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On behalf of the Public Affairs Executive (PAE) of the EUROPEAN PRIVATE EQUITY AND VENTURE CAPITAL INDUSTRY

Response to Commission Inception Impact Assessment on the regulatory environment to support SME listing

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The private equity industry agrees with the European Commission's assessment that smaller firms are often discouraged from seeking to launch an Initial Public Offering (IPO) on public markets and we therefore support the ongoing initiative to reduce the burden of public offering for this type of companies.

While investors need reliable information about potential risks associated with their investments on capital markets, it is our understanding that existing listing costs and requirements are currently seen as disproportionate by various types of market players. Given their size and level of sophistication, smaller entities are naturally most affected by the existing regulatory burden. As a result, these firms are often struggling to gain access to public markets and this leads to a shortage of listed SMEs on EU exchanges.

Listing costs and burdensome requirements do not only have implications on the vitality of European stock exchanges but they could also impact the financing of these companies at an earlier stage of their development. After an average of six years of active involvement in the companies they invest in, private equity managers usually have the choice between three exit routes: i) selling to another private equity company (typically a larger firm); ii) selling to another business; or iii) listing of shares on the stock market through an IPO. As its decision to make an investment into a firm is determined in part by the potential exit route(s), the easier it is for a private equity fund manager to IPO a firm, the more willing it might be to invest into it in the first place. Simplifying requirements for listed companies could therefore have a positive effect on the entire financial ecosystem.

Between 2010 and 2016, IPOs consistently formed only a small share of the number of companies divested by private equity fund managers (6.3 %) but a much larger share of the amount divested (15.7%). In other words, the IPO exit route was mostly used by private equity firms for the larger companies they owned and not for companies at the lower end of the spectrum. At the same time, even relatively larger companies supported by growth funds, such as scale-ups, were usually sold through trade sales (29% in amount during the same period) rather than through IPOs (9% in amount).

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In light of this, we would therefore like to use this opportunity to urge the Commission to strengthen the SME Growth Markets regime, extend its scope and allow more companies to benefit from it.

Increasing the existing threshold to cover medium-sized companies, in the same spirit as the recent changes made to eligible undertakings under the EuVECA framework, would also allow larger scale-ups to have an easier access to European public markets, without disproportionately reducing investor protection. For example, in the United States, an emerging growth company is defined as any issuer that had total annual gross revenues of less than $1 billion during the five years following the IPO, at least 5 times higher than what is proposed under the existing MiFID framework.

Furthermore, we believe there should be a transition exempting newly listed companies from certain requirements during the first few years of their listed life, in order to allow them to adapt more easily to their obligations. We therefore support other trade associations such as European Issuers calling for a 5-year transition period.

We would also like to note that various information which has to be presented in the context of the Market Abuse Regulation (MAR) can create a high burden on smaller companies. These include the creation and maintenance of insider's lists, market soundings record keeping requirements or the disclosure of person discharging managerial responsibilities (PDMR) transactions. While our view is that all companies on SME Growth Markets should be exempted from these provisions, we welcome any effort to simplify and/or clarify the existing rules.

Contact

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About the PAE

The Public Affairs Executive (PAE) consists of representatives from the venture capital, mid-market and large buyout parts of the private equity industry, as well as institutional investors and representatives of national private equity associations (NVCAs). The PAE represents the views of this industry in EU-level public affairs and aims to improve the understanding of its activities and its importance for the European economy.

About Invest Europe

Invest Europe is the association representing Europe's private equity, venture capital and infrastructure sectors, as well as their investors.

Our members take a long-term approach to investing in privately held companies, from start-ups to established firms. They inject not only capital but dynamism, innovation and expertise. This commitment helps deliver strong and sustainable growth, resulting in healthy returns for Europe's leading pension funds and insurers, to the benefit of the millions of European citizens who depend on them.

Invest Europe aims to make a constructive contribution to policy affecting private capital investment in Europe. We provide information to the public on our members' role in the economy. Our research provides the most authoritative source of data on trends and developments in our industry.

Invest Europe is the guardian of the industry's professional standards, demanding accountability, good governance and transparency from our members.

Invest Europe is a non-profit organisation with 25 employees in Brussels, Belgium.

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