

France Digitale's answer to the targeted consultation on private equity exits

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About France Digitale: Founded in 2012, France Digitale is the largest startup association in Europe, bringing together over 2,000 startups, investors and incubators. The association's goal is to enable startups to scale across the EU single market and help build Europe's tech champions.

Introduction

France Digitale welcomes the European Commission's targeted consultation on facilitating private equity exits, as the absence of viable exit mechanisms for private equity investors threatens the entire European innovation ecosystem. This submission draws on our engagement with over 2,000 European startups and investors, and sets out how enabling robust exit options is fundamental to sustaining a vibrant innovation ecosystem capable of competing globally.

We commend the Commission's recognition that exit challenges represent a significant barrier to private equity investment and growth-stage capital availability across Europe, thus affecting innovative companies' growth in and from Europe. The relationship between exit mechanisms and ecosystem health is direct and critical. Without viable exits, the capital recycling cycle that sustains European venture capital investment breaks down. Limited partners (LPs) cannot recover capital, venture capital funds cannot distribute returns and new capital pools dry up. This strangles the entire financing pipeline, from early-stage startups to growth scaleups.

The primacy of exits in the European venture capital ecosystem

The capital recycling cycle is broken

The venture capital financing cycle depends on a sequence of successful exits. Institutional investors and LPs commit capital to venture capital funds with the expectation that their capital will be returned with appreciable returns through successful company exits, whether via initial public offerings (IPOs), acquisitions or secondary buyouts. When exits are constrained, the entire cycle stalls.

Today, Europe faces a severe bottleneck in exit options. The European IPO market is significantly more contracted than the US one, secondary buyout funds remain underdeveloped, acquisitions face regulatory uncertainty and market constraints.

The failure to enable exits directly undermines the availability of growth capital. Venture capital firms cannot sustainably deploy new capital if they cannot return capital to their existing investors. Without recycled capital, promising European startups are starved of the funding required to scale, particularly in the growth and late-stage phases where capital requirements are largest.

Enabling exits is essential for competitive European innovation

The Commission has rightly identified that exit challenges limit the availability of growth capital and contribute to the migration of promising European companies to non-EU markets. We have witnessed this phenomenon firsthand: European-founded companies such as BioNTech, Spotify, On Running and Criteo chose to pursue US listings, taking with them not only jobs and tax revenue but also innovation, patents and strategic autonomy.

At least 50 European-founded companies have filed for an IPO in the US since 2018, including UK-based companies. Those “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. While IPO migration is one manifestation of this challenge, the broader problem is systemic: companies are forced to seek exits in markets where capital is more readily available and exit mechanisms are more mature.

By enabling robust private equity exits within the EU, the Commission will:

- **Retain capital and talent within Europe:** Companies that can exit successfully in Europe remain embedded in the European economy, generating employment, tax revenue and intellectual property.
- **Sustain the venture capital cycle:** Successful exits return capital to LPs and venture funds, enabling reinvestment in the next generation of innovative startups.
- **Create the competitive scale necessary for global competition:** European champions emerge when capital can scale companies to the size and capability required to compete with global incumbents.

[A platform for secondary trading of private company shares: opportunities and design considerations](#)

Addressing the valuation barrier to exits

The consultation correctly identifies that a lack of credible valuation mechanisms represents a significant barrier to private equity exits. This problem is particularly acute for companies that are too large for traditional venture capital financing but not yet ready for public markets. A comprehensive package of measures, including a possible secondary trading platform, would provide liquidity and price discovery mechanisms.

France Digitale sees merit in exploring, through a pilot or sandbox approach, whether a secondary trading platform could complement existing exit mechanisms. However, we note that secondary markets for private equity are nascent in Europe and remain largely untested. Any initiative should be launched as a time-bound experimental framework rather than a permanent regulatory structure, with clear success metrics and the option to adjust or discontinue if market uptake proves insufficient.

Regulatory framework and design principles

Any secondary trading platform must be designed with clarity and investor confidence in mind. The Commission should consider the following design principles:

Proportionate regulation: Regulatory requirements should scale with company maturity, size and investor qualification. Smaller, earlier-stage companies should not face the same disclosure burden as mature pre-IPO companies.

Harmonised tax treatment: Withholding tax regimes and transaction costs are major barriers to cross-border investment and capital mobility. A secondary trading platform will

only succeed if investors face harmonised and reduced tax burdens on cross-border transactions in private company equity.

