

Targeted consultation on private equity exits

Response Deutsche Börse Group

Part I: Challenges for private equity exits and attracting private equity investors in the EU

Question 1: Are there any significant regulatory and/or non-regulatory barriers that hinder private companies from accessing the capital they need to grow, including barriers that hinder investors from financing private companies?

- Yes, domestic barriers (i.e. accessing the capital in the same Member State where the company is located)
- Yes, cross-border barriers (i.e. accessing the capital in a Member State other than the Member State where the company is located)

What are those domestic barriers? Please explain your answer to question 1:

Please refer to our response on cross-border barriers below.

What are those cross-border barriers? Please explain your answer to question 1:

Both national and cross-border barriers – regulatory and non-regulatory – hinder private companies' access to the capital required for their growth and limit the ability of investors to provide the financial means that is critically needed. Public markets continue to play an important role in accessing capital and represent a significant exit route for private equity investors. However, this road has lost importance, indicated by the decline in IPOs. A primary challenge stems from regulatory fragmentation and the inconsistent implementation of EU regulation across member states. These cross-border inconsistencies create considerable friction. Complex disclosure and compliance requirements pose a burden for listed companies and deter scaleups from going public. Furthermore, divergent national legal frameworks, particularly in areas such as insolvency and tax regimes, introduce additional complexity and uncertainty. Collectively, these regulatory hurdles increase the cost of capital and ultimately weaken the attractiveness and competitiveness of EU markets. Beyond the regulatory landscape, several structural issues further constrain financing opportunities. Pervasive challenges such as low market liquidity and limited participation from retail investors reduce the dynamism of the market. A notable deficiency is the absence of a seamless transition or "bridge" for companies moving from private to public ownership. This structural gap significantly hinders scaleups in their preparation for an IPO and restricts the overall flow of capital into promising, high-growth companies.

Furthermore, investors in private equity products, especially those interested in scaleups, are not adequately equipped to do proper risk management on the larger positions that come hand in hand with larger capitalized companies. Professional investors that take on larger positions require precise hedging to fulfill their fiduciary duty to their investors. In public markets it is typically achieved through derivatives that allow efficient and flexible risk exposure. However, in private equity markets, those are exclusively in the OTC space. We perceive this lack as a major contributor to the scaleup gap that the European Investment Bank has rightfully identified in 2024. (See: The scale-up gap: Financial market constraints

holding back innovative firms in the European Union, 24.07.2024). On the other hand, with increasing market values, even small price changes can have important impacts on the regular funding rounds of scaleups. Hence, the price finding mechanism for firms become more and more important. Thus, the already difficult price finding mechanism of infrequently traded private equity products becomes even more opaque with a 100% OTC market for derivatives – the prime instrument for price finding. The effects from not having a real derivatives market for private market is strongly pronounced in the price discounts that sellers experience: European private equity shares often trade with up to 50% more discounts compared to their US counterparts that are almost at the same levels as public companies. Competing jurisdictions, such as the USA, do not have these barriers and hence enjoy a very vital and liquid market for private equity products, including cash- and derivative products. For the European Single Market to be competitive with their peers, the barriers impeding derivatives on private equity companies must be removed.

Question 2: How could the barriers identified in question 1 be removed or mitigated through targeted regulatory or other measures?

In light of the challenges listed under question 1, we advocate for a more ambitious and deeply integrated Savings and Investment Union. A concerted effort is required to simplify and better harmonize legislation to reduce the complexities faced by both companies and investors. Additionally, we support the implementation of targeted measures designed specifically to improve corporate access to public markets while simultaneously mobilizing long-term retail and institutional investment. Fostering a more robust and efficient capital market ecosystem is essential for unlocking growth and ensuring the continued development of private enterprise. Continued regulatory relief for SMEs and scaleups would be also essential. This should be combined with measures that help companies bridge the gap between private and public markets and progress toward IPO readiness. For example, a powerful measure could be the introduction of targeted listing incentives, such as an “IPO Bonus” offering a direct subsidy to companies to address the significant financial barriers (costs for legal and financial advisory, prospectus creation) that often deter SMEs from pursuing an IPO. The “IPO-Bonus” would be a non-repayable subsidy, granted only after a successful IPO. By de-risking the preparatory phase of an IPO and reducing the financial burden, the “IPO Bonus” would make the capital markets a more accessible and attractive financing instrument.

