDC has made efforts to measure and assess its medium- and long-term impact on the business creation and growth of small and medium-sized Canadian businesses. Studies have been completed or are underway to measure BDC's impact on Canadian SMEs and the achievement of its complementary role to private sector banks. In our view, such initiatives performed on a regular basis will improve management accountability and enhance stakeholders' ability to meaningfully assess BDC's performance.

130. The Corporation is also developing four performance indicators that will allow them to better track the outcomes of its public policy mandate. These indicators are

- the business creation rate that will measure the percentage of authorizations that went to start-up phase,
- the market leverage rate that will measure the dollar amount invested by the private sector for each dollar invested by BDC's venture capital investments,
- the business survival rate of start-up clients, and
- the business growth level of its clients.

Since 2007, the Corporation has started to report against these indicators in its annual report. As noted in paragraph 41, related targets have yet to be set.

131. We recognize that developing meaningful performance indicators takes time and BDC has put more emphasis on setting clearer performance indicators related to its public policy mandate and venture capital investments. In our opinion, including such indicators and their related targets in BDC's corporate key performance indicators would enhance the completeness of the information on results reported for decision making and through the annual report to allow Parliament, other stakeholders, and the public to better assess the Corporation's performance.

Conclusion

Based on our findings, we have concluded that during the period under examination, the Corporation managed its systems and practices in a way that provided it with reasonable assurance that its assets were safeguarded and controlled, its resources were managed economically and efficiently, and its operations were carried out effectively.

About the Special Examination

All of the audit work in this report was conducted in accordance with the standards for assurance engagements set by The Canadian Institute of Chartered Accountants. While the Office adopts these standards as the minimum requirement for our audits, we also draw upon the standards and practices of other disciplines.

Objective

Under section 138 of the *Financial Administration Act* (FAA), federal Crown corporations are subject to a special examination once every five years. Special examinations of Crown corporations are a form of performance audit where the scope is set by the FAA to include the entire corporation. In special examinations, the auditors provide an opinion on the management of the corporation as a whole. The opinion for this special examination is found on page 3 of this report.

Special examinations answer the question: Do the corporation's systems and practices provide reasonable assurance that assets are safeguarded, resources are managed economically and efficiently, and operations are carried out effectively?

Key systems and practices examined and criteria

At the start of this special examination, we presented BDC's audit committee with an audit plan that identified the systems and practices, and the related criteria that we considered essential to providing BDC with reasonable assurance that its assets are safeguarded and controlled, its resources managed economically and efficiently, and its operations carried out effectively. These are the systems and practices and criteria that we used for the examination.

Key Systems and Practices	Criteria
Governance <ul style="list-style-type: none"> • Appointment and functioning of the Board and its committees • Information for Board oversight • Internal Audit • External relations • Corporate ethics 	<p>We expected that BDC would have an effective corporate governance framework to ensure that it fulfills its mandate in a manner consistent with its role in delivering financial, investment, and consulting services to SMEs.</p>
Strategic Planning <ul style="list-style-type: none"> • Corporate planning process • Budgetary process 	<p>We expected BDC to have a clearly defined strategic direction and specific measurable goals and objectives to ensure that it fulfills its mandate. BDC's strategic direction and goals should consider its environment, government priorities, major risks and opportunities, and the financial and operational implications.</p>

