LISTING ACT AND DEBRA: PROSPECTS FOR EQUITY MARKETS

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Towards a more equity-based Europe – DEBRA and beyond

It is difficult not to sound repetitive when discussing European capital markets. Alas, because the core issue remains the same, it falls upon me to start off with a familiar dictum: Europe is punching below its weight when it comes to market-based financing.

This is particularly relevant when it comes to equity, and becomes most evident when comparing Europe to other regions. Consider for example the fact that while US GDP is about a third larger than the EU's, the total market capitalisation of its listed non-financial companies is nearly four times larger. Further, when looking at the top 10 jurisdictions globally by number of non-financial IPOs in the last decade, only one EU country is featured (Sweden). Several emerging Asian economies rank ahead of most advanced EU countries. In every year between 2008 and 2020, the number of delistings from regulated exchanges in the EU exceeded the number of new listings, resulting in a shrinking pool of publicly listed companies. Although 2021 saw an upswing in the number of IPOs, this seems unlikely to constitute a break with the longer-term trend.

The relative lack of capital market dynamism in Europe in general, and for equity in particular, is likely restricting its economic growth more broadly. Behind these seemingly abstract statistics are innovative companies, not least SMEs, that do not have the same access to risk-willing, long-term capital as their counterparts in other markets. That limits innovation, job creation and economic growth. Perhaps most notably, higher shares of equity financing are associated with lower per capita carbon emissions, making the general bias for debt over equity particularly costly. In the EU, the aggregate ratio of equity to financial debt for non-financial companies is about half of that in the US.

DEBRA is no silver bullet – but a bullet no less, and one that should be used.

The European Commission's DEBRA proposal to remove the institutionalised debt-equity bias by putting the two types of financing on equal footing from a tax perspective is therefore encouraging. It may be especially important in the current macroeconomic environment, with rising inflation and rapidly tightening monetary conditions. As interest rates increase, so does the intensity of the debt-equity bias. That is because, in absolute terms, the debt tax shield grows with increases in interest costs.

It bears mentioning that DEBRA is not an entirely new concept. A handful of European countries have already implemented similar Allowance for Corporate Equity measures. Italy, for example, has a long experience with this.

However, we should not settle there. There is also a broader, but less concrete, challenge of changing a deep-rooted habit and culture of using a financing mix that is not as equity-based as it could be. Removing the debt-equity bias will be a tool in changing that, but we must also recognise that creating more dynamic, equity-based capital markets is a broader undertaking. In short, DEBRA is no silver bullet – but a bullet no less, and one that should be used.

In addition to their exacerbating effect on the debt-equity bias, current macroeconomic conditions also make a more equity-based economy an increasingly important ambition from a resilience perspective. In economic crisis times, bank lending tends to contract, in turn further slowing down economic activity. Market-based financing can often offer more flexibility. This was evident during the COVID-19 crisis, when already listed companies were able to tap equity markets for record amounts of new financing. The same dynamics played out in corporate bond markets. In addition to broadening corporate access to capital, then, more market-based financing can also contribute to economic and financial resilience. Lacking such resilience can be damaging, as Europe's post-2008 and subsequent euro crisis experience shows, when the share of non-performing loans and non-viable "zombie" firms remained elevated for years.

The EU's upcoming Listing Act provides an opportunity to realise the ambition of ensuring that companies have access to finance in all weathers. It can help facilitate public listing, without compromising on minimum disclosure requirements. When developing policies to that end, the main obstacles companies currently face should be kept in mind. Previous OECD research, for example, shows that complex regulation, high corporate governance and compliance costs, as well as low market liquidity are key deterrents keeping companies from going public. SMEs should be at the centre of this endeavour, given that they make up 99% of all European companies and account for more than half of GDP. The DEBRA proposal recognises this by offering SMEs a higher risk premium on the notional interest rate that forms the basis for equity-based tax deductions.

These efforts are welcome, and, if properly implemented, should help develop European capital markets, to the benefit of its companies, households, and economy more broadly. Perhaps it will even allow me to start my next article on a less repetitive note.

