European Parliament ECON Public Hearing on EU Social Entrepreneurship Funds and EU Venture Capital Funds

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Good afternoon, ladies and gentlemen many thanks for giving me the opportunity to present my views and to answer the questions you might have on whether the Commission's proposal for a regulation on European Venture Capital Funds is appropriate and sufficient to boost the European Venture Capital industry and thus to enhance SME's access to equity finance, and how the proposed regime will be implemented in practice.

I will base my short comments on my over 26 years of experience in the European Venture Capital Industry, during which period I was the chairman of EVCA (1989-1990) and was involved in the creation of Easdaq a pan-European stock exchange for growth companies. Over the past five years we at Capricorn Venture Partners raised over € 150 million for investing in early stage cleantech and health-tech companies from investors in Belgium, the Netherlands, Finland and Luxembourg (EIF) and invested in 18 European SME's in 9 European countries.

Following the damaging inclusion of venture capital in the AFIMD, I appreciate that the European Commission has recognized the need for a specific regime for venture capital, more in line with the size of venture capital funds, the lack of systemic risks represented by them, their economic importance for the financing of innovative growth SME's and their role in harvesting the fruits in terms of job creation and growth, of Europe's significant investments in research and development. Therefore any initiative that might result in more venture capital becoming available deserves our support and should be applauded.

However I believe that the European Venture Capital Industry is facing challenges today that are unlikely to be solved by a new regulatory regime; we are in an existential crisis. Latest figures released by EVCA last week in Geneva show that in 2011 a total amount of € 4.1 billion was raised by European VC's . This is around two thirds of the amount raised twenty years ago, in 1989-1990 when I was chairman of EVCA. A few years ago an MIT student who was doing a Summer Internship for me concluded that Europe is starving its start-up companies. But these companies are crucial for our future growth and prosperity and have to compete in global markets, with insufficient resources.

In addition to this decline and equally worrying is the fact that last year 39 percent of this financing came from government agencies, coming from 16 % three years ago. Recent regulatory initiatives in Europe such as Solvency II and Basel III made investments by respectively insurance companies and banks prohibitive expensive with respect to capital requirements. For example for an investment in a venture capital fund that will spread its investments over 10 to 20 underlying companies an insurance company needs to put nearly 50 % of the capital aside as regulatory capital, for an investment in government bonds the capital requirement is nihil. The Bank of International Settlements envisages that Solvency II rules will shift investment from companies and long-term capital projects to fixed income products such as bonds. As a result the systemic risks in the financial markets will increase rather than decrease.

At present there is a risk that the same capital requirements will be applied to pension funds in the discussion around the Institutes for Occupational Retirement Provision (IORP) Directive. When implemented it will result in yet another category of investors being regulated away from investing in venture capital funds.

My conclusion is that the Commission's proposal for a regulation on European Venture Capital Funds might be an interesting concept but it is highly unlikely to be sufficient to give the necessary boost to the European Venture Capital industry. There are a number of recently adopted regulations and regulations presently under discussion that have a clear and direct negative impact on our industry and that deserve your full attention in trying to achieve your objective to enhance SME's access to equity finance in Europe.

With respect to the question if the proposed regulation is appropriate I have to save my judgment on the detailed implementation of this regime. I would like to stress the importance of keeping the burden of the European Venture Capital Funds Regime as light as possible. For example, the European Commission, by not including a depositary requirement in its initial proposal, recognises the importance of protecting Europe's venture capital firms from rules designed for financial market traders, my understanding is that this Committee wants to re-introduce this requirement. Innovative SME's need also debt financing in addition to equity capital. Most companies in the renewable energy and the green chemistry area will have to prove that their new technologies work at pilot scale. These investments in hard assets are difficult to justify with equity alone.

In my opinion it is vital that a right balance is achieved in terms of the scope and burden of the European Venture Capital Funds Regime. If the scope is too narrow, no venture capital player will be able to make use of the passport, and the objective of facilitating access to finance for SMEs would not be fulfilled. If the burden is too high for Venture Capital fund managers, there will be no advantage in using the European Venture Capital Funds Regime label. And if nothing is done about the impact of regulations such as Solvency II, Basel III and IORP on the inflow of capital in our asset class the list of European Venture Capital Funds under the new regime will become a list of endangered species.

Thank you for your kind attention and always available to answer any questions you might have.

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