Key Systems and Practices	Criteria
Risk Management <ul style="list-style-type: none"> • Risk identification, control, and mitigation • Measurement and risk monitoring and reporting 	<p>We expected that BDC would have effective risk management policies and practices in place at all levels, to help realize BDC's mandate and corporate objectives. Risks should be identified, measured, mitigated, monitored, and reported, to be kept within a level appropriate to the nature of the business, and to ensure BDC safeguards its assets.</p>
Financing <ul style="list-style-type: none"> • Solution development (pricing, monitoring and evaluation for new solutions) • Coordination and deployment of resources in the context of changes in business processes • Authorization, monitoring, and evaluation • Loan portfolio risk management • Loan operational review • Environment 	<p>We expected that lending activities would contribute to portfolio growth as well as to BDC's public policy mandate and profitability objectives, and that the activities would be carried out according to the approved lending plans.</p>
Venture capital investment <ul style="list-style-type: none"> • Authorization process • Policy and practices on exit strategies • Investments monitoring and risk management • Investment policy formalization 	<p>We expected that venture capital investment activities would permit BDC to select its initial investments according to strategic objectives, and to monitor existing investments to ensure it maximizes exit opportunities and meets its risk and profitability targets.</p>
Consulting <ul style="list-style-type: none"> • Actual and prospective consulting market intelligence • Consultants network management • Solutions conception and development • Impact evaluation on Canadian SMEs • Solutions fees determination • Operational planning 	<p>We expected that BDC Consulting Services would deliver quality solutions linked to market needs, to help create and expand SMEs in Canada.</p>
Treasury and investment management <ul style="list-style-type: none"> • Treasury risk management during the transition period with the Department of Finance • Treasury risk monitoring, measurement, and reporting • Treasury transactions processing controls • Treasury risk policy 	<p>We expected that BDC would have treasury and investment strategies, systems, and practices in place that comply with legal provision and treasury risk policies, and which support sound investment and borrowing decisions within defined risk tolerances.</p>
Human resources <ul style="list-style-type: none"> • Human resources planning and forecasting • Succession planning framework • Long-term incentive remuneration programs • Related performance measurement 	<p>We expected that BDC would have systems and practices in place to manage its human resources economically and efficiently, in a manner that provides the Corporation with the core competencies and skills it requires to meet its strategic and operational objectives.</p>

Key Systems and Practices	Criteria
Information technology <ul style="list-style-type: none"> • Strategic information technology planning and operational plans • Selection of new IT solutions based on business needs and cost/benefit analysis • Project management • Information technology control environment, including but not limited to <ul style="list-style-type: none"> • business continuity plans • security policies • systems and technology operations • service level agreements 	We expected that BDC should have planned, developed, and implemented information management systems that support the Corporation's strategic and operational objectives, ensure business continuity, provide security, and satisfy informational needs, with due consideration for cost/benefit and timeliness.
Performance measurement and reporting <ul style="list-style-type: none"> • Performance measurement process with particular emphasis on key performance indicators • Reporting on performance achieved 	We expected BDC to have specific and measurable objectives consistent with its mandate and government priorities, and to monitor and report against those objectives to enable management, the Board of Directors, Parliament, and other stakeholders to meaningfully assess the Corporation's performance.

Audit work completed

Audit work for this special examination was substantially completed on 30 September 2008.

Audit team

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Appendix List of recommendations

The following is a list of recommendations found in the Special Examination Report. The number in front of the recommendation indicates the paragraph where it appears in the report. The numbers in parentheses indicate the paragraphs where the topic is discussed.

Recommendation	Response
Financing	
61. The Business Development Bank of Canada (BDC) should ensure that the replacement system will make it possible to systematically collect, record, and assess feedback from all stakeholders, including information when it rejects a loan, when entrepreneurs decline its offers, and when a business relationship with a client is interrupted. (59–60)	<p>The Corporation agrees with this recommendation. BDC does collect quantitative information on loans that are declined and can measure the percentage of projects that were postponed by the clients, or loans declined due to insufficient earnings and other reasons. Similarly, BDC is able to measure the points of contact with stakeholders such as financial institutions. BDC agrees that, although recorded, qualitative feedback from all stakeholders is not structured in a way that makes its usefulness apparent. However, it does provide BDC with insight when needed.</p> <p>BDC agrees that it needs to improve its assessment of the feedback collected from its stakeholders. It will improve its Customer Survey and its Market Intelligence Capability. In fact, BDC is currently doing in-depth market research (Client Segmentation Study) that will provide need-based information to support BDC’s business strategy in the foreseeable future.</p> <p>BDC’s Agility and Efficiency Project will improve data collection on loans and will help in developing its ability to analyze captured information.</p>