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Attractiveness? Yes, but not at all costs!

SMEs represent the backbone of the European economy and 99% of the number of non-financial companies in the euro area.

Yet, European SMEs heavily rely on bank financing. Insufficient own funds remains an obstacle to investment for 28% of SMEs[1]. Though the reasons why SME favour bank financing are numerous, this can hamper their development and be a source of financial fragility, especially in a context of slowing activity.

In particular, in a less buoyant macro-financial context, the overall attractiveness of equity markets has lately diminished. IPO activity slowed from end-2021 into the first months of 2022 in the EU as well as in the US. The amounts raised over the first five months of 2022 in Europe did not exceed €3bn, ten times less than over the same period in 2021, and the number of deals felt by two-thirds[2].

Against this background, one key question we should reflect upon is how to spur SMEs to seek listing on public markets?

SMEs stand out as a centrepiece of the Capital Markets Union. The recent "New European Innovation Agenda" recalls that the Commission is still determined to keep on with its priority to enhance the financing of European entities, including through the envisaged simplification of the listing process. This is of course excellent news, considering the above-mentioned challenges as well as EU global competitiveness stakes associated.

But this does not mean that it is time for a regulatory overhaul. Firstly, the reasons for the comparatively limited attractiveness of the European market are numerous. The regulatory constraints associated with the listing process are only one part of the story, together with several more structural issues e.g. EU investors' relative risk aversion, to name only one example.

Beyond listing, EU regulation should avoid introducing new requirements only for listed entities.

Secondly, the European regulatory framework is sound and robust, and provides with tools that allow agility and reactivity. In the prospectus field, the Universal Registration Document (URD has already proven its worth in France, with around 300 issuers (including SMEs) using a shelf-registration scheme every year. The URD bundles together the annual financial report and the registration document into a single medium, to which a securities note and a summary may subsequently be added to form a prospectus. An important feature that needs also to be preserved within the Prospectus Regulation lies with the flexibility left regarding the optional formats of prospectuses: a one-size-fits-all approach (regarding lengths, formats, etc.) would be counterproductive considering the complexity of the ecosystem with a wide variety of companies, securities and circumstances involved in offerings.

Finally, although current regulations entail costs and administrative burden, re-establishing the symmetry of information between investors and an issuer, conveying robust and non-scattered information, and ensuring market integrity are necessary components of the attractiveness of the markets. Both the Prospectus Regulation and the Market Abuse Regulation have slowly developed well-understood and beneficial toolkits. Alleviation of regulatory constraints should not compromise investor protection and market integrity, nor spark off legal uncertainty.

Nevertheless, some targeted adjustments would facilitate SMEs' access to capital markets, without weakening the framework for market integrity and investor confidence. A good example would be a focused amendment to the Prospectus regulation through setting a minimum period offer of 3 working days instead of the current 6-days minimum period between the publication of the prospectus and the end of an offer. This would ease the fundraising process, reduce execution risks, for all primary offers to the public made by issuers, including SMEs, on regulated markets.

Incidentally, beyond the listing process, EU regulation should avoid introducing additional reporting requirements only for listed entities. The difference in treatment between listed and non-listed companies may indeed serve as a disincentive for companies to go listed, and therefore undermine the attractiveness of capital markets.

[1] Source : BPI France, « 75ème enquête de conjoncture semestrielle auprès des PME », July 2022 https://lelab.bpifrance.fr/get_pdf/2945/analyse_nationale_75_def.pdf

[2] Source AMF 2022 Markets and Risk Outlook | AMF (amf-france.org) https://www.amf-france.org/en/news-publications/publications/reports-research-and-analysis/2022-markets-and-risk-outlook

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Trends in Baltic capital markets

What are the current trends in the Baltic countries in terms of equity funding and IPOs?

During the last turbulent years any trend is obviously difficult to call. But in terms of growth of market-based capital raising the Baltic markets have been relatively active. While lead by some bigger IPO-s also the activity of medium sized companies has been notable. And not just for IPO-s on stock exchanges, but also in broader market context, including crowdfunding platforms.

