THE VOICE OF
PRIVATE CAPITAL
VENTURE CAPITAL
PRIVATE EQUITY
INFRASTRUCTURE
LONG TERM INVESTORS

Executive Vice-President Margrethe Vestager
European Commission
Rue de la Loi, 200
1049 Brussels

20 March 2020

FOR URGENT CONSIDERATION & ACTION

Dear Executive Vice-President Vestager,

The European private equity and venture capital industry is, as many others, closely following the developments of the crisis that arose from the coronavirus outbreak.

All European companies, irrespective of their strength, will be hit hard. As the businesses our members are investing in are often at the very start or a turning point of their business cycle, they will be particularly sensitive to crises such as the one that is currently affecting us all. An immediate response is therefore required.

As such, we welcome and applaud the initiatives that have already been taken by the European Commission over the past few days to mitigate the inevitable and immediate impact the Covid-19 pandemic will have on SMEs and on larger companies across Member States and on the funds that support them.

Over the past few days, several Member States have taken **strong initiatives at national level** to protect their SMEs and start-ups and give them the necessary breath to operate under the difficult conditions ahead. This includes, among others, **measures on delaying administrative obligations, tax payments, including VAT, and, most importantly, measures to support employment**. These actions will be especially vital for businesses such as start-ups where cash flows are limited or negative.

Whilst acknowledging that some of these policies, in particular tax, are primarily national issues, we encourage the European Commission to take leadership, in line with the Treaties, in coordinating some of these proposals and to set clear **benchmarks and swiftly give recommendations for the most efficient practices** across Member States.

We find the actions recently taken to **adapt existing state aid rules to the present circumstances,** in order to allow Member States to take the necessary steps to assist companies that are currently suffering the most from the effects of the crisis very laudable and exemplary. The establishment of a State aid Temporary Framework is a key move to allow Member States to grant aid to these firms as they will likely face liquidity issues in the coming weeks and months. **These should also apply to companies backed by private equity and venture capital firms.**

At the same time, we invite the European Commission to approve the full use of the **built-in flexibility in the Stability and Growth Pact** and we support its decision to **reallocate some of the existing unused funds to support liquidity**. It is however important that the rules on which these funds will be allocated are clear and straightforward, in order for businesses to make the best use of these additional sources of funding.

While short-term efforts are understandably a necessary priority at this stage, **due consideration should continue to be given to the impact of the current efforts on the ultimate long-term recovery of the European economy**. With our experience in steering businesses with the perspective of long term investors, the venture capital and private equity industry in Europe is conscious of the fact, that even short term measures should be taken with due respect to long-term effects.

Many of the start-ups and scale-ups that will hopefully provide solutions in the coming weeks to the existing crisis, whether by increasing hospital efficiency or by developing means of communication that make it easier for business to operate in these conditions, would not have existed if it were not for the capital and active management of venture capital fund managers. And many of these managers would themselves not have been able to set up their funds without the commitments from EU public programs and the support of the EIF**. It is therefore crucial that this support continues over the next few months and that the seeds of the businesses of tomorrow, who are to deliver on a greener, technology based European economy, continue to be planted.**

We fully support the drastic measures taken and the priority given to ensure the viability of our hospitals and the safety of European citizens, but it will be paramount, for pan-European industries as the one we represent, that such measures, including in particular restrictions or bans on exports, **do not create distortions within the Single Market**. As a cross-border industry, which supports companies that often operate in more than one EU country, we have a vested interest in a functioning European economy recognizing that any barrier not directly health-related, should be avoided to the largest possible extent.

Private equity, venture capital and infrastructure funds invest in a wide array of businesses, some of which operating in sectors that will face harsher conditions than others. As an example we commend the foresight shown by the Commission in proposing changes to rules on airport slots and **we invite it to go through all regulatory areas with a similar approach – a new "better regulation" approach**, to seek out all rules laying obligations on market operators, which were implemented e.g. on the basis of promoting competition *under normal market conditions* and consider if these rules should be – temporarily - changed given the current *overpoweringly unnormal market conditions.*

Finally, we suggest **postponing the implementation of proposals that could make it harder for financial institutions to provide much needed liquidity to SMEs directly or indirectly**, such as the ones envisaged by the implementation of the Basel III standards. While the implementation date is later, because market investors anticipate the impact on banks as soon as the draft legislative proposal is disclosed, it will reduce the finance capacity of banks in the same proportion as the capital requirements increase that the EBA estimated in 24%. This is a serious concern in the current juncture as private equity is one of the most impacted portfolios by the Basel III reform.

Reversely, but with similar motivation, we **urge work on the Solvency II review to continue rapidly, so that the framework can better reflect insurers' long-term business model and remove the disincentives that limit their natural capacity and interest to invest in SMEs.**

In summary, we would like to recommend the European Commission to take the following actions **with the outmost urgency**:

- setting benchmarks and addressing recommendations to Member States to develop the most efficient practices to support businesses, particularly start-ups, over the short term
- ensuring full flexibility of existing state aid rules for companies backed by private equity and venture capital firms
- taking all necessary steps to provide liquidity and to stabilize markets, for example through the use of existing EU funds
- continuing to provide support to venture funds, and the companies they invest in, through the existing EU public programmes and the EIF
- taking into consideration the current situation before introducing new proposals, in particular those that could affect the financing of SMEs and reversely with the outmost haste promote those proposals, that could facilitate further investments in SMEs and start-ups.

The European private equity, venture capital and infrastructure investors association will of course remain at your disposal in the coming months and will stand ready to give you the data and the information you may require to take the actions that will help the European economy to allow businesses to survive this crisis and to recover swiftly.

Your sincerely,

Eric de Montgolfier
Invest Europe Chief Executive

A similar letter has parallelly been sent to Executive Vice President Valdis Dombrovskis and Commissioners Thierry Breton and Paolo Gentiloni