Integration with IPO preparation: The platform should function as a bridge toward public markets, not a substitute for them. Companies that demonstrate sufficient scale and maturity should be encouraged to transition to public listings. The platform should therefore complement, rather than compete with, efforts to strengthen the European IPO market.

The European IPO market remains the only path for ambitious, high-growth companies to maintain independence and control, particularly for capital-intensive deep technology and AI companies that cannot follow profitable growth trajectories. Yet liquidity constraints and regulatory burdens continue to drive IPO migration to US venues. Recent initiatives by the London Stock Exchange, including private secondary exchange platforms and removal of capitalisation thresholds for smaller IPOs, demonstrate that structural improvements are possible. The Commission should explore similar reforms: reducing minimum capitalisation requirements, facilitating dual-listing procedures, and strengthening post-IPO liquidity infrastructure. Without a dynamic IPO market, European technology champions will face a binary choice: cede control to profitable-focused buyout acquirers, or relocate headquarters to access US capital markets.

Operational simplicity: Participants require clarity on settlement, ownership registration and corporate governance rights. The platform should provide standardised agreements and processes to reduce friction and legal uncertainty.

Information access and analyst coverage: A critical prerequisite for secondary market functionality is reliable financial information and independent analyst coverage. Secondary investors require access to audited financials, forward guidance, peer benchmarking and professional research to price illiquid securities accurately. However, Europe currently struggles to provide adequate analyst coverage even for small and mid-cap listed companies, where mandatory disclosure requirements apply. Extending secondary trading to unlisted companies, where disclosure remains discretionary and highly variable, risks exacerbating information asymmetries and enabling mispricing.

Any secondary trading platform must therefore include:

- **Mandatory disclosure standards** for participating companies (audited financials, forward-looking metrics, material risks), calibrated to company maturity and size but non-negotiable for data quality;
- **Standardised reporting frameworks** enabling comparability across portfolio companies and sectors;
- **Analyst access provisions** enabling licensed research firms to generate and distribute independent coverage, with appropriate confidentiality protections;
- **Pricing transparency mechanisms** (e.g. publication of transaction prices post-closing, with anonymisation where required) to build market-wide price discovery.

Without these information infrastructure investments, a secondary platform will devolve into an opaque trading venue for insiders, undermining investor confidence and market efficiency. The Commission should recognise that secondary market development requires parallel investment in financial information infrastructure, a prerequisite that existing regulatory frameworks designed for public markets do not adequately address for unlisted companies.

Addressing the extension of the platform for equity raising

The consultation also seeks views on extending a secondary trading platform to facilitate raising new equity capital. We see merit in this approach, particularly for companies that are scaling rapidly but not yet ready for public markets. However, extending the platform to primary issuances would require careful design:

- **Maintaining investor confidence:** Clear admission standards and disclosure requirements would be essential to prevent market manipulation and retain institutional investor participation.
- **Avoiding regulatory arbitrage:** Standards should be sufficiently robust that the platform does not become a mechanism for circumventing the regulatory requirements that apply to public listings.
- **Complementing, not replacing, private venture capital markets:** A platform for primary issuances should not displace traditional venture capital funding rounds; rather, it should provide additional optionality for growth-stage companies seeking diversified funding sources.

A comprehensive package, not a single infrastructure solution

A secondary trading platform, while potentially valuable, cannot address exit barriers in isolation. Structural improvements require a coordinated package including:

- Investor demand and mobilisation of unlocked institutional capital and savings;
- An harmonised definition of semi-professional investors enabling cross-border participation and a clearer investors basis;
- A definition of SMEs that takes into account companies backed by private equity funds;
- Easier cross-border operations with harmonised FDI screening rules, foreign subsidies and withholding tax;
- An innovation-friendly approach to merger control that recognises the role of acquisitions in enabling scale, innovation and exit opportunities.

Provide an harmonised definition of semi-professional investors

Beyond the baseline of MiFID II, the absence of a unified 'professional investor' standard creates significant hurdles. National regimes often introduce additional or bespoke categories (such as Germany's "semi-professional investor" status), each with its own eligibility criteria and minimum investment thresholds. In practice, these regulatory differences make cross-border fundraising very challenging as they increase administrative and compliance burdens for fund managers, and ultimately reduce the overall efficiency of the European Capital Markets Union.

We recommend the Commission to establish an EU-wide framework defining semi-professional investors which would enable funds to operate across borders without duplicative national compliance, and while maintaining investor protection.

