February 2017

For an open and prosperous economy

A PLAN TO STRENGTHEN THE QUÉBEC ECONOMY AS AN EXECUTIVE-DRIVEN ECONOMY

TOGETHER building our economy

Québec

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A plan to strengthen the Québec economy as an executive-driven economy

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A MESSAGE FROM THE PREMIER

Québec, February 21, 2017

Since May 2014, the Québec economy has been picking up. The current financial, economic and political stability is helping to make Québec one of Canada's leaders in economic growth, in a still fragile global economic situation. Openness to the world is an indisputable asset for our businesses. By fostering trade, encouraging investment by companies located in and outside Québec through, in part, the expertise of our workers, and welcoming talented people, Québec has been able to develop companies whose reach extends well beyond its borders.

The time has come to take the offensive in accelerating the growth of our businesses. That is why we want to foster the openness of our markets, which has been the very foundation of the growth of our companies, and ensure the presence and maintenance of their decision-making centres in Québec—in a nutshell, facilitate the emergence of Québec's large businesses of tomorrow.

Already, between January 1, 2001 and December 31, 2016, 502 foreign companies were acquired by Québec companies and 244 Québec businesses were sold to foreign interests. Since 2010, this ratio has been three to one.

In this regard, the government's action aimed at acting directly on the levers of prosperity and productivity is already largely under way and is yielding concrete results with respect to investment and job creation.

With the Plan to Strengthen the Québec Economy as an Executive-Driven Economy, we are clearly signalling our determination to foster the presence of head offices in Québec and the growth of Québec businesses.

An open economy is the path to prosperity for Québec.

Philippe Couillard
Premier of Québec

A MESSAGE FROM THE MINISTERS

The debate over the presence of head offices in Québec and the control by Québec interests of companies considered to be our "flagships" has shone the spotlight on a fundamental objective with which everyone agrees—strengthening the Québec economy as an executive-driven economy.

❑ Actions for an open economy

This objective is already being implemented by the government as part of the Québec Economic Plan.

We are supporting the growth of high-performance companies, we are fostering the emergence of Québec's large businesses of tomorrow, and we are doing so in an economy that is more open to the world and international markets than ever before.

By maintaining sound, balanced public finances, creating an investment-friendly fiscal environment and focusing on entrepreneurship and business development, we are mobilizing the surest and most sustainable means of encouraging the establishment and reinforcement of places of decision-making in Québec.

❑ More direct, more targeted actions

However, the action that has been undertaken must be completed, in order to address specifically identified challenges—those tied to business ownership transfers, takeovers stemming from the financing requirements of growing businesses, and the tax treatment of executives.

To meet these challenges, the government is immediately undertaking a number of direct, targeted actions in the form of financial, fiscal and regulatory measures.

We are creating the Financial Initiatives Group to further improve the effectiveness of the government's strategic action levers. We are mobilizing additional means to promote Québec as a location of choice for decision-making centres. From a fiscal standpoint, more assistance will be available to facilitate the transfer of family businesses.

To encourage executives to settle in Québec, we are harmonizing the taxation of stock options with the tax treatment in the other Canadian jurisdictions. On the regulatory front, we are going to raise multiple-voting share awareness among businesses, while advising them on adequate safeguards against hostile takeover bids.

Thus, we are doing everything possible to foster the presence of head offices, support Québec control of businesses and encourage executives to come to Québec.

❑ The path to success

The initiatives announced are major ones. They are in keeping with a key principle—the smooth flow of transactions and the promotion of trade with the rest of the world.

The Québec economy is an open economy in a free market context. We are taking steps to strengthen it as an executive-driven economy, while fostering trade, investment transfers and financial market transactions.

For Québec, this is the path to success and the way forward.

Carlos Leitão
Minister of Finance

Dominique Anglade
Minister of Economy, Science
and Innovation

Lise Thériault
Deputy Premier and
Minister responsible for
Small and Medium Enterprises,
Regulatory Streamlining and
Regional Economic Development

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INTRODUCTION

Recent sales of large Québec companies to interests outside Québec have brought the issue of the development and sustainability of Québec companies back to the spotlight, and especially the maintenance of their head offices under Québec ownership.

These sales resulted in the transfer to interests outside Québec of companies that until then had been controlled by Québec entrepreneurs. They have had or will have the impact of moving strategic functions out of Québec that were previously under the responsibility of the Québec head office of the companies concerned, to the benefit of the acquiring company's head office.

❑ A fundamental objective: strengthen the Québec economy as an executive-driven economy

The presence of head offices in Québec and the control of businesses by Québec interests are two issues that in fact refer to the same fundamental objective.

Québec must be strengthened as an "executive-driven economy," that is, an economy where strategic decision-making centres exist, with all the impacts the presence of such centres can have, directly and indirectly, on the economy and more broadly on society as a whole.

The strengthening of the Québec economy as an executive-driven economy is thus directly related to the presence of head offices and the control of businesses by Québec interests. It also depends on Québec's ability to welcome and foster the presence of executives on its soil.

❑ A fairly clear consensus

A fairly clear consensus seems to exist within Québec society on this objective of strengthening the presence in Québec of corporate decision-making centres. This consensus concerns the presence of head offices, Québec control of businesses and the presence of executives on Québec soil.

— It is in Québec’s best interest to maintain, attract and develop the presence of head offices in its territory.

— Québec also draws major advantages from the growth and development of companies controlled by Québec interests, since these companies are closely integrated into Québec society. The presence, growth and success of these companies are a source of pride, illustrating the know-how and excellence of Québec entrepreneurs.

— A business environment favourable to the presence of large corporations and their executives on Québec soil is a logical complement to action seeking to make the Québec economy a stronger executive-driven economy.

❑ Acting on this consensus

However, it is more complex to act on this consensus and define strategies and means of action to ensure the maintenance of head offices in Québec and attract new ones, and to foster Québec control of businesses often considered to be "flagships" of the Québec economy—symbols of Québec success playing a major role in the economic life of Québec.

Over the past few years, several proposals have been formulated for this purpose,[1] generating numerous reactions and, in some cases, a number of objections.

Simultaneously, the announcement of the sale of Québec companies to interests located outside Québec and the potential or immediate impact of these sales on the head office location of the companies sold, or at least on the location of their strategic decision-making centre, most often happens too late for the decision to be reconsidered.

❑ Take stock and act

For the government, it is important to take stock of this question as a whole, but also to act, in order to provide the Québec economy with an effective plan for achieving the objective sought.

This document on the presence of head offices in Québec and Québec control of businesses thus has the goal of clarifying the issues involved when seeking to strengthen the Québec economy as an executive-driven economy, and to announce the means immediately deployed for this purpose.

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1 In particular, see the February 2014 report of the Task Force on the Protection of Québec Businesses, *The Maintenance and Development of Head Offices in Québec*, and the September 2016 report of the Institute for Governance of Private and Public Organizations, *What's the Risk of Losing a Significant Number of Corporate Head Offices Now Located in Québec?* The recommendations contained in these two reports are reproduced in appendices 1 and 2.

❑ Three basic questions

To give the fullest possible understanding of this complex issue, Part 1 of this document first addresses **three basic questions**.

— Chapter 1 seeks to specify what is being discussed when setting an objective of **strengthening the Québec economy as an executive-driven economy**, that is, of acting on the implementation of head offices, Québec control of businesses and the development of businesses under Québec ownership. The chapter explains what is meant by head office and by Québec control of a company, so that the available data are correctly interpreted.

— Chapter 2 addresses **the reasons** why **Québec has every interest in strengthening an executive-driven economy**, by fostering the development of businesses under Québec ownership and the presence of head offices in its territory, as well as by supporting Québec control of businesses. These reasons must be emphasized: the presence of head offices and Québec control of businesses have an impact on the companies' strategic decisions and involve major direct and indirect economic effects. Companies with their head office in Québec have major economic weight and contribute to building an image of Québec success.

— Chapter 3 deals with **the current situation**. Some observed trends are international and also affect other jurisdictions. It is essential to have reliable information, particularly concerning the observed trend in the number of head offices and transactions involving Québec companies, and the various factors acting on this trend. Such information shows that acquisitions by Québec companies of companies located outside Québec outstrip the sales of Québec companies to non-Québec interests.

We must also consider the fact that the situation of Québec companies is not static: a vitality exists in Québec that allows the emergence of new large corporations with local decision-making centres.

This information makes it possible to situate the issues clearly and put them in perspective.

❑ The action undertaken

Part 2 of this document presents **the action undertaken** to strengthen the Québec economy as an executive-driven economy.

— Chapter 4 is devoted to the **challenges to meet** and the **principles to respect**.

— In Chapter 5, the government announces how it intends to **pursue the improvement of the economic environment**. Action must be taken on the overall economic context, on all the factors fostering entrepreneurship and business development—action that is already largely under way.

— Chapter 6 presents the **new means of action** deployed to foster the presence of head offices, support Québec control of businesses—in particular, by facilitating the transfer of businesses to the next generation of Québec entrepreneurs—and stimulate the settlement of executives in Québec. These new means of action concern the financial, fiscal and regulatory fields.

The government is convinced this set of decisions and initiatives will effectively enable the Québec economy to progress as an executive-driven economy.

PART 1 – THREE QUESTIONS TO ADDRESS

Strengthening the Québec economy as an executive-driven economy raises complex issues, necessitating clarification of its meaning by answering three questions, addressed in three successive chapters.

— What is meant by strengthening the Québec economy as an executive-driven economy?

— Why is it in Québec's best interest to strengthen the economy as an executive-driven economy?

— What is the current situation?

1. STRENGTHENING THE QUÉBEC ECONOMY AS AN EXECUTIVE-DRIVEN ECONOMY: WHAT ARE WE TALKING ABOUT?

Chapter 1 seeks to answer a first question, namely, what we are talking about when setting the objective of strengthening the Québec economy as an executive-driven economy, that is, when reference is made to:

— the presence of head offices;

— Québec control of businesses.

1.1 **Head offices**

From a legal point of view, a head office is the principal establishment of a corporation or an association, where its legal, administrative and executive activities are concentrated.[2] Thus, in this regard, every corporation or association has a head office, regardless of its size or its activities.

❑ The Statistics Canada definition

In this document, the definition chosen by Statistics Canada has been adopted. According to this definition, head offices comprise establishments and locations[3] primarily engaged in providing general management or administrative support services to affiliated establishments. Their activities encompass integrated functions, such as strategic and organizational planning, communications, fiscal planning, legal services, marketing, finance, human resources management and information technology services.

The adoption of the Statistics Canada definition—close to the reality we wish to study, without corresponding to it perfectly—enables the use of the available statistical data to monitor the trend in the situation and compare it to that in the other provinces.

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2 MINISTÈRE DE LA JUSTICE DU QUÉBEC, http://www.justice.gouv.qc.ca/francais/publications/generale/termes/siege-soc.htm.

3 The establishment of a company whose principal activities are classified in code 551114 of the North American Industry Classification System (NAICS) is categorized as a head office. An establishment is defined as the smallest operating entity for which records provide information on the cost of inputs. An establishment is generally a single physical location.

■ The Statistics Canada data

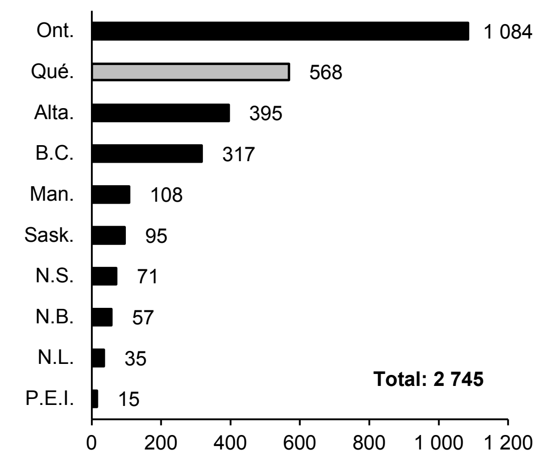
According to the Statistics Canada definition, 568 head offices were located in Québec in 2014.[4] Québec thus ranks second among Canadian provinces for the number of head offices, behind Ontario, which has 1 084, and ahead of Alberta, with 395.

Among the head offices established in Québec, the majority are located in the Montréal (386) and Québec (58) census metropolitan areas. For the ranking of major Canadian cities, Montréal is in second place behind Toronto (696), one of the leading international financial centres.

CHART 1

Head offices, by province – 2014

(number of head offices)

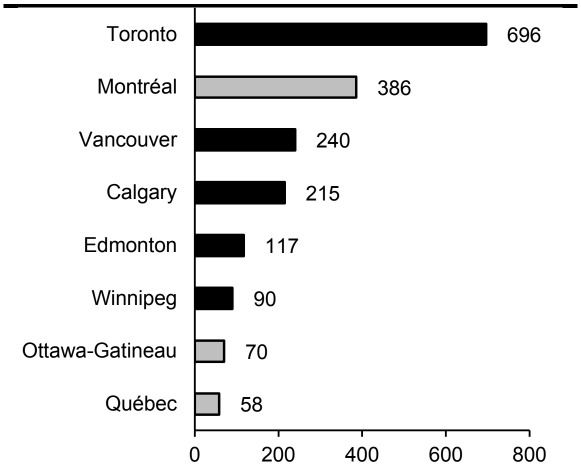


Note: This ranking does not include the territories.
Source: Statistics Canada.

CHART 2

Head offices, by census metropolitan area – 2014

(number of head offices)



Source: Statistics Canada.

[4] According to the Statistics Canada Annual Head Office Survey for 2014.

❑ Two comments

The Statistics Canada definition leads to two comments.

■ Decision-making centres of companies of a certain size

In the first place, the vast majority of companies carrying on their activities in Québec do not have a head office, according to this definition.

In 2014, 475 000 companies[5] were counted in Québec. Most of them, small or medium-sized businesses, are not big enough for their activities to be divided among several establishments, and the so-called administrative or management tasks are not enough to justify an establishment primarily dedicated to them. Indeed, the presence of an establishment dedicated primarily to management activities and administrative activities is justified only for companies of a certain size.

Thus, the meaning of head office in the Statistics Canada definition is closer to the reality we are seeking to circumscribe, namely, decision-making centres of companies of a certain size.

However, the number of decision-making sites is probably underestimated by this statistical categorization. Some large corporations may have a decision-making centre at the same location as a production site, but such an establishment is not considered to be a head office within the meaning of the Statistics Canada definition.

5 Preliminary Revenu Québec data regarding the number of corporations that filed an income tax return in Québec for the 2014 taxation year.

Profile of head offices among Québec companies

Statistics Canada targets a very specific type of establishment

According to the Statistics Canada definition, a head office refers to the entity located at the top of a corporation and assuring its governance. This definition therefore concerns a very specific type of establishment.

Companies with several establishments may have a head office, meaning a separate establishment whose main activity is to provide management services to the company. SMBs constituted by a single establishment are not considered to be head offices, because management decisions are not made at a separate establishment.

In this sense, the data on the number of head offices underestimate the number of decision-making centres in Québec.

No information on the nature of the company related to the head office

The Statistics Canada Annual Head Office Survey seeks to measure the economic activity of head offices. It thus pertains to the number of head offices and the number of employees who work there. The data published based on the survey do not allow the connection to be made between these head offices and the company to which these establishments belong, since this information is confidential.

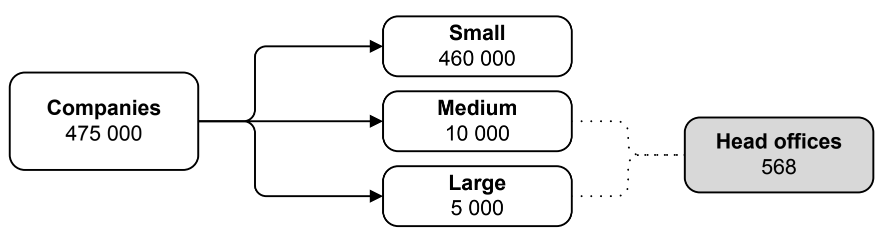
It thus cannot be known whether a small or medium-sized business or a large corporation is involved; nor can it be determined whether it is a Canadian or foreign company, public (listed on the stock exchange) or private (not listed on the stock exchange).

Medium-sized and large corporations

However, the presence of an establishment dedicated primarily to management activities and administrative activities for a company makes it possible to deduce that the majority of the 568 Québec head offices probably belong to medium-sized or large corporations.

Although medium-sized and large corporations account for only a little over 3% of corporations in Québec, the economic impact of their business decisions is considerable, given their economic weight, particularly in the case of multinationals that decide to do their procurement in Québec.

Distribution of Québec companies – 2014
(number of companies)



Note: A company is considered to be small if its revenue is less than $10 million and its assets are less than $15 million. It is considered medium-sized if its revenue or its assets exceed these thresholds, but both are lower than $50 million, and large if its revenue or its assets are $50 million or more.
Sources: Revenu Québec, Statistics Canada, compilation by the Ministère des Finances du Québec.

No distinction between main head office and secondary head office

In the second place, the Statistics Canada definition makes no distinction between a main head office and a secondary head office.

Large corporations: main head office, secondary head offices

Large corporations, especially multinationals composed of multiple establishments or multiple subsidiaries, may have several head offices.

A "main" head office is the head office in which the chief executive officer and the senior executives reporting directly to the CEO are found. This is generally the place where the company's strategic decisions are made. Reference is made, in particular, to head offices of large corporations, such as Bombardier's head office in Montréal.

One or more "secondary" head offices are placed under the governance of the main head office, which may be found outside Québec. Secondary head offices may have specific mandates, such as sales and production management for a given region or management of a given sector of the company.

The decision-making structure can vary considerably from one company to another. So can the nature of the responsibilities transferred to the secondary head offices, which varies, in particular, according to the company's activities or strategy. For example, a company selling products in a highly regulated sector, such as food processing, will tend to transfer more responsibility to secondary head offices to adapt to the various local regulations.

The notion of head office does not coincide exactly with the notion of decision-making centre

Some head offices are real decision-making centres where many employees and senior executives are found, while others correspond more to administration centres, whose influence on corporate strategic decisions is limited.

The notion of "decision-making centre" thus does not coincide exactly with the definition of head office adopted by Statistics Canada. Without there being a precise definition of what a decision-making centre is, the Business France organization describes it as a "structure internal to the company in which the CEO and the teams participate in strategic decision-making, committing the future of all or part of the company, particularly in matters of investment and employment."[6]

Main head office and company controlled by Québec interests

The distinction between main head office and secondary head office refers to another concept, that of Québec control of businesses established in Québec. In general, companies controlled by Québec interests have their main head office in Québec. When a company having its main head office in Québec is sold to foreign interests, it may be maintained in Québec as a principal or secondary head office, or be moved abroad. In some cases, the maintenance of a head office in Québec may also have the effect of increasing the strategic responsibilities entrusted to the head office, in the context of an expanded mandate. For example, this is the case for Cirque du Soleil.

6 BUSINESS FRANCE, Rapport annuel 2015, p. 27 [translation].

1.2 Québec control of businesses

The Statistics Canada definition and the data arising from it must therefore be completed by information concerning Québec control of businesses, to better qualify the nature of the head offices present in Québec.

❑ Corporations listed on the stock exchange or privately held companies

A distinction must be made here between "private" companies, which are not listed on the stock exchange, and "public" companies, which issue public offerings, accessible via the stock markets, and are listed on the stock exchange. Regardless of whether they are listed on the stock exchange, these companies may be under Québec control or foreign control.

For a private company, that is, a company not listed on the stock exchange, it is normally fairly easy to define whether it is under Québec control, because the owners of the controlling shares are generally known. When the principal owner (or owners) of the company is domiciled in Québec, the company is considered to be under Québec control. In the case of a cooperative, the members are the owners, and they are normally located where the cooperative carries on its activities.

For a company listed on the stock exchange, it is often more difficult to define whether or not the company is under Québec control, since the very notion of control is then more complex.

— In the case where the company has a shareholder (or a group of shareholders) owning the majority of the capital or the majority of the voting rights, particularly by holding what are commonly called multiple-voting shares,[7] it is fairly easy to determine whether or not the company is under Québec control.

— However, when shareholding is diffused, it is difficult to qualify the company as "Québec-owned" or under Québec control, since its shareholders may be established in different places around the world. The company is then considered to be under Québec control by the fact that its main head office is located in Québec and that its principal executives are domiciled in Québec.

❑ Control has no direct effect for tax purposes

From the point of view of corporate taxation, Québec or foreign control of a company has no direct effect on taxation of income resulting from production in Québec.

In general, the corporate income tax liability rules are based on the presence of a permanent establishment within the limits of the jurisdiction. Thus, a corporation under foreign control will be subject to Québec income tax regarding income resulting from the operation of a business on Québec soil.

Indeed, under the Québec tax system, income tax in Québec for a corporation that has permanent establishments in Québec and in several provinces is calculated according to the proportion of the corporation's business conducted in Québec, applied to its total taxable income. This proportion of the business generally depends, equivalently, on the share of the company's payroll in Québec relative to its total payroll and the share of the company's income in Québec relative to its total income.

Thus, the fact that the company is or is not under Québec control does not influence the proportion of the business done in Québec and thus the tax payable.

[7] This refers to a dual-class voting share structure.

However, it should be noted that the place of residence of the corporation's controlling shareholders will have an impact on the tax collected by the government under the personal income tax system with regard to income from earnings related to the operation of the corporation that is paid to the shareholder.

Profile of five large private companies (not listed on the stock exchange) having their main head office in Québec – 2015

GardaWorld

Privatized in 2012, GardaWorld is one of the world's largest privately owned company in the security and cash logistics industry. Its 52 000 employees serve a diversified clientele located in North America, Europe, Africa, Asia and the Middle East. Its principal shareholders are Apax Partners, a private investment fund in the United Kingdom, and its founder, Stéphan Crétier.

Its head office is located in Montréal.

La Coop fédérée

Founded in 1922, La Coop fédérée is the leading agri-food organization in Québec and the 24th largest agri-food cooperative in the world. It represents more than 90 000 farmer and consumer members in Québec, Ontario and Alberta. La Coop fédérée employs 12 200 people and it has revenue of $6 billion. It is owned by 114 local and regional cooperatives.

Its head office is located in Montréal.

Aldo Group

Founded in 1972, the Aldo Group is a well-known international retail company that manages nearly 900 corporate stores across Canada, the United States, the United Kingdom and Ireland, and that is present in 95 countries with over 1 100 franchise stores. The Aldo Group and its banners employ 14 000 employees worldwide. Its shareholders are its founder, Aldo Bensadoun, and his family.

Its head office is located in Montréal.

Familiprix Group

The Familiprix Group is a group of more than 300 pharmacist-owners, specializing in the distribution and retailing of pharmaceutical and parapharmaceutical products. With retail sales exceeding $1 billion, Familiprix has more than 5 000 employees throughout Québec and New Brunswick. Its shareholders are its member pharmacists.

Its head office is located in the city of Québec.

Desjardins Group

With assets of $248 billion, the Desjardins Group is the leading financial services cooperative in Canada, with, in particular, 335 caisses in Québec and Ontario. Among the biggest employers in Canada, the Desjardins Group has nearly 48 000 employees and over seven million members and customers (individuals and businesses). The Desjardins Group is collectively owned by its five million members.

