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Annex - France Invest's response to the Commission's public consultation on Debt equity bias reduction allowance (DEBRA)

Established nearly 40 years ago, France Invest brings together venture capital, private equity, infrastructure and private debt teams based in France, as well as the associated professions which support them. Its membership currently counts 365 management firms and 180 associate members.

Venture capital and private equity support unlisted companies for a fixed period of time and provides them with the equity capital, through the acquisition of minority or majority stakes in their capital, needed to finance growth and transformation projects. It supports the creation of start-ups (venture capital), participates in the growth and transformation of many regional SMEs and mid-caps (growth capital) and contributes to the transfer of companies (replacement capital).

France Invest's members represent one of the main growth drivers for the French and European economy and support a significant portion of employment in France and Europe. In 2020, French private equity and infrastructure players invested €23.1 billion in 2,150 companies and infrastructure projects. They raised €23.5 billion from investors, a third of which at international level, which will be invested over the next 5 years. In addition to that, private debt players (structures financing companies and infrastructure projects) invested €8.1 billion in 209 transactions and raised €7.7 billion that will finance new transactions in the coming years. European companies, in particular start-ups and SMEs, are the main recipients of these investments. In 2019, companies backed by French venture capital and private equity created 56,000 jobs.

In particular, during the pandemic, the venture capital and private equity industry has demonstrated its adaptability, supporting existing portfolio companies as and when needed, while continuing to invest in new businesses that require capital and operational expertise to grow.

Key points to the Commission's public consultation on Debt equity bias reduction allowance "DEBRA"

We welcome the opportunity to participate in the public consultation on "DEBRA" and would like to share with you some answers to your questionnaire. Please kindly note that the answers we provide reflect the input received in general by our member companies.

We would also like to share some general comments in this paper in addition to the questionnaire. As always, we stand ready to further discuss and explain our views.

We share the European commission's objective of promoting equity financing for companies. This is an objective that we encourage and for which the private equity industry plays a fundamental role in supporting future growth, innovation, and transitions.

At the end of the Covid crisis and to allow companies to face the challenges linked to global warming, it is essential that companies can strengthen their equity capital.

However, we are not convinced that tax leverage is the best approach to achieve this.

- First, the choice between equity and debt is not made solely because of tax reasons, but because of various considerations. There are several non-tax reasons why companies prefer debt financing: profitability, avoidance of dilution of control, simplicity, limited profit distributions, low and attractive cost of debt, etc.

- Secondly, the Equity financing and debt financing should not be opposed, they are both complementary methods of financing.

- Thirsty, there are already stringent tax rules in place within the EU that limit the deductibility of interest, and which operate as a brake on use of debt financing: all EU MS had to implement the rule on limitation of interest deductibility (based on 30% of EBITDA). Further, a general anti-abuse rule implemented across the EU in accordance with Article 6 of the ATAD 1 Directive also applies. In our view, debt financing should not be further limited through additional tax provisions; debt financing will remain a crucial source of financing in the aftermath of the crisis. We observe that the financing solutions offered to companies to overcome the Covid crisis have been driven by debt offerings. The European approach to state aids has favoured the use of state-guaranteed debt products over equity. In this context, we are seeing an increase in corporate debt.

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