CFA Institute

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EU Commission

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Response to the targeted consultation on private equity exits

CFA Institute welcomes the opportunity to contribute to this consultation.[1] Drawing on the input of over 14,000 CFA charter holders active in our 23 EU-based CFA societies, the Institute mobilizes unique and impartial cross-industry expertise and promotes the highest standards in the investment profession. National CFA societies outside the EU, importantly in Switzerland and the UK, are closely engaged in our EU policy work and contribute a valuable perspective on the integration of European financial markets.

In our response to this consultation, we gratefully acknowledge input by CFA Society Germany, CFA Society Italy and CFA Society Sweden (the latter also covering the issues in the CEE and Baltic countries in particular). This combines input from both the private equity and the broader asset management industry.

Please also refer to recent publication on CFA Institute's Research and Policy Center in the area of private market investing (Private Market Investing | CFA Institute Research & Policy Center), specifically our recent publications on governance in private markets as well as on ethics.

Executive summary: our broad recommendations

Our members strongly agree that the backlog in private equity exits calls for a meaningful policy response. The proposed intermittent trading scheme would be a valuable addition to the EU's market infrastructure. While the norms and practices of private equity markets are very relevant in designing new options, a new platform should not be conceived as a solution for a specific part of the financial sector. Rather, it should be a solution primarily for smaller unlisted firms and equity stakes in such firms, including those held by employees of younger firms. While private markets have no doubt gained ground, the broader reform of equity listing and trading aimed at a revival of IPOs remains direly needed.

[1] With offices in Charlottesville, VA; New York; Washington, DC; Hong Kong SAR; Mumbai; Beijing; Abu Dhabi; and London, CFA Institute is a global, not-for-profit professional association of more than 190,000 members, as well as 160 member societies around the world. Members include investment analysts, advisers, portfolio managers, and other investment professionals. CFA Institute administers the Chartered Financial Analyst® (CFA®) Program.

Innovation in the market infrastructure is hence welcome. The platform should reflect lessons from other jurisdictions, such as the UK or the US, while minimizing scope for national elaboration of what should be a strong, single EU model. Vendors of equity stakes and investors will look for a reliable framework that utilizes as much as possible scale and network economies across the EU's capital market. Given the dearth of SME primary equity issuance, the platform could also develop as an alternative venue for young or small companies raising fresh equity. This should be subject to thresholds that define incentives to ultimately progress to regular public markets.

The proposed scheme entails inevitable compromises: in terms of pre- and post-trade transparency, in more limited price discovery in illiquid markets, and, possibly, in restricting the investor base. Transferring majority ownership without compromising corporate governance should be of paramount importance. In light of an experienced investor base and the demand for equity finance and ownership transfers, we are confident these trade-offs can be negotiated.

Collecting input from our member societies, we respond to the key questions in the public consultation.

Part I: Challenges for private equity exits

We see the barriers to PE exits primarily rooted in deep-seated structural factors, importantly the lack of liquidity in equity markets, and in the cyclical overvaluation of PE stakes *(Questions 1-4)***:**

- The valuation of small and mid-cap equity has diverged between public and private markets for some time. This difference widened further as interest rates increased since 2022, as geopolitical risk weighs more heavily and as business models are disrupted due to AI deployment and de-globalization.
- We see this valuation discrepancy as the principal factor behind the dearth of small and mid-cap IPOs in the principal markets, such as Germany, or a near absence of such IPOs over the past three years in Italy.
- The recent record of many newly-listed companies has also failed to deliver on expectations raised in optimistic business plans, often due to poor communication between prospective issuers and their advisors on the one hand and public market investors on the other.
- A net outflow from actively managed small and mid-cap funds since 2022, which should be the natural buyers of PE-driven IPOs, has further depressed the outlook for public market investors.

- This explains why private equity firms are extending the expiration of funds to avoid forced sales and often are swapping stakes between funds, thereby delaying value recognition.
- The key regulatory barrier is the market fragmentation resulting from the well-known impediments to cross-border marketing and national supervision and business laws. Disclosure requirements of prospective listed SMEs have eased somewhat on the back of the Listing Act, but costs in structuring an IPO are typically higher than for any other funding option, including due to fees for advisors, investment banks, legal advice and management roadshows etc.

A key measure to address lack of liquidity *(Question 2)* would be the mobilization of institutional investors, in particular pension and insurance funds, into private equity. While the expansion of pension funds should be a long-term goal, tax incentives which benefit all prospective SME issuers in the EU, such as the French PME scheme, could be effective in the short term.