Its head office is located in Lévis.

Sources: "Top 500 entreprises québécoises" in *Les Affaires*, corporate websites and 2015 annual reports, compilation by the Ministère des Finances du Québec.

Profile of five large public companies (listed on the stock exchange) having their main head office in Québec – 2015

National Bank

With over $216 billion in assets and a team of nearly 20 000 employees in a little over 450 branches across Canada, National Bank of Canada is the leading banking institution in Québec and the sixth-biggest bank in Canada. With 2.4 million customers, it serves particularly its clientele in the United States, Europe and elsewhere in the world. In accordance with regulations in the banking sector,[1] it has multiple shareholders.

Its head office is located in Montréal.

Bombardier

With revenue of $18.2 billion and a backlog of $59.2 billion, Bombardier is a world leader in aircraft and train manufacturing. The company designs and manufactures the aircraft of three families of business jets and a vast range of commercial aircraft, particularly the C Series of entirely new design. The company has 62 800 employees in its global network of service centres and its 75 production and engineering sites located in 28 countries, mostly in North America, Europe and Asia-Pacific. Its principal shareholder is the Bombardier family.

Its head office is located in Montréal.

CGI Group

Founded in 1976, the CGI Group is one of the world's leading IT service and business process management companies. With revenue of $10.3 billion, the company includes 65 000 professionals, more than 50 000 of them shareholders, in 400 locations in 40 countries. Its principal shareholders are Caisse de dépôt et placement du Québec and its founder, Serge Godin.

Its head office is located in Montréal.

Jean Coutu Group

The Jean Coutu Group is a leader in the retail pharmacy industry in North America. The Jean Coutu Group operates a network of more than 400 franchised establishments in Québec, New Brunswick and Ontario, employing over 20 000 people. Its controlling shareholder is its founder, Jean Coutu.

Its head office is located in Varennes.

Metro

With annual revenue exceeding $12 billion and over 65 000 employees, Metro is a leader in food and pharmaceutical distribution in Québec and Ontario. Metro operates or supplies a network of 590 grocery stores in these provinces, under several banners, including Metro and Super C, as well as 254 pharmacies, particularly under the Brunet banner. Its principal shareholder is Fidelity Investments, a U.S. diversified financial services corporation.

Its head office is located in Montréal.

1 In general, the *Bank Act* specifies a maximum proportion of shares that may be held per shareholder.

Sources: “Top 500 entreprises québécoises” in *Les Affaires*, corporate websites and 2015 annual reports, compilation by the Ministère des Finances du Québec.

❑ The legal and regulatory framework of corporations listed on the stock exchange and headquartered in Québec

Corporations listed on the stock exchange and headquartered in Québec are subject to a special legal and regulatory framework, because of their public character.

Like all business corporations, these corporations may have been created under one of two incorporating statutes:

— the Québec statute, i.e. the *Business Corporations Act* (CQLR, chapter S-31.1);

— the federal statute, the *Canada Business Corporations Act* (R.S.C. (1985), c. C-44).

With the coming into force of the Québec statute in 2011, the rules governing Québec and Canadian corporations are more harmonized.

■ An additional framework for corporations listed on the stock exchange

Regardless of whether they are governed by the Québec statute or the federal statute, corporations listed on the stock exchange are subject to an additional framework with the goal of:

— giving investors all the necessary information to make their decision to invest in these companies;

— ensuring that nobody uses privileged information to the detriment of the investors as a whole.

For these reasons, in Québec, corporations listed on the stock exchange that make public offerings must submit to certain obligations and accept several consequences.

— By becoming a reporting issuer within the meaning of the *Securities Act* (CQLR, chapter V-1.1), a corporation is subject to the continuous disclosure requirements, with the intention of enlightening investors.

— Transactions relating to corporate securities are subject to monitoring by the Autorité des marchés financiers and the decisions of the Tribunal administratif des marchés financiers, particularly in the case of a public offering.

■ The principle: division between the body of shareholders and business management

From the time they are listed on the stock exchange, corporations belong to dispersed shareholders and, in principle, there exists a division between the body of shareholders and the business management of the corporation.

The essential current decisions are made by the officers and directors. Even though, in the performance of their functions, the directors are first bound to act in the best interests of the corporation, the directors' personal interests represent a constant issue for good governance of any corporation.

■ Defensive measures to counter a hostile takeover bid

To avoid conflicts of interest during a so-called hostile takeover bid, the two statutes do not provide for specific measures when the board of directors of the corporation concerned opposes the acquisition or does not actively seek a buyer.

The legislation instead allows the deployment of a dual-class capital structure (multiple-voting shares) or the adoption of arrangements mitigating the pecuniary attraction for management to conclude a sale. The business choices made during a corporation's initial public offering thus are determining.

A legal environment relating to takeover bids and defensive measures that differs between Canada and the United States

The powers of boards of directors with respect to hostile takeover bids regarding corporations listed on the stock exchange differ between Canada and the United States. Moreover, the defensive measures that may be used by boards of directors are not subject to the same oversight in both jurisdictions.

- In Canada, these questions are regulated by the Canadian Securities Administrators under various provincial securities laws. The Canadian Securities Administrators' primary role in this regard is to protect the rights of the shareholders. Accordingly, the Canadian Securities Administrators limited the use of defensive measures throughout Canada. Québec and Canada have other legal means enabling companies to protect themselves against hostile takeover bids.
- In the United States, shareholders are protected by business corporation law and by court oversight of that law. The Securities and Exchange Commission, the equivalent of the Canadian Securities Administrators, does not intervene in such matters. Consequently, U.S. business corporation law gives boards of directors more powers in respect of hostile takeover bids than is generally accepted by the Canadian Securities Administrators.

Comparison of the legal environment relating to takeover bids and defensive measures – Canada and United States

Canada	United States
In Canada, boards of directors may use rights plans, commonly known as "poison pills," to counter hostile takeover bids. Business corporation laws do not prohibit them. However, the Canadian Securities Administrators, including the Autorité des marches financiers, regulates their use, in order to protect shareholders. According to the definition of the Canadian Securities Administrators, "rights plans are a defensive tactic often adopted by a company's board in response to or in anticipation of an unsolicited or hostile take-over bid. A rights plan deters a bidder from taking up and paying for target shares by granting shareholders of the target company, other than the bidder, the right to purchase additional shares at a significant discount if an acquirer exceeds a specified share ownership threshold." In accordance with a Canada-wide policy, the Canadian Securities Administrators operates under the principle that rights plans are fundamentally contrary to the choice of shareholders. The question for them is not to determine whether the defensive measure is valid under corporate law but, rather, when it must be terminated in the interest of shareholders. However, their regulations were relaxed recently, by extending the mandatory term of takeover bids, thus giving the board of directors of a corporation faced with a hostile takeover bid more time to mount its defence and possibly obtain a better bid.	Several types of measures exist to make it impossible to take control of corporations without the consent of their directors. Forty U.S. states have introduced defensive measures in their business corporation statutes, which are triggered in the case of opposition to a takeover by the board of directors. The most effective and most commonly used measure is the rights plan. The defensive measures are subject to the control of the state courts, which review the compliance of their deployment. However, U.S. courts have confirmed the power of directors to adopt defensive measures against bids that, in their view, constitute a threat to society. In particular, over the past 25 years, the specialized courts of Delaware have developed an authoritative body of case law in the United States in this matter.

2. WHY IS IT IN QUÉBEC'S BEST INTEREST TO STRENGTHEN AN EXECUTIVE-DRIVEN ECONOMY?

Chapter 2 addresses a second question: why is it in Québec's best interest to strengthen an executive-driven economy?

These reasons are related to three findings:

— the presence of head offices and Québec control of businesses have an impact on the companies' strategic decisions;

— the activities of head offices have major direct and indirect economic impacts;

— companies with their head office in Québec have major economic weight and contribute to building an image of Québec success.

2.1 Head offices: strategic decision-making centres

Many studies confirm the importance and the role of head offices in strategic decision-making. Some of this work specifically addresses the benefits of the presence of head offices for Québec.[8]

These studies confirm that head offices are the places where the key investment decisions are made and where a company's research and development activities are often implemented. The professional service firms on which they rely also set up around head offices. Head offices have a structuring effect on the local economy and facilitate a company's integration into the social fabric.

❑ Investment decisions

Generally, a company's head office is the place where its decision-making centre is located. The head office therefore plays a critical role in the aggregation and allocation of the company's resources.

Strategic investment decisions are normally made at the head office. In the case of large corporations, the main head office makes the decisions that have implications for the global value chain into which the company is integrated.

■ A direct impact on Québec suppliers

For Québec suppliers, it is easier to integrate into this value chain when there is proximity to the decision-making centre.

When economic considerations place several regions in an equivalent position, there is generally a bias in favour of the region of origin in the selection of a company's suppliers. This is particularly explained by the security and convenience of the relationships established between these suppliers and the company, and by membership in the same economic community.[9]

This strategic connection between the decision-makers and the Québec economic ecosystem is even stronger in the case of Québec companies that have a main head office in Québec.

❑ Development of research and development activities

The presence of a head office has a direct impact on the location of the company's other activities, including research and development.

In the case of large corporations, the head office's proximity is a factor considered in choosing the location of research and development activities. Historically, the large multinationals have tended to establish their research and development activities at the head office or near the head office.

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8 In particular, see the analysis report produced for the Task Force on the Protection of Québec Businesses: KPMG-SECOR, *Les sièges sociaux au Québec – Leur évolution, leur contribution et leur expansion*, November 2013.

9 Michael Bloom and Michael Grant, *Valuing Headquarters (HQS): Analysis of the Role, Value and Benefit of HQS in Global Value Chains*, Conference Board of Canada, 2011.

❑ Development of professional service firms

Head offices rely on professional service firms—accounting, legal, financial and advertising services—for their operating activities.

The nature and scope of their needs, and their reputation and outreach in the case of large corporations, often serve as a springboard for development of local professional service firms.

❑ A structuring effect on the local economy

Head offices can foster the creation of industrial clusters, which have the effect of attracting other head offices.[10] Studies have also shown that the probability that a head office will be established in a region increases with the number of corporate head offices of the same industry that are already established there.[11,12]

The creation of clusters often leads to technological impacts, as well as to economies of scale, in industries offering services related to head office functions. These benefits contribute to creating the prerequisite foundation for the emergence and growth of medium-sized and future large corporations.

Head offices call on qualified human resources. They thus have a call effect on high-level workers. In addition, these workers develop their human capital and improve themselves to obtain the skills sought by the industry's companies.

The presence of head offices in an agglomeration also confers a certain prestige on the city where they are located, creates an attraction effect and brings in business visitors. For example, this presence fosters an expansion and improvement of office real estate, and stimulates lodging, restaurant and entertainment activities.

❑ Integration into the social fabric

The presence of a head office fosters the company's integration into its community, particularly in the philanthropic field.

Head offices have a direct impact on a region's charitable sector and on its cultural and social life. They financially support the organizations located in the region where they are established. Head offices participate in charitable, arts funding, education and community support programs established in their region.

This effect is even greater if senior executives reside in the community where the head office is located. Senior executives often participate personally in the activities of charitable, social or cultural organizations, by means of donations or direct involvement.

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[10] Keith Head and John Ries, *Head Office Location: Implications for Canada*, Competition Policy Review Panel, 2008.

[11] James C. Davis and Vernon J. Henderson, "The Agglomeration of Headquarters," *Regional Science and Urban Economics*, vol. 38, No. 5, pp. 445-460, 2004.

[12] Vanessa Strauss-Kahn and Xavier Vives, *Why and Where Do Headquarters Move?*, IESE Business School, University of Navarra, 2006.

2.2 Head offices: a major economic impact

Head offices have a major economic impact, in terms of jobs created, direct and indirect activities, and tax effects.

The data enabling the evaluation of the economic impact of head offices apply to establishments as defined by Statistics Canada: all head offices, without distinction between principal and secondary head offices, or between companies under Québec or foreign control.

❑ Over 50 000 employees in 2014

As for employment, Québec head offices accounted for 52 072 employees in 2014, including 41 276 in the Montréal census metropolitan area and 6 747 in the Québec census metropolitan area.

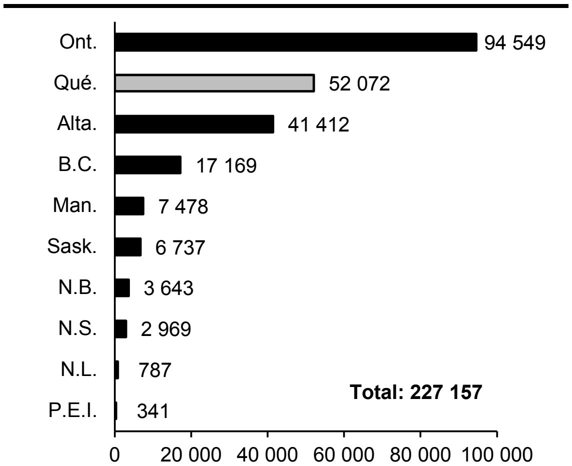
Thus, Québec had the second-highest number of head office jobs in Canada, behind Ontario (94 549) and ahead of Alberta (41 412). However, Québec ranked ahead of Ontario for the average number of jobs per head office, with a total of 92, compared to 87 in the neighbouring province. Only Alberta ranked ahead of Québec, with 105 jobs per establishment.

In the ranking of major Canadian cities, Montréal was in second place behind Toronto regarding the number of jobs.

CHART 3

Head office jobs, by province – 2014

(number of jobs)

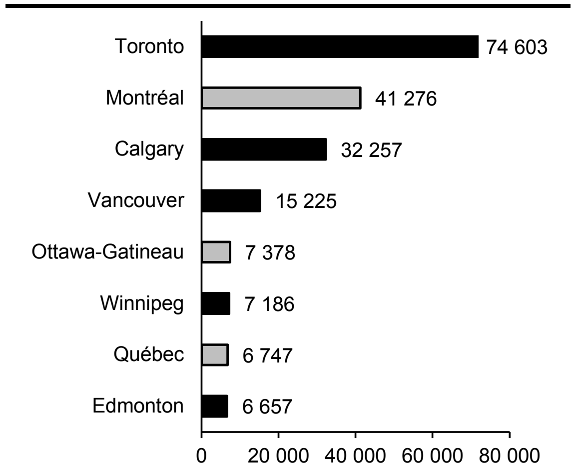


Note: This ranking does not include the territories.
Source: Statistics Canada.

CHART 4

Head office jobs, by census metropolitan area – 2014

(number of jobs)



Source: Statistics Canada.

❑ High salaries, ensuring quality jobs

Head offices employ highly qualified persons, particularly as senior executives, accountants and financial, information technology and human resources specialists.

In a large corporation, the head office may bring together the majority of the company's senior executives, many higher-level managers and highly-paid specialists.[13] These persons are generally very well-educated and have considerable professional experience, which is reflected in their salaries.

For the year 2014, based on the data of the Statistics Canada Annual Head Office Survey and the Institut de la statistique du Québec, it is estimated that the average salary of head office employees in Québec was nearly $79 000, nearly twice as high as the average salary in Québec, estimated at $44 000.

If auxiliary services used by head offices (accounting and legal services, etc.) are also taken into account, head offices are considered to be engines of well-paid job creation, generating profitable impacts for the local economy.

13 Michael Bloom and Michael Grant, *Valuing Headquarters (HQS): Analysis of the Role, Value and Benefit of HQS in Global Value Chains*, op.cit.

❑ Major economic and tax impacts

In addition to direct jobs, head office goods and services expenditures supported more than 30 000 jobs at suppliers located in Québec, particularly in the business service sectors. Overall, the direct and indirect activities associated with head offices represented annual economic activity of $6.8 billion, nearly 2.0% of the Québec GDP in 2014.

Also in 2014, the tax impacts for the Québec government resulting from head offices were estimated at nearly $810 million—close to $550 million from workers and nearly $260 million from corporations.

This evaluation does not include revenue related to corporate income tax from activities specific to head offices. Indeed, corporate income tax paid in Québec that results from head office activities cannot be distinguished from income tax corresponding to a company's other activities, because head offices generally do not produce income from trade in goods or services, but offer management services to their units. Moreover, although certain income may be specifically associated with a head office, such as certain financial income or intellectual property income, it is not possible to distinguish it from operating income.

TABLE 1

Economic and tax impacts of head offices in Québec – 2014
(millions of dollars, unless otherwise indicated)

	Direct impacts	Indirect impacts	Total impacts
Economic impacts			
Jobs (number)	52 072	32 631	84 703
GDP	4 579	2 267	6 846
Tax impacts			
Personal income tax	452	97	549
Corporate income tax	n/a	48	48
Contribution to the Health Services Fund	160	50	210
Total tax impacts	**612(1)**	**195**	**807**

Note: Totals may not add due to rounding.
n/a: Data not available.
(1) This total excludes direct impacts relating to corporate income tax.
Sources: Statistics Canada, Institut de la statistique du Québec and Ministère des Finances du Québec.

2.3 Economic weight of large corporations headquartered in Québec and the image these companies project

It is in Québec's best interest to strengthen an executive-driven economy for a third reason: companies headquartered in Québec have major economic weight and contribute to building an image of Québec success.

❑ The largest corporations having their main head office in Québec: 16% of GDP

Beyond the head office itself, large corporations headquartered in Québec represent a very large share of wealth and jobs.

— In 2015, according to the estimates of the Ministère des Finances du Québec and accounting for the direct and indirect impacts, the top 25 corporations listed on the stock exchange and the top 25 privately held corporations having their main head office in Québec contributed to over 16% of Québec GDP.

— Also in 2015, these 50 companies supported close to 300 000 direct jobs in Québec and contributed to the maintenance of more than 275 000 jobs with Québec suppliers of goods and services. In 2015, these jobs combined represented 14% of all Québec jobs.

Together, still in 2015, these 50 companies and their suppliers contributed significantly to public finances, representing:

— 12.3% of personal income tax revenue collected in Québec;

— 19.4% of revenue from corporate income tax and from contributions to the Health Services Fund attributable to corporations.

TABLE 2

Economic and tax impacts of the top 25 corporations listed on the stock exchange and the top 25 privately held corporations having their main head office in Québec[1] – 2015

(millions of dollars, unless otherwise indicated)

	Direct impacts	Indirect impacts	Total impacts	Québec	Share
Jobs[2] (number)					
Corporations listed on the stock exchange	186 445	168 826	355 271		
Privately held corporations	112 469	106 640	219 109		
Total	**298 914**	**275 466**	**574 380**	**4 097 000**	**14.0%**
GDP					
Corporations listed on the stock exchange	21 434	15 546	36 980		
Privately held corporations	13 991	9 842	23 832		
Total	**35 425**	**25 388**	**60 813**	**377 620**	**16.1%**
Tax impacts					
Individuals					
Corporations listed on the stock exchange	794	787	1 582		
Privately held corporations	477	533	1 011		
Subtotal	**1 272**	**1 321**	**2 592**	**21 158[3]**	**12.3%**
Corporations					
Corporations listed on the stock exchange	855	396	1 251		
Privately held corporations	726	260	986		
Subtotal	**1 580**	**657**	**2 237**	**11 560[4]**	**19.4%**
Total tax impacts	**2 852**	**1 977**	**4 829**	**32 718**	**14.8%**

Note: Totals may not add due to rounding.
(1) Largest corporations according to the number of jobs in Québec, excluding state-owned enterprises.
(2) Total full-time and part-time jobs.
(3) Personal income tax revenue for the year 2015-2016.
(4) Revenue from corporate income tax and from contributions to the Health Services Fund attributable to corporations for the year 2015-2016.
Sources: Statistics Canada, Institut de la statistique du Québec and Ministère des Finances du Québec.

❑ The large corporations listed on the stock exchange having their main head office in Québec

Among these companies, the top 25 corporations listed on the stock exchange having their main head office in Québec employed more than 185 000 people in Québec in 2015.

In terms of the number of jobs in Québec in 2015, RONA, with its 11 575 jobs, was the sixth-largest company listed on the stock exchange having its main head office in Québec. It was acquired in February 2016 by the U.S. company Lowe's.

TABLE 3

Top 25 corporations listed on the stock exchange having their main head office in Québec, by number of jobs in Québec(1) – 2015
(millions of dollars, unless otherwise indicated)

		Number of employees			
Name of company	**Principal economic sector**	**Québec**	**Total**	**Gross revenue**	**Assets**
Metro	Food	33 100	65 600	12 224	5 387
Jean Coutu Group	Pharmacy	20 095	21 421	2 855	1 380
National Bank	Financial services	15 558	19 764	5 746	216 090
Bombardier	Aerospace	15 400	62 800	18 172	22 903
BCE	Telecommunications	15 200	50 000	21 514	47 993
Québecor	Telecommunications	10 200	10 400	3 880	9 276
CGI Group	Information Technology	7 000	65 000	10 287	11 787
GDI Integrated Facility Services	Facility services	7 000	17 000	n/a	n/a
Air Canada	Air transportation	5 500	28 000	13 868	13 127
BMO Financial Group(2)	Financial services	5 000	47 000	19 389	n/a
Alimentation Couche-Tard	Retail	4 733	99 000	34 530	10 838
Power Corporation of Canada	Portfolio management	4 442	40 982	38 265	422 859
Resolute Forest Products	Pulp and paper	4 248	7 724	3 645	4 220
Dollarama	Retail	4 245	16 469	2 331	1 701
TC Transcontinental	Printing	3 962	8 289	2 002	2 114
SNC-Lavalin Group	Engineering	3 846	36 754	9 587	10 503
Cascades	Pulp and paper	3 760	10 675	3 861	3 848
TransForce	Transportation	3 627	15 496	4 030	3 378
CAE	Aerospace	3 150	8 270	2 246	4 657
Canadian National	Transportation	3 000	25 530	12 611	36 402
Industrial Alliance	Insurance	2 979	5 148	8 235	115 813
Laurentian Bank of Canada	Financial services	2 800	3 600	897	39 660
Transat A.T.	Tourism	2 600	5 000	3 566	1 514
Bombardier Recreational Products	Recreational vehicles	2 500	7 900	3 829	2 445
WSP Global	Engineering	2 500	34 000	6 064	6 167
TOTAL		**186 445**	**711 822**	**243 634(3)**	**994 061(3)**

n/a: Data not available.
(1) Excluding RONA, which was acquired by Lowe's (United States) in February 2016.
(2) This company has two head offices (Montréal and Toronto).
(3) Companies for which data are not available (n/a) are excluded.
Source: "Top 500 entreprises québécoises" in *Les Affaires*, compilation by the Ministère des Finances du Québec.

❑ The largest privately held companies having their main head office in Québec

The top 25 privately held companies having their main head office in Québec employed over 110 000 people in Québec in 2015.

The St-Hubert Group ranked second among the privately held companies having their main head office in Québec in 2015, with 9 300 jobs in Québec. The company was sold in March 2016 to the CARA Group, which has its head office located in Ontario.