True, starting point was not very high and there is room to reach satisfactory market financing level. But while Estonian startups raised EUR 464 mln in 2020, that number doubled last year. And the figure of the last year had already been surpassed in the first four months of 2022.

The growth has been visible also in the number of companies raising finance on trading venues. In 2021, there were 8 IPO's in Estonia and 2 more in Latvia, in contrast there had been on average 1 IPO per country in the previous years. There are similar positive developments in the bond market with 5 new bond issuers in both Latvia and Lithuania, and 3 new issuers in Estonia. However, this year with global turbulences can be assumed to e more problematic.

On the investor side fair amount of this growth has been matched by the increase in local retail investor base. That has been supported by progress in lowering investment fees and other costs. Eg in Estonia the share of households having investment portfolio outside the pension system has more than doubled in five years.

Is there a major equity funding gap and if so which companies does it concern most?

Based on macro level indicators the economy remains somewhat overfinanced by debt. However, in Estonia one should note that the company taxation system that is based on taxing profits only after distribution of dividends has helped capital accumulation on equity side. This has been probably most helpful for growing medium sized companies. As internal equity capital accumulation has this way been boosted it might have tilted companies' attention for additional financing towards debt, that is still mostly from the banking sector.

When assessed by more micro research, some public funding gap, both equity and debt, has been reported particularly inside smaller enterprise sector. At the same time, according to Fintech report 2021, Estonian fintech companies considered the access to finance only the seventh current most pressing problem for them, the bigger issues being finding customers, regulation, availability of skilled staff, expansion to foreign markets.

The priority of listing initiative should be to alleviate the regulatory and cost burden.

What are the main obstacles to SME company listing in the Baltic region and what should be the priorities for the upcoming Listing Act?

Main reported obstacles concern the regulatory burden and other costs that come with listing. And that includes both main and alternative exchanges and even after recent lowering of costs observed. This concern is not surprising when one notes in parallel more cost-effective alternatives to raise capital that some fintechs have introduced.

Thus, the priority of listing initiative should be to alleviate the regulatory and cost burden in parts where possible without significantly reducing the investor protection. For example, it should find ways to further the information already published elsewhere, take advantage of digital innovation and support availability of investment research.

Obviously, there are costs and constraints on listing beyond Euroepan regulation and listing initiative can't solve them. For example, there is regional consideration in the Baltics to further streamline the small prospectuses template. And the fact that Baltics tend to be still outside the major indexes tends to limit visibility.

How significant an obstacle to equity issuance is the debt-equity tax bias and does the DEBRA proposal put forward an appropriate solution?

DEBRA is a tricky issue. It is clear on the one hand that in general conceptual level the removal of debt-equity tax bias could be classified as a lower hanging fruit to pick if one wants to support both relative importance of equity finance in economy and also directly lower the overall cost of equity finance.

However, on the other hand, the extent to which this unequal tax treatment influences real life decisions on capital allocation and is reflected in the implicit relative cost of own capital is not very clear. This is the case particularly among smaller and medium sized enterprises. In addition, in the context of our corporate taxation system there is a feeling that this bias is somewhat smaller than under traditional corporate taxation regime and therefore the extra cost for equity finance could be rather low.

If at the same time proposed changes are themselves introducing new complexities and therefore potential costs into the corporate taxation system, then overall net beneficial effect for equity capital raising could be quite low or even negligible. At least in our system. The problem needs therefore further research.

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The InvestEU IPO Initiative

Public equity markets offer businesses access to potentially deep pools of equity capital, which are particularly useful to high growth companies when scaling up. A listing brings a business many advantages including attracting talent, raising brand profile and financing acquisitions. A well-functioning IPO market is an integral part of a healthy funding ecosystem and liquid public markets underpin the provision of core financial services such as pensions and insurance. A strong public equity market can also help attract foreign investment.

