AIFI

Associazione Italiana del Private Equity,
Venture Capital e Private Debt

Response to EU Commission Consultation on building a proportionate regulatory environment to support SME listing

AIFI appreciates the opportunity to provide its opinion about the EU Public Consultation on facilitating the access to finance for SMEs and improving the path towards listing process, one of the key goals of the Capital Markets Union.

AIFI, given its institutional mission of representing private equity, venture capital and private debt players, recognizes the need to develop pre-IPO role of investment funds, which would result in a better and more structured process towards SME listing. On the contrary, listing costs and burden requirements are often perceived as impeding factors.

At the moment, according to Invest Europe figures, IPOs represent only about 10% of the total number of PE and VC divestments in the European context. Moreover, IPO exit rule is mostly used by private equity firms for the larger companies they own.

In this regard, we believe that the number of PE and VC players positively contribute to the number and quality of the SMEs willing to access public markets. In fact, the presence of VC or PE investors represent a 'certification' in terms of transparency, structured corporate governance, process efficiency and management of conflict of interests. In other words, we could state that investment funds could be seen as a bridge towards IPOs rather as a competitor of public markets in relation to financing sources, since they focus on different target companies (in terms of size, growing objectives, etc…).

Moreover, the revision of EuVECA Regulation recently approved by the EU co-legislators and the introduction of ELTIF (European Long-Term Investment Funds) represent a step in the right direction, improving the diversification and the growth of investor base for SME shares.

Finally, within the European context, there is the need to increase the proportionality of the provisions set forth by the Market Abuse Regulation (MAR) and the MIFID II. In fact, the requirements imposed represent a significant burden, especially for small and medium market players and may represent a relevant obstacle in undertaking their activity.

In light of the abovementioned elements, the European institutions should also strengthen SMEs Growth Market by allowing more companies to benefit from it.

From a different point of view, the lack of financial education for SMEs could have a negative impact on the listing decision. Moreover, it would make difficult approaching more diversified and sophisticated sources of financing such as Private Equity, Venture Capital and Private Debt players.

Focusing on the Italian context, we point out that in the period 2000-2015, PE and VC backed companies represented 24% of the total number of IPOs. In the same period, 62 companies have been accompanied to listing by PE and VC players. In 2015, 14% of listed companies were private equity backed, for a capitalization equal to 6% of the Italian stock exchange. Furthermore, similar to Invest Europe statistics, IPOs represent only about 10% of the total number of divestments. These are significant numbers but still not adequate in comparison to the potentiality of our market and to the need of SMEs financing.

In particular, the following elements of the Italian public market should be taken into consideration.

Last year, the Italian government showed great attention to SME listing by introducing, through the 2018 Budget Law, a tax credit on 50% of the advisory costs SMEs bear when starting their listing process. In fact, listing and advisory costs are often perceived as higher than the achievable advantages of the process. In particular, this distorted perception stems from the fact that currently there is no informative scheme pointing out all costs. In this regard, in the following months we will verify whether this measure will be able to facilitate IPOs or not.

Over the last years, Italian institutions have launched several programs (among others, we recall "Finanza per la crescita" and "Industria 4.0") in order to improve and increase financing sources for SMEs. In this perspective, last year the government also introduced PIR (Individual Saving Schemes), a fiscal instrument to channel retail resources towards SMEs. The introduction of PIR seems to have a positive impact in terms of increasing liquidity, number of specialized investors and number of institutional investors in the Italian mid/small cap. However, within the context of PIR, in the next phase of development it would be necessary to favour a stronger focus on the unlisted sector, also through the activity of specialized funds, in order to sustain a balanced growth that could lead more easily to access SME-dedicated markets.

In this renovated context, the lack of financial education of Italian SMEs is still a major issue. SMEs are reluctant to undertake listing processes since they do not know the dynamics of the stock market. In order to fill the gap, it would be necessary, through institutional initiatives, to make SMEs aware of the potential advantages of the public market.

Finally, in the past we experienced also a 'fast track' for SMEs in order to facilitate access to IPOs participated by PE and VCs. The simplification and the standardization process of the IPOs model as well as of the listing requirements had a positive effect in our market.

From our experience, we believe that some steps could be taken into consideration in order to facilitate SME listing both on European and Italian level. In particular, there is the need to:

- incentivise a more proportional regime in the listing costs;
- provide a complete and detailed information set illustrating listing costs, as well as taking action on the regulatory system, introducing new agreements, realizing new formats and developing advisory joint-venture projects;
- promote a EU financial education programme for SMEs.

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