TABLE 4

Top 25 private (privately held) companies having their main head office in Québec, by number of jobs in Québec[1] – 2015
(millions of dollars, unless otherwise indicated)

Name of company	Principal economic sector	Number of employees: Québec	Number of employees: Total	Gross revenue	Assets
Desjardins Group	Financial services	40 402	47 654	13 924	248 100
La Coop fédérée	Agri-food	9 122	12 211	5 992	2 298
GardaWorld	Security	9 000	52 000	2 136	n/a
Familiprix Group	Pharmacy	5 000	5 000	n/a	n/a
Uniprix Group	Pharmacy	4 500	4 500	1 974	538
Agropur coopérative	Dairy industry	3 314	7 861	5 875	4 085
Réseau Sélection	Retirement residences	2 935	2 935	n/a	1 575
Groupe Robert	Transportation	2 700	2 850	441	298
Kruger	Pulp and paper	2 600	4 400	n/a	n/a
Aubainerie	Retail	2 600	2 600	n/a	n/a
Aldo Group	Retail	2 500	14 000	n/a	n/a
La Capitale Financial Group	Insurance	2 381	2 699	2 000	5 800
Cogir Management Corporation	Real estate	2 335	2 407	n/a	n/a
Raymond Chabot Grant Thornton	Accounting	2 325	4 122	615	n/a
Canac	Retail	2 300	2 300	550	n/a
Groupe Savoie	Retirement residences	2 030	2 030	n/a	n/a
Pomerleau	Construction	2 014	3 039	1 609	743
Groupe TCI	Construction	2 000	2 000	518	n/a
SSQ Financial Group	Insurance	1 957	2 108	2 205	11 183
Promutuel Group	Insurance	1 870	1 870	n/a	n/a
Exceldor Cooperative	Agri-food	1 840	2 210	689	235
Groupe Dynamite	Retail	1 812	4 734	n/a	n/a
Nordia	Telecommunications	1 696	3 924	148	24
Atelka	Telecommunications	1 620	2 845	90	n/a
Renaud-Bray	Retail	1 616	1 616	n/a	n/a
TOTAL		**112 469**	**193 915**	**n/a**	**n/a**

Note: Excluding state-owned enterprises.
n/a: Data not available.
(1) Excluding the St-Hubert Group, which was sold to CARA Group (Ontario) in March 2016.
Source: “Top 500 entreprises québécoises” in *Les Affaires*, compilation by the Ministère des Finances du Québec.

Profile of companies having their head office in Québec in the ranking of the largest Canadian corporations

Compiled by the *Financial Post*, the ranking of the top 500 companies incorporated or located in Canada, according to revenue, provides an overview of the large corporations having their head offices in Québec.

In 2015, Québec had 85 companies in this ranking, including 48 corporations listed on the stock exchange (56.5%), 26 privately held companies (30.6%), eight state-owned enterprises (9.4%) and three cooperatives (3.5%).

Their main sectors of activity were manufacturing (21.2%), wholesale and retail trade (20.0%) and the financial sector (17.6%).

On average, the Québec companies included in this ranking were larger than those of the other provinces.

- Québec companies had an average revenue of $5.4 billion and their assets were $32.2 billion, compared to $3.5 billion and $22.2 billion for the rest of Canada.
- As for employment, Québec companies had an average of 12 900 employees in 2015, compared to 7 641 employees in the other provinces.

Only ten of the 85 Québec companies in the Top 500, 11.8% of the total, were under majority foreign control, signifying that over 50% of their voting rights were non-Canadian (data not available at the provincial level). In the rest of Canada, this proportion is much higher, at 25.1%.

Source: *Financial Post*, compilation by the Ministère des Finances du Québec.

❑ An image of Québec success

The reactions generated by the recent sales of RONA and the St-Hubert Group clearly illustrated that a large number of Quebecers identify with the companies created in Québec, by Quebecers, that subsequently achieved major development.

These companies are considered to be "flagships." Due to their integration into Québec economic activity, they have a significant impact on Quebecers' economic life.

It is therefore in Québec's best interest to foster the development and presence in its territory of companies having their head office and their decision-making centre in Québec. These companies, in addition to the economic activity they bring, become testimonials to Québec know-how and entrepreneurship.

However, it is important for government actions aimed at ensuring that these flagships remain under Québec control to be underpinned by a thorough economic analysis.

3. WHAT IS THE CURRENT SITUATION?

Chapter 3 addresses a third series of questions, pertaining to the current situation:

— What are the international trends regarding head office locations of the largest corporations?

— What trends are observed regarding head offices in Québec?

— What types of transactions change the ownership or control of companies in Québec?

— What information is available regarding the future of companies under Québec control, that is, regarding the growth of SMBs and the renewal of the pool of large corporations?

— What general conclusion can be drawn from these various findings concerning head offices or companies under Québec control?

3.1 International trends regarding head office locations of the largest corporations

In the first place, in several instances, available data enable international trends to be identified regarding head office locations of the largest corporations.

❑ Emerging countries have a growing share of the largest corporations

A first trend is clear: emerging countries have a growing share of the largest corporations.

Since the early 2000s, a transformation of the global economy has been observed. A growing number of companies whose head offices are located in emerging countries rank among the largest corporations, to the detriment of developed countries.

This dynamic results in a relative change in the ranking of large corporations, but not necessarily a change in their absolute number. Indeed, companies in developed countries can lose their place in the ranking without moving or disappearing.

This transformation is observed in the data of *Fortune Magazine*,[14] which each year publishes a ranking of the top 500 global companies according to their revenues (Global 500) and the location of their head office. These data are commonly used by analysts, since they have been available since 1990.

[14] The same findings are observed with the list of the top 2 000 corporations listed on the stock exchange, published by *Forbes* (Forbes Global 2000).

■ A sharp increase in the number of companies located in China

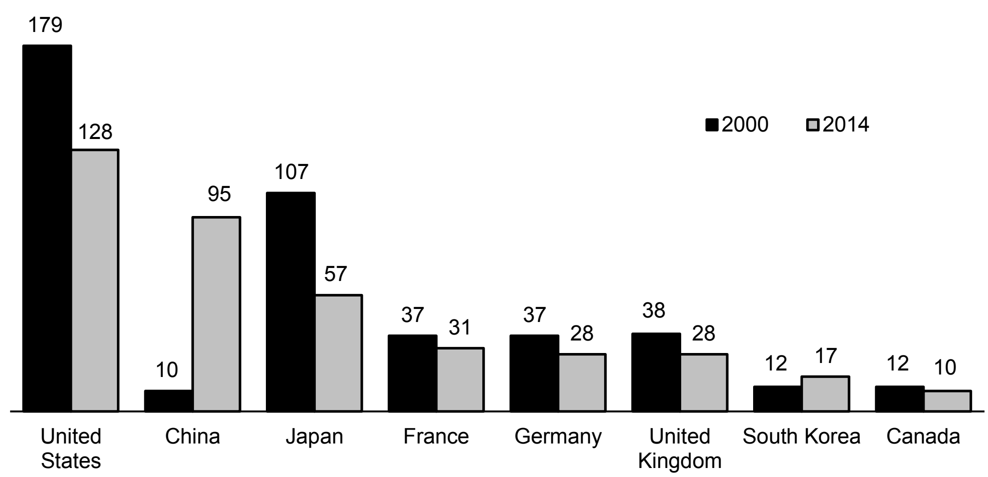
The growth of economic activity experienced by China over the past several years has translated into a sharp increase in the number of Global 500 companies located in China.

— Indeed, in 2014, 95 Global 500 companies were located in China, compared to only ten in 2000. The majority of large Chinese companies belong to the Chinese government; 76 of 95 companies are under government control.

In comparison, between 2000 and 2014, Canada, like the majority of the other developed countries, saw a decrease in the number of its large corporations on the Global 500 list. The United States and Japan are the countries that saw the sharpest drops in the number of companies in this ranking, a reduction of 51 companies (down 28.5%) and 50 companies (down 46.7%), respectively.

CHART 5

Trend in the number of companies among the Global 500, by country of origin
(number of companies)



Source: Fortune Global 500.

■ The proportion of companies located in emerging countries

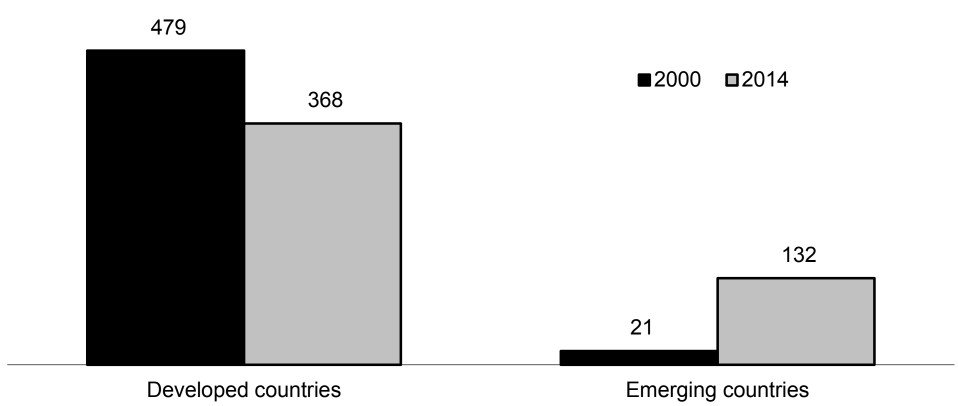
More generally, between 2000 and 2014, the proportion of the Global 500 companies located in emerging countries rose from 4% to 26%, increasing from 21 to 132 companies. Between 1990 and 2000, the proportion of companies located in emerging countries had remained stable, at approximately 4%.

Based on economic growth forecasts for large cities, the McKinsey Global Institute projects that, by 2025,[15] emerging countries will account for over 45% of Global 500 companies—230 companies, including 120 located in China.

For Québec, this international context involves increased competition for the maintenance and attraction of head offices in its territory, and a bigger challenge for the development of world-class head offices.

CHART 6

Trend in the number of Global 500 companies in developed countries and emerging countries
(number of companies)



Source: Fortune Global 500.

[15] McKinsey Global Institute, *Urban World: The Shifting Global Business Landscape*, 2013.

❑ Consolidation of large corporations and integration of global value chains

A second international trend corresponds to the consolidation of large corporations and the integration of value chains.

The deployment of a global value chain allows companies to increase their productivity and their profitability, because they can benefit from the comparative advantages of each country. Some companies may have their own global value chain or may participate in global value chains with partners.

The lowering of global trade barriers between countries, and of transportation and communications costs, has favoured the spread of corporate production processes.

This global expansion of multinationals has therefore translated into an increase in secondary head offices to coordinate production and sales realized by foreign subsidiaries.

In this regard, United Nations data[16] show the magnitude of the expansion of multinational companies, and especially the number of foreign subsidiaries, over the past few years.

- On a global basis, in 1990, there were approximately 35 000 multinational companies owning about 150 000 foreign subsidiaries. According to 2009 estimates, the number of multinational companies had more than doubled to 82 000, while the number of foreign subsidiaries was five times higher, reaching 810 000.

- On average, in 1990, there were 4.3 foreign subsidiaries per multinational, while in 2009, there were nearly ten foreign subsidiaries per multinational.

[16] United Nations Conference on Trade and Development, *World Investment Report*, 1992 and 2009.

Value chains

In a certain number of sectors of activity, globalization is leading to the appearance of "value chains"—strategic partnerships established among companies with the goal of benefiting from a collective competitive advantage.

A value chain defines all the manufacturing and processing steps required to bring goods or services from the design stage to the final sale.

A value chain encompasses activities such as design, production, marketing, distribution and consumer support.

The example of the aerospace industry

The vitality of the Québec aerospace industry depends on the presence of major general contractors having their decision-making centre in Québec, such as Bombardier. This presence has made it possible to create a key sector in Québec, particularly by stimulating the development of a network of suppliers.

In 2015, the four major general contractors active in Québec employed 24 525 workers and accounted for sales totalling $11.3 billion.

Tier 1 suppliers

General contractors are supported by the presence of about ten tier 1 suppliers and of maintenance, repair and overhaul service providers, who are world leaders in their respective fields (avionics, landing gears, spaceborne systems, etc.).

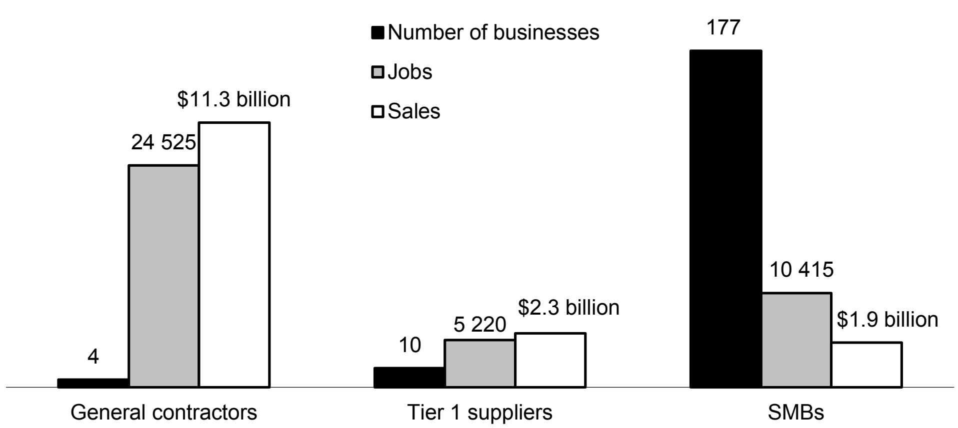
In 2015, they employed 5 220 workers and represented sales in the order of $2.3 billion.

SMBs

The aerospace cluster is completed by the presence of 177 SMBs acting as subcontractors or suppliers of products and services covering a wide range of specialities related to the design and assembly of an aircraft: parts machining, surface treatment, composite materials, quick prototyping, avionics, electro-optics, etc.

In 2015, these businesses contributed to the Québec economy by providing jobs to 10 415 people and realizing sales totalling $1.9 billion.

Businesses, jobs and sales of general contractors, tier 1 suppliers and SMBs in the Québec aerospace industry – 2015
(number, unless otherwise indicated)



Source: Ministère de l'Économie, de la Science et de l'Innovation.

3.2 The observed trend in the number of head offices in Québec

The observed trend in head offices shows Québec to be in a good position compared to the other Canadian provinces in terms of the presence of head offices located in its territory and the jobs connected with them.

The number of head offices in Québec nonetheless has trended slightly downward in the past few years, in accordance with the observed international trends, particularly due to the consolidation of large corporations and the integration of global value chains.

❑ Québec is doing better than the rest of Canada

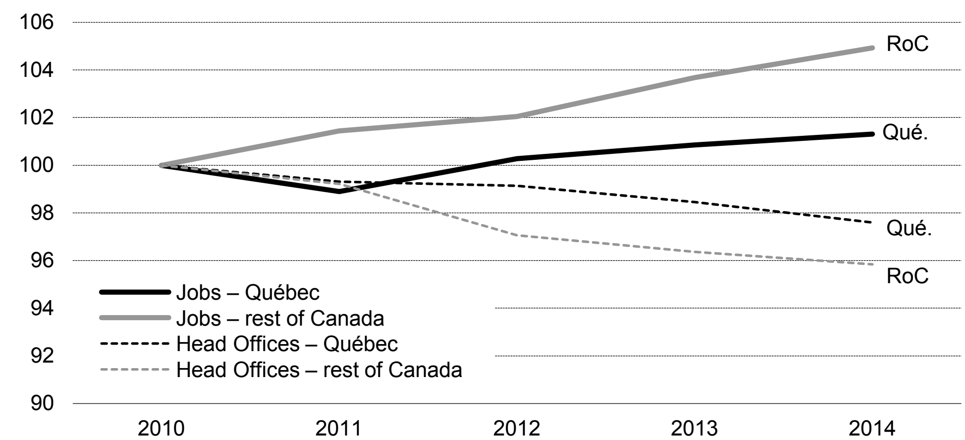
Between 2010 and 2014, the number of head offices in Québec declined from 582 to 568, corresponding to a decrease of 14 establishments in four years (−2.4%).[17] This result can be explained, in particular, by corporate mergers.

Québec is nonetheless doing better than the rest of Canada, where the decline reached 4.2%, a loss of 95 establishments. This result is largely attributable to the disappearance of 62 head offices in Ontario. Although the number of head offices declined in Québec, the number of head office jobs rose by 1.3%, from 51 400 in 2010 to 52 072 in 2014.

In the rest of Canada, despite the sharper decline in the number of establishments, the number of jobs grew more strongly than in Québec, rising by 4.9%, a gain of 8 237 jobs. More than half of this increase in the number of jobs in the rest of Canada was attributable to Alberta, primarily due to the boom in the petroleum sector.

CHART 7

Trend in the number of head offices and head office jobs, in Québec and in the rest of Canada
(2010 = 100)



Source: Statistics Canada, compilation by the Ministère des Finances du Québec.

17 Before 2010, no Annual Head Office Survey data were published by Statistics Canada. Pre-2010 data cannot be compared with the survey data presented in this document.

❑ A stable share of the Canadian total

Relative to Canada as a whole, Québec accounted for 20.6% of head offices and 22.9% of head office jobs in 2014, a proportion greater than the economic weight of Québec in Canada, which is 18.7% of GDP.[18]

Québec's share of the Canadian total remained relatively stable over the 2010-2014 period, in regard to the number of both head offices and head office jobs. Indeed, Québec accounted for 20.3% of Canadian head offices in 2010, and 20.6% in 2014, while the share of jobs in these establishments declined from 23.5% to 22.9% over the same period. In comparison, Québec's economic weight in Canada was 19.7% of GDP in 2010 and 18.7% in 2014.

It bears repeating that these data concern all head offices, without distinction between main head offices and secondary head offices, or between Québec companies and non-Québec companies.

[18] Proportion of GDP in terms of revenue in 2014, according to Statistics Canada's 2015 Provincial and Territorial Economic Accounts.

The place of businesses headquartered in Québec among the largest corporations in Canada

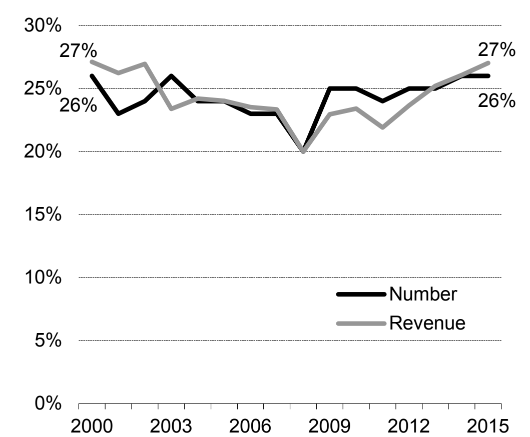
Between 2000 and 2015, the number of Québec companies that were among the *Financial Post*'s ranking of the Top 100 Canadian companies remained relatively stable, in a proportion fluctuating annually between 20.0% and 26.0% of the Canadian total.

- Québec's representativeness relative to Canada also followed a similar trend in terms of the total revenue of companies appearing in the Top 100.
- In comparison, Québec's economic weight in Canada varied between 18.7% and 21.0% during this period.

However, a downward trend was observed in the proportion of Québec companies among the Top 500 in Canada, declining from 21.4% in 2000 to 17.0% in 2015.

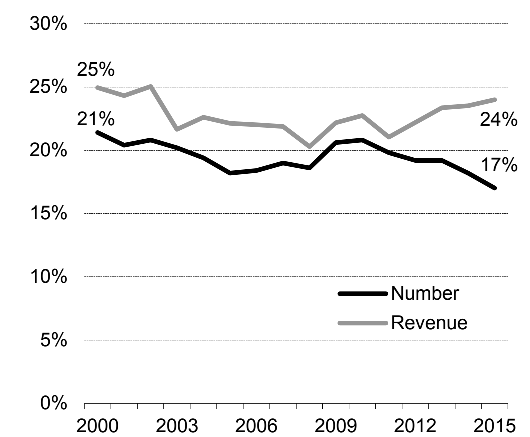
- This downward trend in Québec was also observed in Ontario, both provinces having seen their share of Top 500 companies decline to the benefit of Alberta companies carrying on their activities mainly in the energy sector, and Canadian companies whose main head office is located in the United States.
- Conversely, the proportion of the total revenue of Québec companies among the Top 500 in Canada rose back to a level comparable to that of the early 2000s, pointing to greater growth in the average size of large Québec companies appearing in the Top 500 than for the other provinces.

Québec companies among the Top 100 in Canada
(as a percentage of the number of companies and of total revenue)



Source: *Financial Post*, compilation by the Ministère des Finances du Québec.

Québec companies among the Top 500 in Canada
(as a percentage of the number of companies and of total revenue)



Source: *Financial Post*, compilation by the Ministère des Finances du Québec.

Sources: *Financial Post*, Statistics Canada, compilation by the Ministère des Finances du Québec.

3.3 Transactions changing the ownership or control of companies in Québec

The third series of questions pertains to transactions changing the ownership or control of companies in Québec—the mergers and acquisitions phenomenon. These transactions influence the presence of a head office in Québec, especially the presence of a main head office, a company's strategic decision-making centre.

❑ The transactions examined

The transactions examined apply both to corporations listed on the stock exchange and privately-held companies.

The statistics presented here concern the transactions of the past 16 years recorded in the Bloomberg's mergers and acquisitions database. These data show a change in ownership of a company (either a Québec company that acquires a company outside Québec or vice versa) or in a portion of its assets.

The only transactions taken into account are finalized transactions, the value of which was announced publicly and exceeds $5 million,[19] and in which the acquiring or target company has a head office located in Québec. Although transactions whose details are made public primarily concern corporations listed on the stock exchange, the database also contains transactions involving private investment corporations (less than 15% of the value over the period studied).

Definition of the transactions concerned
The term "mergers and acquisitions" refers to the acquisition of a company or its assets by another company for strategic purposes, particularly with the goal of accelerating its growth, improving competitiveness and increasing the market shares of the company making the acquisition. In such a transaction, the acquiring company purchases 50% or more of the target and thus becomes the majority owner. An "investment" in a company refers to a minority purchase, a private capital investment or a round of venture capital financing. In this case, the acquiring company purchases less than 50% of the target.

[19] The value of a transaction is calculated by Bloomberg on the basis of the conditions of the agreement, including the net debt in most cases, and may therefore differ from the value reported publicly.

❑ A positive balance for Québec

According to these data, the balance of the total value of acquisitions by Québec companies relative to sales to companies outside Québec is positive.[20]

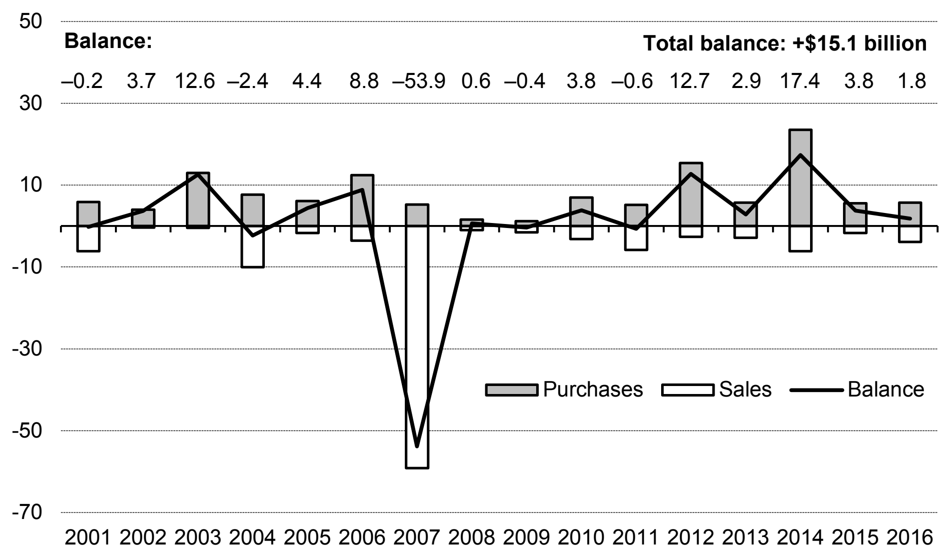
Between January 1, 2001 and December 31, 2016, the 502 acquisitions of foreign companies by Québec companies totalled $125.2 billion, while the 244 sales of Québec companies to foreign interests totalled $110.1 billion, for a positive balance of $15.1 billion. Thus, twice as many foreign companies were purchased by Québec companies, compared to Québec companies sold to foreign interests.