Recommendation	Response
<p>67. The Business Development Bank of Canada (BDC) should improve its systems and practices related to the <i>Canadian Environmental Assessment Act</i>, by improving the training it provides to branch managers and other lending staff, and by improving its environmental assessment analysis and documentation in its loan credit file. (62–66)</p>	<p>The Corporation agrees with this recommendation. BDC did establish and implement policies and procedures to address its new responsibilities, in an integrated approach, as opposed to creating a stand-alone system segregated from our successful due diligence practices established in the early 90s.</p> <p>Training—BDC field personnel, especially those who have joined BDC since 2006, will benefit from revised training material divided into two separate training sessions that will address the following:</p> <ul style="list-style-type: none"> • the due diligence procedures that focus on the historical and current status of the sites and the activities conducted thereon (these sessions should be completed before the end of March 2009), and • the due diligence required to perform a screening of the effects of the project on the environment in accordance with CEAA and the Crown Corporations Involved in the Provision of Commercial Loans Environmental Assessment Regulations (these sessions should be completed before the end of September 2009). <p>Whenever possible, BDC will invite a representative from the agency administering the Act to add value to the training sessions. The traditional due diligence training under the first session is essential to gain solid knowledge prior to undertaking a screening of the effects of the project on the environment.</p> <p>Documentation—BDC will improve its documentation of the project description, natural environment, and mitigation measures in its screening assessments. Consideration will be given to obtaining more specific information related to the project from the proponent and BDC field personnel. BDC will look into ways of recording on a file-by-file basis the analysis process supporting its conclusions on the potential residual effects of the project. Improved documentation should be in place by the end of the 2009–10 fiscal year.</p>

Recommendation	Response
<p>Consulting</p> <p>83. The Business Development Bank of Canada (BDC) should gather better performance information to assess the impact of its consulting services, as well as market information, on a regular basis to support its strategic planning process. (81–82)</p> <p>86. The Business Development Bank of Canada (BDC) should strengthen its consulting systems and practices by ensuring that post-assignment evaluations are considered in the decision to re-engage a consultant. (84–85)</p>	<p>The Corporation agrees with this recommendation. Management is committed to obtaining continuous market information either as direct consulting initiatives (such as the market study referred to above) or as collaborating with other BDC initiatives (as is the case in the Client Segmentation Study). BDC is also engaged in quantifying the impact of consulting assignments on our clients. This effort was started this year and will continue in future years.</p> <p>The Corporation agrees with this recommendation. Management believes that post-assignment evaluations do in fact play a key role in the decision to retain an external consultant and BDC recognizes that the documentation trail related to these activities may sometimes be insufficient. BDC is committed to more rigorously documenting post-assignment evaluations by the end of March 2009.</p>
<p>Human resources management</p> <p>107. The Business Development Bank of Canada (BDC) should address certain provisions of Part II of the <i>Canada Labour Code</i> by clarifying the roles and responsibilities for occupational health and safety, by creating an appropriate policy, and by establishing workplace occupational health and safety committees with appropriate representatives. (104–106)</p>	<p>The Corporation agrees with this recommendation. Although BDC is a professional low-risk environment, the steps to deliver on these particular provisions are already underway. Human Resources have retained the services of a Health and Safety consultant who possesses the expertise to support BDC with the implementation. A new policy has already been drafted and the framework is being defined to establish a policy committee and a national health and safety committee that will clarify the roles and responsibilities of regional committees and representatives and ensure full compliance.</p>

Recommendation	Response
Information technology management	
<p>116. The Business Development Bank of Canada (BDC) should improve its information technology strategic planning process and incorporate measurable performance indicators in its strategic plan. (110–115)</p>	<p>The Corporation agrees with this recommendation. The IT strategic planning process has been significantly modified since the 2004 special examination and is now aligned with the overall planning process of BDC and its corporate strategies. All business units are involved in producing the IT Strategic Plan; it is reviewed and approved by the senior executives at the IT Governance Committees (Information Technology Business Committee [ITBC] and Information Technology Executive Committee [ITEC]). Recently, BDC introduced measures to track its progress on the priorities stated in the Strategic Plan. For example, one of BDC's priorities is to "resolve obsolescence." In order to accomplish this, it defined a measure that tracks its progress in reducing the number of components that are getting very close to becoming obsolete, such as our Windows Operating System—Win2000. BDC plans to continue to define measures to track its progress with respect to the priorities of our IT Strategic Plan and accepts the recommendation to incorporate performance indicators.</p> <p>Also, in order to ensure a more complete IT Strategic Plan, BDC will incorporate its top IT risks and recommended mitigation strategies, as already documented in its Enterprise Risk Management Reports, as part of its next version of the IT Strategic Plan.</p>
<p>119. The Business Development Bank of Canada (BDC) should have an overall information technology security policy that delineates the roles and responsibilities for implementing IT security and makes the necessary connections to other policies and standards that relate to IT security. (117–118)</p>	<p>The Corporation agrees with this recommendation. BDC addresses security in all its policies, including those that are part of the Code of Conduct. BDC is, however, committed to the review of its policies with the objective of producing, over the next year, an overall IT Security Policy that will apply to the overall Corporation.</p>