The above barriers are particularly problematic in the CEE and Baltic markets, where small firms predominate. Only five companies exited via an IPO across all of the CEE region last year, as the 2025 EIF Equity Survey confirmed that IPOs reached a record low across Europe. For the private equity industry, public offerings represented 44% of CEE exit value in 2024, but this was driven by a single very large transaction. The Baltic exchanges (Nasdaq Tallinn, Riga, Vilnius) have limited free float, low daily volumes, and narrow coverage of issuers. In practice, any listing on a Baltic or smaller CEE exchange tends to serve as a valuation reference point rather than a genuine liquidity event. In the experience of one of our members who represents the leading alternative asset manager in the Baltics, very few exits have been done through a public listing over the last 20 years.

We see this dearth of public listings in the CEE and Baltic region to be rooted in four key structural barriers:

- **Scale mismatch at exit.** Many portfolio companies remain too small to attract international buyers at exit. Given the decline in buyout activity, sellers are left with a narrow, mostly local buyer pool that depresses valuations.
- **Valuation gap.** In bilateral negotiations, seller and buyer price expectations frequently diverge. In small markets with few comparable transactions and no transparent pricing benchmarks, this gap is difficult to bridge.
- **Cyclical timing.** PE fund lifecycles are fixed but exit windows depend on market conditions. The above-cited EIF report confirms portfolio companies have underperformed GP expectations for three consecutive years, and exit prices remain subdued.
- **Geopolitical risk perception.** With the recent geopolitical developments, Western investors have applied a blanket risk premium to the entire CEE and Baltic region,

regardless of individual country fundamentals, with the Baltics countries being disproportionately affected despite security guarantees and strong macro fundamentals.

Part II: Design of the platform for intermittent trading

The new platform cannot succeed in isolation. CFA Institute and contributing national societies believe the EU should update its rules for exchanges and trading venues to improve equity financing for startups and growth companies. Facilitating the cross-border operation of exchange infrastructures, and their ultimate consolidation, should be key objectives. The Commission's Market Integration and Supervision Package ('MISP') provides a sensible approach in this regard, and we hope it can be swiftly implemented.

The growth and practices of the private equity industry need to be reflected in the platform design. The existing standards for exchanges and other trading venues have been sensibly high, given the objectives of fostering price discovery and sound corporate governance. But an additional venue for capital raising and secondary trading outside the public markets, with lower standards, may now be needed. Such an exchange could address the above problems of the exit backlog, inadequate ownership transfers and potentially serve as a venue for fresh equity rounds in primary markets. We suggest the design should be *sui generis*, reflecting the practices in the private equity industry, as opposed to making targeted amendments to the existing frameworks for public market exchanges.

A reliable framework will be key. In terms of the specific regime (*Questions 30-33*), a permanent sandbox (Option C) or a bespoke regime (Option E) should be preferred. The platform will be a major innovation in the European exchange infrastructure and investors and vendors will require predictability, also in light of the lengthy process involved in ownership transfers.

Every effort should be made to avoid the fragmentation of the existing trading infrastructure. Network and scale economies from a small number of distinct platforms could unlock growth and a single pan-European platform would attract the largest number of bidders and vendors, including from outside the EU.

A principle-based legislative act should be the preferred framework (*Questions 35-36*). The operator should get approval by a bespoke authorization under the new dedicated regime for intermittent trading and hence supervised at EU level. This should ensure a high degree of harmonization in national implementation of authorized platforms, ideally eliminating scope for 'gold-plating' by member states. Overall, we advocate erring on the side of efficiency and lighter regulation for reporting, trading and transparency, also in view of the experienced investor base.

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With regard to specific groups of questions:

Buyer universe, competition, and ownership control *(Questions 17, and 21-26)*

It is important that companies and selling shareholders retain the right to restrict who can participate in a trading event. The disclosure package by a prospective vendor will contain commercially sensitive information. Strategic buyers often represent the highest willingness to pay. Granting such competitors access to information under a non-disclosure agreement (NDA) even though an eventual sale remains uncertain may create unacceptable competitive risks. If strategic buyers are admitted to the new trading platform, transactions above certain thresholds will require merger control filings, introducing a condition precedent that changes the timeline and creates uncertainty for the prospective investor. The platform should therefore accommodate conditional bids and extended settlement. It would also be appropriate to allow companies to cap the number of buyers or define minimum ticket sizes to prevent excessive ownership fragmentation.