— The Québec transactions mostly involved companies from other Canadian provinces and the United States, in the case of both acquisitions (74%) and sales (78%).

Over the past five years, this balance has been established at +$38.6 billion, with 173 acquisitions and 71 sales totalling $55.9 billion and $17.3 billion, respectively.

CHART 8

Trend in transactions involving a Québec company and a company outside Québec
(billions of dollars)



Note: Finalized transactions whose announced value exceeds $5 million. Totals may not add due to rounding.
Source: Bloomberg, compilation by the Ministère des Finances du Québec.

20 The same conclusions emerge with the Informart data, an alternative source on transactions involving Canadian companies. These data indicate more foreign companies purchased by Québec companies than Québec companies sold to foreign interests, and a positive balance between the value of acquisitions of foreign companies by Québec companies and the value of sales of Québec companies to foreign companies.

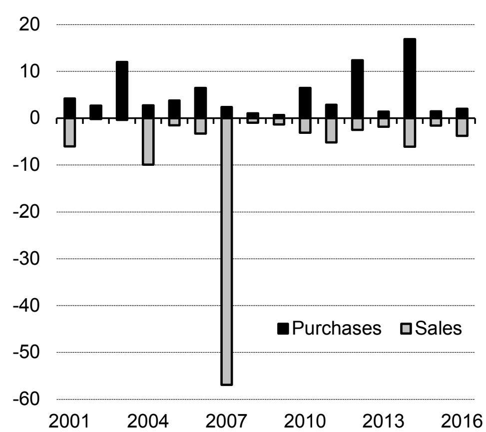
Complete acquisitions of companies and transactions on a portion of assets

The positive balance of the total value of acquisitions by Québec companies relative to sales is attributable, in particular, to "partial" transactions—acquisitions and investments representing less than all of the target.

Concerning complete acquisitions of companies, the 268 acquisitions of foreign companies by Québec companies totalled $79.6 billion, whereas the 197 sales of Québec companies to foreign interests amounted to $104.4 billion, for a balance of −$24.8 billion. This negative balance is attributable to one major transaction, the sale of Alcan to the British mining company Rio Tinto for $44.9 billion in 2007. Excluding this lone transaction, there would be a positive balance of $20.1 billion.

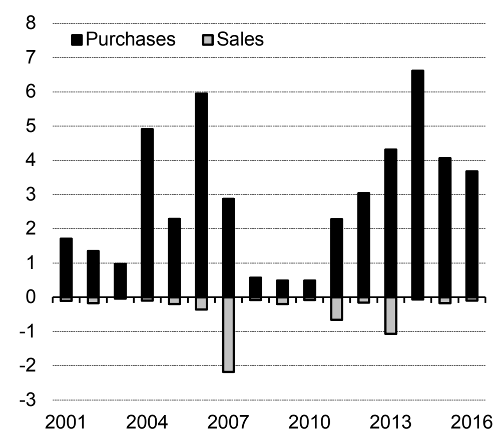
For partial transactions, Québec companies realized 234 acquisitions totalling $45.6 billion, while the 47 sales totalled $5.7 billion, for a positive balance of $39.9 billion. Although they often receive less media coverage than complete acquisitions of companies, partial acquisitions and strategic investments contribute to the expansion of Québec companies.

Complete acquisitions of companies involving a Québec company
(billions of dollars)



Note: Finalized transactions whose announced value exceeds $5 million.
Source: Bloomberg, compilation by the Ministère des Finances du Québec.

Partial transactions involving a Québec company
(billions of dollars)



Note: Finalized transactions whose announced value exceeds $5 million.
Source: Bloomberg, compilation by the Ministère des Finances du Québec.

❑ Major mergers and acquisitions

Over the years, Québec companies have engaged in multi-billion dollar transactions, which have had a major impact on the balance presented above. Over the past 16 years, the top ten purchases by Québec companies represent over one-quarter of the total value of acquisitions, and the top ten sales account for more than two-thirds of the total.

Over the same period, the two biggest acquisitions involved the Québec company Alcan in the basic materials sector, namely:

— the purchase of the French aluminium producer Pechiney in 2003 for $8.4 billion;

— the sale of Alcan to the British mining company Rio Tinto in 2007 for $44.9 billion.

TABLE 5

List of biggest complete acquisitions involving a Québec company and a company outside Québec – 2001-2016
(billions of dollars, unless otherwise indicated)

Year	Acquiring company	Target	Sector (target)	Provenance(1)	Value
Purchases					
2003	Alcan	Pechiney	Basic materials	France	8.4
2014	Amaya	Oldford Group	Consumption	Isle of Man	4.9
2014	BCE	Bell Aliant	Communications	Canada (N.S.)	3.9
2012	Alimentation Couche-Tard	Statoil Fuel & Retail	Consumption	Norway	3.5
2012	CGI Group	Logica	Technology	United Kingdom	3.2
2010	BCE	CTV	Communications	Canada (Ont.)	3.2
2006	Bell	Aliant	Communications	Canada (N.S.)	2.7
2014	Alimentation Couche-Tard	The Pantry	Consumption	United States	2.0
2005	Metro	A&P Canada	Consumption	Canada (Ont.)	1.9
2014	SNC-Lavalin Group	Kentz	Industrial	Jersey	1.8
TOTAL – PURCHASES					**35.5**
Sales					
2007	Rio Tinto	Alcan	Basic materials	United Kingdom	44.9
2004	Coors	Molson(2)	Consumption	United States	5.6
2007	Bowater	Abitibi-Consolidated(3)	Basic materials	United States	5.2
2011	Cliffs Natural Resources	Consolidated Thompson Iron Mines	Basic materials	United States	4.4
2001	Solectron	C-Mac Industries	Industrial	United States	4.0
2014	Agnico Eagle Mines, Yamana Gold	Osisko Mining	Basic materials	Canada (Ont.)	3.8
2016	Lowe's	RONA	Consumption	United States	2.9
2013	Endo International	Paladin Labs	Consumption	United States	1.4
2006	IAMGOLD	Cambior	Basic materials	Canada (Ont.)	1.4
2004	Rogers Wireless Communications	Microcell Telecommunications	Communications	Canada (Ont.)	1.2
TOTAL – SALES					**74.8**

(1) Provenance of the company outside Québec.
(2) Merger leading to the creation of Molson Coors, which has head offices in Denver and Montréal.
(3) Merger leading to the creation of AbitibiBowater (now Resolute Forest Products), which has its head office in Montréal.
Source: Bloomberg, compilation by the Ministère des Finances du Québec.

Record of Québec mergers and acquisitions compared to three other Canadian provinces

Record

The record of Québec companies for the last five years compared to that of companies in other Canadian provinces puts Québec's recent performance into perspective for transactions involving foreign companies. This comparison was made with the principal Canadian provinces active in this type of transaction—Ontario, Alberta and British Columbia, which account for more than 85% of Canadian head offices.

Results

Québec is the Canadian province that has been the least active since 2012 in mergers, acquisitions and investments, with a total of 244 identified transactions (purchases and sales) over $5 million, compared to 972 in Ontario, 451 in British Columbia and 321 in Alberta.

According to the value of the transactions, Ontario presents the most advantageous balance (+$150.6 billion), ahead of the results of Québec (+$38.6 billion), British Columbia (+$2.9 billion) and Alberta (+$0.5 billion). Ontario's highly positive balance is explained by the major acquisitions of the many companies in the financial sector located in its territory.

Comparison of the balance of transactions, by province – 2012-2016

	Ontario	Québec	British Columbia	Alberta
Number of purchases	691	173	254	203
Number of sales	281	71	197	118
Balance	**+410**	**+102**	**+57**	**+85**
Value of purchases (billions of dollars)	220.5	55.9	24.9	71.5
Value of sales (billions of dollars)	69.9	17.3	22.0	71.0
Balance (billions of dollars)	**+150.6**	**+38.6**	**+2.9**	**+0.5**

Note: Finalized transactions whose announced value exceeds $5 million.
Source: Bloomberg, compilation by the Ministère des Finances du Québec.

3.4 The future of companies under Québec control: growth of SMBs and renewal of the pool of large corporations

The fourth question addressed concerns the future of companies under Québec control. The presence in Québec of head offices of large corporations under Québec control is directly related to the dynamics affecting the companies, namely, the growth capacity of existing SMBs and, consequently, the possibilities for renewal of the pool of currently active large corporations. The context in which the Québec economy enables the emergence of new large corporations must therefore be analyzed.

According to the study of the Institute for Governance of Private and Public Organizations released last September, what is most important to ensure the presence of head offices in Québec is the entrepreneurial spirit and Québec's ability to renew its stock of large corporations. The authors of the study point out that, in a market economy, it is normal to see companies disappear,[21] the whole challenge being to ensure their replacement and renewal.

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[21] Yvan Allaire and François Dauphin, *What's the Risk of Losing a Significant Number of Corporate Head Offices Now Located in Québec?*, Institute for Governance of Private and Public Organizations, September 2016, p. 14.

❑ An important dynamic among large corporations in Québec

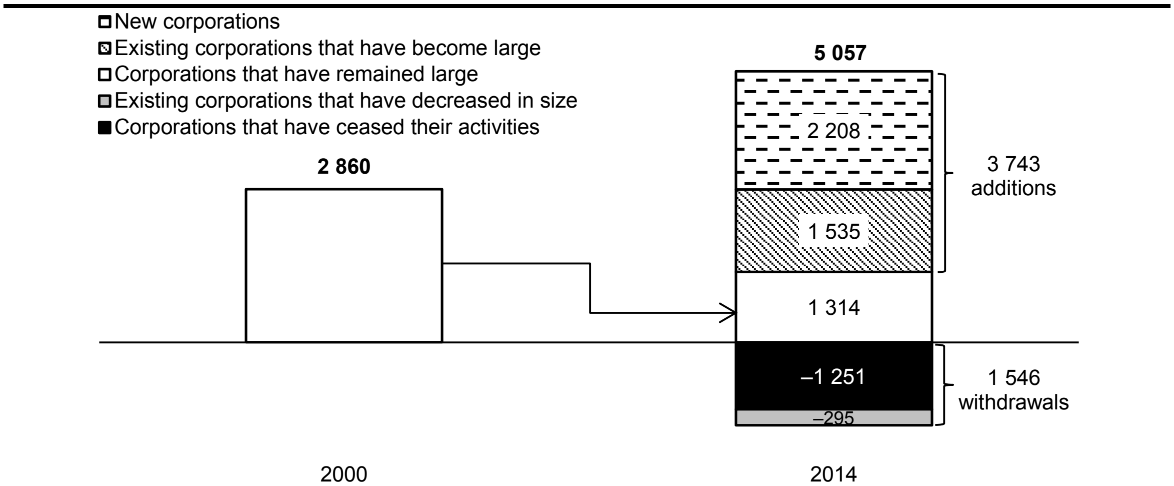
Between 2000 and 2014, the number of large corporations[22] in Québec rose from 2 860 to 5 057, an increase of 2 197 companies. This 77% growth in the number of large corporations is higher than the increase in the total number of corporations in the Québec economy, 68%. The proportion of large corporations among all active corporations remained relatively stable, fluctuating around 1.0%.

The trend data on the number of large corporations do not account for the substantial renewal of corporations in this group. While the total number of large corporations has risen substantially over the years, this increase masks a dynamic of business creation and disappearance—an entirely normal situation in a constantly evolving economic environment.

Thus, the vitality of the Québec economy ensured the renewal of businesses in this group and, because of this vitality, new large corporations outnumber businesses that disappeared.

CHART 9

Turnover among large Québec corporations
(number of corporations)



Note: A corporation is considered large if it has assets or revenue of $50 million or more.
Source: Revenu Québec, compilation by the Ministère des Finances du Québec.

■ Twice as many large corporations created compared to ones that disappeared

In 2014, among the 2 860 large corporations identified in 2000:

— 1 314, or 46%, were still active and large;

— 295, or 10%, decreased to the size of an SMB;

— 1 251, or 44%, were not part of the population of active corporations, either because they had ceased their activities, or because they had been the object of a merger-acquisition with another company.

22 Number of corporations that filed an income tax return in Québec and have assets or gross revenue of at least $50 million.

Although 1 546 corporations left the group of large business corporations over the period studied, a much larger number of corporations joined the group. Between 2000 and 2014, 3 743 corporations became part of the group of large business corporations:

— 1 535 companies that were initially the size of an SMB, or 41%, already active in 2000 and that grew sufficiently to attain large-business status in 2014;

— 2 208 corporations, or 59%, became active between 2001 and 2014.

Thus, for every corporation that has left the group of large business corporations since 2000, more than two others have joined. Such mobility clearly shows the vitality within this group of businesses in Québec.

An equivalent dynamic observed in very large corporations

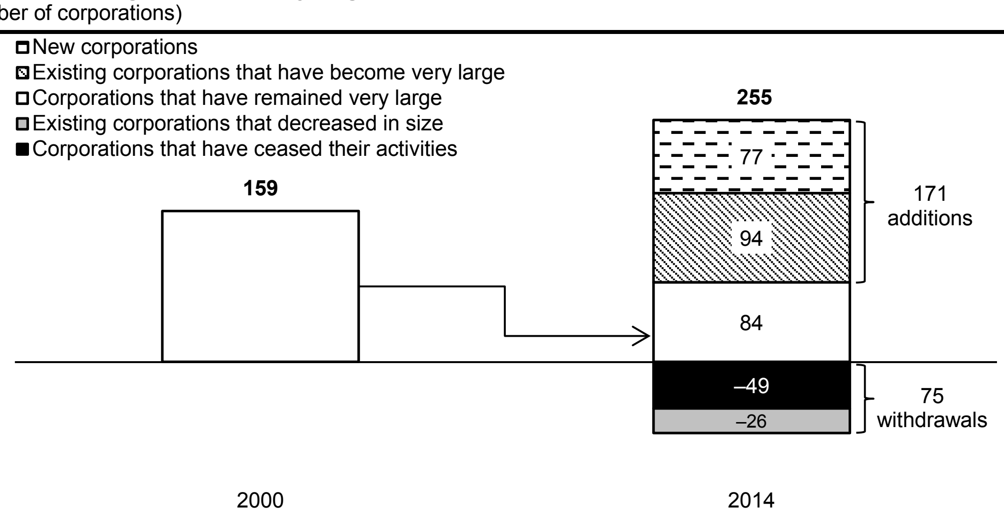
Certain of Québec's large corporations have major economic weight due to their size, particularly very large corporations with gross annual revenue over $1 billion. Like large businesses as a whole, this subgroup has seen considerable renewal, with many very large businesses joining it and others leaving it.

In 2014, 255 corporations were considered to be very large corporations, compared to 159 in 2000, which corresponds to an increase of 60%.

Among the 255 very large corporations identified in 2014, 84 were already active and similar in size in 2000 (33%), 94 were active companies in 2000 and had grown to become very large (37%), and 77 were corporations that became active after 2000 (30%). Conversely, 75 of the 159 very large corporations in 2000 gradually left the group (47%), in particular due to a reduction in size or cessation of their activities.

Thus, for the 75 corporations that left the group of very large corporations between 2000 and 2014, 171 others joined, which corresponds to more than two additions for every withdrawal.

Turnover among Québec's very large corporations
(number of corporations)



Note: A corporation is considered very large if its revenue exceeds $1 billion.
Source: Revenu Québec, compilation by the Ministère des Finances du Québec.

❑ The place of SMBs among growing companies

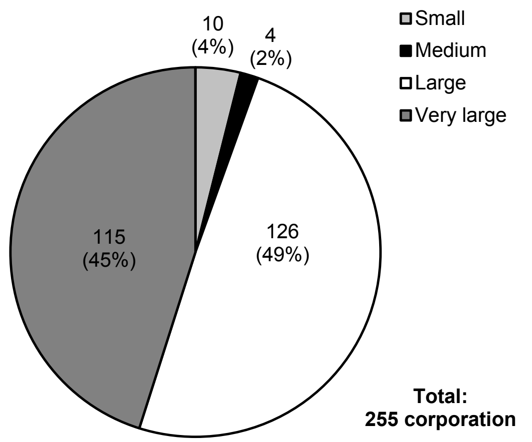
The data on the rise in the number of large corporations in Québec clearly show the large number of SMBs that have developed into large corporations.

Among all the 5 057 large corporations identified in 2014, almost half were SMBs in 2000 or at the time they became active, between 2001 and 2013. These businesses experienced growth that allowed them to become large corporations. These SMBs were divided between small businesses (1 155, or 23% of the large corporations identified in 2014) and medium-sized businesses (1 314, or 26% of the large corporations identified in 2014).

A comparable dynamic was observed in the pool of large corporations, with SMBs and large corporations becoming very large.

CHART 10

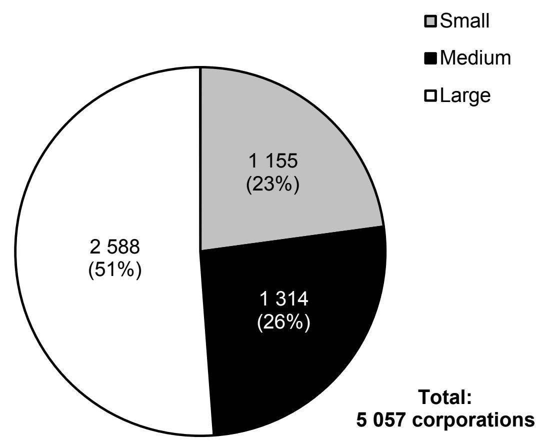
Initial size of corporations in the group of very large Québec corporations – 2014
(number and percentage)



Note: Size in 2000 or on beginning activities between 2001 and 2014. A corporation is considered very large if its revenue exceeds $1 billion.
Source: Revenu Québec, compilation by the Ministère des Finances du Québec.

CHART 11

Initial size of corporations in the group of large Québec corporations – 2014
(number and percentage)



Note: Size in 2000 or on beginning activities between 2001 and 2014. A corporation is considered large if it has assets or revenue of at least $50 million.
Source: Revenu Québec, compilation by the Ministère des Finances du Québec.

3.5 Positive points and findings to put into perspective

These findings concerning head offices or companies under Québec control emphasize several positive points.

— In Canada as a whole, Québec accounts for a larger proportion of head offices than its economic weight.

— The Québec economy sees more acquisitions of foreign companies than sales of companies to foreign interests. Over the past 16 years, twice as many foreign companies were acquired by companies headquartered in Québec than Québec companies were sold to foreign interests.

— Although the number of head offices has trended downward in the past few years, the decline has been more modest in Québec than in the rest of Canada, and the number of Québec head office jobs is rising.

❑ A vigorous economy

These data show that the Québec economy is vigorous, capable of hatching and growing new companies, and of ensuring their development so that they become the new large corporations.

In Québec, for every company that leaves the group of large corporations, more than two companies join.

This vigour is observed, in particular, among SMBs. Half of the large corporations active in Québec were small or medium-sized businesses during the previous 14 years, and experienced growth that allowed them to achieve this stage of development.

PART 2 – THE ACTION UNDERTAKEN

A great many initiatives have already been undertaken to strengthen the Québec economy as an executive-driven economy. However, these initiatives must be reinforced, to better respond to the challenges involved.

The three chapters in Part 2 of this document are devoted to the government action thus implemented.

— The government first determines the challenges to meet and the principles to respect.

— The government then announces how it intends to pursue the improvement of the economic environment.

— Lastly, the government presents the new means of action deployed to foster the development and growth of businesses under Québec ownership, as well as the presence of head offices, and to support Québec control of businesses and stimulate the settlement of executives in Québec.

4. CHALLENGES TO MEET AND PRINCIPLES TO RESPECT

Chapter 4 successively defines:

— the challenges to meet;

— the principles on which the initiatives to be taken must be based.

4.1 Challenges to meet

The strengthening of the Québec economy as an executive-driven economy essentially highlights four situations, all of which are challenges to meet:

— hostile takeovers of corporations listed on the stock exchange;

— entrepreneurial succession and voluntary transfers of corporations listed on the stock exchange or privately held companies;

— financing requirement of companies;

— tax treatment of executives.

4.1.1 Hostile takeover of corporations listed on the stock exchange

The first challenge arises from hostile takeovers of corporations listed on the stock exchange by a buyer outside Québec.

We are referring here to transfers of decision-making centres resulting from hostile takeovers of corporations listed on the stock exchange. This situation occurs when the board of directors of the company concerned by a takeover bid opposes it, or is not actively seeking a buyer. This takeover may occur when there is no shareholder or group of shareholders controlling enough voting shares to block the transaction.

In the current state of corporate law, neither the Québec framework nor the federal framework provides for measures giving a corporation's officers a full opportunity to prevent a hostile takeover. The role of the boards of directors in these events is governed by securities commissions. There is a fundamental difference in the securities framework between Canada and the United States.[23]

[23] See p. 17.

❑ A relatively rare situation

While Québec companies sometimes faced hostile takeover bids over the past 16 years, Québec control of the companies was rarely lost when they faced this first challenge.

Between January 1, 2001 and December 31, 2016, only one of 244 sales of Québec companies to interests outside Québec for a value greater than $5 million, identified by Bloomberg, resulted from an unsolicited bid. The value of this sale was relatively modest for this type of transaction, at $60 million.

During the same period, five of the 502 acquisitions of companies outside Québec by Québec companies resulted from hostile (three) or unsolicited (two) takeovers. The total value of these acquisitions reached nearly $9 billion, due to the weight of the hostile takeover of Pechiney by Alcan in 2003.

TABLE 6

List of transactions resulting from a hostile or unsolicited takeover involving a Québec company and a company outside Québec – 2001-2016
(millions of dollars, unless otherwise indicated)

Year	Acquiring company	Target	Sector (target)	Provenance(1)	Nature of the bid	Value
Purchases						
2003	Alcan	Pechiney	Basic materials	France	Hostile	8 403.1
2014	SEMAFO	Orbis Gold	Basic materials	Australia	Unsolicited	169.8
2013	TransForce	Vitran	Industrial	Canada (Ont.)	Unsolicited	131.1
2011	Paladin Labs	Afexa Life Sciences	Consumption	Canada (Alta.)	Hostile	74.4
2005	Logibec Groupe Informatique	MDI Technologies	Technology	United States	Hostile	32.8
TOTAL – PURCHASES						**8 811.3**
Sale						
2010	Cliffs Natural Resources	KWG Resources	Basic materials	United States	Unsolicited	60.4
TOTAL – SALE						**60.4**

Note: Finalized transactions for which the announced value exceeds $5 million. Totals may not add due to rounding.
(1) Provenance of the company outside Québec.
Source: Bloomberg, compilation by the Ministère des Finances du Québec.