When comparing IPO volumes in Europe, the US and Asia, Europe is lagging behind. Beyond the, hopefully, temporary trend like the Ukraine war and the rising inflation which led recently to a dramatic drop in IPO volumes globally, weak public equity markets are a contributing factor to the departure of some of Europe's largest scale ups from the EU. In addition, Venture Capital ("VC") fund managers' perception is that the European exit environment is deteriorating and they identify the exit environment as one of the biggest challenges facing European VC funds i.e. a weak IPO market can create a feedback loop affecting investor confidence around earlier stage investments.

EIF has been supporting the EU's private equity and venture capital markets for nearly 25 years. A few years ago, following enquiries from managers launching funds with "cross-over" strategies and subsequently given discussions with the EC, EIF started to explore how it could potentially support the EU's IPO ecosystem. In order to properly understand the market need, and what form a solution should take, EIF has consulted various stakeholders across the EU including stock exchanges, listing advisors, investment banks, investors and listed companies. Based on EIF's analysis, there is a need for public intervention to promote investor interest in (newly listed) public companies.

EIF's analysis indicates four key issues facing businesses when attempting to list:

1. Readiness of SMEs

- The journey from a private company to public market company requires fundamental business changes to meet the additional standards required of a public company e.g. financial reporting and corporate governance. This transition has a financial cost and consumes considerable management time.
- Many companies list prematurely, causing problems post IPO particularly when returning for secondary issuances to finance further growth plans.

2. Information asymmetry

- Information asymmetry is exacerbated as c. 30% of all companies listed on SME-focused stock exchanges include a technological component and often operate in the ICT, clean tech or life sciences sectors. The low level of technology listings stems from the information asymmetries and lack of investor sophistication in analysing young technology companies.

3. Investor base

- High growth companies often require significant capital when scaling up and need an institutional investor base that can anchor and fund both primary and secondary issuance (follow-on investments).
- The investment hypothesis for certain sectors, such as in life sciences, requires a strong technological understanding. The commitment from a credible institutional investor can therefore have a very strong signalling effect in the market.

4. Liquidity

- The lack of liquidity in shares of smaller listed companies is one of the major issues with listed investments in SMEs and midcaps. SME equity markets typically have about 30% of the liquidity of main markets (measured by volume of shares traded relative to total free float).
- Most small listed companies are not are not included in any indices and therefore miss out from substantial liquidity coming from passive investment strategies such as exchange traded funds.
- 95% of the liquidity of a small equity market is concentrated in 5% of the companies.

5. Cost

- Listing costs contain an element of fixed costs but are negatively correlated to the size of the IPO. For example, the listing costs represent c. 10% for an IPO of c. EUR10m, however only represent c. 5% of an IPO of c. EUR100m.
- For similar reasons, the costs of regulatory compliance are relatively higher for smaller businesses. Additionally, the (fixed) penalties for regulatory breaches are disproportionately high for smaller companies.

The EU's overall public market ecosystem would benefit from specialist financial intermediaries with investment strategies targeting pre-IPO and/or public equity market investments. Such financial intermediaries can substantially support IPO fundraisings by acting as an "anchor investor" to take a material allocation of the shares issued, providing a strong signalling effect, and reducing information asymmetries. An anchor investor can be particularly beneficial where the investment hypothesis includes technology components or life science companies requiring a strong domain knowledge. In addition, such investors can play a positive role assisting companies with the transition from a private company to public company e.g. financial reporting standards, corporate governance and shareholder communication.

Given the evidenced market failure and in order to support EU enterprises access to public equity markets, EIF will implement a new initiative under the InvestEU Fund (the "InvestEU IPO Initiative").

The InvestEU IPO Initiative will seek to strengthen the EU's public market ecosystem by supporting investment funds targeting pre-IPO and/or public equity market investments in European SMEs and Mid-Caps, active at national level and/or cross-border, as described further below. The ultimate general policy goal of the Invest EU IPO Initiative is to support companies considering a public listing and listings of companies on EU trading venues . IPO Equity Intermediaries (as later defined) are positioned to support IPO fundraisings by acting as an "anchor investor", providing a strong signalling effect, and reducing information asymmetries thus unlocking additional private capital for IPO support investment strategies. An anchor investor can be particularly beneficial where the investment hypothesis includes technology components requiring a strong domain knowledge. In addition, such financial intermediaries can play a positive role assisting companies with the transition from a private company to public company e.g. financial reporting standards, corporate governance and shareholder communication. To pursue the IPO support policy objective, IPO Equity Intermediaries shall follow predominantly a "buy and hold" strategy and shall not engage in speculative short-term resale strategies, as further set out in the relevant Term Sheet.