Corporate governance: the majority stake problem (*Questions 17, 24-27 and 72)*

The platform appears well suited for minority stakes but requires careful design if majority stakes are to be transacted. Accommodating majority stakes would considerably enhance the platform's utility as an exit option for private equity funds. Yet, the governance implications are profound and raise a number of concerns.

In a typical buyout in the CEE region, a private equity fund may hold 70%, occupy supervisory board seats, approve the annual budget, select and replace senior management, and actively drive value creation. If such a controlling stake is sold through the platform and acquired by a number of institutional investors no single buyer may have the scale or incentive to perform the governance role the PE fund previously performed. It may be difficult to allocate board seats. Budget approval and management oversight may become impractical. The nature of the company would change from one controlled and actively governed by a PE fund to a widely held one, but without the regulatory protections normally imposed on public companies, such as listing rules, continuous disclosure or market oversight. This loss of an active controlling shareholder may materially damage company value. The platform's rules should therefore address:

- whether majority stakes can be sold (and under what conditions);
- how board nomination rights, reserved matters, and veto rights transfer to new holders; and
- whether a lead investor or consortium arrangement is appropriate for controlling stake transactions.

The market model and trading windows *(Questions 15, 17 and 39-43)*

In an evolving market in which private assets gain ground, platform operators will be best-placed to decide on the appropriate trading system. A mix of trading systems and trading frequencies will likely emerge across different platforms. Trading ranges will help find a suitable valuation and will be preferred by both vendors and bidders.

In the absence of ample liquidity, a rigid calendar-based schedule (weekly, monthly) would be poorly suited to private markets as vendor liquidity needs are driven by specific events: fund maturity, LP distribution requirements, management transitions, follow-on capital needs. Trading events should therefore be triggered by shareholders' actual needs, subject to the company's agreement. An appropriate lead time ahead of an auction should allow preparing disclosure materials, contacting eligible buyers and sufficient time for scrutiny. It would also be appropriate to allow companies to set floor and ceiling prices for traded shares and determine the duration of trading windows.

Investor and company eligibility *(Questions 21-26)*

We advocate keeping eligibility requirements as broad as possible to reap possible scale and network benefits of the platform.

- All privately-held (unlisted) companies should in general be allowed access to the trading platform if they meet certain pre-trade disclosure standards. There should not be a minimum threshold of equity shares, so that employee stakes can be easily divested as well.
- Similarly, all professional investors should in principle be admitted, albeit subject to restrictions set by vendors in the interest of retaining corporate control and facilitating a transfer of majority ownership.
- Retail investors should invest only via the relevant funds, such as the ELTIFs, which hold private assets.
- In the interest of facilitating ownership transfers in smaller and unlisted enterprises qualified individuals (e.g. individual entrepreneurs) should also be admitted to bidding in auctions on the platform. These individuals could be those deemed to be 'elective professionals', though their access would likely be indirect through a broker. For this to be possible, client classification under MiFID may need to be adapted.

Transparency, disclosure and confidentiality *(Questions 44-48, 58 and 71)*

Adequate disclosure of company specific information will be a key factor for the success of this novel exit route. While deliberately less onerous than in the case of IPOs, minimum standards should be required in secondary legislation with the objective of ensuring a fair valuation assessment; this could possibly be augmented by platform-specific requirements. At the same time the interest of privately-held vendors of equity stakes will need to be respected, e.g. commercially sensitive information in case the transaction fails to materialize.

- Before each trading event, the vendor should prepare a concise, standardized disclosure package covering an overview of its business, financial information, capital structure and ownership, material contracts, and key risk factors. Specifically, this should include at least 3 annual reports, ESG data, company background information incl. CVs of management and board and a set of financial KPIs.
- This should be a process whereby investors should be able to incrementally request more information
- A staggered process of disclosures could be considered, whereby bidders falling outside the target price range are eliminated in subsequent stages.
- Confidentiality could be safeguarded. All bidders should be subject to a standardized, platform-level NDA before accessing any company information. Information should be within a confined 'deal room', though with legal responsibility of the company on the correctness of data.

With respect to post trade information, bidders, including unsuccessful ones, should price transparency over eventual valuation.