Consider private equity-backed companies in SME definitions

EU State aid rules defining SMEs create unintended penalties for companies backed by private equity funds. Under current thresholds, fund-backed companies may face disadvantages in accessing public support or subsidies compared to peers, reducing the attractiveness of PE investment. We recommend using the Commission's [Recommendation on the definition of innovative enterprises, innovative startups and](#)

[innovative scaleups](#) to ensure that growth capital does not disadvantage beneficiary companies.

Merger and acquisition as an exit route: preserving market dynamism

Although the consultation focuses specifically on secondary trading platforms, we must stress that acquisitions remain the primary exit mechanism for European startups and private equity investors. Acquisitions have grown from ~90% of exits in 2015 to 98% of exits in H1 2025¹.

Any policies designed to strengthen private equity exits must not inadvertently undermine the M&A market.

Beyond exit opportunities, acquisitions are fundamental drivers of innovation and the emergence of European champions. They serve multiple functions:

- **Capital return to investors:** acquisitions provide the primary mechanism through which venture capital investors and founders realise returns, enabling capital recycling.
- **Rapid scaling:** acquisitions enable startups to overcome market fragmentation and gain rapid access to customer bases, distribution networks and complementary technologies.
- **Innovation acceleration:** by combining specialised capabilities, acquisitions can accelerate research and development and allow companies to focus on long-term innovation rather than short-term survival.
- **Talent retention and development:** acquisition by a larger player can offer employees stability, career progression and participation in a larger mission, addressing talent constraints that limit standalone growth.

Recent competition policy developments, particularly scrutiny of "killer acquisitions" and the expansion of abuse-of-dominance enforcement into merger contexts, risk creating a chilling effect on the M&A market more broadly. We support robust enforcement of the Digital Markets Act and foreign investment controls to protect strategic assets. However, we are concerned that overly restrictive merger enforcement may inadvertently constrain legitimate acquisition opportunities that are central to private equity exit strategies.

This concern is underscored by a troubling reality: approximately three-quarters of European startups that are acquired are purchased by American buyers. Over the past decade alone, non-European acquirers have captured roughly €700 billion in buyout value from European technology companies.² Against this backdrop, the Commission should recognise that European-to-European acquisitions serve a fundamentally different purpose than acquisitions by foreign players. Intra-European consolidation retains capital, talent, intellectual property and strategic autonomy within the Union, while building the scale necessary for European companies to compete globally. Rather than viewing all horizontal mergers with suspicion, competition authorities should distinguish between acquisitions that risk fragmenting the European innovation ecosystem and those that strengthen it. To retain Europe's most promising companies and investments, mergers between European enterprises merit fostering and encouragement, not obstruction.

We recommend that:

¹ JPMorgan Chase & Co. (2025). 2025 EMEA exit report: EMEA innovation economy. <https://www.jpmorgan.com/content/dam/jpmorgan/documents/cb/insights/business/cb-business-exit-report-emea-2025.pdf>

² Orizi, S. (2016, September 12). 3 out of 4 startups are acquired by US companies. *Startup Europe Partnership*. <https://startupeuropepartnership.eu/3-4-startups-acquired-us-companies/>

- **Acquisitions are assessed exclusively under merger control frameworks** (concentrations analysis), **not under abuse-of-dominance provisions**. Merger control provides a structured, time-limited review process with defined remedies. By contrast, abuse-of-dominance investigations lack clear temporal boundaries and expose parties to indefinite regulatory uncertainty.
- **Merger control authorities develop a deep understanding of innovation dynamics** and the role of acquisitions in enabling scale and exit opportunities, particularly in disruptive sectors. Authorities must move beyond static market share analysis to understand how consolidation accelerates innovation and enables European companies to achieve global competitiveness.
- **A presumption of neutrality** is applied to the effects of mergers on innovation, with empirical analysis conducted on a case-by-case basis, rather than reliance on broad theories of harm. "Killer acquisition" concerns should not trigger automatic scrutiny; instead, the burden should rest on demonstrating concrete and quantifiable harm to innovation incentives.
- **An innovation defence** is introduced into merger analysis, allowing merging parties to demonstrate that acquisitions generate dynamic efficiency gains, particularly through accelerated R&D, improved product quality, and enhanced competitive capacity at the global level.

[Structural barriers to exits: fragmentation, regulation and taxation](#)

Market fragmentation

The European Union's regulatory fragmentation across 27 Member States affects exit valuations and investor returns. A company with a pan-European presence and customer base commands higher valuations than a single-market player. Yet expanding across Europe remains costly and complex, reducing company value and investor returns. Long-term solutions to exit challenges must address the underlying fragmentation of the European market.