Question 9: What are the main barriers to a more effective and efficient secondary market for private company shares?

As indicated in the response to question 1, a main barrier to a more effective and efficient secondary market for private company shares is the lack of publicly traded derivatives on these.

Establishing an efficient secondary market for private company shares in Europe would be significantly supported by the availability of derivatives referencing such instruments. Derivatives would enable investors to hedge their exposures effectively, thereby increasing market participation and enhancing overall liquidity. Derivatives also reduce the barriers to access private markets as the corresponding transaction on a derivatives exchange is more efficient than the transfer of legal ownership in private company shares.

Currently, private equity investors only have the option to hedge their business with respective derivatives on the bilateral/OTC market where they are exposed to bilateral counterparty risks and a reduced level of transparency. To provide investors with choice and support the development of a PE-ecosystem in Europe in line with the objectives of this consultation, the launch of hedging instruments in a regulated environment should be fostered. Listing these derivatives on a public exchange and clearing them through

an authorized CCP would ensure high levels of transparency, robustness, and risk management, leveraging well-established regulatory and supervisory frameworks.

Enabling exchanges and CCPs to provide the industry with such innovative instruments requires a proportionate and forward-looking regulatory approach. However, the current process of launching respective instruments for regulated market infrastructures appears burdensome, making it difficult to provide the products efficiently and timely to the market. Regulatory requirements should strike an appropriate balance between safeguarding financial stability and fostering scalable, innovative solutions tailored to the evolving nature of private markets. Against this background, it is welcomed that the effectiveness of the respective regime for CCP product launches shall be re-assessed toward enabling FMIs to launch products more efficiently and timely.

Question 10: According to you, which holders of private equity, including in specific categories of companies, struggle today to exit their investment at a fair cost and under a predictable timeline? You can select several options.

- All companies
- Companies in the start-up phase
- Companies in the scale-up phase
- Companies in the midcap phase
- Companies in other stages (please specify the stage)
- Companies located in a different Member State than the Member State(s) of (the majority of) holders of its equity
- Companies located in the same Member State as the Member State(s) of (the majority of) holders of its equity
- Companies in a specific sector (please specify the sector)

Please explain your answer to question 10:

In general, all holders of private equity are faced with barriers to exit their investment before a company is ready for an IPO. However, for holders of private equity in scaleups or mid-cap companies, the use of derivatives for hedging purposes, constant- or temporary exposures, becomes more relevant where companies raise larger capital rounds and enter secondary markets with the presence investors that are not venture capitalists only. While companies have increased staff-sizes, turnover, and operations, market valuations are still very low and the cost of an IPO is too high for these. Hence, the inefficient secondary markets in private companies hit particularly strong.

Question 12: On a scale from 1 (main option) to 5 (hardly ever used), what are the currently available exit options for investors in private companies? You may attribute the same ranking to several options.

Exit options	1 Main option	2 Often used option	3 Neutral	4 Not so used option	5 Hardly ever used option	No opinion
Management buyout (company's management buys out the investor's stake)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Merger & acquisition/ Secondary buyout (e. g. trade sales; selling shares to another (non-financial) company/competitor)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Secondary buyout by an institutional investor (e.g. sale to another PE firm)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Secondary sale of some shares to other existing investors within the company	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Secondary sale of some shares to new investors outside the company	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Public listing (IPO)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Liquidation of the private company	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Other (Please specify)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Please explain your answer to question 12:

The IPO is the most obvious exit strategy for a successful private equity investment. It offers the potential for the highest possible valuation by opening the company up to the broad and deep pool of capital in the public markets, while also providing the company with a new platform for future growth and capital-raising. Despite this, the frequency of IPOs as an exit channel has decreased, primarily due to high costs and complexity, increased regulatory burden and thus the rise of alternative exit options.

