



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

19 April 2011

General observations on the European Commission's public consultation on
taxation of the financial sector

Dear Mr. Kermode,

We write to you on behalf of the representative national and supranational European private equity bodies. Our members cover the whole investment spectrum, from venture capital firms investing into high growth technology start-ups, to the largest global buyout funds turning around and growing mature companies, and we speak on behalf of the entire European private equity and venture capital industry.

We would like to welcome the opportunity to comment on the European Commission's consultation on taxation of the financial sector, launched on 22 February 2011. However, we have some concerns regarding the format of the public consultation. As currently structured, the questionnaire is a mixture of general policy concerns about the role of the financial sector in the current economic crises, and specific tax policy related issues. We find that the current consultation would be more effective if only tax policy issues were being debated and would recommend to use different forums for future consultation exercises on such matters.

Therefore, rather than focusing on specific questions, we have set out below the European private equity and venture capital (PE/VC) industry's general observations and reflections regarding the FTT and FAT and their implications for our industry.

Financial transaction tax ("FTT")

- In general, the FTT should be levied at global level. If an FTT was to be introduced solely in the EU, then SMEs will be put at a competitive disadvantage, as the impact on SMEs is likely to be greater simply because they will have less sophisticated techniques for accessing financing sources outside the EU, than their larger counter parts.
- PE/VC does not engage in high-speed trading and speculation but provides incentives for long-term investing. PE/VC invests, largely, in unlisted (and therefore illiquid) companies' equity and does not implement short selling strategies. Commitments to PE/VC are of a long

- In principal, the FTT should exempt all trading transactions which normally cannot result in harmful market volatility. In particular, the FTT must exclude transactions, where a FTT on such transactions would increase the financing costs of market participants e.g. in the case of an IPO of a venture backed company.

Financial activities tax ("FAT")

- PE/VC did not play a role in the recent financial crisis and can be part of the solution to help overcome the current funding crises and thereby play an active role in contributing to the recovery of European economies. Hence, private equity and venture capital should not be the addressee of the FAT.
- Should the FAT be levied on the sum of profit and remuneration as mentioned in the public consultation, we consider that PE/VC compensation structures do not have the flaws and the associated risks that have been identified in arrangements in other parts of the financial sector, where bonuses often failed to take into account the long term impact of actions and where equity further vests with immediate effect.
- Under the circumstance of the current financial crisis, capital gains incentives are necessary to encourage long term risk taking in fledgling companies that stimulate the economy. In particular, neither the PE/VC industry should not be hampered in its ability to create new companies, industries and technologies, nor the investors in PE/VC funds should witness a negative adjustment on their risk return profiles due to inappropriate taxation that would penalise investors when investing through a fund rather than by investing directly in the underlying companies.

The European private equity and venture capital industry remains, as ever, committed to an ongoing dialogue with policy officials and interested stakeholders, and welcomes any feedback on the comments made in this document.

Kind regards,



Uli Fricke

EVCA Chairwoman

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 EVCA

The European Private Equity and Venture Capital Association is the voice of European private equity and venture capital, representing more than 1,300 members. In addition to promoting the industry among key stakeholders, such as institutional investors, entrepreneurs and employee representatives, EVCA develops professional standards, research reports and holds professional training and networking events.