Taxation as a barrier to cross-border capital mobility

Withholding tax regimes represent a significant barrier to cross-border investment in European companies. An investor purchasing a European share often faces higher transaction costs than when purchasing a share in another Member State than an American share.

Any secondary trading platform must therefore be accompanied by a comprehensive review and simplification of EU withholding tax regimes. We specifically recommend:

- **Harmonisation of withholding tax rules across Member States** to eliminate duplicate taxation and administrative burdens.
- **Streamlined procedures for reclaiming withholding taxes**, reducing the administrative burden on investors.
- **Tax incentive structures that encourage institutional investors** (pension funds, asset managers, insurers) to invest in private equity asset classes.

Secondary private equity markets should be restricted to qualified institutional investors and accredited individuals with the expertise to assess illiquid and complex securities. Retail investor participation would introduce unnecessary risks, including capital loss and information asymmetries, without materially improving liquidity or exit outcomes.

Tax-incentivised structures such as France's OBTER framework should be reformed to remove artificial caps on secondary transactions (currently capped at 25%). Secondary

rounds are as critical to ecosystem health and competitiveness as primary rounds, yet regulatory design, typically optimised for primary fundraising, inadvertently penalises secondary liquidity. We recommend the Commission ensure that all EU tax-incentivised products for technology investment equally support primary and secondary transactions without discriminatory thresholds.

An important and growing exit path for profitable technology companies is acquisition by buyout funds specialising in software and high-margin recurring revenue businesses. Recent Clipperton studies³ document this trend's consistent expansion as venture capital and private equity operators develop greater familiarity with mutual valuation methodologies and operational integration models. However, this exit route remains restricted to companies demonstrating clear profitability and leverage-ability. While this specialisation will likely continue to grow naturally alongside broader PE market appetite, it underscores that **not all European growth companies can realistically pursue profitable, buyout-friendly trajectories**, particularly in deep tech and artificial intelligence, where cash-intensive R&D and long development cycles are structural necessities.

Europe faces a critical bottleneck for fast-growing, cash-burning companies in deep technology and artificial intelligence sectors. These companies, structurally unable to achieve near-term profitability, depend on sustained growth capital and secondary liquidity mechanisms to reach maturity. Yet, European growth capital markets remain severely constrained, forcing reliance on non-European investors. Secondary funds could provide interim liquidity, but Europe's secondary fund ecosystem remains skewed toward profitable, mature companies, replicating the same bottleneck at a secondary level. Without dedicated solutions for capital-intensive innovation sectors, Europe risks losing its most ambitious deep-tech founders to non-EU markets, regardless of IPO or M&A improvements.

Conclusion and recommendations

France Digitale makes the following recommendations to the European Commission:

1. **Adopt a comprehensive package of reforms to address exit barriers holistically.** A secondary trading platform alone cannot resolve structural exit challenges. The Commission should pursue a coordinated programme encompassing investor mobilisation, regulatory harmonisation and innovation-friendly competition policy.
 - a. **Establish an harmonised EU-wide definition of semi-professional investors.** National regulatory fragmentation creates barriers to cross-border fundraising and capital mobility. We recommend the Commission establish a unified framework defining semi-professional investor status. Such harmonisation would enable funds and platforms to operate across borders without duplicative compliance while maintaining investor protection.
 - b. **Align SME definitions to support growth-capital-backed companies.** EU State aid rules and subsidy frameworks disadvantage companies backed by private equity relative to peers. We recommend the Commission apply its Recommendation on innovative enterprises, innovative startups and innovative scaleups to ensure that growth capital does not reduce beneficiary companies' access to public support. This alignment is essential to maintain the attractiveness of private equity investment.
 - c. **Simplify cross-border operations** by harmonising FDI screening and withholding tax regimes.