Recommendation	Response
<p>124. The Business Development Bank of Canada (BDC) should ensure options and cost/benefit analysis are included in proposals for IT development projects. In addition, its new senior project oversight committees should oversee overall progress of those IT projects. (120–123)</p>	<p>The Corporation agrees with this recommendation. With respect to project management, BDC now has a sound methodology based on Project Management Institute (PMI) practices, and several employees are certified PMI project managers. Over the past year, it has set up a Project Management Office, which ensures that the methodology is applied as required. All its projects are tracked in a central repository and the health of all the projects are communicated on a regular basis to the new ITBC governance committee.</p> <p>Now that this new governance is in place, BDC is in a position to increase the rigour with which it approves and tracks projects. This will be achieved by ensuring that business cases are presented for each project approval request. These business cases will include options as well as outline the impact of not moving ahead with each project. BDC will also work to refine the current project reporting to ensure that ITBC has sufficient information to oversee the overall progress of all IT projects.</p>

APPENDIX 7

LESSONS FROM THE RECESSION AND FINANCIAL CRISIS:

Lesson Two – Public Sector Financial
Institutions Prove Their Worth





Executive Action

January 2010

Lessons From the Recession and Financial Crisis

Lesson 2—Public Sector Financial Institutions Prove Their Worth

At a Glance

- ♦ Public sector financial institutions play a critical role as a backstop for the global financial system.
- ♦ A key learning from the past year is that once a financial crisis hits, it is too late for governments to create institutional capacity at the global, regional, or national level to provide fall-back credit support—the institutions must already exist.
- ♦ These institutions—internationally and in Canada—have proven their collective value as policy tools for shoring up a severely weakened global financial system.

PRIVATE FINANCIAL SYSTEM AT RISK

Public sector financial institutions play a critical role as a backstop for the global financial system and for specific countries. Failings in the private financial system were at the root of the crisis and recession. The problem was centred in (but not restricted to) the U.S. and was spread by global distribution channels.

The financial crisis was driven by the lethal combination of over-leveraging of capital, over-extension of credit (especially for sub-prime mortgages in the U.S.), and the securitization of these unsound credits around the globe. On September 15, 2008, global financial giant Lehman Brothers went under. A number of other key private sector banks and insurers were in deep trouble. The system was at risk.

The Federal Reserve and the U.S. Treasury acted swiftly. They nationalized the country's two largest mortgage entities, Fannie Mae and Freddie Mac, and took over the world's largest insurance company, AIG. They provided share capital to shore up key banks such as Citigroup and Bank of America. The dramatic moves

ECONOMIC PERFORMANCE AND TRENDS

The Context for This Series

The global economy has just experienced its first decline in aggregate output in over five decades, driven by events in the U.S. housing and credit markets that rippled across the globe. Fortunately, governments in many countries quickly intervened by shoring up failing financial markets and stimulating demand. There is now strong evidence that the recession has come to an end, although as discussed in the Conference Board's various economic outlook products, this recovery is not likely to be as strong as those that followed previous recessions.

At this point in the recovery, what lessons can be learned from the financial crisis and resulting recession and the policy response of governments? The Conference Board of Canada's Forecasting and Analysis team has examined the developments of the past year. We have drawn key lessons for the world and for Canada that deserve priority discussion among policy makers and business leaders.

Other executive action briefings in this series so far: *Overview—What Caused the 2008–09 Financial Crisis and Recession?* (January 2010), *Lesson 1—The Financial Sector is Unique and Needs New Standards* (January 2010).

by the U.S. government and the Fed were desperately needed. The bankruptcy of Lehman led to a panic in the commercial paper, credit-derivative, and bank-funding markets that significantly worsened many banks' balance sheets. More generally, the global banking system was pulling back sharply on credit extension to keep banks' balance sheets intact.

Fortunately, the system also contained some well-structured, professionally managed lenders and insurers in the public sector with the capacity to step up and fill gaps in the financial marketplace. In addition to the remarkable intervention by governments to shore up private financial markets, these public sector organizations became part of the policy solution to the systemic risk.