The InvestEU IPO Initiative will be implemented on a demand driven basis. Equity Intermediaries will be identified and reported as IPO Equity Intermediaries where executing an investment strategy supporting IPO activity.

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DEBRA - Reducing the tax debt bias in EU corporate taxation

The green and digital transition of the EU economy can only be achieved with the help of substantial private sector investment in innovation and in cutting-edge technologies. But for European companies – big and small - to compete and lead globally, and in order to help them play a key role in international supply chains, we need to see a significant U-turn in how those activities are financed. Traditional debt continues to be the main source of external finance for European enterprises, while alternative market-based resources such as equity play a relatively minor role compared to the US and other regions. The EU's tax system as it currently stands reinforces and perpetuates this trend. It's increasingly clear that businesses need better access to financing, including equity funding, if we are to achieve our common goals.

The EU´s long-term tax agenda for a fair and sustainable business environment sets out targeted measures intended to unleash productive investment and entrepreneurship. In that vein, the Debt Equity Bias Reduction Allowance (DEBRA) initiative, proposed by the European Commission in May 2022, puts forward an important and comprehensive solution to addressing financing issues across the Single Market. DEBRA also complements efforts to complete the EU's Capital Market Union.

Indeed, the difference between the cost of capital for debt and equity – i.e. the debt-equity bias – is stark, standing on average at 1.8 percentage points in 2021, and ranging between 0.1 and 3.1 across Member States. Research suggests an impact coefficient of the corporate income tax (CIT) rate on the debt-asset ratio of about 0.27. This means that for the weighted average CIT rate in the EU (26%), the debt-equity bias is responsible for a 7 percentage-point higher debt-to-equity ratio on average. All considered, companies should be able to make the trade-off between debt and equity without tax rules influencing those business decisions. This would provide a much better basis for businesses to take on the risky investments in vital break-through technologies we need in the coming decade.

Six EU Member States – Belgium, Cyprus, Italy, Malta, Poland and Hungary - have already attempted to address the debt-equity bias with positive results. While the measures differ in policy design, all provide for a tax allowance on equity.

An EU solution to the tax debt-equity bias to give businesses better access to equity financing.

Under DEBRA, a notional interest rate allowance would be granted on new equity for a period of 10 years and would be based on the year-to-year increase of equity. The time dimension of the allowance approximates the average maturity of debt, striking the balance between limiting the fiscal costs of the allowance and providing some planning horizon and stability for investors.

The equity allowance would be calculated with a notional interest rate based on the currency-specific European Insurance and Occupational Pensions Authority (EIOPA) risk-free-rate, plus a risk premium of 1% and 1.5% for SMEs. This top-up in the risk premium approximates the EU average in differences of financing costs between SMEs and larger firms, as observed in Member States. On the debt side, the deductibility of net interest payments (interest paid less interest received) would be limited to 85%. The DEBRA proposal seeks to mitigate the tax debt equity bias while at the same time limiting the budgetary impact for Member States. This is achieved by combining a tax allowance on new equity with a limitation of the deductibility of interest expenses.

The review of existing notional interest deduction regimes by the EU's Code of Conduct peer review group clearly shows the importance of a comprehensive and robust anti-abuse framework. In particular, anti-abuse rules should target, amongst others, cascading of allowances through equity, using a mix of intra-group loans and participations, and re-categorisation of old into new equity. The DEBRA proposal provides a robust and complete anti-abuse framework to avoid such unintended use of the allowance.

DEBRA would apply to all non-financial companies, the financial sector having been carved-out since it is already subject to regulatory requirements that prevent under-equitisation. In any case, many financial firms are unlikely to be affected by the countervailing interest limitation deduction applicable to exceeding borrowing costs. Therefore, should the financial sector be included in the scope, the economic burden of the measures would be unequally distributed at the expense of the non-financial sector.

