Open Letter to EU Finance Ministers and the European Commission

<u>Europe needs to keep its best Tech IPOs at Home</u>

Statement by European startup associations and European Exchanges

Honourable European and national decision-makers,

BioNTech. Spotify. On Running. Criteo. These names are flag bearers of European tech success stories, founded in the European continent and worth billions of euros. Yet they chose to go public across the Atlantic, in the United States. It is not a question of loyalty, patriotism, or lack of trust in Europe's workforce. The logic is purely economic: the US offers deeper and broader pools of capital, potentially higher valuations, and a better-integrated listing and trading ecosystem that does not exist in Europe.

The US represents 50% of the global market capitalisation, dwarfing the EU's 11%, driven by the attractiveness of the US listing and trading environment, dominated by Nasdaq and NYSE. The situation is alarming: in 2021 alone, the US experienced more Tech IPOs than Europe did over the entire period from 2015 to 2023, and 50 European-founded companies have filed for an IPO in the US since 2018, including UK-based companies. The "lost" IPOs account for a total economic loss of 439 billion USD (defined as market cap at IPO, plus the increase in market cap post-IPO) since 2015, according to a report published by McKinsey in June 2024 — and that is without counting the companies relocating pre-IPO to address the US market. Yet recent studies have revealed that upon closer examination of equity flows in both regions, and taking into account the complexity associated with the concept of liquidity, the presumed dominance of the US in equity liquidity is not as advantageous as it might seem.[1] European companies could end up facing lower valuations, reduced liquidity, and less comprehensive analyst coverage compared to their American peers.

Now that Europe's most promising scaleups are considering IPOs, the challenge is providing the environment that allows for these companies to access sufficient investment opportunities in the EU; thus retaining the jobs, patents, talents, tax payments, and economic return they create. European leaders believe that further initiatives to advance the Capital Markets Union (CMU) can make a difference, as expressed by the Eurogroup statement in March 2024. Open, well-functioning, and integrated European capital markets

[1] 18th April 2024, Euronext Equities Liquidity Analysis, "Demystifying the liquidity gap between European and US equities", online here.

are crucial to promote the single market and attract the necessary investments, thereby boosting the EU's global competitiveness, innovation, sustainable growth, and job creation.[2]

As political calls for the CMU are increasing, the re-elected European Commission President von der Leyen has committed to work on further proposals and implement the rebranded "European Savings and Investments Union" in the new mandate. Consequently, **we the collective voices of leading European stock exchanges and representatives of the most innovative companies of our continent call on European policymakers to complete the CMU as a means to boost the European IPO market**, and in particular to:

1. **Strengthen investment upstream of the stock market by boosting growth-stage venture capital.**
    - The funding value chain in Europe is still distorted. Scale-ups, once they have grown, are lacking sufficient funding to scale, and recent examples have shown that they still count on non-European money for later rounds of funding.
    - While this is not a problem *per se*, in the absence of consequential European VCs, 1 out of 4 startups raising more than 100 million euros in Europe ends up relocating outside of the continent.
    - Having deeper pockets at the pre-IPO stage would therefore enhance our strategic autonomy and create a vibrant European tech and SME/startup ecosystem preparing for successful European IPOs. Additionally, post-IPO, the Commission could explore ways to streamline the process for issuers, if it is their intention, to dual list in multiple markets to increase their visibility and access to capital.

2. **Create incentives for investments of both retail and institutional investors in European companies.**
    - The EU needs to deepen the liquidity pool and mobilise the immense wealth locked in retail bank accounts to reinforce the primary and secondary tech markets.
    - To do so, it should create a tax and regulatory environment that removes barriers to the existing investment flow, both retail and institutional, to fund European companies. Every year, 300 billion euros of European savings are invested in US companies, instead of funding the local economy.
    - Institutional investors such as asset managers, pension funds and insurers should benefit from incentives to invest in tech and other industries at pre-IPO and post-IPO stages (crossover funds), through a dedicated pan-European label for trusted VCs and/or a European fund-of-funds.

[2] 11th March 2024, Council of the EU, "Statement of the Eurogroup in inclusive format on the future of Capital Markets Union", online here.

3. Eliminate cross border transaction costs for equity investment

- One of the major barriers to cross-border equity investment in the EU is the complexity and diversity of withholding tax regimes, which impose additional costs and administrative burdens on investors. Today, most European investors have to pay more when buying a European share than when buying a national one, or even worse, an American share.
- We call the European Union to lower these tax barriers to cross border transactions in financial equity with a view to decreasing transaction costs.
- Streamlining the procedures for reclaiming withholding taxes will foster a more integrated and attractive equity market that will encourage more European investors to diversify their portfolios and support the growth of innovative and sustainable companies across the continent.
- Additionally, we would encourage the Commission to explore harmonising as much as possible taxation of option products to support scale up and participation for EU startups.

4. Improve financial literacy among EU citizens

- Even with the best conditions for European investors to invest in groundbreaking technologies, it is crucial for the EU's strategic autonomy and economic prosperity to increase the levels of financial literacy. Today, 72% of European citizens are not investing in any financial products, and most choose to stay away from riskier investments.
- European governments and the local financial ecosystems should craft together a compelling equity narrative that fosters trust in capital markets for people to invest in technological advancements.
- Moreover, European policymakers should ensure that tax incentives for savings encourage long-term investments in equity rather than short-term deposits and low-risk instruments. Regulatory frameworks, such as the European Retail Investment Strategy, should not excessively discourage risk-taking. These investments are not only crucial for advancing the EU's twin digital and green transition, but also for creating prosperous European savings.

The European Union can learn from successful initiatives that have been implemented in its Member States and adopt best practices to create a pan-European effort for a more integrated CMU. Examples include the Swedish equity pension contributions, the French Tibi initiative, the German Wachstumsfonds, and the EU Listing Act. We believe that public policies can support the European ecosystem to produce more IPO success stories for local EU companies, especially those that invest in new technologies. However, we also need a competitive and efficient European listing and trading environment. This requires agreeing on common objectives that serve the prosperity and future of all Europeans.

We commit to a pledge for Europe — where our talents and capital could remain invested — as we share a vision of a strong, united, and flourishing European economy. Now that the European elections are behind us, let's roll up our sleeves and make it work.