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## **RESTRUCTURING FORUM THE IMPACT OF FINANCIAL INVESTORS ON ENTERPRISES**

**ADDRESS BY PHILIPPE DE BUCK, DIRECTOR GENERAL**

Ladies and gentlemen,

The restructuring forum on the impact of financial investors on enterprises is timely. A transparent discussion will help to avoid misconceptions.

The Commission has proposed a number of initiatives in the wake of the economic crisis. They have a direct link with the activities of financial investors. Some proposals are now in the process of becoming EU legislation. The positive role that financial investors play in the economy should be taken into account. In particular, private equity funds are critical to foster economic recovery.

Why is it important? It is because debt financing will remain constrained in the years ahead. Traditional bank lending channels are not likely to meet companies' equity needs in the near future. In our latest Economic Outlook published in June 2010, 82% of respondents mentioned access to finance as a negative factor affecting investment decisions right now.

Therefore, the availability of other sources of finance, and in particular access to equity finance is vital. The funds injected into the economy by financial investors are essential to foster private investments. They are needed to increase investments in research and development. European companies need this source of equity to create growth and jobs.

Rapid growth of financial investments in companies has been observed. Between 2003 and 2007, private equity and venture capital investments increased from 30 to 75 billion euros. Of course, they significantly declined to 52.4 billion euros in 2008. Most of them are medium to long term investments. They are a factor of stability and innovation.

What was the start of the financial crisis? The toxic assets held by financial institutions. Private equity funds investments played no role nor in triggering or in amplifying this crisis.



What is today the first priority? Rebuild trust in financial institutions. Restore investor confidence in financial markets. This is key for a sustained economic recovery. This is key for the competitiveness of the European economy. The gaps in the existing regulatory and supervisory framework should be identified. They should be resolved not only at European level, preferably at the global level.

Smart regulation must ensure that the right solutions to the root causes of this crisis are found. It must ensure that policies are effective and proportionate in their scope and nature. Policy-makers have to strike the right balance. Stricter regulation and controls are needed, but without stifling entrepreneurship and innovation. A fair risk/reward ratio for entrepreneurs. A fair return on capital for shareholders. Rewarding employment opportunities for workers. That is what is vital.

The draft directive on Alternative Investment Fund Managers (AIFM) is a good example. It aims to establish a framework for monitoring and supervising the risks of investment funds' activities. The proposal includes disclosure requirements for commercially sensitive information: Details on merger and acquisition plans, research and development strategy, capital structure of the company. In addition, some MEPs proposed to impose direct information obligations on financial investors towards employees in the acquired company. Bypassing employer's relations with employees by an investor would undermine established processes of workplace social dialogue.

In its current version, the directive will discourage European investors from investing long-term risk capital in European companies. This would be a big mistake. Imposing far reaching reporting obligations for listed companies on small family-owned businesses does not make sense. Ongoing trilogue discussions must be pursued until a better balance is reached. In particular, European policy makers should better take into account the needs of small innovative firms.

It is not the right approach to address together different types of financial investments. Compared to hedge funds, private equity funds and sovereign wealth funds expect return on investment in the long term.

Concretely, private equity funds often back expansion strategies of high-potential SMEs. A wealth of success stories can be reported in all sectors. Let me give you two examples:

- Skype was created by Estonian developers. They received support from a venture capital fund in September 2002 before being sold to Ebay three years later for 2.1 billion euros!
- Thanks to private equity investment, New Look has propelled from a domestic UK high street retailer into a rapidly expanding European fashion brand. The company's workforce has grown by 50%, from 12.400 people in 2004 to 18.600 by 2008.



The University of Nottingham conducted a survey in association with the European Private Equity and Venture Capital Association (EVCA). It has shown that private equity ownership results in a median 19.6% increase of employment in the medium term. It cannot be guaranteed that all initiatives lead to success. “Entrepreneurship” means taking a risk. Several reasons may lead a strategy to fail. A wrong anticipation of market demand. An under-evaluation of the threat of competitors. A lack of skills barring innovation. An excessive level of indebtedness.

Due to falling demand for goods and services worldwide, the crisis has provoked more restructurings leading to job losses. Until 2007, more job gains than losses were reported. By contrast, between 1 January 2008 and 30 June 2009, total job losses from restructuring amounted to over 900,000 jobs. Just over 400,000 new jobs were announced in the same period. It is interesting to compare these figures with what has happened in the US. During the same period, 4.300.000 US workers were affected by crisis-related restructurings. The higher number of job losses in the US illustrates the remarkable efforts made by European companies to keep their workers during the downturn.

Let me conclude with the subject. What is the impact of financial investors on restructuring? The arrival of financial investors in companies will most likely lead to changes in the way in which the company conducts its activities and uses its resources. This is the case when any new shareholder acquires an important share of ownership in a company. Nevertheless, their impact on restructuring should not be overestimated. In the Nottingham University survey, almost three quarters of the respondents did not report any redundancies.

The truth is that restructuring has become a daily practice for all companies. Opening markets to international competition requires assessing and adjusting company strategies constantly. This is the only way to ensure success in the long run.

Financial investors play a positive role to support companies’ investments for more growth and jobs in Europe. They provide access to equity finance when financial resources are scarce. Achieving more transparency in their operations should not be at the cost of competitiveness. It would be counterproductive to adopt new EU rules deterring financial investors’ activities.

Thank you for your attention.

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