



# Perspective on the Austrian capital market and potential ideas for further strengthening



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# Topics of this document

I Benefits of a well functioning capital market for the real economy

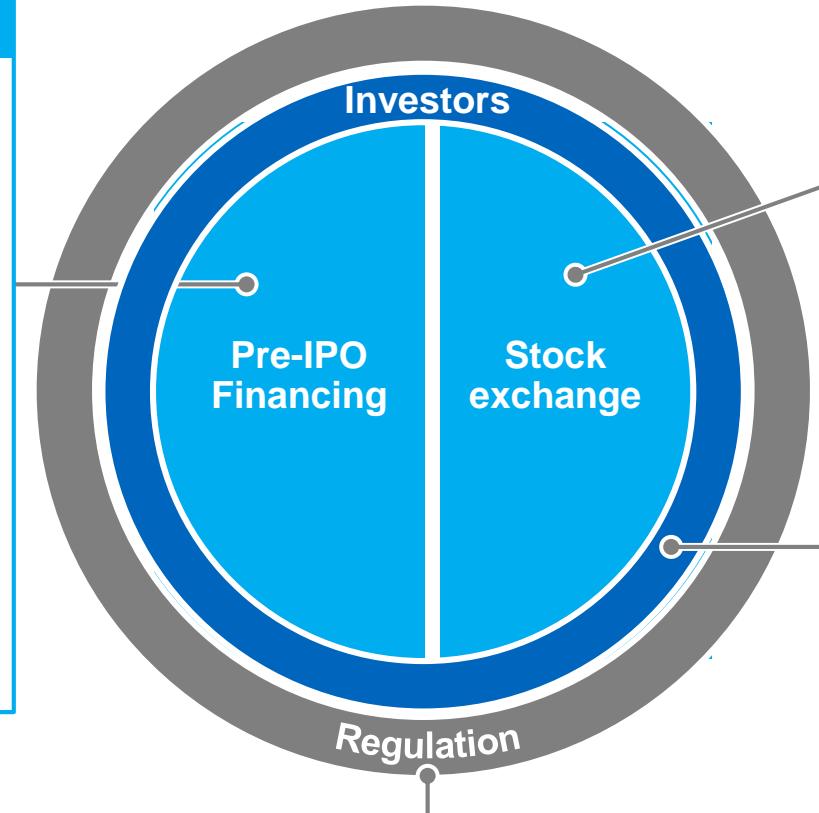
II Perspective on the status quo of the Austrian capital market

III 9 ideas how to strengthen the Austrian capital market

# 4 key elements define a well functioning capital market

## Attractive pre-IPO financing ecosystem

- How can the Austrian capital market **remain first choice** for all companies with an Austrian nexus seeking access to equity and debt markets?
- What are **measures to attract additional investors** (e.g., PE, VC) to Austria?
- How can the Austrian capital market become **more competitive with a level playing field** for banks/investors etc.?



## Supporting regulation and tax environment

- How is the Austrian taxation compared to other capital market?
- What are other **supporting regulatory measures**?

## Highly performing exchange

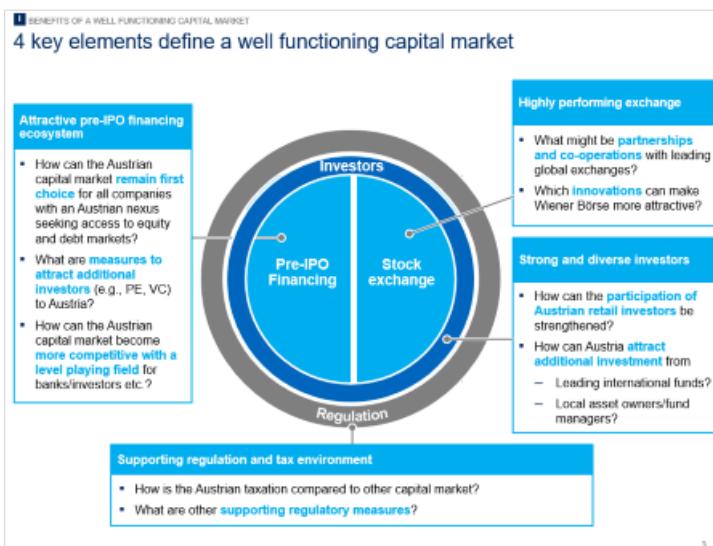
- What might be **partnerships and co-operations** with leading global exchanges?
- Which **innovations** can make Wiener Börse more attractive?

## Strong and diverse investors

- How can the **participation of Austrian retail investors** be strengthened?
- How can Austria **attract additional investment** from
  - Leading international funds?
  - Local asset owners/fund managers?