While discussions have just begun, EU Member States seem supportive of the objectives of the initiative. If adopted, DEBRA could lead to higher equitisation levels, making companies and the whole economy more resilient. It would discourage debt accumulation and reduce the risk of sudden surges in corporate non-performing loans during severe economic downturns.

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The challenge of building effective and deep financial markets in the EU

The EU will face in the coming decade huge financing needs in order to both develop a sovereign Tech sector and address the needs of the energy transition. Equity will be needed in a large proportion due to the risk and duration of these investment needs. In that context, efficient, sustainable and competitive capital markets are essential to help EU companies to access wider sources of financing without resorting to US capital markets or investors.

Implementing the Capital Markets Union or rather a unified capital market without boundaries, including through the Listing Act initiative, should be an imperative objective of the European Commission. It is all the more imperative after Brexit as large pools of money directed at equity in EU companies are of UK origin and since the London City is implementing reforms to ensure its long-term attractiveness.

Significant progress has already been made in terms of providing a more harmonized capital markets. However, despite the long-standing stated goal of developing a Capital Market Union, EU Capital Markets – especially in equity - remain underdeveloped when compared with the US markets. While EU savings are large and could – if effectively allocated – provide a large portion of the financing needs, they are still too much directed towards short-term instruments / bank deposits and debt products.

Main obstacles to SME company listing in the EU

The level of investments in the capital of SMEs remains low in the EU mainly due to a lack of liquidity and incentives to do so (legal and tax). The EU market has to develop a more mature and deeper investor base for IPOs. In particular, cornerstone and anchor investors are necessary to reduce execution risk. Ensuring insurance companies can invest more in equity would be a key measure. We should also make the retail distribution channels more efficient, and encourage pension and insurance holdings by individuals to remove some restrictions on pension managers and insurers investing in equity markets.

Public markets for SMEs need to be supported by a healthy ecosystem including investment research. Indeed, equity research is of particular importance as it is a component of the decision-making process for investors. However, the unbundling introduced by MiFID II has had a clear negative impact on the amount and quality of equity research published and notably on SMEs. Independent research and issuer-sponsored research are useful and the privileged way to go.

Efficient capital markets are essential develop deeper equity financings for corporates in the EU.

In addition, we do not have enough specialized investment funds towards SMEs. If there were some incentives to direct AM funds towards SMEs, asset managers would have more scale to invest in this segment.

Another deterrent for corporates of all sizes of going public is the imbalance in terms of disclosure between public and private companies. Legislation should aim at reducing this imbalance by providing a level playing field in terms of disclosure notably on management compensation.

Priorities for the upcoming Listing Act

We still encounter a substantial diversity of local interpretation of regulation and of market practices, mainly due to the differing views of local regulators and market participants. The Listing Act initiative is highly timely and necessary to facilitate and simplify listing on equity markets in the EU.

International investors expect a well-established series of market practices and are used to the high standards they witness in other markets. EU regulation must therefore be consistent with regulatory practices applied in the US and the UK in order to offer an attractive and competitive European market. We therefore cannot make compromise on the quality and rigor of public disclosure.

To remain a competitive market amongst the increasing number of prospective issuers desiring dual class of shares, such structures should be permitted or reviewed to determine the best EU approach.

We also recommend retaining a favorable environment for SPACs in the EU in a context of strong competition of US SPACs. SPAC is an innovative vehicle that allows private equity and public markets to work together. When benefitting from a high quality structure allowing for a proper alignment of interests, SPAC is a way to list a company of a certain size on the stock exchange that complements the traditional IPO process and establishes a potentially fruitful link with private equity.

Another item for discussion around the Listing Act is whether we should not build a path towards a single Regulator for a unified capital market namely ESMA to be empowered with similar powers as the US SEC or the ECB in the field of banking?