Question 13: What are the main issues/barriers associated with the exit options listed in question 12 and what could be possible solutions to address them? Please explain your answer.

Exit Option	Issues/barriers	Possible solutions
Management buyout (company's management buys out the investor's stake)		
Merger & acquisition / secondary buyout ((e.g. trade sales; selling shares to another (non-financial) company/competitor)		
Secondary buyout by an institutional investor (e.g. sale to another PE firm)		
Secondary sale of some shares to other existing investors within the company		
Secondary sale of some/partial shares to new investors outside the company		
Public listing (IPO)	<p>The transition from a private to a public company via an IPO presents significant hurdles that can deter even high-growth firms from accessing the capital markets. Addressing these barriers is crucial for fostering a vibrant public market ecosystem. The primary challenges associated with an IPO can be categorized into three main areas: regulatory burden, costs, and structural complexity.</p> <p>Increase in regulatory and reporting obligations: The fundamental challenge is that the regulatory requirements for a public company increase enormously with its IPO compared to a private company. Companies become subject to strict regulations, such as the</p>	<p>Effective solutions should focus on lowering the regulatory requirements for IPOs and creating a link between private and public markets to pave the way for a simpler and barrier-free transition.</p> <p>The EU could consider introducing rules for newly listed public companies with reduced disclosure requirements, lower internal control obligations for a maximum of the first five fiscal years after completing an IPO. The US Securities Act could serve as a role model. In general, startups would benefit from aligned tax regimes across the EU. Further, different labor law requirements in the individual member states continue to make it difficult to recruit foreign skilled workers.</p>

	<p>MAR, demanding a robust internal compliance framework; strict accounting standards and detailed, audited financial reports; specific corporate governance structures, which adds complexity and costs.</p> <p>Costs: Substantial fees for investment banks, legal advisors and auditors.</p> <p>Complexity: The IPO process is a lengthy, complex, and resource-intensive project.</p>	<p>Mitigating personal consequences of insolvency could lead to greater risk-taking and entrepreneurial mentality. The Commission proposal for the “EU Inc.” is a first step in the right direction.</p> <p>Finally, the establishment of an “IPO Bonus” as described in Q2 would be a solution.</p>
Liquidation of the private company		
Other (Please specify)		

Question 14: What can the EU do to support the solutions identified in question 13? Please explain your answer.

Exit Option	Possible EU action
Management buyout (company’s management buys out the investor’s stake)	
Merger & acquisition / secondary buyout (e.g. trade sales, selling shares to another (non-financial) company/competitor)	
Secondary buyout by an institutional investor (e.g. sale to another PE firm)	
Secondary sale of some shares to other existing investors within the company	
Secondary sale of some shares to new investors outside the company	
Public listing (IPO)	Please refer to our response to Q13
Liquidation of the private company	
Other (Please specify)	

Part II: A platform for the intermittent multilateral secondary trading of private company shares

2.1 General

Question 15: On a scale from 1 (no added value) to 5 (very high added value), would you see in general added value in having a possibility (upon the issuer's agreement/request) for private company shares to be traded on a multilateral platform in a private and intermittent way?

1 No added value	2 Low added value	3 Significant added value	4 High added value	5 Very high added value	No opinion
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Please explain your answer to question 15:

Public markets play an indispensable role in the growth of companies and the overall economy. They provide a transparent, regulated, and liquid framework that enables companies to raise capital for innovation and expansion and allows investors broad participation in economic success. The IPO remains the primary and proven pathway for companies to achieve scale, and it is critical that this route is not undermined.