❑ A risk not to be underestimated

However, the risk of hostile takeover of corporations listed on the stock exchange must not be underestimated, as confirmed by the study published in September 2016 by the Institute for Governance of Private and Public Organizations.[24]

The institute analyzed the legal situation of the 69 Québec companies that generated more than $1 billion of revenue in 2015 and that were part of the list, established by the *Financial Post*, of the Top 500 companies incorporated or located in Canada according to revenue.

Of this total, 32 companies are protected from a hostile takeover bid due to their legal status. These companies are state-owned, parapublic or hybrid corporations (6), cooperatives (4), privately held companies (8), or subsidiaries of non-Québec corporations (14).

■ 16 unprotected corporations with over $1 billion of revenue

The other 37 companies are all corporations listed on the stock exchange.

According to the institute's survey, 21 of these corporations are already protected one way or another against hostile takeovers.

— Some corporations (13) are managed by controlling shareholders.

— Other corporations (8) are protected by articles of incorporation which cap the percentage of votes that can be exercised by any shareholder, or by statutes that limit the ownership or percentage of votes exercised by non-Canadian shareholders, particularly banks and insurance companies.

The institute thus finds that 16 Québec corporations with over $1 billion of revenue are corporations listed on the stock exchange that have no protection against a hostile takeover bid.

These corporations are Metro, Gildan, SNC-Lavalin, WSP Global, Dollarama, Valeant, TransForce, Resolute Forest Products, CAE, Canam Group, Tembec, Aimia, Uni-Select, Amaya, Stella-Jones and Colabor. Among these corporations, only four are incorporated under the Québec statute. They are Metro, Canam Group, Uni-Select and Amaya.

— Since only four corporations are incorporated under the Québec statute, any amendment to the Québec statute to include provisions regarding hostile takeovers could protect only these four corporations.

Based on this first challenge, the question is whether it is possible to deploy new legislative tools to contribute to the protection of public companies established in Québec against hostile takeover bids.

[24] Yvan Allaire and François Dauphin, op. cit.

4.1.2 Entrepreneurial succession and voluntary transfers of corporations listed on the stock exchange or privately held companies

The second challenge results from voluntary transfers of companies to buyers outside Québec, regardless of whether these corporations are listed on the stock exchange or privately held companies.

In this case, the transfer of decision-making centres results from:

- a negotiated transaction (for a privately held company);
- a friendly takeover bid, that is, a takeover bid supported by the officers and the board of directors, and accepted by the shareholders (for a corporation listed on the stock exchange).

The transactions concerning St-Hubert Group (privately held company) and RONA (corporation listed on the stock exchange) are examples of each of these two situations.

In both cases, the shareholder or shareholders, with the support of the officers, chose to sell their interests in the company to a non-Québec buyer, particularly due to the interest of the offer that was made to them, and the absence of an equivalent or better offer from Québec.

By definition, this risk concerns all companies (privately held or listed on the stock exchange) headquartered in Québec.

❑ Privately held companies: SMBs and intergenerational transfer

In the case of privately held companies, the risk of voluntary transfers of businesses particularly affects SMBs and raises the entire question of intergenerational transfer of companies.

The tax dimension is essential here: the owner of a business may decide to transfer the accumulated assets to the owner's heir at a cost below market value, but this does not exempt the heir from the capital gains tax, which is computed according to the market value of the assets.

Moreover, on the death of the business owner, the capital gains tax payable may cause major liquidity problems for the heir, who is often unable to pay the capital gains tax without disposing of some of his or her interests in the business. In many cases, the heir is required to liquidate part of his or her shares in the capital stock of the company to pay this tax expense, occasionally at a unit value below that which the heir might have obtained by selling the whole company. This situation can also weaken the control of the company by Québec interests.

❑ Corporations listed on the stock exchange: a promise of capital appreciation

For corporations listed on the stock exchange, the shareholders are induced to accept the takeover bid due to the capital appreciation they are able to realize on the shares they hold, since the takeover bid has driven up their price.

❑ A risk affecting a great many large corporations

In its report, the Institute for Governance of Private and Public Organizations points out that 29 corporations listed on the stock exchange and eight privately held companies with revenue exceeding $1 billion in 2015 could be transferred voluntarily to non-Québec interests.[25]

❑ A twofold challenge

The Québec economy is open to external markets. To ensure the flow of transactions with its trade partners, whether in regard to trade in goods and services or to financial transactions, it is crucial that the government not restrict the right of business owners to carry out transactions outside Québec, particularly as regards the ownership of their business. The right for a business owner or a shareholder to sell personal interests in a business is inseparable from the right of ownership.

In fact, Québec benefits from this openness, as its purchases of entire companies outside Québec and its acquisitions of strategic assets largely exceed sales of businesses under Québec ownership.

Thus, the main way to respond to this second challenge is to give Québec entrepreneurs the means to make offers to purchase Québec companies for sale that can compete with those made by non-Québec interests.

At the same time, it is the government's responsibility to ensure that taxation and regulation do not hinder the transfer of a business to the next generation, and thereby encourage its sale to a third party. Although mechanisms exists in this regard to mitigate the shock effects related to fiscal obligations, these means are insufficient in some cases, and the tax payable may encourage the sale of a business to foreign interests or force the heirs to dispose of a portion of the business.

[25] Yvan Allaire and François Dauphin, op. cit.

The tax rules governing the transfer of a corporation's shares to a business successor

Taxation during the transfer to the next generation

The tax rules applicable to the transfers of a corporation's shares to the next generation generally lead to payment of taxes that may prove substantial, and even decisive. This required tax payment is thus attributable to the "deemed" capital gain, i.e. the capital gain calculated as if an actual sale had occurred at the fair value, which is not the case.

The taxes related to a transfer of a corporation's shares to the next generation may occur on various occasions, particularly at the time of:

- the transfer inter vivos, i.e. during a transfer from an owner who is still living to the next generation;
- the transfer at the time of death, i.e. when the transfer takes the form of a bequest to the next generation after the owner's death;
- the application of a deemed disposition rule every 21 years when shares are held by a trust.

There are means of limiting the effect of this obligation to pay taxes after a transfer. Also, appropriate tax and financial planning normally makes it possible to avoid shock and surprise regarding the taxes resulting from this transfer, as well as the magnitude of these taxes. In some cases, these means are insufficient and the tax payable forces the new owners of these shares to sell a portion of them to pay the tax, or deters the outgoing owner from transferring his business to the next generation, so that the owner prefers instead to sell to third parties.

Transfers inter vivos

In the case of a transfer between persons not dealing at arm's length – which is the case for an owner transferring his corporate shares to the next generation – the transaction is deemed, for the author of the transfer, to have been realized at the fair market value, even if the shares have been given away or assigned below this value.

Exceptions to this rule exist to allow tax deferment. This particularly concerns transfers in favour of a spouse, or the transfer of farm and fishing property to a family member.

Transfers at death

The death of a taxpayer triggers the application of many provisions resulting in payment of income taxes on the gains for tax purposes on all the assets the deceased taxpayer held immediately before death. Concretely, these provisions stipulate that the taxpayer is deemed to have sold all his or her property at fair market value. This creates a deemed capital gain on which tax must be paid.

Exceptions apply to these rules to allow tax deferment. The best known of these exceptions applies to property bequeathed to the spouse. Exceptions may also apply to the transfer of farm and fishing property to a member of the deceased's family.

Transfers through a trust

Tax, financial or estate/succession planning may include the holding of a corporation's shares by a trust.

However, shareholding through a trust cannot get around the objectives sought by the general rules indicated above concerning capital gains, both those applicable to transfers inter vivos and those applicable at death. Indeed, the tax rules applicable to trusts, subject to rare exceptions, provide for deemed disposition of all the property held by a trust every 21 years after the date of creation of the trust.

4.1.3 The company's financing requirement

The third challenge is the consequence of a head office transfer or a loss of control of the business resulting directly from its financing requirements.

In this situation, the arrival of new investors from outside Québec, who alone are able to meet these financing requirements, involves the loss of control of the company in exchange.

❑ The risk

In a company's normal development cycle, entrepreneurs generally first try to obtain financing through traditional funding vehicles.

These funding vehicles are essential loans, financing by suppliers or customers, mortgages and hypothecs, a line of credit, security on equipment, or the family fortune. In all cases, the financing is assured while allowing the entrepreneurs to retain control of the business.

The risk of transfer to non-Québec interests appears when the company has reached a certain size, or its development requires major investments to ensure its growth. The investments required cannot be covered by the internal liquidity of the original shareholders, by self-financing or by bank loans.

Entrepreneurs must consider assigning a portion of their interests in the company in exchange for financing. They can do so by obtaining financing through investment capital, or by proceeding with a public offering on the stock markets.

The entire challenge is to ensure that entrepreneurs can have access, in Québec, to funding sources that are numerous and adapted enough to meet their needs, without being led, at a crucial moment in the development of their business, to transfer ownership of their company to non-Québec interests in order to ensure its future growth.

❑ The Québec economy is well-equipped

The Québec economy is well-equipped overall to meet financing requirements, for both development capital and venture capital.[26]

Private funds, financed in part by Québec institutional funds,[27] finance venture capital. This type of capital is addressed to new businesses and businesses engaged in a medium- or long-term research and development project. These companies with high growth potential can aspire to become tomorrow's major corporations.

Private funds and institutional funds finance development capital. Development capital concerns well-established companies, marketing a product or a service and already generating regular and growing revenue. Financing of these companies thus allows the emergence and growth of major new head offices.

However, it must be ensured that companies faced with financing requirements due to their growth have easy access to these different financial tools to keep their control in Québec.

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[26] In both cases, these investments are made in consideration of equities or equity-linked financing.

[27] The most active Québec institutional funds are Investissement Québec, Capital régional et coopératif Desjardins, Fonds de solidarité FTQ, Fondaction, and Caisse de dépôt et placement du Québec.

❑ The case of financing exceeding $25 million

Despite this available financing, the challenge is posed, in particular, for high financing requirements—financing exceeding $25 million for the same investor.

In comparison with U.S. funds, the majority of investment capital funds in Québec are small-scale, $100 million or less. This reality may hinder the financing of companies requiring a lot of capital to grow.

The funds generally limit their investment in the same company to 10% of the total capital of the fund, a maximum of $10 million per company for a $100-million fund. In the case of corporate projects requiring too much capital, the available amounts do not allow financing of the marketing stages for products or services, even though these stages are generally the most lucrative for investors.

For their part, tax-advantaged funds, due to their level of capitalization, are limited in their interventions by the size of the companies financed and the amounts required.

❑ Continuity of the financing chain over time

The challenge is also posed for the continuity of the financing chain over time, at all stages of business development.

Private investment capital funds have predetermined investment horizons requiring them to resell the shares acquired from the companies. Structured as limited partnerships, the funds generally have a fixed ten-year life cycle, five years to realize new investments and five years to disengage from the companies and return the capital to their limited partners. It is therefore essential for the funding chain to cover every development stage of the companies, so that other Québec investors are able to take over at that time, failing which there is a risk that control will pass to an investor outside Québec.

Québec institutional investors play an important role in ensuring that the financing chain remains complete over time. In particular, they ensure:

— financing of the best-performing Québec companies with high growth potential, particularly those emerging from investment capital funds;

— participation in refinancing of the best-performing private investment capital funds and evaluation of the possibilities for financing new funds seeking to finance companies with high growth potential.

4.1.4 **Tax treatment of executives**

The fourth challenge is related to the tax treatment of executives.

The strengthening of the Québec economy as an executive-driven economy implies that head offices are real places for strategic decision-making and, consequently, that senior executives actually reside in Québec.

The taxation applicable to the executives of a large corporation can be a determining factor in the decision to set up or maintain a head office in Québec and make it the place for strategic decisions.

The tax treatment of senior executives will also influence the choice of potential candidates to accept the position offered to them, and thus whether or not to settle in Québec if the head office is located in Québec. Unfavourable tax treatment of senior executives can thus contribute to a company's choice to move its head office or transfer its principal strategic functions out of Québec, thus reducing the practical importance of the head office and its resulting impacts.

There are two kinds of tax treatment of executives:

— the tax rate that applies to their income;

— the special treatment offered to stock options, a common component of senior executive compensation.

❑ The tax rate

The tax rate applicable to senior executives of large corporations is normally the highest marginal tax rate, since they benefit from high compensation.

Thus, the highest marginal tax rates applicable in a jurisdiction in relation to its competitors may have an impact on the real or anticipated behaviour of senior executives. Higher marginal tax rates will act as a “disincentive,” particularly for highly mobile executives.

For 2016, the maximum marginal tax rate (including the federal income tax and the provincial income tax) in Québec was the third-highest of Canadian provinces, after Nova Scotia and Ontario.[28]

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[28] The maximum marginal tax rate is 54.0% in Nova Scotia, 53.53% in Ontario and 53.31% in Québec.

❑ Stock options

Stock options are part of the compensation mode of most senior executives.

The purpose of this form of compensation is to interest them financially in the value of the company, and thus to have them act in such a way as to make this value grow. This form of compensation is often a large part of their total compensation.

Stock options benefit from preferential tax treatment in most jurisdictions. The validity of this preferential treatment is sometimes called into question. Nonetheless, it remains one of the location decision factors for the persons concerned.

Eliminating this benefit may lead to the departure of high-income taxpayers and thus reduce government revenues.

In Canada, this preferential treatment is uniform in all provinces, except in Québec.

— In the rest of Canada, the benefit conferred is tied to the effective taxation of capital gains. A 50% deduction is applied to this income.

— Since 2003, Québec has moved away from the Canadian system by applying a lower deduction rate to the income derived from stock options. It has been 25% since March 31, 2004, except in the case of innovative SMBs.

The challenge is to offer competitive taxation inducing senior executives to agree to settle in Québec, while maintaining a fair tax system and protecting tax revenues.

4.2 The principles

The plan undertaken by the government seeks to meet these challenges and, more generally, to strengthen the Québec economy as an executive-driven economy.

The initiatives to be taken for this purpose must be based on four clear principles.

4.2.1 Two general principles

The two main principles arise from the very context in which the Québec economy operates.

- In the first place, the measures undertaken to maintain and develop decision-making centres in Québec must not hinder the flow of transactions with the rest of Canada and with foreign countries. They must be in keeping with trade agreements.
  - The Québec economy is an open economy, operating in a free-market context. The initiatives chosen to strengthen the Québec economy as an executive-driven economy must not constitute obstacles to trade, investment or financial market transactions. Moreover, the weight of exports in the Québec economy and the positive balance of transactions between Québec and foreign companies illustrate the advantages derived by Québec from its openness to doing business with the rest of the world.
- Secondly, the level and nature of the means of protection deployed must respect the Canadian context and not affect the value of the companies. These means of protection must be analogous to those available to federally chartered corporations.
  - In this respect, any unilateral amendment to the Québec *Business Corporations Act* aimed at incorporating provisions on hostile takeover attempts could result in a devaluation of the securities of the businesses concerned compared to corporations incorporated under the federal statute, due to the elimination of the control premium inherent in the share price.

4.2.2 Two courses of action

These two general principles having been stated, two other principles concerning the very nature of the initiatives to be taken are the basis of the two courses of action proposed by the government.

- In the first place, the actions undertaken by the government to strengthen the Québec economy as an executive-driven economy must give priority to improvement of the economic environment.
  - Ultimately, acting on the economic environment is the surest way to strengthen the Québec economy as an executive-driven economy. A favourable economic and fiscal context will attract head offices and lead to their retention, stimulate Québec's development as a place for decision-making, and favour the growth of companies and the emergence of the large Québec corporations of tomorrow.
- Secondly, this action concerning the economic environment, which is essentially already in progress, must be completed with more direct interventions to meet the current challenges.
  - These actions must be well-established and concerted, so that they have the expected effects and do not hinder smooth business operations.

5. PURSUE THE IMPROVEMENT OF THE ECONOMIC ENVIRONMENT

In Chapter 5, the government announces how it intends to pursue the improvement of the economic environment.

In this regard, it must continue to act on:

— the overall economic context;

— the fiscal environment;

— entrepreneurship and business development.

For the government, strengthening the Québec economy as an executive-driven economy first depends on improvement of the economic environment—improvement that is already largely in progress.

5.1 The overall economic context

The government has a certain number of economic levers by which it can promote the presence of head offices in Québec and the development of Québec companies. A first series of levers concerns the overall economic context, and Québec already benefits from many advantages in this regard.

The implementation of head offices is largely related to political and economic stability, access to quality services and infrastructure, and the availability of skilled labour.

The government will continue to rely on these favourable factors to attract companies and decision-making centres.

❑ Political and economic stability

Québec benefits from internationally recognized political and economic stability. The leading rating agencies have also recognized that Québec benefits from sound management of public finances.[29]

❑ Quality infrastructure and support services

In general, Québec has modern, efficient, quality infrastructure. Very large investments will be made in their maintenance and development for the years ahead.

Concerning business support services, the Québec consulting and advisory sector is well developed. Moreover, the large multinationals in this sector are present in Québec.

Québec is positioned advantageously in terms of operating costs, while Montréal ranks first among leading North American metropolises (competitive wages, affordable rents, low and stable energy rates).[30]

Québec's proximity to the United States is also an advantage, reinforced by the trade agreements made between Canada and the United States. In addition, the location of Québec ports offers direct access to the major Midwestern U.S. markets.

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[29] In particular, the Standard & Poor's rating agency recently upgraded Québec's credit rating outlook from stable to positive (June 1, 2016).

[30] KPMG, *Competitive Alternatives: KPMG's Guide to International Business Locations costs*, 2016 edition.

❑ Skilled labour

Québec is able to offer businesses access to skilled labour and an attractive living environment. Indeed, Québec has a cosmopolitan, multilingual, creative and qualified workforce benefiting from a high-quality education system in several cutting-edge sectors.

The government adopted as one of its priorities that Québec businesses be able to rely on a qualified workforce and, as a result, increase productivity and support Québec's economic growth.

In the Québec Economic Plan, the government took concrete action to boost labour market performance and ensure that worker training is tailored to the needs of businesses.

Moreover, as living environments, Québec and Canada offer a very good quality of life in general. According to the OECD Better Life Index, Canada obtains very good results and ranks at the head of the pack.

❑ Implementation of the Québec Economic Plan

The government will pursue the implementation of the Québec Economic Plan with a view to maintaining sound, balanced public finances, ensuring quality public services, investing in infrastructure and strengthening the alignment between workforce training and labour market needs.

The Québec Economic Plan

Since Budget 2014-2015, the government has adopted a vision for meeting the challenge of economic growth, with the Québec Economic Plan.

The Québec Economic Plan embodies the government's vision of economic development. This structuring plan has two primary objectives:

- the return to sound, balanced public finances to find the necessary leeway to give a new boost to the economy of Québec, in a changing global economy;
- the implementation of an environment conducive to economic growth and job creation, particularly by ensuring a stable business environment for investors.

The Québec Economic Plan is aimed at acting directly on the levers of prosperity and productivity such as human capital, investment, entrepreneurial vitality and exports. To this end, the Québec Economic Plan provides for:

- reducing the tax burden on businesses, particularly SMBs;
- initiatives to spur Québec's economic development.

5.2 The fiscal environment

The fiscal environment of businesses, which represents the second series of levers, is key for the establishment of head offices and the development of decision-making centres of large corporations. This fiscal environment takes on strategic importance in the case of SMBs, with the aim of spurring development and growth.

The government will pursue the action undertaken to ensure the competitiveness of Québec taxation of companies, both in relation to Canada and internationally.

❑ Québec is well-positioned internationally

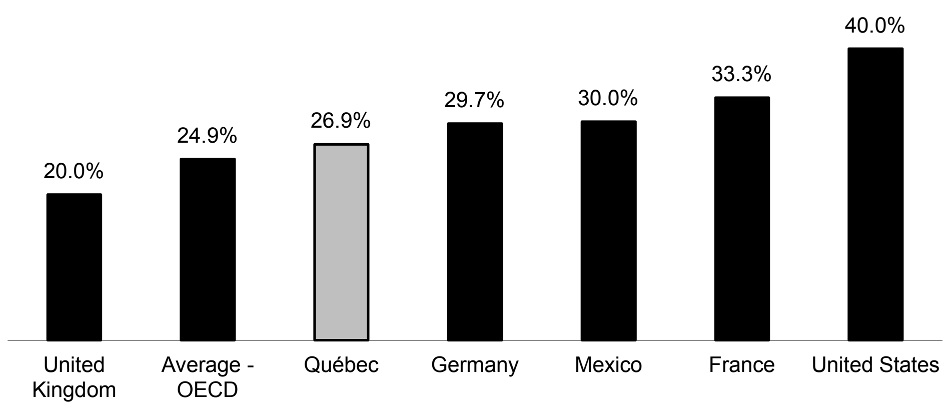
On the whole, the Québec corporate tax system ensures that Québec is well-positioned internationally.

Québec corporations benefit from an internationally competitive income tax rate. In 2016, the combined general corporate income tax rate in Québec of the federal and provincial governments was 26.9%.

— This tax rate compares advantageously with those in force in other industrialized countries, such as the United States, France, Germany and Mexico, but is slightly higher than the average tax rate of the OECD countries, which is 24.9%.

CHART 12

Corporate income tax rate, by jurisdiction – 2016



Source: KPMG, compilation by the Ministère des Finances du Québec.

❑ A competitive corporate tax rate in Canada

In 2017, the corporate income tax rate in Québec is 11.8%, or 1.5 percentage points below the Canadian average.

Under the Québec Economic Plan, the government has made two commitments, in particular, to enable large Québec corporations to benefit from a fiscal environment hospitable to investment and their growth:

- a stable and predictable tax system and investment conditions;
- a gradual reduction of the tax rate from 11.9% in 2016 to 11.5% in 2020.

At the end of this reduction, Québec corporations will benefit from a rate equivalent to the one applicable in Ontario and the second-lowest rate in force in Canada after British Columbia.

The government will maintain its corporate tax policy to assure Québec corporations of a competitive tax rate, both internationally and in relation to the other provinces.

TABLE 7

Statutory corporate income tax rate – General rate and SMB rate
(per cent)

	General rate		SMB rate	
	2017	**2020**	**2017**	**2020**
British Columbia	11.0	11.0	2.5	2.5
Ontario	11.5	11.5	4.5	4.5
Québec				
– **Primary and manufacturing sectors**	**11.8**	**11.5**	**4.0**	**4.0**
– **Other sectors**	**11.8**	**11.5**	**8.0**	**8.0**
Alberta	12.0	12.0	2.0	2.0
Manitoba	12.0	12.0	0.0	0.0
Saskatchewan	12.0	12.0	2.0	2.0
New Brunswick	14.0	14.0	3.5	3.5
Newfoundland and Labrador	15.0	15.0	3.0	3.0
Nova Scotia	16.0	16.0	3.0	3.0
Prince Edward Island	16.0	16.0	4.5	4.5
Federal	15.0	15.0	10.5	10.5
Canadian average(1)	**13.3**	**13.3**	**2.8**	**2.8**

(1) The Canadian average does not include Québec or the federal government.
Sources: Canada Revenue Agency, finance departments of the other provinces, compilation by the Ministère des Finances du Québec.