Finally, the objective of achieving an effective CMU cannot be reached without an initiative aiming at really harmonizing, national corporate law, corporate taxation and bankruptcy regimes. There have been a lot of progress in these fields but there are still substantial differences, which may cause international investors to still regard the EU as a fragmented market.

GERBEN EVERTS

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Retail flow will be decisive for market dynamics in SME markets: attract them!

European Investors-VEB, by its nature, approaches these topics predominantly through the lens of investors, predominantly retail. Europe needs to remain attractive for existing and new investors. Developing capital markets is key, were Europe to develop a sustainable strong economy, with attractive jobs, a solid retirement provision and financial support for carbon-neutrality. Recent research shows that small, active investors have the largest influence on market dynamics, asset valuation and growth in SME markets. Larger investors tend to calibrate their portfolios pro-rata throughout market segments and are incentivized to replicate relevant global indices. Conservatism and herding behavior would lower execution costs, but also stifle innovation.

The issue of strengthening SME markets in Europe invariably stands to gain from considerations within the larger context of the EU Capital Markets Union. On paper, the urgency to boost the development of an equity culture in Europe hardly needs further illustration. In the EU, market-based financing of SMEs is underdeveloped. SMEs overly rely on bank financing. The scales of the balance require calibration, such that the share of equity financing gains appreciable weight. For innovation on the ground, an attractive SME markets for retail investors is a prerequisite. Currently, smaller investors tend to be left out at promising corporate events in those markets. They are excluded from preemptive rights and private placements of shares. These phenomena do not contribute to boost the demand of private investments and innovation which is needed.

However, the need and urgency for a retail equity culture may not be seen in isolation. It's a means and not a goal. The need for an equity culture arises since retail investors increasingly depend on their own financial resources and planning for providing their future retirement and asset growth. In sync, we recognize the important requirement for SMEs to tap additional sources to finance their businesses. Shaping an equity culture heavily depends on investor confidence, presuming a sentiment among investors that they are adequately protected throughout the EU. Investor protection should be bolstered by actual and powerful pan-EU means for obtaining collective redress when companies and boards willingly misbehave. Collective redress should be accessible throughout all Member States without suboptimal red tape being introduced at local level. Only then, pan-EU investment opportunities are as attractive and safe as pure local candidates. Retail investors are more vulnerable and dependent on agreed upon investment protection. They cannot be expected to be able to effectuate their rights fragmented, in jurisdictions they are not familiar with.

Only with adequate pan-EU investor protection, a true pan-EU equity market will follow.

The imbalance between bank financing and equity financing is not helped by the debt equity bias in tax deductions. The prevailing debt-equity bias serves to perpetuate overreliance on bank financing, and hence, upholds the leverage involved in borrowings. The debt-equity bias penalizes the financing of innovation through equity. Thus, tax stimulation measures clearly are a double-edged sword. We advocate either dampening the tax stimulation of borrowing, or, alternatively, counterbalancing such existing stimulation with equivalent stimulation of tapping equity financing. Hence, we support the fundamental thinking behind the DEBRA proposal. In this perspective, it is equally relevant to consider the competitive advantages which private equity financiers gain by having recourse to financial engineering. Here too, in the full awareness that PEs are capable of cherry-picking, advocates tax stimulating measures promoting IPO's of SMEs.

Such re-establishment of a level-playing-field is not helped by the introduction of special voting rights and loyalty shares. It is not to the legislature to take initiatives for the advancement of long-term shareholding. 'Loyalty' may sound fair, but rewards controlling shareholders to the detriment of minority shareholders. It implies a disloyalty to the market, market functioning and essential protection for minority shareholders. True loyal and engaged shareholders tend to switch between different shareholder-bases of individual companies based on developments in market valuation versus their own valuation and risk metrics. Were any party (or parties acting in concert) benefit from special voting rights nevertheless, their total voting rights should never exceed the threshold to launch a bid included in the EU mandatory bid rule. The same should be required in the context of the free-float regime and in re-assessing grandfathering provisions in existing legislation. The level-playing-field is also not helped if the scope for relaxation of the MAR regime would be considered. Only with adequate pan-EU investor protection, a true pan-EU equity market will follow.