



BUSINESS COUNCIL OF ALBERTA

June 9, 2020

The Honourable Bill Morneau
Minister of Finance
House of Commons
Ottawa, Ontario, K1A 0A6

Dear Minister Morneau:

Thank you for your leadership during these very difficult times for our country. The Business Council of Alberta (BCA) applauds the swift and decisive work you have done to protect people, business and the economy.

We thank you for the chance to speak with you virtually on the CEWS program and other matters – thank you for making time available for us. We were also appreciative of the opportunity to participate in a virtual roundtable with Finance and Innovation, Science and Economic Development (ISED) representatives to learn more about the federal government's Large Employer Emergency Financing Facility (LEEFF). Having heard further details on the program and discussing with our members, we are grateful for the opportunity to share feedback and suggestions on LEEFF and some areas for potential improvement. We have been impressed with the federal government's willingness to adapt and evolve programs based on real-time feedback and hope that you will receive this feedback in the positive and constructive spirit with which it is shared in the effort to make the LEEFF program stronger.

Large Employer Emergency Financing Facility – Feedback from Business Council of Alberta

Recently, the Federal Government announced and has provided some details for the Large Employer Emergency Financial Facility (LEEFF) program.

Key aspects of the program

- Available for companies with minimum \$300M in annual revenue.
- Minimum loan size is \$60M, there is no stated maximum
- 15% is convertible to equity at the government's discretion (warrants)
- Interest begins at 5% and escalates annually (8%, 10%, 12%, 14%)
- Can be combined with other programs like the wage subsidy
- Many additional requirements and restrictions for capital distribution, climate change reporting, and Board observer seats

The Business Council of Alberta has discussed the program with a number of its members and hosted a session on LEEFF with Simon Kennedy, Deputy Minister of ISED, and Tim Duncanson, Senior Advisor to the Deputy Minister of Finance, where members were able to ask questions and seek clarity on the program. We are grateful that they took the time to run through the program with us and they provided excellent information.



Below is an assessment of the program from the perspective of BCA members and potential applicants:

LEEFF Program Positives

- The program having materialized is positive. It provides additional confidence, reduces uncertainty and provides a vehicle for large employers to access liquidity where there had been gaps previously.
- The government recognition of the value of Canada's large companies is appreciated.
- The market terms of these loans ensure that participants in the program will not be unfairly advantaged relative to those who do not use it.
- The sector-agnostic nature of the program ensures that any hard-hit business or sector will be considered.

LEEFF Program Concerns

- **Tone:** In the launch and communication of the LEEFF program, the overall tone lacked support for the role of Canada's large corporations in our economy, job creation and prosperity. Previous programs deployed had a far more positive tone. The LEEFF program narrative was focused on the employees of large firms, not the firms themselves. Additionally, follow up media made reference to major employers as potential bad actors treated with suspicion, rather than partners.
 - o **Proposed solution:** Amend the language and tone of LEEFF material to be support for both employees of large companies, and the role that large companies play in Canada.
- **Overall structure:** while LEEFF is intended to be liquidity of last resort, the complexities of the entire structure are such that many firms may not qualify or will feel that this program is sufficiently impractical or cumbersome that they will not bother applying.
 - o **Proposed Solution:** Consider adaptations recommended below.
- **Warrants:** the warrants issued with loan have raised a few concerns:
 - o **Proportion** - 15% seems to be out of line with some other international agreements – the U.S. airline package seeks a smaller proportion of value through warrants for example.
 - o **Strike price** - The strike price of the warrants is the day the agreement is executed. In light of the significant decreased valuation that many companies in Canada have experienced this seems likely too low a strike price.
 - **Proposed Solution:** Consider reducing the warrant proportion and adapting the strike price to be something higher once the firm has recaptured some of its lost value – some value between pre COVID-19 collapse and low price during March or April 2020.



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- **Interest rates:** The LEEFF interest rates are high in this environment, particularly in comparison with other financing facilities for smaller firms issued by EDC/BDC.
 - o **Proposed solution:** Adjust interest rates to be more reflective of other Canadian COVID-19 related financing facilities.
- **Security:** 20% of the loan value must be secured. There is significant complexity/challenge in achieving securitization for subordinated debt, particularly if there are lending syndicates or bond holders. This reality decreases the likelihood of successfully getting existing lenders to agree to apportion the securitization.
 - o **Proposed Solution:** Consider 100% unsecured facility similar to that provided to other facilities and arrangements.

Climate plans: Many companies publish climate-related disclosures and are contributing to Canada's net zero 2050 targets, however insisting on this as a prerequisite to access the program creates challenges for those that are not yet formalizing this, or may struggle to articulate progress towards climate efforts particularly in light of a constrained capital environment. Many of these companies are fighting for survival, and capital has dried up.

- o **Proposed Solution:** Strongly encourage companies to provide climate-related disclosures, but do not exempt companies from accessing LEEFF if they are unable to do so.

Overall, while LEEFF is unfortunately a necessary program, it does miss the mark on a number of key areas noted above. Numerous companies indicated that they would either not apply for the program, or if they did, were not optimistic about being able to either get approval from existing creditors or that it would take too long to make a substantive difference.

Thank you for the opportunity to provide feedback on this important program. We would be happy to discuss in more detail should that be helpful for you.

Yours truly,

A handwritten signature in black ink, appearing to read "Adam Legge".

Adam Legge
President

Cc: Mr. Paul Rochon, Deputy Minister of Finance

Mr. Tim Duncanson, Senior Advisor to the Deputy Minister for Finance