GLOBAL PUBLIC SECTOR FINANCIAL INSTITUTIONS

Some context is required. Just a year or two ago, it was fashionable in some financial and economic circles to question why many of these public sector financial

institutions should continue to exist. At the global level, the International Monetary Fund (IMF) and the World Bank had seen their respective roles shrink dramatically through the boom times earlier this decade. Private capital markets had expanded significantly, and countries were able to access new sources of capital without turning to the Fund or the Bank.

New annual lending by the IMF to assist in economic policy adjustment by countries in distress had fallen to only 1 billion Special Drawing Rights, or SDRs, (about US\$1.6 billion) on average in 2007 and 2008, and the Fund was cutting staff and expenses. The World Bank continued to provide development finance to poorer developing countries—about \$17 billion in 2007—but it was becoming marginalized by private capital flows to the developing world, which had surpassed \$500 billion annually.

In terms of governance, neither organization had adapted its governance structure fast enough to changes in global economic power. They needed to find a way to include countries such as China, India, and Brazil in decision making more fully. Otherwise, they risked a further decline in their status, given the dramatic shift in economic growth toward emerging markets over the past two decades. This was particularly true for the IMF.

What a difference a year makes. Over the past year, the already-existing public sector financial institutions have added tremendous value by helping to build a floor under a collapsing global credit system. On the global stage, the IMF and World Bank—which have had a mandate since 1944 to provide funding for country stabilization and development—were challenged in this latest time of crisis to step forward as lenders and as policy advisors, just as they had done many times previously. They met the challenge by committing huge sums to countries hard hit by the crisis. The IMF committed SDR 65.8 billion (about US\$100 billion) to 15 countries in crisis in its fiscal year ending April 2009, along with providing policy advice to the G20 and across the global economy. The World Bank committed nearly \$60 billion, a 54 per cent increase from the previous fiscal year. Commitments have been made, through the G20 process, to give emerging markets a larger ownership share and more influence in decision making

in the IMF and World Bank. These institutions are at the centre of the global strategy to restore confidence to markets and rekindle economic growth.

At the national level, governments around the world were compelled to use their national balance sheets directly—via treasuries and central banks—to prop up key private financial institutions and address immediate gaps in their financial systems. Some analysts estimate that the U.S. government alone provided total support to the U.S. financial sector of US\$10 trillion at its peak, through a combination of nationalization (e.g., AIG, Fannie Mae, and Freddie Mac), equity injections, various guarantees, asset purchases and bridge financing.

But in many cases, it was neither desirable nor practical for governments to use the blunt instruments of nationalization, equity injections, or direct government guarantees. Expert institutions—where they existed—were often much better placed to help diagnose the problem, provide advice on solutions, and extend credit.

A key learning from the past year is that once a financial crisis hits, it is too late for governments to create institutional capacity at the global, regional, or national level to provide fall-back credit support. The institutions must already exist, with a clear operating mandate, experienced professional staff, and the financial capacity to respond to the financial needs. Some have called this the “Sleeping Beauty” or state of readiness strategy of global finance—having organizations already in operation that can ramp up their operations when the private market fails.¹

CANADIAN PUBLIC SECTOR FINANCIAL INSTITUTIONS

A comprehensive assessment of how other global, regional, and national public sector financial institutions responded to the crisis is beyond the scope of this executive action briefing. For Canada, however, we can say with certainty that the federal government’s financial institutions—specifically the Business Development

Bank of Canada (BDC) and Export Development Canada (EDC)—stepped up to the plate and provided exceptional credit support in a time of crisis. A third federal financial institution—Farm Credit Canada (FCC)—continues to implement its mandate to provide credit to farms and agri-business, and has seen strong demand for its services. Collectively, these organizations have helped to speed the healing of the Canadian financial system.

There has been recurring debate in Canada about the positioning of BDC, EDC, and FCC within the Canadian financial marketplace. One approach would see these organizations operate as lenders or insurers of last resort, taking only risks the private sector will not take. This approach would have little or no overlap with the private sector, but it could also be very expensive for the federal government in terms of credit losses.