Due diligence and risk allocation *(Questions 17 and 44)*

Multiple parallel buyer due diligence (DD) processes are impractical on a multilateral platform. Vendor due diligence (financial, legal, tax) should serve as the baseline, made available to all eligible bidders. Buyers could be permitted limited supplementary DD (management presentations, expert sessions) within defined parameters. Representations and warranties could be standardized and covered by warranty and indemnity insurance, giving the seller a clean exit without contingent liabilities and the buyer adequate protection. This approach aligns with the platform's goal of standardized, efficient transactions. Information sharing between investors and vendors could be organized and shared through 'deal rooms' customary in M&A transactions. New technologies, such as AI agents, could speed up investor due diligence while preserving vendor confidentiality rights.

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Investor protection *(Questions 3-4, 59-61 and 72)*

Safeguards against market abuse will be a critical factor for the acceptance of such a platform. Clear new detailed rules with high standards should apply and standard protections as customary in the private equity industry should be incorporated into the platform framework:

- drag along and tag along rights for majority and minority shareholders;
- anti-dilution protections where primary issuance occurs alongside secondary trading; and
- safeguards against information asymmetry, including mandatory certification that participants do not hold material non-public information beyond the standardised disclosure.

Where insiders (management, board members, controlling shareholders) participate as buyers or sellers, additional safeguards would be appropriate, such as enhanced disclosure and cooling off periods.

Clearing and Settlement *(Questions 67-70)*

The new platform will need to design a bespoke trading model in the context of untested bidders and illiquid and infrequent transactions. This seems incompatible with the concept of central clearing, which depends on scale, immediacy of transactions and wide backing by market participants. Initially, settlement risk will therefore need to be borne by parties with access to the platform. It is clear that bilateral settlement will be harder to supervise and could create legal tensions, potentially damaging the reputation of the platform as such.

Rules on financial promotion *(Question 71)*

A clear legal and technical framework widely accepted by eligible participants would be the biggest incentive to transact on the platform, also in light of the urgent need of the PE industry to find new exit routes. We do not believe that specific rules on promotion by platforms would be needed, in particular as the experience with alternative platforms would quickly be shared among the relevant professional communities, e.g. entrepreneurs and growth company staff with equity options on the vendor side, or professional investors on the buy side.

Part III: use of the platform for raising fresh equity capital *(Questions 74-81)*

We suggest the platform should also function as a venue for primary equity raising.

The trading platform could add additional opportunities from new investors but initially impose fewer costly procedures compared to an IPO at a standard exchange.

This will attract suitable SMEs which clearly currently do not find the existing exchanges relevant for equity financing. In smaller markets, such as in the CEE and Baltic region, accessing growth capital through a standardised platform could be materially more efficient than bilateral private placements. The platform could fill a genuine gap for companies that are too small for an IPO but nevertheless seek growth equity.

Primary equity raising on the platform could in any case be a good signal ahead of a subsequent IPO and a more trusted investor determination of valuation. Dedicated EU rules would be supportive of investors' trust in the vendor and broader acceptance of the platform. Such rules should cover reporting standards, rules for market abuse and transparency on the business model and management/board. In order for this function of the platform to not encroach on regular exchanges, there should be limitations, possibly by size, with a clear transition to trading and disclosure standards on the regular exchanges.

Companies previously transacting through the platform could approach the same investors when further growth raises the need for additional equity finance. This could be particularly relevant for young and innovative companies, which often use share options as part of employee compensation.

At the same time, primary issuance and secondary trading functions of the platform should remain independent: companies should not to be compelled to open their shares for secondary trading as a condition for raising fresh capital or vice-versa.

Additional suggestions: incorporating experience from similar platforms in other jurisdictions and utilizing synergies (*Question 82*)

The Commission's initiative rightly seeks to strike a balance between growing importance of privately-held equity stakes on the one hand and the need for equity trading and capital raising on the other.

In designing the platform, other jurisdictions may offer valuable lessons. The United Kingdom recently launched its Private Intermittent Securities and Capital Exchange ('PISCES') where to date two small transactions have been made on two authorized exchanges.

The NASDAQ Private Market has been more active, crucially also for employee equity stakes. This experience underlines the potential relevance of the new EU platform for young and innovative companies, which should be developed more fully. Such companies would be particularly attracted to raising additional growth equity on the platform, and the workforce in the sector might seek to divest employee share options on it. Linkages to the data sharing platforms (the ESAP) for disclosure or to the simplified business law under the 28th regime could make the new platform a further element of a more innovation and growth-supportive regulatory framework.

Thank you for your consideration of our views and perspectives.

Sincerely,

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