

META contribution to the European Commission Public consultation on Building a Capital Market Union

Date: 13/05/2015

5. What further measures could help to increase access to funding and channelling of funds to those who need them?

META welcomes the opportunity to contribute to the Capital Markets Union debate and welcomes the European Commission's recognition of venture capital as essential sources of financing to be promoted through a Capital Markets Union. META (through its daughter company Zernike META Ventures) has over 20 years of experience in managing and implementing early stage funds, currently managing 8 funds in Italy, Slovenia and Poland. Based on this experience META believes that developing and speeding up the use of financial instruments and in particular equity instruments is crucial to foster the competitiveness of European regions and countries. META puts forward the following recommendations to increase access to funding:

1) While it is important to take measures, which allow venture capital funds to reach certain scale, in complementary, special attention should be also given to support the development of regional coinvestments funds of adequate size (e.g. no less than 20 mill EUR) which stimulate and leverage the local community of investors. Small regions should join forces to reach funds critical mass e.g. 4 funds of 10 mill EUR would not reach the same level of quality of management and results as one fund of 40 Mill EUR. META fully supports the design of a "European Multilevel Financial Eco-System" with an increasing involvement of local finance providers and intermediaries who are familiar with local market conditions and needs, acknowledging the statement recently made by the European Commissioner Mr. Hill, "small and micro-firms will still look to local funding mechanisms to provide capital in their start-up and expansion phases".

2) Design a simplified and harmonized regional cooperative framework between managing authorities, especially with reference to interregional agreements on the operational plans.

3) Providing business angels with a European passport to facilitate cross border investments and coinvestments with other early stage investors. This measure would allow them to benefit from the same fiscal incentives as if they were investing in their own country.

4) Extend the scope of the EUVECA passport to allow (sub threshold) fund managers to market and manage AIFs in different member states without having to comply with 28 different national rules.

5) META believes that promoting exits opportunities for venture investors should be enhanced but also for bussiness angels. Post angel secondary funds, funded by public and corporate or private investors could help to reduce the lenght of time to exit.

15. How can the EU further develop private equity and venture capital as an alternative source of finance for the economy?

META firmly believes that the use of equity finance can play a crucial role in supporting young, innovative companies with strong growth potential, improving the efficiency of the financial market by creating new investment opportunities and tackling the current EU's Venture capital market underdevelopment.

Nevertheless, as stated in the European Commission SWD accompanying the CMU green paper [COM (2015) 63 final], "notwithstanding the benefits associated with well-developed and functioning capital markets, size alone is not necessarily the only important factor – composition matters too. Larger capital markets do not necessarily deliver positive effects for the real economy - nor does size guarantee market liquidity when it is most crucial, that is, in times of stress".

According to META's experience the use of co-investment funds of adequate size (e.g. not less than 20 million euro) within the European Structural and Investment Funds (ESIF) framework, could speed up the equity market and increase the diversification of the source of funding through the involvement of local community of private investors and business angels that can successfully contribute to the setting-up of an optimal match of financing needs with financing capacity.

META believes that the exit opportunities for venture capital investors could be enhanced by supporting the development of Post Angels Funds, funded by Public and Corporate investments, which would help to reduce the length of time to exit. Long investment time horizons restrict the angels' ability to reinvest in new companies, and requires spending more time to support portfolio companies and less to select new start-ups to fund. Moreover, angels groups must recruit new members in order to remain active. Much of the Angel group managers' time is spent seeking new memberships in an attempt to address investor fatigue.

15.1 In particular, what measures could boost the scale of venture capital funds and enhance the exit opportunities for venture capital investors?

META underlines that the objectives of the Single Market Act in relation to venture capital and to the AIFMD are different. While the AIFMD aims at increasing transparency and facilitating the monitoring of systemic risk in the field of the AIFs, the venture capital funds are not likely to either pose important systemic risk to the financial system, nor to create specific investor protection concerns. Nevertheless, taking into account that the majority of the venture capital business in Europe lies below the EUR 500 million threshold (“Sub threshold managers” according to the article 3 of the AIFMD), and that they do not benefit from the AIFMD Management passport, unless they decide to make use of the opt-in procedure envisaged in the AIFMD, META firmly believes that the scope of the EuVECA passport should be extended.

In this concern META underlines that, on the one hand it would seem to be disproportionate to require venture capital managers that aim at managing AIFs in the different EEA member states to comply with the strict AIFMD requirements in exchange of the AIFMD passport, and on the other hand smaller managers will be encountering a detrimental treatment as compared with the bigger ones, being compelled to bear high costs in case they decide to manage AIFs in another EEA member states, taking into consideration the differences in legislation and administrative requirements within the existing national regimes in the EEA.

Such extension should be undertaken not just widening the range of the EuVECA market participant to larger funds managers (that can already benefit from the managing and marketing AIFMD passport), but extending the scope of the EuVECA from a merely marketing to a Managing regime for the benefits of the subthreshold Managers.

In doing so, there will be an increasing number of Managers (especially sub threshold Managers) that will increasingly resort to the EuVECA voluntary regime for the marketing and managing of AIFs in different EEA member states without having to comply with 28 different national rules. For the abovementioned reasons, META calls for an extension of the scope of the EuVECA passport in order to create an harmonized regulatory framework for the Management and Marketing of AIFs by subthreshold managers of AIFs in the EEA. META firmly believes that such a measure will successfully contribute to redefine these financial market participants in the EEA legal infrastructure, to create a common and consistent interpretation across the EEA and increase the number of larger and smaller funds that will make use of the EuVECA Regulation.

For more information please contact:

Luca Pira
Tel: +32 221 730 86
l.pira@meta-group.com