

EBAN contribution to the European Commission's Consultation on the Green Paper "Building a Capital Market Union"

13 May 2015

EBAN, the European Trade Association of Business Angels, Seed Funds, and Early Stage Market Players welcomes the publication of the Green Paper "Building a Capital Market Union". EBAN contributed to and co-signed the joint declaration on the Capital Market Union, "Bridging the Financial Gap for European SMEs" written by several European organizations representing investors, entrepreneurs, innovators and intermediary organizations.

The present response complements this joint declaration. In particular, it focuses on Business angels, early stage investors and exit mechanisms for growth companies and on creating a responsible and dynamic equity market.

Current capital market fragmentation brakes economic growth:

The creation and implementation of a European Capital Market will be one of the crucial components for the setting up of an E-zone for Europe's innovators, entrepreneurs and investors aiming at one set of rules, one set of incentives and the removal of cross border barriers. The policy paper "Creation of an E-zone for Europe's Innovators, Entrepreneurs and Investors" written and signed by EBAN and other venture and entrepreneurial organizations was sent to President Juncker in November 2014 to help him in the formation of his 300 Billion Euro Investment Plan. It was later published and disseminated to policy makers and stakeholders of the European innovation eco-system, <http://www.eban.org/wp-content/uploads/2015/02/E-Zone-Paper-2.pdf>

Today, despite many initiatives and compared to many other parts of the world, European businesses remain more dependent on banks for funding and relatively less dependent on capital markets. In addition, Europe suffers from a lack of harmonization due to substantial differences in the funding models of its Member States. EU financial systems remain mainly national and cross-border integration is limited. This fragmentation of capital markets makes Europe less attractive as a whole and puts a brake on economic growth. It also has resulted in the scarcity of alternative financing channels, notably that of equity, which according to a large number of experts could be key to the current crisis resolution. Stronger capital markets will help diversify sources of financing for SME's, especially for start-ups, scale-ups and high growth companies as well as attracting more investment from around the world.

Europe needs a strong Capital Market Union:

Europe needs to a strong Capital Market Union. As such, we at EBAN welcome:

- The publication of the European green paper “ Building a Capital Market Union”;
- The pragmatic and realistic approach recommended by the Commission to build this Capital Market Union step by step by the 2019 horizon.

EBAN also shares the three objectives defined by the green paper:

- Improving access to financing for all businesses across Europe and for investment projects;
- Increasing and diversifying the sources of funding from investors in the EU and all over the world;
- Making markets work more effectively and efficiently and linking investors to those companies which need funding at lower cost, both within Member States and cross border.

But, EBAN requests the Commission to better take into account the financing needs of start-ups; scale-ups, and fast growing emerging companies – all of which are creating a large part of new jobs, according to OECD.

Early priorities and fundraising:

The priorities for early action defined by the Commission, i.e., lowering barriers to accessing capital markets and to this purpose reviewing the prospectus regime; building a sustainable securitization market to better bridge banks and capital markets; developing European private placement markets; and boosting long term investments will contribute to making the European capital market stronger.

There is one aspect however, which is missing in these early priorities (question n°1 of the green paper). This is the clarification of tax treatment ambiguities, the standardization of tax regimes and the encouragement of the development of tax incentives for investors correlated with the level of risk of their investments or with their social and economic impact.

The proposed actions to stimulate investments – currently below the historical norm – such as the Juncker Investment plan, the establishment of the new European fund for strategic investment (EFSI) and the ELTIF regulatory framework are indeed necessary to attract investors and facilitate fundraising.

It is crucial to unlock capital sitting with institutional investors to enable investment funds to flow across borders via a regulatory regime encouraging investment in long-term assets (question n°5).

Building a responsible and dynamic European equity market:

There is also a strong need to further develop and recognize the importance of private equity in Europe. At the same time, a risk culture must be stimulated in order to fund SMEs and notably start-ups and high growth companies. Crowd funding, Business angels, early stage investors, venture capitalists, stock markets for emerging growth companies contribute to the creation and expansion of companies at different stages of their life. In so doing, they accept a level of risk that the banking sector is reluctant to consider for various reasons. The EU should aim to free up the enormous pool of capital sitting with institutional investors, corporate ventures and international investors, as well as that capital residing with families and individuals wishing to invest as business angels or in the context of crowd funding platforms. To this end, there is a need to identify and alleviate administrative burdens, to review existing legislation and to abolish fiscal and legal obstacles.

The role and mandate of the EIF should also be reinforced to allow it to play a key role in the setting-up of funds of funds and large venture funds attracting international investors but also in the setting up of co-investment funds involving Business angels and Business Angel syndicates as well as BA/VC /EIF hybrid co-investments funds.

The following priorities are proposed to the Commission and also partially respond to questions 11, 14, 15,21,23,31 and 32 of the green paper:

- Promote new co-investment schemes in the EU with business angels and business angel syndicates to stimulate and leverage their investments. Existing good practices in Europe and the rest of the world could be taken as a basis to implement these co-investment funds;
- Facilitate cross border investments by developing a common accreditation or qualification system and creating business angels passports;
- Promote the development of corporate venturing, of e-exit mechanisms and of downstream funds to facilitate exits for business angels and early stage investors;
- Adapt EU rules to help fund-managers connect institutional investors to raise capital, to access companies in need of investments across national border, and to support the development of guarantee mechanisms in order to attract European and international investors;
- Create a favorable regulatory environment for the development of BA/VC hybrid funds;
- Provide mutual recognition of existing fiscal incentives for Business angels investing across the EU;

- Promote a healthy initial public offering (IPO) market which works for both investors and companies and improves exit mechanisms for investors;
- Develop a European accounting standard for SMEs listed on growth markets to accelerate cross border investments and encourage entrepreneurship in the EU;
- Create a truly pan- European crowd funding market to unlock private savings as a relevant source of funding for companies;
- Request that a more significant part of cohesion funds be allotted to Business Angel networks and to cross border co-investment funds in cohesion countries.

EBAN is ready to collaborate with the Commission services and to participate actively in the consultation process to define the key measures needing to be undertaken to constitute the pillars of the Capital Market Union and notably the creation of a responsible and dynamic equity market.

For the EBAN Board of Directors and the EBAN President Emeritus Advisory Council,
<http://www.eban.org/about/eban-governance/>:

Candace Johnson
EBAN President

Jean-Noël Durvy
Senior Counselor EU Projects