The development of a potential EU platform, e.g., inspired by the UK's PISCES, for the intermittent trading of private company shares could increase liquidity, facilitate price formation, and build a way to an IPO. However, we believe it is premature to assess whether such a platform could bring significant added value. Early examples of similar initiatives have only recently begun operating and do not yet provide clear evidence of their effectiveness or long-term impact on capital formation. Further, we want to stress that such a platform should not serve as a substitute for public markets, which are essential for long-term capital formation, broad investor participation, and the scaling of companies into globally competitive European firms. The transparency, liquidity, and high governance standards of public markets cannot be easily replicated in private trading environments. Ultimately, any new platform must be designed as a complement market, not a replacing or undermining substitute. If any trading platform for private shares aims to provide benefits similar to public markets, it must also adhere to comparable regulatory requirements concerning transparency, investor protection, and market integrity. A deviation from this principle would inevitably lead to regulatory arbitrage, jeopardizing the stability and level playing field of the entire capital market ecosystem.

Question 17: What characteristics would such a framework need to have to be successful and equally attractive for all parties (potential buyers, sellers, companies)?

Please explain your answer to question 17:

As indicated before in questions 1 & 9, private companies, particularly in the scaleup phase, face difficulties obtaining professional investors due to the lack of derivatives enabling those investors to hedge their positions accordingly. A fit-for-purpose framework, addressing the special needs of the smaller issuers, compared to public companies, could solve this particular problem, improve liquidity in transparent derivatives on private companies, and thus enable efficient trading on private company secondary markets. In order to create a level playing field with products on public companies, the regime has to be proportionate.

This could for instance be mitigated by enabling regulated market infrastructures to offer respective derivatives for trading and clearing in a regulated environment more efficiently and timely. As such, we believe a proportional regulatory treatment of private equity products should be ensured.

Additionally, any private company regime should not impede an IPO. Therefore, we would highly appreciate a regulatory regime that would allow the relatively small markets for private companies to thrive and help them accomplish an IPO rather than delaying it.

Part III: Possible use of the platform for raising fresh equity capital

The platform for intermittent secondary trading of private shares could also be used to raise new capital by eligible companies. This way, private companies might use the intermittent trading system to sell new company shares, for example by way of a closed auction. The sale of shares through the platform could mean alleviations and efficiency gains a private placement cannot offer.

Question 75: Do you see merit in also allowing for the raising of fresh capital through a private intermittent trading platform?

Yes

No

No opinion

Please explain your answer to question 75, in particular the upsides and down-sides of such a possibility:

Raising fresh capital via trading platforms is a function that should be reserved for the public markets, which operate under a comprehensive and robust regulatory framework designed specifically for this purpose. Blurring the lines between private secondary trading and primary capital formation could create a "shadow" capital market that could erode investor protection and undermine the integrity of the EU's public markets.

The regulatory frameworks for public markets exist to ensure that an issuer provides the highest standard of disclosure, is subject to the highest level of scrutiny, and is accountable under a stringent liability regime. Allowing companies to raise significant capital on a private platform would create a powerful incentive to bypass an IPO as the "gold standard" of capital raising. Instead of acting as a "stepping stone" to an IPO, the platform could become a long-term alternative, fragmenting the capital markets, diverting quality companies away from the public pipeline, and ultimately weakening the competitiveness of the EU's primary markets. This could create an unlevel playing field where some companies raise capital under the full protection of public market rules, while others do so in a less-regulated environment, resulting in regulatory arbitrage. The clear line between private secondary trading among sophisticated parties and public capital raising under full regulatory oversight must be maintained.

Question 77: What potential drawbacks do you see with offering the possibility to raise fresh capital through a private intermittent trading platform?

Please refer to our response to question 75.

Question 79: Would the offering of the possibility to raise fresh capital through a private intermittent trading platform have interactions with other sources of financing, e.g. bank lending?

- Could incentivise listing on a public market
- Could disincentivise listing on a public market
- Would have no effect on listing on public market

Please explain your answer to question 79:

Please refer to our response to question 75.