❑ An improved tax system for SMBs

Québec SMBs also benefit from a competitive tax system.

Since the June 2014 budget, the government has made many improvements to taxation of SMBs, representing a reduction of their tax burden of more than $1.3 billion by 2021. The income tax rate for SMBs has been reduced by half for corporations in the primary and manufacturing sectors.

The government will pursue the efforts already initiated so that SMBs benefit from a fiscal environment that favours their growth.

Corporate tax measures implemented under the Québec Economic Plan

Since Budget 2014-2015, and under the Québec Economic Plan, several measures have been implemented concerning the corporate tax system.

These measures, already in force to foster economic growth, are as follows:

- reduction of the tax rate for manufacturing SMBs from 8% to 4%;
- reduction in the Health Services Fund contribution rate for SMBs in the primary and manufacturing sectors;
- Health Services Fund contribution holiday for the hiring of specialized workers by SMBs, applicable up to the end of 2020;
- improved tax holiday for large investment projects;
- additional deduction for transportation costs of manufacturing SMBs.

These initiatives already in application represent a lowering of the tax burden of nearly $160 million in 2016-2017 and over $215 million per year to term.

Additional relief

Beginning on January 1, 2017, corporations may receive additional relief totalling over $300 million at term:

- reduction of the tax rate for SMBs in the primary sector from 8% to 4%;
- gradual reduction of the Health Services Fund contribution rate for SMBs in all sectors of the economy;
- gradual reduction of the general corporate tax rate over four years from 11.9% to 11.5%;
- maintenance and extension of the regional investment tax credit;
- introduction of a tax cut for innovative corporations aimed at supporting marketing and manufacturing in Québec of innovations designed by Québec businesses.

Montréal well-positioned among the world's large cities

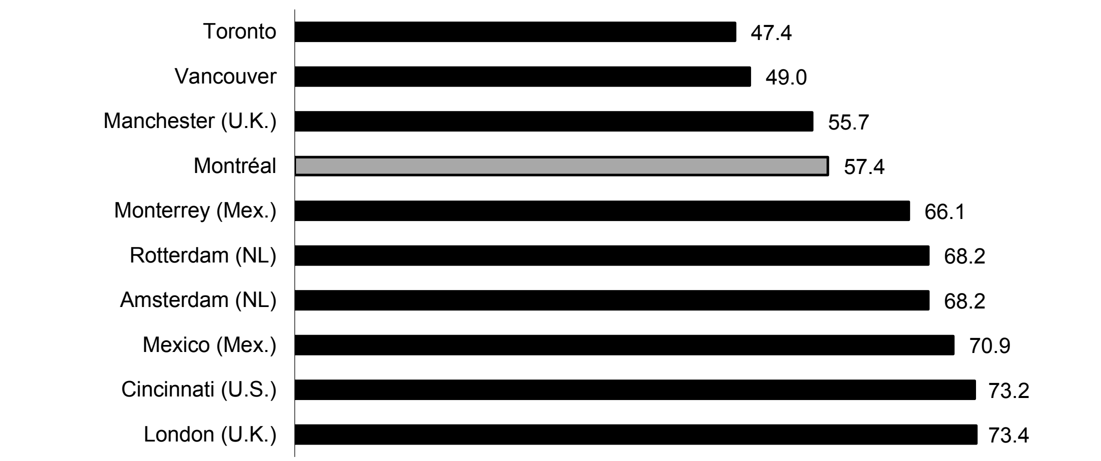
Montréal: fourth place among the most tax competitive cities according to KPMG

In its report *Focus on Tax, 2016 Edition*, KPMG presents a comparison of the tax competitiveness of 111 cities located in ten countries.

Montréal places fourth in this ranking, behind two of its main Canadian competitors (Toronto in first place, Vancouver in second) and Manchester in the United Kingdom (third).

Thus, Québec taxation enables Montréal to position itself very well internationally in terms of attraction of foreign investment and retention of head offices already present in Québec. However, according to this study, Montréal is less competitive than two other large Canadian cities that are likely to attract head offices—Toronto and Vancouver.

The most tax competitive cities – 2016
(United States[1] = 100)



(1) Average of the four largest cities.
Source: KPMG, *Focus on Tax, KPMG's guide to international tax competitiveness*, 2016 Edition.

5.3 Entrepreneurship and financing available for business development

A third series of levers to improve the economic environment more specifically concerns entrepreneurship and business development.

One of the ways to favour the implementation and maintenance of head offices and decision-making centres is to stimulate the creation and growth of companies in Québec. In particular, companies must be able to finance their development locally, without being obliged to transfer control to foreign interests.

❑ Have financing available for business development

Maintenance in Québec of corporate decision-making centres is largely related to the ability of these companies to finance their development.

As previously mentioned, the challenge is to ensure that emerging and growing Québec companies have easy access to venture capital, for new medium- and long-term research and development projects, and to development capital, for marketing of products and services that already generate revenue.

■ Specialized funds

For venture capital or for development capital, the government contributes capital to more than 80 funds specializing in financing companies with high potential, through Investissement Québec. Some of these investments are made by Investissement Québec from its own funds, while others are made through the Economic Development Fund.

In addition to funding, these private funds offer mentoring and support, as well as access to a contact network.

■ Tax-advantaged funds

Support for tax-advantaged funds—Fonds de solidarité FTQ, Fondaction and Capital régional et coopératif Desjardins—is an important component of the policies deployed by the government to support Québec companies. Particularly due to the tax credit attributed by the government, tax-advantaged funds annually invest approximately $800 million in Québec businesses.

In exchange for tax benefits, the tax-advantaged funds must comply with an investment standard according to which a certain percentage of their portfolio must be invested in Québec companies, particularly SMBs. This standard is intended to ensure that the funds raised with government assistance are used as a financing tool that contributes to the growth of Québec companies.

In the context of Budget 2015-2016, the government announced that the standard for investment in Québec businesses by the three funds would increase gradually from 60% to 65%.

Moreover, Budget 2016-2017 announced the implementation of a new strategic plan for the Fonds de solidarité FTQ. This plan will result in an increase in the fund's strategic investments, in order to support the expansion of businesses in key sectors and to promote the rise of Québec's flagships. In the medium term, the Fonds de solidarité FTQ intends to invest an additional $1.4 billion in Québec's economy, particularly through new investment initiatives.

■ Investissement Québec

Through Investissement Québec, the government fosters the emergence of the large Québec corporations of tomorrow by supporting SMBs in their growth, especially during the riskier phases.

The government thus ensures that financing supports businesses, particularly medium-sized businesses, in their expansion, so that they become Québec's future large corporations, especially in conquering new foreign markets.

In accordance with its 2016-2019 strategic plan, Investissement Québec will:

- continue its efforts to reach more young companies in the start-up or post-start-up phase, in order to prepare complete investment plans for them;
- offer specific prospecting and support plans for the development of winning Québec companies. These plans will cover financing, but also the other types of support required.

To properly support these businesses, Investissement Québec also plans to broaden its network of entrepreneurs in residence and experienced mentors, collaborate more with recognized groups and cooperate in government initiatives.

❑ Continuation of government business financing initiatives

The government strategy of offering financing to companies will be continued, based on three tools: private investment capital funds, tax-advantaged funds and Investissement Québec.

To that end, the government will ensure that the financing offer for Québec businesses is adequate, at all stages of development (seeding, development, growth, etc.).

In addition, in tandem with its financial partners, the government will continue to contribute to the growth of available funds, in particular to meet the needs of businesses requiring a higher level of financing.

Lastly, the government will ensure that the investment requirements of tax-advantaged funds enable the funds to fulfil their role, by adjusting them as needed.

Business financing:
a three-part government strategy to pursue and strengthen

Financing of investment capital funds

Private investment capital funds must be financed according to best business practices, including the recruitment of high-level management teams adopting innovative business practices.

Venture capital funds must have links to Québec development capital funds to ensure continuity of financing for Québec companies. Financing must also target specialized funds in strategic sectors in which the financed companies will have potential to develop in Québec (pool of skilled labour, subcontractor network, etc.).

Relationships with private and foreign investors are essential to favour maintenance and development in Québec of companies with high growth potential.

Support for tax-advantaged funds

Tax-advantaged funds—Capital régional et coopératif Desjardins, Fondaction and Fonds de solidarité FTQ—invest in various sectors of activity at different stages of development of Québec companies. In exchange for tax benefits offered to their shareholder-depositors, tax-advantaged funds must comply with a demanding investment standard requiring that a certain percentage of their portfolio be invested in Québec companies, particularly SMBs.

Tax-advantaged funds invest in venture capital, primarily in supporting specialized private investment funds, and in development capital, by investing directly in companies while supporting certain private development capital funds.

Actions by Investissement Québec

Investissement Québec is the government's main financing arm.

Investissement Québec's financial transactions with businesses can take the form of non-refundable financial contributions, loans, loan guarantees and equity stakes directly in businesses or via investment capital funds, drawn from its own equity or as mandatary of the government.

❑ Support entrepreneurship, growth and development of companies located in Québec

The birth and growth of new businesses are essential to the dynamics that will lead to the emergence of tomorrow's large corporations.

Encouragement and support for entrepreneurship thus must be maintained and pursued. For this purpose, the government will present the details of its new entrepreneurial action plan in spring 2017.

■ Identify and prepare the succession

In Québec's demographic context, the identification and preparation of succession are also important issues.

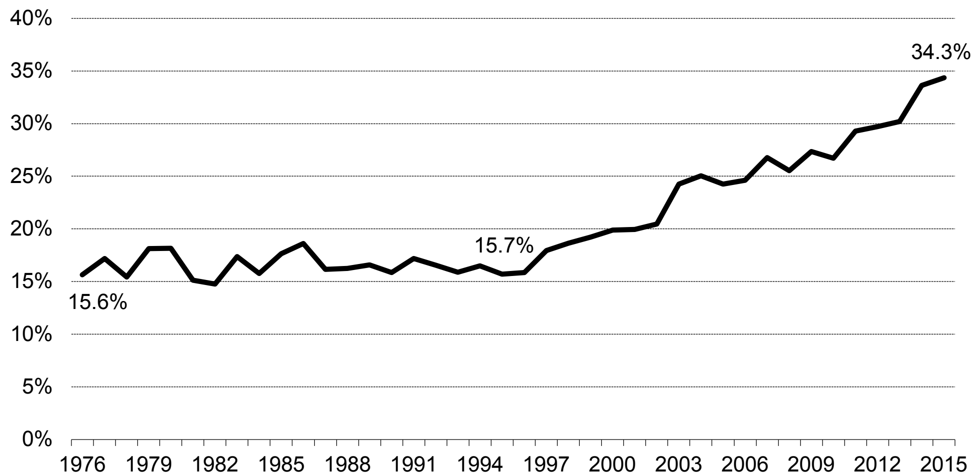
Over the next few years, a large number of Québec entrepreneurs will retire and have to sell or transfer their business. In this context, the government will ensure that the conditions favourable to entrepreneurial succession are in place, thus contributing to the development of an executive-driven economy.

Demographics of Québec entrepreneurs and business successors

Aging entrepreneurs

The proportion of the working age population is bound to decrease substantially over the next few years in Québec. This decline is attributable, in particular, to the aging of the Québec population. Québec entrepreneurs do not escape this trend. In 2015, more than one out of three business owners with employees was aged 55 or over, which represented a proportion twice as high as in the mid-1990s. For this reason, the number of Québec businesses offered for sale or transferred could also grow sharply in the years ahead.

Business owners aged 55 or over with employees – Québec
(percentage of the total)



Sources: Statistics Canada, compilation by the Ministère de l'Économie, de la Science et de l'Innovation.

A potential succession issue

To ensure sustainable control of businesses, the number of Quebecers ready to take over a succession will have to grow at a rhythm comparable to the number of businesses offered for sale. It is difficult to predict if entrepreneurial succession will be sufficient to make up for the retirement of entrepreneurs in the years ahead. The studies on the question conclude that the problem of the shortage of potential business successors could be accentuated. However, there is great uncertainty concerning the estimates of the shortage of business successors in Québec.

Review of studies on entrepreneurial succession in Québec

In a recent publication, the Desjardins Group[1] took an interest in the business transfer problem in Québec, in a context where population aging means that many entrepreneurs are on the verge of retirement. Based on a review of the existing studies, the authors conclude there is great uncertainty concerning the shortage of business successors in Québec, but the mass retirement of SMB owners, including a high percentage without a succession plan, is a proven fact. It appears more urgent to put the emphasis on the transferors instead of stimulating the succession, by making them aware of the importance of planning their succession and giving them the appropriate tools and support.

Moreover, the data from the directory of the Centre de transfert d'entreprise du Québec indicated the presence of 13 business successors for each transferor in 2015 (2 122 business successors and 162 transferors), giving reason to believe that it is the transferors who are missing the call. According to the president of this centre, the efforts deployed over the past ten years to interest young Quebecers in entrepreneurship and succession projects is bearing fruit, with the result that the big picture of the entrepreneurial succession is now much more positive than it was a few years ago.[2]

1 François Dupuis and Joëlle Noreau, *Transmission d'entreprise : la problématique ici et ailleurs dans le monde*, Desjardins, 2016.
2 Yvon Laprade, "Le scénario catastrophe s'évanouit," *La Presse,* November 25, 2016.

■ Foster cooperative buyouts

A cooperative buyout is a transition mode that fosters the maintenance of business ownership and jobs in Québec. Groups of workers or communities unite to buy out a company that is for sale and become collective owners of it, for example, by forming a work cooperative or a shareholding workers cooperative.

The advantages of this type of participatory model include:

— financial commitment by employees;

— employee participation in the company's decisions;

— opening of an interesting avenue for transferring the company.

In recognition of these advantages, the Québec tax system provides for incentives aimed at bolstering the capitalization of cooperatives and encouraging cooperative buyouts:

— the Québec Cooperative Investment Plan, offering a tax deduction of 125% of the acquisition cost of preferred shares issued by a qualified cooperative;

— the tax-deferred rebate mechanism, allowing deferment of taxation of eligible rebates in the form of preferred shares.

In addition, in December 2016, the government announced the implementation of the cooperative buyouts support program, in keeping with the objectives of its social economy action plan for 2015-2020.

Administered by the Centre de transfert d'entreprise du Québec, this program is intended to stimulate cooperative entrepreneurship by offering financial assistance to groups of workers seeking to buy out all or part of the business employing them, in order to cover part of the costs associated with establishing a cooperative.

— Under the program, a cooperative buyout project may be granted a subsidy of up to $15 500 to hire professionals who will evaluate the financial capability of the workers and the value of the business, and who will determine whether the organizational culture is conducive to the creation of a work cooperative.

■ Repreneurs collectifs roundtable

As part of the government's social economy action plan, the government also undertook to encourage the implementation of new measures to spur collective buyouts of companies in Québec, in particular by supporting the work of the Repreneurs collectifs roundtable, which will soon submit its recommendations to the government in this regard.

— The Repreneurs collectifs roundtable brings together some 20 socio-economic stakeholders active in the area of cooperative buyouts, such as the Chantier de l'économie sociale, the Conseil québécois de la coopération et de la mutualité, the Fédération québécoise des municipalités, Investissement Québec, Desjardins Business Capital régional et coopératif, the Fonds de solidarité FTQ and Fondaction.

The government will examine the proposals of the Repreneurs collectifs roundtable, in order to decide on the options that may be implemented.

Additional support for succession and mentoring

Budget 2015-2016 announced investments of $2 million a year over the next three years, to:

- extend to all regions the services offered by the Centre de transfert d'entreprise du Québec, whose mission is to inform, train and guide transferors and buyers, and raise their awareness, in their respective efforts to transfer or buy out a company, so as to ensure the company's long-term survival;
- strengthen mentoring services for business successors by financing the Réseau M 2.0 project of the Fondation de l'entrepreneurship, the objective being to offer all interested entrepreneurs a top-notch coaching service by experienced business people.

Through these investments, the government will stimulate individual and cooperative entrepreneurship through strengthened specialized services, in particular with respect to business transfers and mentoring.

In collaboration with the Centre de transfert d'entreprise du Québec, a bank of transferors and buyers has been created to facilitate the transfer of individually- and collectively-owned businesses, while promoting continued Québec ownership of businesses and the protection of jobs in all regions of Québec.

Moreover, the Ministère de l'Économie, de l'Innovation et des Exportations joined with the Fondation de l'entrepreneurship to establish a technological platform to promote networking and training activities to connect business mentees and mentors. The Réseau M 2.0 technological platform will support a network of some 1 600 mentors and 4 500 business mentees.

■ Support the Centre de transfert d'entreprise du Québec

Officially launched in December 2015, the mission of the Centre de transfert d'entreprise du Québec is to inform, advise and accompany owners and buyers, and raise their awareness, through the business transfer and buying process. Active throughout Québec, the Centre de transfert d'entreprise du Québec works in concert with various political and economic actors to ensure the sustainability of businesses and play a positive role in Québec's entrepreneurial performance.

The Centre de transfert d'entreprise du Québec established a service offer that addresses the various business transfer issues by proposing a global approach comprised of information, training, transferor-buyer linkage, development and planning services.

- L'INDEX, the research platform created by the Centre de transfert d'entreprise du Québec, references potential transferors and buyers. With more than 3 500 registrations, this digital tool enables information to be exchanged rapidly, efficiently and confidentially between entrepreneurs, potential buyers and advisers in the 17 regions of Québec.
- With respect to accompaniment, the Centre de transfert d'entreprise du Québec has at its disposal tools and a network of experts enabling transferors to put in place a clear, well-thought out action plan, and SMBs to locate the know-how necessary to their development. To date, over 1 800 transferors and buyers have been accompanied in their efforts to transfer or buy a business.
- The Centre de transfert d'entreprise du Québec also offers transferors and buyors training that, in particular, enables transferors to familiarize themselves with the basics of good transfer planning, and prospective buyers to have a comprehensive visions of the business transfer process.

▪ A sector-based approach targeting strategic areas of the Québec economy

Since the creation of the Centre de transfert d'entreprise du Québec, its service offer has successfully addressed the needs of most Québec businesses, primarily SMBs. The experience gained in the last two years helped the centre identify courses of action conducive to the transfer and buyout of Québec businesses, particularly through the adoption of a sector-based approach facilitating outreach with respect to transferors.

Thus, the Centre de transfert d'entreprise du Québec began forging closer ties with specific strategic sectors, contributing significantly to Québec's economic development through job creation and value-added.

In continuing its mandate, the Centre de transfert d'entreprise du Québec will adopt a strategic sector-based approach enabling it to work more effectively with large businesses, thus broadening the scope of its service offer. Strengthening the centre's mandate through a sector-based approach will raise awareness, among priority industries, of business transfer issues and help regional advisers target their action on the ground, so as to reach strategic businesses in key sectors.

The government's future action plan for entrepreneurship will set out the terms and conditions of the new approach.

Expertise of the Ministère de l'Économie, de la Science et de l'Innovation: a contribution to the sustainability of Québec SMBs

The Ministère de l'Économie, de la Science et de l'Innovation offers Québec SMBs two areas of expertise that contribute directly to their sustainability:

- Accompagnement-conseil stratégique (strategic consulting support);
- the PerforME strategy.

Accompagnement-conseil stratégique

With Accompagnement-conseil stratégique, businesses receive a pre-diagnosis (seven functions) on which to draw up their profile and determine where improvement is needed in each of the functions. Executive succession is one of the aspects covered. Subsequently, an analysis defines development levers based on the stakes for the company concerned, which are prioritized in an intervention plan. By implementing the plan, the company can improve and acquire a better level of organizational maturity. Accordingly, the company will be more alert, more competitive and more likely to maintain its bases in Québec.

The PerforME strategy

The purpose of the PerforME strategy is to accelerate the realization of innovation- and export-related investment projects, by proposing personalized guidance and the establishment of an acceleration cell composed of recognized experts. A better-defined investment project and the proposed guidance increase the project's chances of success, making it easier to obtain funding from lenders, and improve the control of growth on the world stage. Innovation and internationalization are key to maintaining companies' organizational health.

A contribution to the sustainability of SMBs

Working on the fundamentals of business through strategic consulting support and on better investment project management through the PerforME strategy allows for improved risk management, including risks relating to owner succession, thus contributing to a company's longevity.

By being more familiar with the leading businesses in their region, the regional offices of the Ministère de l'Économie, de la Science et de l'Innovation can better determine their actions and, consequently, contribute to the maintenance of SMB head offices in Québec.

6. NEW MEANS OF ACTION

Chapter 6 presents the new means of action deployed to foster the presence of head offices, support Québec control of businesses and bring more executives to Québec.

They complete the actions announced by the government to impove the economic environment.

The initiatives announced are in the areas of:

— finance, to optimize government action and promote Québec's assets;

— taxation, to foster the transfer of businesses and encourage company executives to stay or settle in Québec;

— regulation, to promote the use of existing tools that are available to businesses to protect them from hostile takeover bids.

6.1 Financial means of action

On the financial level, the government announces three initiatives:

- deployment of the Financial Initiatives Group;
- strengthening of the strategic watch respecting the presence of head offices and the control of businesses;
- additional means to promote Québec as a choice location for decision-making centres.

❑ The Financial Initiatives Group to optimize government action

To strengthen the Québec economy as an executive-driven economy, the first of the new means of action deployed by the government seeks to improve the ability to act strategically, in order to support our large businesses and foster the emergence of new Québec businesses.

To that end, the government must make sure that it has access to all expertise and available information, in order to take action to prevent the risk of relocation of the head office of major companies and the risk of transfer of ownership of Québec companies, and to meet the financial requirements of the most promising growth companies.

■ Composition of the Financial Initiatives Group

To have the necessary expertise and information at all times, the government is deploying the Financial Initiatives Group, dedicated to the development in Québec of an executive-driven economy, and composed of representatives of major financial stakeholders.

The Financial Initiatives Group will be composed, in particular, of representatives of Investissement Québec, each of the three tax-advantaged funds, and Québec institutional funds, as well as representatives of the financial sector, including the banking and cooperative sectors.

■ Share findings and analyses

The Financial Initiatives Group will have the primary mandate of circulating among major Québec investors findings and analyses that could have an impact on the location of head offices and the ownership of Québec companies.

Thus, the Financial Initiatives Group will ensure that developments in Québec's economic and financial situation, and changes in the risk of sales of, or hostile takeover bids targeting, Québec companies, are monitored. It will also identify the best ways of assisting the most promising companies in their development.

- **Ensure a financing offer at all stages of development**

The second mandate of the Financial Initiatives Group will be to guide the government in its initiatives to ensure a financing offer enabling the financial requirements of growing companies to be met, regardless of their stage of development, in order to foster the emergence of Québec's large businesses of tomorrow.

Thus, the Financial Initiatives Group will be called on to advise the government on the capital investment funding of innovative businesses throughout their chain of development.