³ <https://www.clipperton.com/wp-content/uploads/2025/05/From-VC-to-PE-The-2025-Guide-for-Tech-Startups.pdf>

- d. **Reform merger control to support European consolidation.** We recommend that the Commission assess acquisitions under merger control frameworks, not under abuse-of-dominance provisions, applies a presumption of neutrality to the effects of horizontal mergers on innovation incentives, with empirical, case-by-case analysis, introduce an innovation defence allowing merging parties to demonstrate dynamic efficiency gains, particularly through accelerated R&D, improved product quality and enhanced competitive capacity at the global level.
2. **Establish a time-bound regulatory sandbox for secondary trading platforms.** We recommend a 3-5 year pilot programme with clear success metrics (transaction volumes, investor participation, valuation accuracy) and explicit provisions to wind down or scale based on demonstrated market demand. This approach mitigates regulatory risk while testing whether secondary markets generate sufficient value to justify permanent infrastructure investment. Any platform must operate under distinct private market governance principles, not as a light-touch version of public market regulations, and must respect the confidentiality and control requirements central to private equity operations. The platform should complement rather than compete with IPO pathways. The Commission should pursue simultaneous measures to strengthen the European IPO market, including enhanced liquidity pools.
3. **Mobilise institutional capital through tax-efficient incentives and public-private structures.** We recommend adopting tax incentive structures modelled on the UK's Enterprise Investment Scheme (EIS) and Seed Enterprise Investment Scheme (SEIS), which have successfully mobilised retail capital into high-growth companies over two decades. A disciplined EU version, tied to long holding periods and with transparency safeguards against mis-selling, could include **capital gains relief, loss relief and inheritance tax incentives after minimum holding periods.** Such measures would reward patient ownership and broaden retail participation while maintaining prudential safeguards. We also support public-private structures leveraging long-duration institutional balance sheets. Insurance entities structurally require long-dated assets matching extended liability schedules. **A European 'top-up' mechanism could enable the European Investment Bank to issue long-dated instruments purchased by insurers,** which would finance or co-invest alongside private growth funds focusing on European strategic sectors. The EIB could accept concessional or zero-fee arrangements reflecting its public mandate, creating a transmission mechanism converting institutional savings into entrepreneurial risk capital. State investment vehicles could extend this approach thematically. Executed with appropriate governance safeguards to prevent political interference and maintain commercial discipline, this structure could substantially strengthen institutional participation in European growth capital whilst supporting economic sovereignty.

Beyond primary growth fund support, the Commission should establish dedicated secondary fund programmes through the European Investment Fund (EIF) and national sovereign wealth initiatives (similar to France's Tibi model). Specialised secondary funds, particularly those focused on capital-intensive innovation sectors such as deep technology and software, could provide essential interim liquidity for fast-growing companies whilst accumulating institutional knowledge on unprofitable-but-promising technology investment profiles. This would trigger the creation of private secondary strategies focused on technology, which, unlike generalist buyout firms (EQT, Ardian, Five Arrows), do not yet exist at meaningful scale in Europe.

Public-private structures should draw inspiration from proven models such as Israel's Yozma programme, which catalysed private capital deployment into strategic sectors (deeptech, AI) by offering investors downside protection while enabling them to capture full upside through call options on public stakes at cost price. A European adaptation could establish dedicated strategic funds (focused on sectors such as health, energy, AI) with similar terms: public co-investment with put/call options enabling private partners to eventually acquire full ownership while maintaining alignment of interests and market discipline. Such mechanisms align public strategic objectives with private capital incentives, creating sustainable capital mobilisation without creating permanent public market distortions.

4. **Establish large, publicly-mandated secondary funds with strict eligibility criteria.** Public-private secondary initiatives (EIF, Tibi, national sovereign funds) should deploy substantial capital into secondary transactions, but with clearly defined investment criteria ensuring market discipline and strategic alignment. Suggested criteria could include: EU-headquartered companies only, minimum of cumulative capital raised, minimum ARR threshold, etc. Such mandates would create essential supply-side balance in secondary markets. **Critically, current public initiatives focus heavily on the buy-side (deploying capital to acquire stakes), but neglect the sell-side, creating structural imbalance.** Secondary markets require matched liquidity on both sides. Without corresponding seller incentives and supply-side infrastructure, buyer-side capital deployment risks creating illiquid positions and failed price discovery. We recommend the Commission design secondary mandates with explicit sell-side objectives and instruments enabling earlier-stage sellers (primary VC funds, founders) to exit positions at scale.

5. **Embed secondary investment strategies within public-private growth capital programmes.** Europe's largest public-private growth capital initiatives (including EIF-backed funds and national sovereign investment vehicles) should allocate dedicated capital to secondary transactions in technology sectors. This institutional support would catalyse private secondary funds specialising in capital-intensive innovation, a market segment currently absent in Europe despite maturity in the US, where generalist PE firms operate dedicated secondary arms. Secondary programmes should be designed to acquire stakes in unprofitable but high-growth technology companies, providing interim liquidity without forcing premature exits or profitability pivots.