European Private Equity & Venture Capital Association
CREATING LASTING VALUE

NATIONAL VENTURE CAPITAL ASSOCIATION
Funding innovation. Empowering entrepreneurs.

PRIVATE EQUITY GROWTH CAPITAL COUNCIL

COMMENTS ON THE OECD PRINCIPLES OF LONG-TERM FINANCING

Principle 1: Preconditions for Long-Term Investments

Paragraph 1.2

Amend the 2nd sentence to read:

"Policies to promote long-term investment by institutional investors should be consistent with prudential objectives, ***and vice versa****…"*

Rationale: Policymakers should reflect frequently on the possible tensions between their twin goals of prudential soundness and the promotion of long-term investment. Public policy should not automatically assume that one is always to take precedence over the other, but should keep under careful review the balance between the two.

Amend the 3rd sentence to read:

"Tax neutrality towards different forms ***and structures*** *of financing should be promoted"*

Rationale: Long-term investment can take many forms, whether direct investment into a company or co-investment / pooled investment through a legal structure of the kind typically used in different jurisdictions by private equity and venture capital. The tax regime should be neutral for investors, whichever of these two routes they choose.

Paragraph 1.4

Amend the 2nd sentence to read:

"*Such investors should be adequately* ***and proportionately*** *regulated and supervised, taking into account their specificities and in line with relevant international standards."*

Rationale: Adequate regulation is essential, but regulation should be in proportion to risk, so that long-term investing is not discouraged by a regulatory regime that is over-burdensome, and so that the benefits of long-term investment are not offset by the costs of regulation.

Paragraph 1.5

Amend the 2nd sentence to read:

*"These investment plans and ~~their associated~~ the **broader** regulatory, judicial and tax environment **for investment** should be transparent, consistent…"*

Rationale: A "transparent, consistent" regulatory, judicial and tax environment is essential to promote all forms of long term investment, not just for governments' own long term investment plans.

Paragraph 1.6

Amend the 1st sentence to read:

*"Where appropriate, governments should provide opportunities for private sector participation, **including by small and medium-sized companies,** in long-term investment projects such as infrastructure and other **activity that is** relevant ~~projects~~ **for the long term, including research and development** .**This can be** via, for instance **ensuring that** public procurement and public-private partnerships **are extended to and accessed by small and medium-sized companies."***

Rationale: Public procurement for R&D is largely inaccessible for SMEs and in particular high-growth innovative companies. Enabling them to also benefit from public procurement could significantly increase their growth potential. This will aid in creating a policy environment in keeping with the aims of paragraph 5.5

Principle 2: Development of Institutional Investors and Long-Term Savings

Paragraph 2.1

Amend to read:

"*Governments should promote policies that **encourage and** support the development of institutional investors and their role in long-term investment financing in a sound and sustainable manner.*"

Rationale: "Support" implies a passive approach whereas active "encouragement" of long-term investment will yield greater results.

Principle 3: Governance of Institutional Investors, Remuneration and Asset Management Delegation

Paragraph 3.8

Amend the 1st sentence to read:

"*Regulatory and supervisory authorities overseeing institutional investors and other actors within the investment management chain should monitor the governance, agency relationships, and risk management mechanisms underpinning long-term investment and take prompt**, proportionate** and adequate measures when relevant.*"

Rationale: Regulatory and supervisory authorities should be empowered and prepared to take "prompt and adequate" action where needed. However, it is also important that such action is in proportion to the risk that is being mitigated, so that the process of enforcing compliance does not reduce the net benefits of long-term investment.

Principle 4: Prudential Regulation, Valuation and Tax Treatment

Paragraph 4.1

Amend the 1st sentence to read:

*"The prudential regulatory framework - including valuation rules and risk-based capital requirements - for institutional investors that have a long-term investment horizon should appropriately **and accurately** reflect the ~~risks inherent to~~ **particular risk characteristics** of long term assets ~~appropriately~~ **and so avoid acting as a disincentive to such investment**."*

Rationale: It is more appropriate to refer to the "risk characteristics" of long term assets. All asset classes contain risk, and to refer to "inherent" risk in relation to long term assets appears unduly negative. The prudential framework - and in particular capital requirements for investors - should reflect the particularities of these risk characteristics and by so doing should (if correctly calibrated) avoid dis-incentivizing long term investment.

Paragraph 4.2

Amend the 2nd sentence to read:

"Risk-based solvency rules should ***reflect*** ~~*consider*~~ *the suitability of long-term assets for asset-liability management purposes"*

Rationale: As policymakers reflect on the solvency rules for investors they should do more than merely "consider" the appropriateness of long-term assets for asset-liability management. Rather, these rules should actually "reflect" the role that such assets can play in enabling pension funds or insurers, for example, in managing for their long term liabilities. There must be more than a mere "consideration" of this.

Paragraph 4.3

Amend the paragraph to read:

"The transparency, standardization and accuracy of ***appropriate and relevant*** *valuation methods* ***and processes****…"*

Rationale: Just as other parts of the regulatory framework need to be "appropriate" to the specific characteristics of long term assets and to the needs of those who invest in them so too do valuation methods. These methods and processes must provide investors, wider market participants, and supervisors with a reliable and fair basis on which to assess the value of an asset, but must also reflect the particular character of such assets.

Paragraph 4.4

Amend the paragraph to read:

"The tax environment and policies ***should remain stable and*** *should create no impediment to long-term investment by institutional investors. It should be subject to regular monitoring…"*

Rationale: Stability in the tax treatment of long-term investments is critical for investors and should be an objective of itself, over and above the introduction (or removal) of any specific tax initiatives that promote (or hinder) long term investment.

Principle 5: Financing Vehicles and Support for Long-Term Investment and Collaboration Among Institutional Investors

Paragraph 5.3

Amend to read:

"*Regulatory authorities should establish the* ***clear, consistent and proportionate*** ~~*necessary*~~ *regulatory framework* ***necessary*** *for pooled investment vehicles and securities channeling financing for long-term investment in a sound and sustainable manner.*"

Rationale: A complicated, uncertain regulatory regime acts as a barrier to long-term investment. Regulation that is clear, consistent and in proportion to the risks that it seeks to mitigate, encourages long-term investment and is welcomed.

Paragraph 5.5

Amend 2nd sentence to read:

"Where appropriate, they should provide seed capital to such firms ***and establish suitable financing vehicles*** *utilizing competitive processes and private sector expertise* ***and designed in a way that encourages additional private funding****."*

Rationale: The creation of government-led financing vehicles to promote investment in new and young firms is to be welcomed, as they can provide a vital source of funding. It is, however, essential that such vehicles complement and encourage private sector funding and do not seek to replace it.

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