❑ Strengthen the strategic watch respecting the presence of head offices and the control of businesses

To track the implementation of the measures to strengthen the Québec economy as an executive-driven economy, the government will create an interdepartmental committee composed of representatives of the Ministère des Finances, the Ministère de l'Économie, de la Science et de l'Innovation and the Ministère du Conseil exécutif.

- **Ensure the effectiveness of the means of action implemented by the government to strengthen the Québec economy as an executive-driven economy**

The interdepartmental committee will have the primary mandate of ensuring that the objectives of the measures to strengthen the Québec economy as an executive-driven economy are met.

To that end, the committee will track the means of action implemented by the government. The commitee will be able to propose adjustments, as needed.

The interdepartmental committee will be the secretariat of the Financial Initiatives Group.

Significant leverage for action

In response to the recommendations of the Financial Initiatives Group, the government will be able to rely on a set of means that can be mobilized quickly to support the development of large Québec corporations and ensure their presence in Québec.

Direct intervention tools

The Québec government has two means of intervention allowing quick action:

- Investissement Québec and its own funds;
- the Economic Development Fund.

Investissement Québec

Investissement Québec is the state-owned enterprise acting as the government's financial arm.

Investissement Québec currently has nearly \$3.2 billion in capitalization. The maximum capitalization authorized is \$4 billion. The government may decide to increase Investissement Québec's capitalization at any time.

The Economic Development Fund

The Economic Development Fund is instituted within the Ministère de l'Économie, de la Science et de l'Innovation.

During the year 2015-2016, Investissement Québec made 187 financial interventions on behalf of the Economic Development Fund, valued at almost \$1.9 billion. The government may raise the amounts available to Investissement Québec at any time, through the Economic Development Fund.

Strategic partners

The government also has strategic partners working to promote Québec's economic development which it can rely on:

- Caisse de dépôt et placement du Québec;
- the three tax-advantaged funds.

Caisse de dépôt et placement du Québec

According to the data at December 31, 2015, the Caisse's assets in Québec total \$59.7 billion.

The three tax-advantaged funds

The combined net assets of the three tax-advantaged fund stand at approximately \$15 billion.

On average, the funds invest \$800 million a year in development capital, in particular in SMBs in all regions of Québec.

❑ Additional means to promote Québec as a choice location for decision-making centres

As mentioned previously, Québec has many advantages to strengthen the presence of head offices and decision-making centres in its territory. In particular, it has a skilled workforce and a solid offering of business support services. Operating costs are competitive and tax measures, advantageous.

These advantages should be better known in the rest of Canada and abroad.

■ Promote the advantage of establishing head offices in Québec

In this respect, the government announces that it will grant additional means to Investissement Québec and to promotion and regional economic development bodies, in order to improve their solicitation activities with respect to corporations outside Québec. In particular, this additional support will:

— improve their marketing and promotion strategies aimed at making Québec's advantages better known as a choice location to maintain corporate head offices and branch offices;

— engage in more prospecting activities based on targeting, promotion and solicitation of foreign corporations and investment funds, in order to present Québec's advantages regarding the establishment of corporate head offices and branch offices.

■ Stronger coordination with promotion and economic development bodies

With a view to ensuring the effectiveness of promotion and prospecting activities, the additional government support will be aimed at facilitating the coordination of Investissement Québec's actions with the various promotion and regional economic development bodies, such as Québec International and Montréal International.

In particular, Investissement Québec will establish solicitation priorities with these bodies, to ensure that its promotion activities take into account Québec's assets for potential investors and joint solicitation activities are undertaken.

6.2 Fiscal means of action

The government is immediately deploying two series of tax measures:

— additional assistance to facilitate the transfer of family businesses;

— harmonization of taxation of stock options.

❑ Additional assistance to facilitate the transfer of family businesses

One of the challenges to be met is the need for liquidity for payment of taxes related to the transfer of a family business inter vivos and on the business owner's death.

To meet this challenge, the government is immediately deploying two major tax measures. In both cases, the measures deployed by the government seek to prevent owners or heirs of family businesses from being forced to assign all or part of their business, due to a lack of liquidity to discharge their tax obligations.

■ Tax relief for the transfer of family businesses in all sectors of the economy

As part of Budget Speech 2016-2017, the government concretized the commitment made in the March 2015 budget to allow entrepreneurs selling a business in a related-party transaction to benefit from the advantageous tax treatment of capital gains offered for arm's length transactions. However, this relief was limited to transactions concerning businesses in the primary and manufacturing sectors.

The government is extending this relief to non-arm’s-length transactions involving businesses in the service and construction sectors. All sectors of the economy will have access to this measure. The extension applies retroactively to March 18, 2016.

The measure represents additional relief of over $50 million per year for the SMB owners concerned.

Tax relief for the transfer of family businesses

For 2016, the legislation provided for the following tax treatment for an individual who realizes a capital gain on the sale of a qualifying business:

- a cumulative lifetime capital gains exemption of up to $824 176 for the sale of a qualifying small business or $1 million for the sale of a farm or fishing business;
- taxation of 50% of the amount of the capital gains in excess of the exemption.

However, the integrity rule means that the individual-seller cannot benefit from this advantageous tax treatment on disposal of qualifying shares in favour of a corporation with which he does not deal at arm's length.

In this regard, in the context of Budget 2016-2017, the government deployed tax relief for the transfer of family businesses engaged in activities in the primary and manufacturing sectors. This relief is now extended to all sectors.

Eligibility criteria

To preserve the integrity of the tax system, the seller and the buyer involved in the transfer of a family business must comply with certain criteria assuring a real transfer to qualify for the tax relief:

- the seller must be active in the business before the sale and the buyer must take over the business after the sale;
- the seller must not hold legal control and common shares of the corporation after the sale;
- at the time of the transfer, the amount paid by the buyer must represent at least 40% of the market value of the business, or 20% in the case of a business in the farm and fishing sectors.

Deferred payment of tax owed on a deemed sale of shares of a corporation listed on the stock exchange

The government is instituting a measure to defer payment of tax on the capital gain on a deemed sale of shares of a corporation listed on the stock exchange.

The capital gains tax payable on the deemed sale of assets, such as the shares of a corporation, may cause a lack of liquidity on:

- the death of the owner of the shares;
- the application of the 21-year rule to a trust that owns shares.

This lack of liquidity is due to the fact that, on a deemed sale for tax purposes, there is no actual cash inflow as in the case of a true sale.

The Québec and federal tax payable may represent up to 26.7% of the capital gain. Considering the magnitude of the amounts, entrepreneurs may be forced to sell blocks of shares to meet their liquidity requirement, which may reduce their influence on the company and jeopardize its presence in Québec.

Deferred payment of tax

The measure deployed by the government will allow deferred payment of income tax as long as the shares of the qualifying corporation are not actually sold or the qualifying criteria are respected, for a maximum of 20 years.

Moreover, the measure includes additional payment flexibility in case the value of the shares decreases between the time of initial tax deferment and the time payment is required, that is, after 20 years.

- In this situation, after 20 years, the tax required will be computed according to the value of the shares at that time.
- The variance between the tax paid in year 20 and the tax initially deferred will be deferred, but still owed to Revenu Québec. This residual tax will have to be paid when the value of the shares exceeds their value after 20 years and until the value of the shares is equal to the value at the time of the initial deferral.

- **Qualification for deferral**

To qualify for deferral of tax, the individual or the trust must hold, directly or indirectly, a number of shares representing at least a blocking minority of a corporation listed on the stock exchange, or more than one-third of the voting rights of the corporation. Moreover, this blocking minority must be maintained for as long as payment of the tax is deferred. The purpose of these conditions is to ensure control over maintenance of the corporation's activities in Québec.

Indeed, the problem of the lack of liquidity and the risk of loss of influence in the event of a deemed sale is observed primarily in the case of corporations listed on the stock exchange. In the case of a privately held company, the tax can be financed from the company, which may borrow and pay the owner a dividend.

Moreover, to qualify, the corporation must have its head office in Québec and maintain, over a three-year period, a payroll in Québec averaging at least 75% of the payroll in Québec at the time of the request for deferral.

To protect the government against a financial loss or non-compliance with the qualifying criteria, assets will be required as security. The value of these assets must represent, at all times, at least 120% of the amount of the deferred tax.

Non-compliance with one of the qualifying criteria will result in the end of deferral of payment of the tax.

The measure does not represent costs for the government, due to the value of the assets pledged as security. Revenu Québec will be responsible for the application of this measure.

Deferred payment of Québec tax
Currently, on a deemed sale of the shares of a corporation, it is possible to spread payment of the tax, with interest, over a ten-year period, both under the federal tax system and under the Québec tax system. Depending on the magnitude of the amounts, entrepreneurs may be forced to sell blocks of shares to meet their liquidity requirement, which may reduce their influence on the company and jeopardize its presence in Québec. Deferred payment of the Québec tax for a maximum period of 20 years (or more in certain cases) will prevent the owner of the corporation from having to pay the federal tax and the Québec tax simultaneously. For example, the owner may spread the payment of the federal tax over 10 years according to the current system and then will have an additional 10-year period before paying the Québec tax. This measure will allow enough flexibility to allow payment of the tax while avoiding the sale of a Québec company.

❑ Harmonization of taxation of stock options

The development of an executive-driven economy depends on a fiscal environment inducing corporate executives to stay in Québec or settle there.

In this regard, as we have seen, Québec is less competitive than the other provinces. The executive compensation of corporations listed on the stock exchange generally includes a large variable component based on stock options. At the present time, Québec taxes income from stock options more heavily than the other Canadian provinces. With the exception of innovative SMBs, the deduction rate for this type of income is 25% in Québec, compared to 50% in the rest of Canada.

■ Recommendations in favour of harmonization

The Task Force on the Protection of Québec Businesses, like the Québec Taxation Review Committee, recommended an alignment of Québec taxation with the taxation of other provinces.

In its report, the Task Force on the Protection of Québec Businesses points out that the current gap considerably increases the level of difficulty in attracting senior executives to Québec or in preventing those living here from planning where to live when the time comes to exercise their stock options.[31]

The Québec Taxation Review Committee recommended that Québec initiate approaches with the other provinces so that the preferential treatment offered to employee stock options be abolished in all provinces.[32] Failing such abolition, the committee recommended that Québec harmonize its rules with those of the other provinces for public business corporations.

In addition to hindering the settlement of executives in Québec, this situation produces a result contrary to the tax authorities' expectations. During the relocation of a senior executive's place of residence, neither the amount of additional and basic tax on the stock options or the rest of the executive's income tax is collected at the time the stock options are exercised.

■ The tax measure

The government is closing this gap between Québec taxation and the taxation of other provinces, by increasing to 50% the stock option deduction rate of corporations listed on the stock exchange with a payroll in Québec of $10 million or more, i.e. to the same rate as in the other provinces.

The additional cost of the tax benefit granted should be offset by the additional income tax revenue generated by the attraction effect of the measure.

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31 Task Force on the Protection of Québec Businesses, *The Maintenance and Development of Head Offices in Québec*, op. cit.

32 *Focusing on Québec's Future*, Final Report of the Québec Taxation Review Committee, vol. 2, pp. 76-77.

6.3 **Regulatory means of action**

On the regulatory level, the government intends to rely on the legal tools in place so that corporations listed on the stock exchange can respond to a hostile takeover bid.

Hostile takeovers of public companies—corporations listed on the stock market—are relatively rare in the case of the Québec economy. However, the risk exists.

As we have already seen, the Institute for Governance of Private and Public Organizations, in its September 2016 report, estimated that 16 Québec corporations listed on the stock market, with over $1 billion in revenue, have no protection against potential hostile takeover bids.[33] Four of these corporations are incorporated under the Québec statute.

❑ The measure that came into force in May 2016

Following consultations conducted by the Canadian Securities Administrators, including the Autorité des marchés financiers in Québec, the Canadian Securities Administrators agreed to adopt a harmonized Canadian system governing hostile takeover bids.

This new regulation was approved by the Québec government and came into force in May 2016. Since that date, the boards of directors of corporations listed on the stock exchange benefit from greater leeway in case of a hostile takeover bid.

Any takeover bid henceforth must result in the deposit of 50% of the securities targeted by the takeover bid. It must be followed by a ten-day mandatory extension period, when this threshold is reached, which gives the shareholders the possibility of making voluntary, enlightened and coordinated decisions concerning the deposit of their securities.

The takeover bid must be maintained for a minimum of 105 days, which gives the board of directors more time and latitude to respond, including the possibility of finding alternative solutions to the bid.

❑ Québec regulations providing adequate legal tools

Securities regulation in Canada, as applied in Québec, is sufficient to maintain balance between the right of investors to dispose of their securities as they wish, and the objective of fostering maintenance of Québec ownership of companies listed on the stock exchange.

Given that the loss of control of Québec businesses due to hostile takeover bids is very rare (1 out of 244 sales since 2001), the government considers the existing legal tools to be adequate and therefore does not intend to immediately introduce other amendments to Québec regulations for the purpose of governing hostile takeover bids, where such amendments would apply only in Québec.

The introduction of defensive measures against hostile takeover bids of this nature would create an imbalance in terms of the right of federally chartered corporations. This initiative would risk establishing a discount detrimental to the value of Québec corporations listed on the stock exchange and, consequently, harm Québec savers.

To protect businesses under Québec control from hostile takeover bids, the government will prioritize concerted strategic actions further to the recommendations of the Financial Initiatives Group, and promotion of the legal tools currently available to executives.

[33] Yvan Allaire and François Dauphin, op. cit.

❑ Other means

In fact, other means exist for protecting corporations listed on the stock exchange against hostile takeover bids:

- use of multiple-voting shares;
- preventative adoption of certain legal provisions.

■ Raise corporate awareness of multiple-voting shares

Multiple-voting shares are an effective tool to protect corporations listed on the stock exchange against hostile takeover bids. By issuing multiple-voting shares, corporations can grow and open their capital while limiting the risk of being targeted by a hostile takeover bid.

Investissement Québec will raise awareness, among corporations interested in issuing a public offering, of the possibility of using multiple-voting shares to better protect themselves against hostile takeovers.

Investissement Québec will assist these entrepreneurs in defining and deploying their strategy. This promotion will specifically seek to support entrepreneurs deciding to issue an initial public offering.

■ Advise corporations to protect themselves against hostile takeover bids

Investissement Québec will also raise awareness, among corporations having decided to issue a public offering, of the various legal means available to protect themselves against hostile takeovers.

In this regard, Investissement Québec will advise corporations having decided to issue an initial public offering on the best legal initiatives to take for this purpose, in particular:

- by adopting arrangements that mitigate the financial incentives for management to conclude a sales transaction, more specifically by decreasing the financial benefit that management, and sometimes members of boards of directors, derive from such a transaction;
- by providing for other arrangements, such as granting shares to employees as compensation.

The Plan to Strengthen the Québec Economy as an Executive-Driven Economy

The initiatives in the Plan to Strengthen the Québec Economy as an Executive-Driven Economy round out the actions already announced by the government to improve the economic environment and enable Québec businesses to meet the challenges that can lead to a loss of Québec control, by:

- mitigating the risk that hostile takeover attempts in respect of companies listed on the stock exchange succeed;
- fostering entrepreneurial succession and voluntary transfers of publicly traded or privately held companies;
- taking action to meet the financing needs of developing and growth businesses in Québec;
- improving the tax treatment of executives.

Means of action under the plan to strengthen the Québec economy as an executive-driven economy

Means of action	Objectives
Financial	
Creation of the Financial Initiatives Group	Better enable the government to take strategic action to support our large businesses and foster the emergence of new corporations.
Strengthen the strategic watch respecting the presence of head offices	Monitor the implementation of the measures in the Plan to Strengthen the Québec Economy as an Executive-Driven Economy.
Promotion of Québec abroad to attract head offices	Step up the promotion of Québec assets, to boost the presence of head offices and decision-making centres.
Fiscal	
Tax relief for the transfer of family businesses in all sectors of the economy	Facilitate transfers of businesses to the next generation in all sectors of the economy.
Deferral of the payment of tax on a deemed sale of shares of a company listed on the stock exchange	Avoid the loss of control or the sale of Québec businesses to foreign interests because of the income tax payable in certain situations.
Harmonization of stock options taxation with that in the rest of Canada	Offer incentives to company executives to stay or settle in Québec.
Regulatory	
New Canadian regulations respecting hostile takeover bids	Give corporate boards of directors more leeway in dealing with hostile takeover bids.
Safeguards against hostile takeover bids	Raise corporate awareness of multiple-voting shares as an effective safeguard against hostile takeover bids.
	Advise companies as to the best legal initiatives for protecting themselves against hostile takeover bids when they issue their first public offering.

CONCLUSION

The question of head offices and Québec control of businesses returned to the agenda recently, after acquisitions of corporations to which Quebecers were particularly attached. This question refers, in fact, to a fundamental issue, the presence in Québec of strategic decision-making centres.

The government is taking stock of this question and acting, by first setting a fundamental objective—strengthening the Québec economy as an executive-driven economy.

To achieve this objective, the government is releasing the plan it intends to follow by respecting certain principles.

❑ Pursue the improvement of the economic environment

The government will give priority to improvement of the economic environment. The surest way to strengthen the Québec economy as an executive-driven economy is to make the Québec economy even stronger and more dynamic, favour the growth of businesses and thus stimulate the emergence of the large Québec corporations of tomorrow.

❑ Take quick and targeted action

Simultaneously, the government announces targeted initiatives to respond to certain specific issues. By deploying the Financial Initiatives Group, adopting tax measures to facilitate the transfer of family businesses, directly encouraging executives to settle in Québec, and advising corporations seeking to protect themselves against hostile takeovers, the government is providing quick and concrete answers to the situations experienced in the past few months and those to come.

Some of these initiatives are inspired directly by the recommendations formulated by the Task Force on the Protection of Québec Businesses and by the Institute for Governance of Private and Public Organizations. They account for the legal and regulatory context prevailing in Québec and Canada, as well as the open nature of our economy.

❑ Make Québec even more attractive

The presence of head offices and Québec control of businesses have an impact on companies' strategic decisions and involve major direct and indirect economic effects. At the same time, acquisitions by Québec companies of companies located outside Québec outweigh the sales of Québec companies to non-Québec interests. Québec thus derives great benefits from an open and flexible economy, favouring creativity and the entrepreneurial spirit.

It must rely on these benefits, while adopting effective tools to achieve the objective sought.

This is the goal of the decisions announced in this document. In a world where competition is strong, the government is adopting means so that Québec fully exploits its advantages and strengthens itself as an executive-driven economy, while making it even more attractive to locate decision-making centres in Québec.

APPENDIX 1: THE REPORT OF THE TASK FORCE ON THE PROTECTION OF QUÉBEC BUSINESSES

On June 7, 2013, the Minister of Finance at the time, Nicolas Marceau, announced the creation of the Task Force on the Protection of Québec Businesses, chaired by Claude Séguin, Senior Vice-President, Corporate Development and Strategic Investments, at CGI.

The task force's mandate essentially was to recommend measures to the Minister to:

- enable Québec firms to better protect themselves from hostile takeover bids;
- foster the development of head offices in Québec.

The task force tabled its report on February 10, 2014. The report was made public on February 20, 2014, on the margins of the presentation of Québec Budget 2014-2015 by the Minister of Finance (budget not adopted).

The task force formulates nine recommendations, grouped in four categories:

- amendments to the Québec *Business Corporations Act*;
- recommendations concerning securities regulators;
- tax changes;
- changes to the governance of public and private investment funds.

❑ Amendments to the Québec *Business Corporations Act*

■ Variable voting rights

The Task Force recommends amending the Québec *Business Corporations Act* to make possible the adoption of variable voting rights according to the length of time that the shares of corporations are held.

The proposed application formula would be as follows:

— the voting shares of the corporation may include an additional voting right when the veritable owner has held such shares for two years or more;

— the measure stipulated could be included in the articles of constitution of the corporation;

— it might also be introduced into the corporation's articles of incorporation subsequent to its incorporation or be withdrawn at any time by special resolution of the shareholders, in which case the shareholders could exercise their usual rights.

■ Prohibition of certain transactions

The task force recommends amending the Québec *Business Corporations Act* to allow for the adoption of provisions to prohibit certain transactions by corporations subject to a takeover bid not approved by the board of directors.

The proposed application formula would be as follows:

— a merger or other amalgamation of the assets of the corporation with those of the offeror or a substantial sale of assets representing 15% of the corporation are prohibited for five years;

— the offeror must give to the corporation the profits made in the 24 months following the takeover bid at the time of resale of the shares of the corporation purchased during the 12 months preceding the launching of the takeover bid;

— the revocation of the term of office under way of a director (of a maximum duration of three years) may not occur before the end of the director's term;

— the offeror may not exercise its voting right in respect of the shares that it holds after the launching of the takeover bid.

This measure would apply until the other shareholders, excluding the directors and the manager-shareholders, adopt a resolution with two-thirds of the votes restoring the voting rights to the initiator of the takeover bid and related persons related.

The measures stipulated above could be included in the articles of constitution of the corporation, introduced into the corporation's articles of incorporation subsequent to its incorporation or be withdrawn at any time by special resolution of the shareholders, in which case the shareholders could exercise their usual rights.

Application of these measures to other entities

The task force recommends that measures similar to those stipulated in the first two recommendations be applicable to all entities incorporated in Québec likely to make a public offering and be subject to a hostile takeover bid.

Accordingly, they should be applicable to issuing entities governed by the *Civil Code of Québec*, such as certain trusts.

Government follow-up

The amendments to the Québec *Business Corporations Act* recommended by the task force were the subject of a consultation of the financial community.[34]

The conclusions of this consultation were made public in February 2016.[35]

— The amendments to the Québec *Business Corporations Act* would provide little or no additional protection to Québec corporations listed on the stock exchange, in case of a hostile takeover bid.

— A corporation wishing to take advantage of these measures would have to obtain the agreement of its shareholders to amend its articles of incorporation.

— If the corporation were unable to convince its shareholders to establish multiple-voting shares, there is a strong probability that it would be no more successful in convincing them to introduce these measures into its articles of incorporation.

— The changes would risk negatively affecting the value of Québec corporations and reducing their access to capital.

— To some extent, they would single out Québec in the Canadian economy. These changes would create an imbalance with the law governing federally-chartered corporations.

For these reasons, the government did not consider it expedient to amend the Québec *Business Corporations Act*.

[34] MINISTÈRE DES FINANCES DU QUÉBEC, *Budget 2014-2015 – Budget Speech*, June 2014.

[35] MINISTÈRE DES FINANCES DU QUÉBEC, *Report on the Application of the Business Corporations Act*, February 2016.

Recommendations concerning securities regulators

Support for the Autorité des marchés financiers

The task force supports the proposal of the Autorité des marchés financiers to allow the boards of directors of corporations that are subject to a hostile takeover bid to fully exercise their fiduciary duties. It believes that the proposal, insofar as it is applied to all companies listed on the stock exchange that are reporting issuers in Canada could restore balance between the initiator of the unsolicited takeover bid and the offeree.

In this perspective, the task force recommends that the Minister of Finance determine whether legislative or regulatory amendments might facilitate such an implementation of the Autorité's proposal.