# A well functioning capital market is important for the real economy – high performing stock exchange of paramount importance

## A well functioning capital market is important for the real economy



## Key benefits of a well functioning capital market (selected examples)



**Growth catalyst for the real economy**, as it provides (growth) companies with access to domestic and foreign investors



Helps to originate **funding for future technologies and industries**, such as biotech, med-tech and sustainable energy



Establishes a **transparent, trustful, reliable, fair and regulated environment for investments**



Provides investors with broad investment opportunities and **contributes significantly to wealth growth** of the Austrian population

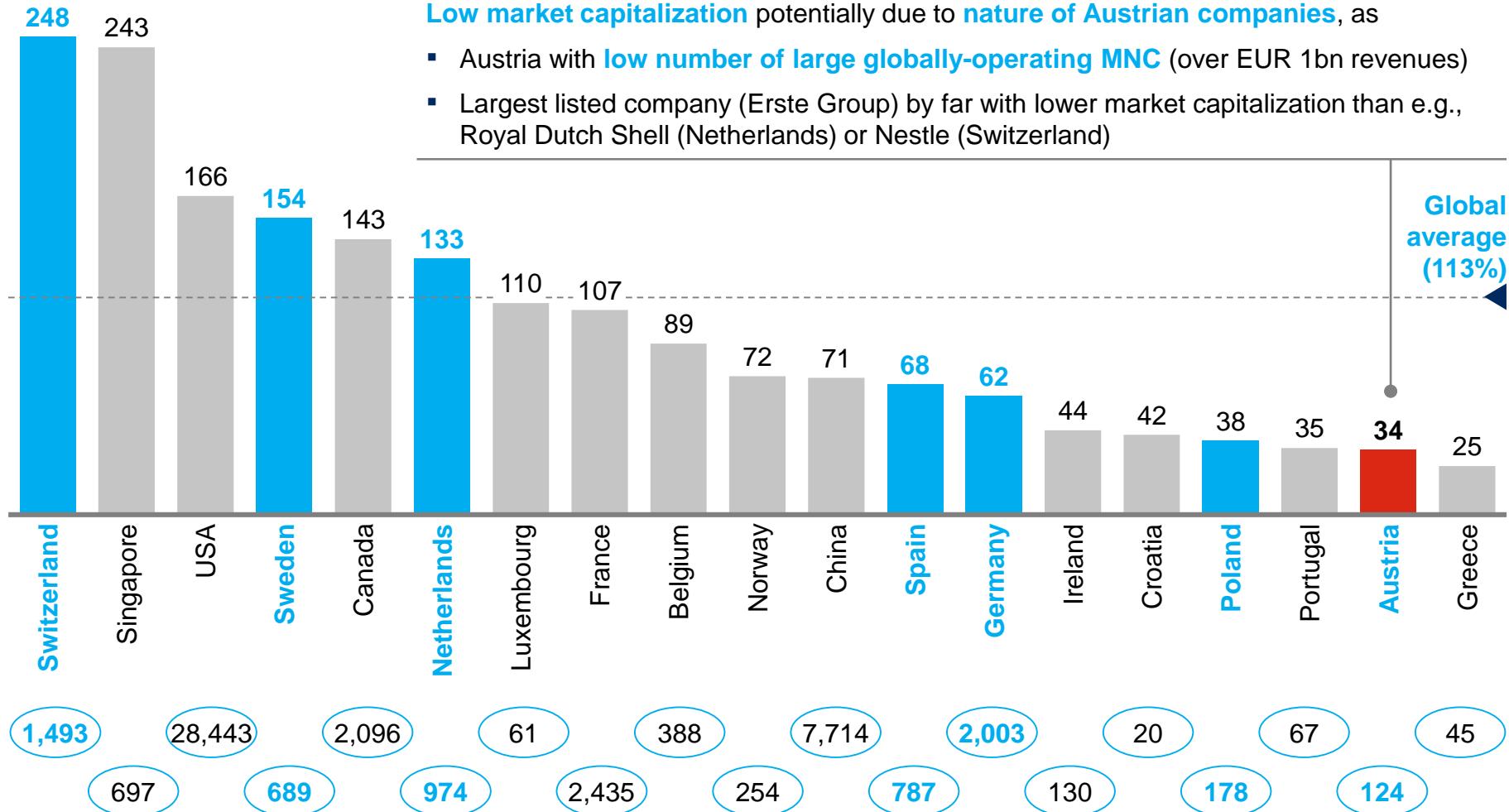


Helps to **minimize transaction and information costs**

# In relation to its GDP, Austria's equity market capitalization with 34% is considerably lower than the global average of 113%