The federal government considered this approach over the past 15 years but essentially rejected it for two reasons. First, a lender or insurer of last resort takes only the worst credit risks, which creates significant financial risk for the national treasury. In earlier decades, the federal government had some unpleasant financial episodes with the financial Crown corporations, an experience it did not want to repeat. It therefore has chosen to move away from the high-risk model of lender of last resort. Second, there was a realization over time within the federal government that its three financial institutions could play a larger and more sophisticated role as a complement to private sources of capital. These institutions could share in risk-taking with the private market while being present in the marketplace through the entire business cycle. The federal financial institutions could be guided by the concept of “gap filling.” On occasion, they would take on riskier transactions—but selectively, according to clear risk assessment criteria. And on occasion, they could partner or risk-share with private sector institutions to allow a given transaction to be completed. Since governments and their institutions are able to take a longer view than private markets, they can stay active when private finance is in retreat—just as we have seen over the past year.

¹ A term used by Malcolm Stephens, former head of the British export credit agency, Export Credit Guarantee Department (ECGD).

Thus, under this complementary approach, it should be possible for public sector financial institutions both to improve the operation of financial markets (by gap filling and meeting evolving market needs) and to avoid financial losses (by being smart when it comes to risk assessment and financial management).

With this concept in mind, the federal government has taken an evolutionary approach toward its financial Crown corporations over the past 15 years. Each of the three federal financial institutions has carved out a quasi-commercial niche in its respective segment of the Canadian financial services industry—small and mid-sized business financing for BDC, facilitation of international trade and investment for EDC, and farms and agri-business credit for FCC. Each must maintain the balancing act of extending credit to meet public policy objectives within a commercial business mandate (i.e., generating profits). BDC and EDC, in particular, have expanded their roles as complementary players in their respective financial market segments. A variety of financial instruments are being used to take on credit risks alongside private sector lenders and insurers, thereby expanding the credit risk capacity of the entire Canadian financial system.

The three organizations have many supporters in the private business community, including in the financial services industry. But they also have critics who say these organizations are crowding out private credit activity; and some question whether these organization should continue to exist at all.

RESPONDING TO THE FINANCIAL CRISIS

The financial crisis answered that question definitively. As the crisis began to choke off private credit to Canadian business from Canadian and foreign sources, the federal government quickly realized that it could use its own financial institutions—BDC and EDC in particular—to address specific financial market failures. The federal government chose to invest an additional \$350 million in BDC's capital base in order to strengthen BDC's capacity to take risks and innovate in this challenging period. In addition to pursuing its regular lending and

venture capital business, BDC created a new credit facility to purchase up to \$12 billion of term asset-backed securities (ABS) backed by loans and leases on vehicles and equipment, reflecting the sharp decline in this particular market segment.

For EDC, the federal government invested a similar amount—\$350 million in new capital—to support up to \$1.5 billion in increased credit capacity for those most affected by the financial crisis. EDC's mandate was also expanded for a two-year period to allow it to provide domestic financing and insurance for receivables. EDC reported that it had business volumes of \$38.2 billion in the first half of 2009, a modest increase over the same period last year—a time when the risks associated with trade financing and insurance had increased around the globe and exports had dropped sharply.

Both BDC and EDC are working closely with private financial institutions to help build a bridge back to more normal credit conditions. The January 2009 federal budget included the creation of the Business Credit Availability Program (BCAP), to provide \$5 billion in extra credit over two years. The BCAP is managed jointly by the private financial institutions, BDC and EDC. Observers of the Canadian financial system say this program has been a major success.

It should also be noted that another federal institution, the Canada Mortgage and Housing Corporation, played a significant role in sustaining the Canadian mortgage market during the financial crisis.

For the foreseeable future, we expect the various public sector financial institutions covered in this executive action briefing to continue to operate at a high level in terms of credit extended. Private capital markets have begun to heal and private investment should slowly begin to grow again through 2010, but the global financial system is a long way from normal. Significant gaps will continue to exist in specific financial markets, and the public sector institutions will have an ongoing role to play in bridging those gaps and encouraging a return to more normal risk-taking capacity for private lenders and insurers.

CONCLUSION

Public sector financial institutions internationally and in Canada have proven their collective value as policy tools for shoring up a severely weakened global financial system. The “Sleeping Beauty” or state of readiness strategy of public sector finance has worked. It was

extremely useful to have public sector institutions already in operation, globally and within Canada, that were able to ramp up their operations when the private market failed. They will be needed as active financial players for some time to come, filling the gaps that widened in the financial marketplace.

Acknowledgements

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Lessons From the Recession and Financial Crisis: Lesson 2—Public Sector Financial Institutions Prove Their Worth
by *Glen Hodgson*

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