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May 5, 2020

Submitted via email

The Honourable William Francis Morneau, P.C., M.P.
Minister of Finance
Department of Finance Canada
90 Elgin Street
Ottawa ON K1A 0G5

Re: Economic recovery via Foreign Investment

Dear Minister:

The COVID-19 pandemic has triggered a global economic slowdown and world leaders are now looking for ways to shore up their countries' economies and choosing the best approaches to stimulate economic growth.

In the past two months, the federal government has taken quick and decisive actions to introduce several significant and timely spending programs to support the incomes of workers and businesses, providing sizeable relief to groups most impacted by the pandemic and ensuring businesses have access to bridge financing to survive mandated shutdowns.

In these difficult times, the investment industry is willing and eager to help rebuild the economy and to collaborate with the Canadian Government in doing so, including finding ways to increase Foreign Direct Investment in Canada (FDI).

As you know, the Investment Industry Association of Canada (IIAC) is the national association representing the position of 116 IIROC-regulated dealer member firms on securities regulation, public policy and industry issues. These dealer firms provide essential services and are the key intermediaries in Canadian capital markets, accounting for most financial advisory services, securities trading and underwriting in public and private markets for governments and corporations.

We recommend the federal government re-introduce a program to attract Foreign Direct Investment to Canada through a formal immigrant investor program, building on the strengths of the previous federal program, the Federal Immigrant Investor Program (FIIP), one of the most sought-after immigration programs in the world. The revised Program would be an effective mechanism to attract direct foreign investment capital to contribute to the post-pandemic economic recovery. It is evident that the global business structure, notably the networks of global supply chains, will adjust significantly from the US-China trade disruptions and the consequences of the recent pandemic crisis. Canada has many economic and social attributes as an attractive global location. A well-structured federal immigrant investor program would be an effective vehicle to transfer capital to seize evolving investment opportunities in Canada.

We know there are tens of thousands of High Net Worth Individuals (HNWIs) willing and eager to invest in Canada in return for permanent residence. If Canada does nothing, other countries will again benefit from this wealth, as happened with the FIIP whose last intake was in 2012. The US Immigrant Investor Program (EB-5) saw thereafter a large increase in the number of investors who invested at-risk funds of over US$10 billion and created more than one million jobs since then[1].

<u>The FIIP</u>

Before being closed, the FIIP was considered a very reputable and industry-leading program. It was structured so that investors were making a one-time capital contribution of $400,000 (applications prior to 2010) or $800,000 (for post-2010 applicants) to Canada in the form of a 5-year loan (refundable without interest at the end of the term). These capital contributions were redistributed to the participating provinces for investment in economic development. For example, from 2007 to 2011, $2.67B[2] was raised through the FIIP.

Our understanding is that the major problem with the FIIP was that only 33% of the total FIIP capital was actively invested by the provinces (23% in infrastructure projects, 9% in loans/grants to SMEs and 1% in venture capital projects)[2], the balance being held in a combination of interest-earning investments (such as bonds) and cash equivalents to ensure liquidity for loan repayment to the Receiver General of Canada by the participating provincial funds.

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[1] IIUSA statistics
[2] Evaluation of the Federal Business Immigration Program, IRCC (June 2014)

Some critics contend that the FIIP did not generate enough funds per investor to contribute to the economy, because of the formula (zero coupon bond, not the best leverage when interest rates are low, as seen for many years). However, some provinces seem to have managed the funds effectively and invested in their economies, notably:

- In 2013-2017, BC loaned $403 M generating over 2,500 jobs through the BC Immigrant Investor Fund Inc. (BCIIF)[3].
- In 2017, Saskatchewan Immigrant Investor Fund (SIIF) had approved loans of $465.5 M in support of 2,475 new homes[4].
- In 2014-2015, $42 M were invested in infrastructure projects with 2,859 jobs created through the Ontario Immigrant Investor Corporation (OIIC)[5].

Setting-up a new program

The new FIIP could be first set-up as a temporary program, in connection with post-Covid-19 recovery.

To speed-up its implementation, its structure could be similar to what exists in Quebec but with the addition of a non-refundable contribution to boost its impact. Unlike regular investors or entrepreneurs, immigrant investors are more interested in obtaining permanent residence for themselves and their families and having the return of their portion of capital guaranteed after a reasonable time period (5-7 years).

For your information, between October 1, 2019 and November 21, 2019, the US government received 4,200 applications for US$500,000 at-risk investment[6]. When the FIIP officially closed, there was an inventory of ±20,000 pending files.

[3] BCIIF Service Plan 2013-2017
[4] Crown Investments Corporation - 2016-17 Annual Report
[5] Ontario Immigrant Investor Corporation Business Plan 2015 – 2018
[6] IIUSA, Immigrant Petition by Alien Entrepreneur (Form I-526) - Quarterly Report (2020)

As an example: If 4,000 immigrant investors are admitted to Canada within the next 12 months, subject to a mandatory $1,000,000 investment, from which $800,000 is guaranteed repayment and is invested at 0% for 5 years (discount of over $50,000 depending on interest rates) and $200,000 is non-refundable, it will generate $4B in FDI with $1B in ''free'' money for our economy. This excludes all the other impact the investors will have on the economy (property, durable goods, daily consumptions, etc.).

With the collaboration of other ministries, such as Economic Development, Infrastructure, Industry and Innovation, Small Enterprises, the government could decide where the FDI would be best invested as per its needs for post-Covid-19 recovery.

The Role of IIAC Member Firms

IIAC member firms can partner with the federal government to design, promote and support this new program. Indeed, our member firms are well-positioned to act as financial intermediaries under a new FIIP:

- They are all regulated by the Investment Industry Regulatory Organization of Canada (IIROC), the national self-regulatory organization which oversees all investment dealers and trading activity on debt and equity marketplaces in Canada;
- Their clients' cash and securities are protected—within defined limits—by the Canadian Investor Protection Fund up to $1,000,000;
- IIROC and IIAC members have the expertise in managing funds and protecting clients and third-party interests;
- They have stringent rules and regulations (including "Know Your Client" and "Anti-money laundering");
- They can manage investments before the money is allocated (while in escrow);
- They can manage special funds (for example, recovery funds);
- They are located across the country and will ensure the program is national in scope;
- They have an excellent reputation in the industry; and
- Some of our members have over 20 years of experience specifically in this field:
    - Many have been involved in the FIIP process;
    - Some acted as consultants to other countries trying to set up similar programs; and
    - Most of them have developed an international network for the recruiting of investors.

In Summary

Many years ago, Canada has made the decision to stop attracting HNWIs for different reasons, notably because of the financial health of our economy. However, the economic circumstances are now quite different. We have much to gain to restructure and launch a federal immigration investor program. The restructured program can play an important role for Canada capitalizing on the anticipated shifts of foreign direct investment capital as investor perceptions change from the pandemic and as the global structure of commerce adjusts in coming years. The immigrant investor plan will contribute importantly to Canada's economic recovery.

IIAC and its member firms can quite quickly help our government's efforts in retrieving a healthy economy.

I would be pleased to discuss these issues further by teleconference at your convenience.

Yours sincerely,

Ian C.W. Russell
President and Chief Executive Officer