



Honourable Chrystia Freeland, P.C., M.P.  
Minister of Finance and Deputy Prime Minister  
90 Wellington Street  
Ottawa, ON K1P 5E9

**RE: Budget 2023 proposals on Employee Ownership Trusts**

Dear Minister Freeland:

We are writing to you on behalf of the Canadian Employee Ownership Coalition (CEOC), a diverse, non-partisan network of Canadians from the business, nonprofit, academic and charitable sectors committed to unlocking the potential of employee-ownership. Having analyzed Budget 2023's proposed Employee Ownership Trust (EOT) model, we wanted to take the opportunity to provide you with our initial feedback.

The opportunity for Canada in adopting a thoughtful EOT model is immense. Decades of research out of the U.S. and U.K. has proven that EOTs:

- Increase employee wealth;
- Improve business succession;
- Protect local, regional jobs; and
- Create economic resilience.

We know that you and your team believe in the wealth building potential that EOTs could provide Canadian workers too. Our Coalition is incredibly thankful to see you take notice of this policy and set the wheels in motion for its implementation over the last few Budget cycles.

Unfortunately, we believe that the trust design proposed in the most recent Budget will fail to realize almost any of that potential.

Since the Budget's draft legislation was published, we have surveyed business owners and advisors in our Coalition – some of whom have been eagerly awaiting an EOT to make their companies employee-owned – and every single one has informed us that they would not be able to use this trust structure as it is currently designed. Additionally, none of the advisors we have spoken to would be willing to recommend this structure to their clients. We have likewise been informed by experts in the U.S. and U.K. that if Canada's proposed structure were to replace their current policies, uptake in their countries would disappear almost entirely.

Unlike in the U.S. and U.K., the proposed Canadian approach does not offer the selling business owner any meaningful incentives to level the playing field against much more lucrative, less risky offers from third party buyers like competitors or private equity funds, many of which will pay a premium and be based outside of Canada. As was the case in the U.K. prior to their introducing incentives in 2014, evidence indicates that this absence of incentives in Canada would result in virtually no uptake to the trust.



Beyond incentives to adoption, the design of the trust will likewise create serious obstacles to its utilization. There are several features of the proposed trust that are far more restrictive than the U.S. or U.K. models, such as a requirement for the business to have substantially all of its assets used in the business carried on in Canada. This will rule out many mid-sized companies, for whom this legislation was intended. The condition that Trustees are to be elected by employees, while well-intended, is not practical as it creates risk of instability for the business and its stakeholders. The proposed governance structure will make selling to employees far more complicated for business owners than it is in the U.S. and U.K.

In the coming weeks our Coalition intends to submit a detailed memo outlining specific areas of concern. It is our hope that we can work together constructively with your office and ministry to improve the policy and create a structure that will benefit hundreds of thousands of Canadian workers and the communities in which they operate. The U.S. and U.K. experience provide lessons that we need to heed.

This issue is urgent. As the Budget made reference to, our country is on the precipice of an unprecedented transfer of business assets as baby-boomers look to retire. There is a very short window for us to get this policy right so that they have this proven succession alternative at their disposal when considering their options.

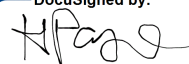
Thank you for your consideration.

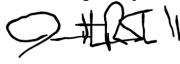
Regards,

Members of the CEOC Steering Committee

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cc: MP Terry Beech, Parliamentary Secretary to the Deputy Prime Minister and Minister of Finance  
Michael Sabia, Deputy Minister of Finance