



Bundesverband Deutscher
Kapitalbeteiligungsgesellschaften

Press Releases

SPD Report 'Social Democratic Responses to the Financial Crisis'

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Comments by the German Private Equity and Venture Capital Association (BVK)

This evening the Social Democratic Party of Germany (SPD) will be presenting its report on 'Social Democratic Responses to the Financial Crisis' in Berlin. The working party, composed of a broad spectrum of experts, has made some notable statements in this paper. The BVK welcomes its accurate analysis of the causes of the crisis in the financial markets, from which it is clear that its authors have at least carefully analysed and accurately assessed the dysfunctions in the financial markets. Trust between the main players in these markets has been seriously compromised by poor risk, capital and liquidity management on the part of the banks. Sustainable recovery must be achieved, which will necessitate supervisory initiatives for financial institutions. To a large extent, the proposals of the working party aimed at preventing a crisis are rightly concerned with the provision of liquidity and equity capital, increased obligations governing the preparation of balance sheets, ensuring that issuers of structured financial products bear a certain share of the risk, and the conduct of those working in the financial sector.

The comments on other forms of cooperation involving supervisory authorities and rating agencies at national and international level also demonstrate an appropriate level of analysis. Indeed, all of these regulations affect the very financial institutions which have contributed to an escalation of the crisis. Up to this point, the BVK welcomes the sound way in which the working party has tackled the cause of the crisis and the possible action to be taken.

The comments on private equity, on the other hand, appear blunt and with no real factual connection to the analysis of the crisis: the authors attempt to sell the statements of the former Vice-Chancellor Franz Müntefering on the activities of the private equity sector in Germany (previously dubbed the 'locust debate') – which have no basis in fact and owe a certain amount to election polemics – as a visionary achievement and evidence of Social Democratic foresight in the area of fiscal policy. The passages on the two bills from the current legislative period – the Venture Capital Investment Act (WKBG) and the Risk Limitation Act – seem, indeed, totally out of place in this otherwise largely pertinent discussion of the situation. The attempt to establish factual connections between private equity firms and their activities and the causes and effects of the crisis in the financial markets appear nothing other than demagogic input as far as the paper is concerned.

Nor can the link which is made by the SPD between the share in the profits of successful investments enjoyed by private equity managers (carried interest) and the causes of the crisis be established. Remuneration factors in general, particularly in financial institutions, may indeed have played their part in helping to bring about this calamity. But the share in profits of private equity managers can certainly not be suspected of being an underlying cause of the short-term excesses in financial institutions. On the contrary: after all, this share in the profits enjoyed by private equity managers depends on the success of their funds, which have an average term of 10 years, and is therefore anything but short-term in nature. One cannot help but suspect that the SPD is keen to breath life once again into its locust debate, which has long since had its day, as some sort of perennial theme of its election rhetoric.

This is particularly regrettable given that, far from causing the crisis in the financial markets, private equity has instead rather been a victim of it as a borrower. As the availability of outside capital appears increasingly problematic, it may even prove beneficial for many companies to be able to fall back on private equity funds to secure their survival. The question of how much equity capital a private equity fund invests in a target company is the responsibility of the fund management alone. Takeovers financed



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predominantly by equity capital are possible (such as, for instance, the recent acquisition of SGB Starkstrom by the private equity firm BC Partners). This being the case, it is impossible to comprehend why the measures proposed in the 'Social Democratic Responses to the Financial Crisis', which are clearly aimed at restricting private equity business in Germany, are to be sold as a sensible contribution to a solution. Private equity is not a part of the problem, but may very well represent a solution in many cases, particularly in times when outside capital is not readily available. It cannot be in the interests of German companies and employees to preclude this form of financing when attempting to secure their commercial outlook. Four out of five companies financed by private equity in Germany have turnovers of less than Euro 10 million and fewer than 100 employees. For these medium-sized companies in particular, private equity is an important alternative form of funding.

Implementing the six proposals which relate to private equity funds will cut Germany off in the long term from the urgently needed inflow of private equity and venture capital funding. As a leading export nation and one which profits more than most from much-berated globalisation, this is something which the Federal Republic of Germany can ill afford. When the financial crisis has been and gone, the provision of capital for companies will, more than ever, be a globally organised and regulated process with international players.

One does not make a constructive contribution to finding genuine solutions to overcoming the crisis in the financial markets by seeking out scapegoats which are anything but.

Efforts by the BVK to promote transparency and traceability in private equity transactions in Germany – such as for instance the detailed statistics provided by the association, the recently published transparency guidelines of the BVK Large Buyout Group and the database project of this same group on major transactions in Germany, which is unparalleled anywhere in the world – provide the public as well as political decision-makers with an opportunity to grapple constructively with the actual ramifications of private equity. The private equity and venture capital sector in Germany will continue to welcome unbiased discourse at any time in the future. The pressing problems of the globally generated crisis in the financial markets necessitate bona fide attempts to find solutions by those responsible, and should not be used to try to resurrect the hoary old locust debate for reasons of political rhetoric.