Government follow-up

The proposal of the Autorité des marchés financiers was formulated in the context of the work of the Canadian Securities Administrators. They agreed to adopt a harmonized Canadian system governing hostile takeover bids.

This new regulation was approved by the Québec government and came into force in May 2016.

The boards of directors and shareholders of corporations listed on the stock exchange benefit from greater leeway in case of a hostile takeover bid.

— Any takeover bid henceforth must result in the deposit of 50% of the securities targeted by the takeover bid.

— It must be followed by a ten-day mandatory extension period, when this threshold is reached, which gives the shareholders the possibility of making voluntary, enlightened and coordinated decisions concerning the deposit of their securities.

— The takeover bid must be maintained for a minimum of 105 days, which gives the board of directors more time and latitude to respond, including the possibility of finding alternative solutions to the bid.

The task force's recommendation thus was implemented, based on a harmonized approach with the other Securities Commissions. In any case, it would not have been relevant to act unilaterally, since such an approach involves major difficulties of application. Holders in other jurisdictions could have felt wronged and submitted the issue to the regulator of their jurisdiction. The Québec statutes cannot compel the regulators of other jurisdictions.

■ Conversion of the Bureau de décision et de révision

The task force recommends conversion of the Bureau de décision et de révision into a specialized administrative tribunal comprising judges from the Court of Québec.

The structure of the tribunal could draw inspiration from the Tribunal des professions.

▪ Government follow-up

The Bureau de décision et de révision has become the Financial Markets Administrative Tribunal.

The members of the tribunal henceforth must swear an oath.

In Budget 2016-2017, other changes made to this body were announced to increase its efficiency.[36]

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36 MINISTÈRE DES FINANCES DU QUÉBEC, *The Québec Economic Plan - Additional Information 2016-2017*, pp. B.5-B.6.

❑ Tax changes

■ Employee shareholding

The task force recommends making provision for more advantageous tax treatment that encourages the employees of corporations listed on the stock exchange to hold shares by deferring the taxation of the employees to the time of sale of the shares instead of the time of their acquisition.

▪ Government follow-up

Since the Québec tax treatment of the timing of taxation of shares held by employees is harmonized with the treatment under the federal system, the government did not consider it expedient to make changes.

— In general, an employee who acquires shares of the corporation that employs him under a stock option plan receives a taxable benefit when he exercises his option, which corresponds to the difference between the fair market value of the shares and the amount paid to acquire them.

— In the case of a Canadian-controlled private corporation (CCPC), the benefit generally can be deferred and is taxed only at the time of the sale of the shares.

To favour employee shareholding, which can prove to be a useful tool against a hostile takeover bid, the government announces in this document that it mandates Investissement Québec to advise corporations wishing to issue a public offering to consider granting shares to employees as compensation.

■ Tax treatment of gains on stock options

The task force recommends granting tax treatment of the gains on stock options that is more favourable than elsewhere in Canada to maximize the development of head offices and the attraction and retention of senior executives to Québec or at least harmonize such tax treatment with the other Canadian provinces.

▪ Government follow-up

In this document, the government announces that it is ending the gap between Québec taxation and the taxation of other provinces, by immediately increasing the stock option deduction rate to 50%, the same level as in the other provinces.

■ Transmission of ownership of the corporation

The task force recommends reassessing the Québec taxation system to allow the owners and major shareholders of a company to defer the taxation of the gain on the transmission of ownership of a corporation to another generation and introducing a measure that allows family trusts to defer the realization of the gain attributable to their significant investment in a company at the time of its sale rather than every 21 years, as long as the business remains active.

▪ Government follow-up

In this document, the government announces two important measures.

— As part of budget speech of March 2016, the government concretized the commitment made in the budget of March 2015 to allow entrepreneurs selling a business in a non-arm’s-length transaction to benefit from the advantageous tax treatment of capital gains offered for arm's-length transactions. However, this relief was limited to transactions concerning businesses in the primary and manufacturing sectors.

The government is extending this relief to non-arm’s-length transactions concerning businesses in the service and construction sectors.

— The government also announces that it is instituting a measure to defer payment of tax owed on a deemed sale of shares of a corporation listed on the stock exchange. This in fact concerns the capital gains tax due on the death of an owner of shares or 21 years after the creation of a family trust.

To qualify, the corporation must have its head office in Québec and maintain, over a three-year period, a payroll in Québec averaging at least 75% of the payroll in Québec at the time of the request for deferral.

❑ Changes to the governance of public and private investment funds

The task force recommends promoting the financial and operational participation of Québec investment funds to facilitate the transfer of Québec corporations to a new generation of Québec owners and, consequently, to examine the requisite legislative and regulatory amendments.

■ Government follow-up

In this document, the government announces the deployment of the Financial Initiatives Group to be better prepared for strategic interventions, particularly to favour the takeover of Québec companies by a Québec succession.

— The Group will be composed of representatives of major financial stakeholders, including the Québec investment funds.

The Financial Initiatives Group will have the following mandate, in particular:

— circulate among major Québec investors findings and analyses that could have an impact on the location of head offices and the ownership of Québec companies;

— guide the government in its actions to meet the financial requirements of the most promising growth businesses, in order to foster the emergence of tomorrow's large businesses.

TABLE 8

Government directions regarding the recommendations of the Task Force on the Protection of Québec Businesses

Summary of the recommendations	Action taken(1)	Not retained
Make amendments to the Québec *Business Corporations Act* in order to provide a toolkit to the companies incorporated under this statute and wishing to oppose a hostile takeover bid		
(1) Make possible the adoption of variable voting rights according to the length of time that the shares of corporations are held.		√(2)
(2) Allow for the adoption of provisions to prohibit certain transactions by corporations subject to a takeover bid not approved by the board of directors.		√
(3) Apply measures similar to those stipulated in recommendations 1 and 2 to all entities incorporated in Québec likely to make a public offering and be subject to a hostile takeover bid.		√
Support the position of the Autorité des marchés financiers with the aim of giving more latitude to boards of directors wishing to oppose a takeover bid and convert the Bureau de décision et de révision into a specialized administrative tribunal comprising judges from the Court of Québec.		
(4) Allow the boards of directors of corporations that are subject to a hostile takeover bid to fully exercise their fiduciary duties.	√	
(5) Convert the Bureau de décision et de révision into a specialized administrative tribunal comprising judges from the Court of Québec.	√	
Make changes to taxation to facilitate the implementation and maintenance of head offices in Québec		
(6) Encourage the employees of corporations listed on the stock exchange to hold shares by deferring the taxation of the employees to the time of sale of the shares instead of the time of their acquisition.		√(2)
(7) Grant tax treatment of the gains on stock options that is more favourable than elsewhere in Canada, or harmonize it with that of other Canadian provinces.	√	
(8) Allow the owners and major shareholders of a company to defer the taxation of the gain on the transmission of ownership of a corporation to another generation and introduce a measure that allows family trusts to defer the realization of the gain attributable to their significant investment in a company at the time of its sale rather than every 21 years, as long as the business remains active.	√	
Review the changes that could be made to the governance of public and private investment funds so that they are better able to support the transfer of Québec companies to other Québec companies		
(9) Promote the financial and operational participation of Québec investment funds to facilitate the transmission of Québec corporations to a new generation of Québec owners.	√	

(1) The government presented measures inspired by the task force recommendations.
(2) Possible voluntary deployment by corporations.

APPENDIX 2: REPORT OF THE INSTITUTE FOR GOVERNANCE OF PRIVATE AND PUBLIC ORGANIZATIONS – *WHAT'S THE RISK OF LOSING A SIGNIFICANT NUMBER OF CORPORATE HEAD OFFICES NOW LOCATED IN QUÉBEC?*

On September 29, 2016, the Institute for Governance of Private and Public Organizations released a study entitled *What's the Risk of Losing a Significant Number of Corporate Head Offices Now Located in Québec?*

❑ The study

The study is published under the signature of the Executive Chair of the Institute, Professor Yvan Allaire, and its Director of Research, François Dauphin.

It uses as its starting point the *Financial Post* list identifying the largest Canadian corporations according to their revenue in 2015, and defines a corporation as "large" if it is characterized by revenue exceeding $1 billion. Among them, 45 Québec corporations are business corporations, including 21 corporations with controlling shareholders and 24 widely held corporations.

The study finds that in all, only 16 Québec corporations listed on the stock exchange and having revenue over $1 billion have no protection against a hostile takeover bid.

— The study concludes that the risk of losing head offices located in Québec, while real, is not primarily due to hostile takeovers by companies outside Québec. Friendly transactions represent a greater risk in the current context.

— A market economy inevitably leads to the disappearance of companies from the group of so-called “large corporations.” What is important is the entrepreneurial spirit and Québec’s ability to renew its stock of large corporations with decision-making centres in Québec.

❑ Recommendations

The report contains three specific recommendations.

■ Initiatives to be taken by the corporation during an initial public offering

Entrepreneurs can grow their company with funds from various sources without their business becoming a private company, as demonstrated by a number of entrepreneurs. However, should entrepreneurs decide to carry out an initial public offering, they may adopt a capital structure with a dual class of shares but with clear protections for minority shareholders.

For instance, the Canadian Coalition for Good Governance proposed that entrepreneurs and related parties hold at least 20% of shareholders' equity in order to retain absolute control of the corporation (50%+ of votes), that one-third of board members be elected by the shareholders of single-voting shares, that a protection clause for minority shareholders be adopted in case control of the corporation is sold (coattail clause, already a requirement of the Toronto Stock Exchange), and that a sunset clause, tailored to the corporation's situation, indicates the reasons for possible elimination of the dual class of shares.

▪ Government follow-up

In this document, the government announces that it mandates Investissement Québec to assist corporations wishing to issue a public offering to take advantage of multiple-voting shares, to protect themselves better against hostile takeovers.

■ Change the regulations of the Autorité des marchés financiers

Should the threat persist that hostile transactions might deprive Quebec of the corporate headquarters of some of the 16 so-called “vulnerable” large corporations, attempting to create blocking funds before or after the announcement of a hostile bid is a costly and relatively very ineffective means of coping with this threat in the long term.

The most effective way to defeat such hostile bids, unwanted by the board of directors of the target corporation, will come from the following recommendation:

— the mergers and acquisitions regulations of the Canadian Securities Administrators must be changed;

— the goal would be to give Canadian boards of directors the equivalent decision-making powers to those which, for example, the State of Delaware grants to boards of directors of U.S. companies in hostile takeover bid situations;

— the leadership of the government of Québec on this issue is crucial.

▪ Government follow-up

The government supports the Autorité des marchés financiers in any approach taken, in concert with the other Canadian Securities Administrators, to amend the takeover bid regulations in order to increase the powers of the boards of directors in the case of hostile takeover bids.

■ Reduce the financial benefit of an acquisition

However, there is a real, but partially inevitable risk of losing decision-making headquarters in Québec from “friendly” transactions, as occurred in the case of RONA.

One could decrease the allure to the management of concluding such friendly transactions by reducing the huge financial benefits which accrue to management, and sometimes to the members of the board, from the sale of their company.

Accordingly, the implementation of the following recommendation is becoming increasingly urgent:

— Boards of directors of publicly held corporations should ensure that the financial incentives for management and board members in the event of a change of control do not constitute a strong motive to sell the company.

■ Government follow-up

In this document, the government announces that it mandates Investissement Québec to assist corporations wishing to issue a public offering to take advantage of existing legal provisions to protect themselves better against hostile takeovers.

This promotion will specifically seek to support entrepreneurs deciding to issue an initial public offering.

— Investissement Québec will assist these entrepreneurs in defining and deploying their strategy.

— Investissement Québec will advise these companies on the best legal initiatives to protect themselves against hostile takeovers, particularly by adopting arrangements that mitigate the financial incentives to the management to conclude a sales transaction by reducing the huge financial benefits that management, and sometimes members of boards of directors derive from such a transaction.

TABLE 9

Government directions in relation to the recommendations of the report *What's the Risk of Losing a Significant Number of Corporate Head Offices Now Located in Québec?* by the Institute for Governance of Private and Public Organizations

Summary of the recommendations	Action taken[(1)]	Not retained
(1) Should entrepreneurs decide to carry out an initial public offering, they might adopt a capital structure with a dual class of shares but with clear protections for minority shareholders.	√	
(2) Change the mergers and acquisitions regulations of the Canadian Securities Administrators to give Canadian boards of directors the equivalent decision-making powers to those which, for example, the State of Delaware grants to boards of directors of U.S. companies in hostile takeover bid situations.	√	
(3) Boards of directors of publicly held corporations should ensure that the financial incentives for management and board members in the event of a change of control do not constitute a strong motive to sell the company.	√[(2)]	

(1) The government has presented measures inspired by the recommendations of the Institute for Governance of Private and Public Organizations.
(2) The government supports the Autorité des marchés financiers in any approach taken, in concert with the other Canadian Securities Administrators, to amend the takeover bid regulations in order to increase the powers of the boards of directors in the case of hostile takeover bids.

APPENDIX 3: DETAILS OF TRANSACTIONS CHANGING THE OWNERSHIP OR CONTROL OF BUSINESSES IN QUÉBEC

TABLE 10

Record of transactions involving a Québec company and a company outside Québec – 2001-2016

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Total
Number																	
Purchases – complete	16	10	16	13	16	21	17	24	8	18	26	16	16	17	17	17	268
Purchases – partial	20	9	15	13	14	17	14	9	11	8	14	21	21	19	15	14	234
Subtotal	**36**	**19**	**31**	**26**	**30**	**38**	**31**	**33**	**19**	**26**	**40**	**37**	**37**	**36**	**32**	**31**	**502**
Sales – complete	10	5	5	15	16	17	24	11	16	15	10	7	8	19	10	9	197
Sales – partial	1	1	1	4	3	3	7	2	1	1	5	5	4	2	5	2	47
Subtotal	**11**	**6**	**6**	**19**	**19**	**20**	**31**	**13**	**17**	**16**	**15**	**12**	**12**	**21**	**15**	**11**	**244**
BALANCE	**25**	**13**	**25**	**7**	**11**	**18**	**—**	**20**	**2**	**10**	**25**	**25**	**25**	**15**	**17**	**20**	**258**
Value ($billion)																	
Purchases – complete	4.2	2.7	12.0	2.8	3.8	6.5	2.4	1.1	0.7	6.5	2.9	12.4	1.4	16.9	1.5	2.1	79.6
Purchases – partial	1.7	1.3	1.0	4.9	2.3	5.9	2.9	0.6	0.5	0.5	2.3	3.0	4.3	6.6	4.1	3.7	45.6
Subtotal	**5.9**	**4.0**	**13.0**	**7.7**	**6.1**	**12.4**	**5.3**	**1.6**	**1.2**	**7.0**	**5.2**	**15.4**	**5.7**	**23.5**	**5.5**	**5.7**	**125.2**
Sales – complete	6.0	0.2	0.4	9.9	1.5	3.2	56.9	0.9	1.3	3.1	5.1	2.5	1.8	6.1	1.6	3.8	104.4
Sales – partial	0.1	0.2	0.0	0.1	0.2	0.4	2.2	0.1	0.2	0.1	0.7	0.2	1.1	0.1	0.2	0.1	5.7
Subtotal	**6.1**	**0.4**	**0.4**	**10.0**	**1.7**	**3.6**	**59.1**	**1.0**	**1.5**	**3.2**	**5.8**	**2.7**	**2.9**	**6.1**	**1.7**	**3.9**	**110.1**
BALANCE	**−0.2**	**3.7**	**12.6**	**−2.4**	**4.4**	**8,8**	**−53.9**	**0.6**	**−0.4**	**3.8**	**−0.6**	**12.7**	**2.9**	**17.4**	**3.8**	**1.8**	**15.1**

Note: Finalized transactions whose announced value exceeds $5 million. Totals may not add due to rounding.
Source: Bloomberg, compilation by the Ministère des Finances du Québec.

TABLE 11

List of hostile or unsolicited takeover bids involving a Québec company and a company outside Québec – 2001-2016

Year	Acquiring company	Target	Sector (target)	Provenance[1]	Nature of bid	Status of bid
Purchases						
2003	Axcan Pharma	Salix Pharmaceuticals	Consumption	United States	Hostile	Not completed
2003	Alcan	Pechiney	Basic materials	France	Hostile	Completed
2005	Logibec Groupe Informatique	MDI Technologies	Technology	United States	Hostile	Completed
2010	Alimentation Couche-Tard	Casey's General Stores	Consumption	United States	Unsolicited to hostile	Not completed
2010	Canada Healthcare Acquisition	Northstar Healthcare	Consumption	United States	Friendly to hostile	Not completed
2011	Paladin Labs	Afexa Life Sciences	Consumption	Canada (Alta.)	Hostile	Completed
2013	TransForce	Vitran	Industrial	Canada (Ont.)	Unsolicited	Completed
2014	SEMAFO	Orbis Gold	Basic materials	Australia	Unsolicited	Completed
Sales						
2004	TELUS	Microcell Telecommunications	Communications	Canada (B.C.)	Hostile	Not completed
2004	PreMD	IBEX Technologies	Consumption	Canada (Ont.)	Hostile	Not completed
2007	Alcoa	Alcan	Basic materials	United States	Hostile	Not completed
2007	CML HealthCare	Medisys Health Group Income Fund	Consumption	Canada (Ont.)	Unsolicited	Not completed
2010	Cliffs Natural Resources	KWG Resources	Basic materials	United States	Unsolicited	Completed
2012	Lowe's	RONA	Consumption	United States	Unsolicited	Not completed
2014	Goldcorp	Osisko Mining	Basic materials	Canada (B.C.)	Unsolicited to hostile	Not completed

Note: Bids the announced value of which exceeds $5 million.
(1) Provenance of the corporation outside Québec.
Source: Bloomberg, compilation by the Ministère des Finances du Québec.

TABLE 12

List of transactions involving a Québec company and a company outside Québec – 2016
(millions of dollars, unless otherwise indicated)

Date[(1)]	Complete/partial	Acquiring company	Target	Provenance[(2)]	Value
Purchases					
December 16, 2016	Partial	Boralex	Yellow Falls Small Hydro Plant Canada	Canada	99.1
November 3, 2016	Partial	Boralex	Enercon GmbH/Niagara Region Wind Farm Project	Canada	232.4
November 2, 2016	Complete	GDI Integrated Facility Services	Centrica/Direct Energy Business Services	United Kingdom	19.5
October 31, 2016	Complete	EXFO	Absolute Analysis	United States	11.1
October 19, 2016	Partial	Caisse de dépôt et placement du Québec	KKR, Goldman Sachs Capital/TVS Logistics Services	India	196.9
October 19, 2016	Complete	New Look Vision Group	Visions One Hour Optical	Canada	6.6
September 30, 2016	Complete	Fiera Capital	Charlemagne Capital/Cayman	United Kingdom	18.6
September 28, 2016	Partial	Caisse de dépôt et placement du Québec	Sedgwick Claims Management Services	United States	660.9
September 9, 2016	Complete	MTY Food Group	BF Acquisition Holdings	United States	35.2
September 7, 2016	Partial	Caisse de dépôt et placement du Québec	Lasik Vision	Canada	25.0
August 24, 2016	Complete	ProMetic Life Sciences	Telesta Therapeutics	Canada	42.4
August 8, 2016	Complete	BCE	Ontario Teachers' Pension Plan Board et autres/Q9 Networks	Canada	888.1
July 13, 2016	Complete	H2O Innovation	Utility Partners	United States	22.0
June 30, 2016	Partial	Caisse de dépôt et placement du Québec	Eurofins Scientific	Luxemburg	288.0
June 8, 2016	Partial	Canam Group	Stonebridge	Canada	15.0
June 7, 2016	Partial	Caisse de dépôt et placement du Québec	Greenstone	Australia	476.1
May 29, 2016	Complete	Eddyfi NDT	Silverwing	United Kingdom	26.7
May 25, 2016	Complete	MTY Food Group	Kahala Brands	United States	391.3
May 17, 2016	Complete	Mediagrif Interactive Technologies	Advanced Software Concepts	United States	23.9
May 9, 2016	Partial	National Bank of Canada	Advanced Bank of Asia	Cambodia	133.9
April 6, 2016	Partial	Savaria	Loblaw/Shoppers Home Health/Automotive division	Canada	10.0
April 4, 2016	Complete	Gildan Activewear	Alstyle Apparel	United States	142.6
March 21, 2016	Partial	Innergex Energie renouvelable	WPD Europe GmbH/Portfolio of 7 wind power projects	France	14.7
March 15, 2016	Complete	Yellow Pages Canada	Juice Mobile	Canada	35.0

TABLE 12 (cont.)

List of transactions involving a Québec company and a company outside Québec – 2016

(millions of dollars, unless otherwise indicated)

Date(1)	Complete/partial	Acquiring company	Target	Provenance(2)	Value
March 10, 2016	Complete	Lumenpulse	Fluxwerx Illumination	Canada	75.0
February 29, 2016	Complete	Fiera Capital	Apex Capital Management	United States	196.2
February 25, 2016	Partial	Public Sector Pension Investment Board	Engie/New England portfolio of hydroelectric assets	France	1 313.6
February 3, 2016	Partial	Caisse de dépôt et placement du Québec	AB Oxford Cold Storage/Oxford Cold Storage portfolio/Melbourne	Australia	203.6
February 3, 2016	Complete	Stella-Jones	Lufkin Creosoting	United States	58.8
February 3, 2016	Complete	Stella-Jones	440 Investments	United States	58.8
January 13, 2016	Partial	Isologic Innovative Radiopharmaceuticals	Lantheus Holdings/Canadian Radiopharmacies and Gludef	United States	12.9
TOTAL – PURCHASES					**5 733.9**
Sales					
November 9, 2016	Complete	TeleTech Holdings	Kilmer Capital/Atelka	United States	79.2
October 3, 2016	Complete	Singer Equities	Future Hydraulik	United States	19.3
September 14, 2016	Complete	Orla Mining	Pershimco Resources	Canada	64.5
September 1, 2016	Complete	Crescita Therapeutics	INTEGA Skin Sciences	Canada	7.9
August 31, 2016	Complete	Scientific Games	DEQ Systems	United States	25.5
July 13, 2016	Complete	SKion GmbH	Ovivo	Germany	181.7
May 24, 2016	Partial	ABRY Partners	Root Data Center	United States	25.0
April 7, 2016	Complete	Probe Metals	Adventure Gold	Canada	16.6
March 31, 2016	Complete	Cara Operations	St-Hubert Group	Canada	537.0
February 3, 2016	Complete	Lowe's	RONA	United States	2 852.4
February 3, 2016	Partial	Digital Garage, Horizons Venture, Khosla Ventures, and others	Blockstream	Japan, Hong Kong, United States, and others	76.1
TOTAL – SALES					**3 885.2**

Note: Finalized transactions whose announced value exceeds $5 million. The value of a transaction is calculated by Bloomberg on the basis of the conditions of the agreement, including the net debt in most cases, and may therefore differ from the value reported publicly.
(1) The date on which the transaction was officially announced. Bloomberg uses information feeds, regulatory documents and corporate news releases to identify announcements.
(2) Provenance of the corporation outside Québec.
Source: Bloomberg, compilation by the Ministère des Finances du Québec.

Québec