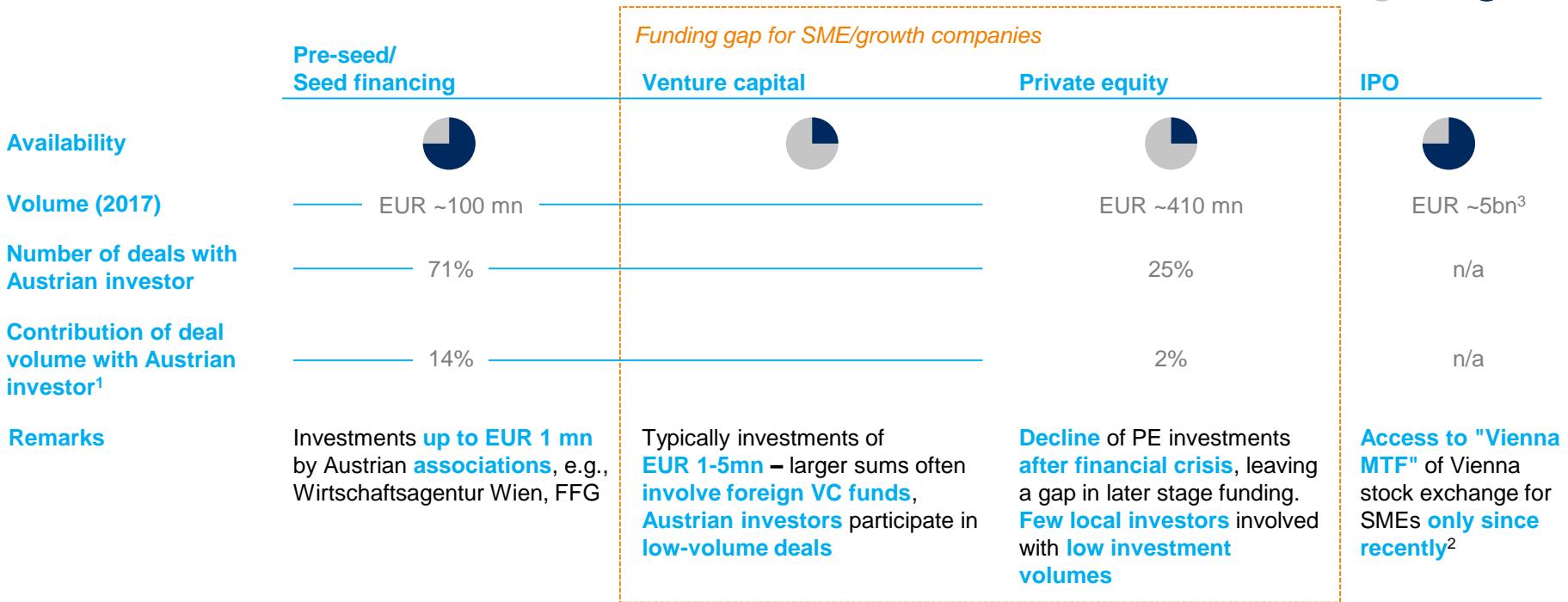
Market capitalization in relation to GDP, in %, 2017

xxx Market capitalization, in EUR bn  
Peers selected for benchmarking



# After initial seed financing, the domestic pre-IPO ecosystem for growth companies is weak in Austria

 Low  High



## Remarks

- **High number of start-ups** in Vienna due to favorable social environment as well as **governmental support** e.g. by Austria Wirtschaftsservice and FFG
- However **small market for pre-IPO financing**, due to **limited availability of domestic VC and PE funds**, potentially due to unfavorable incentives, e.g.,
  - **Double taxation of equity gains** at corporate and investor level, favoring debt investments vs. equity investments
  - Regulatory investment **restrictions for institutional investors** (e.g., insurers, pensions funds)
  - No tax relief for losses, **no tax deduction for operating costs** and due diligence costs for VC/PE funds

1 Based on capital invested in deals with Austrian involvement vis-a-vis deals without Austrian involvement; 2 Trade of "Inhaberaktien" forbidden since 2011 and only possible to trade "Namensaktien" on "Vienna MTF"; legislative initiative by Bundesministerium für Finanzen in fall 2018 resulted in re-opening for SMEs in 2019

3 Domestic IPOs in regulated market in 2017 (BAWAG and CLEEN), amounting to EUR ~5bn; in 2019 increase in IPOs

# Financial education in Austrian schools can be strengthened – potentially one reason of low level of private household investments

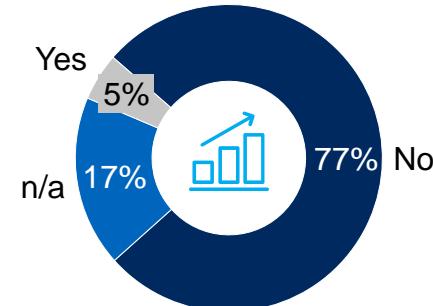
**85%**

of Austrians would **only consider investment** in stocks if they had **superior financial knowledge** in capital markets ...,

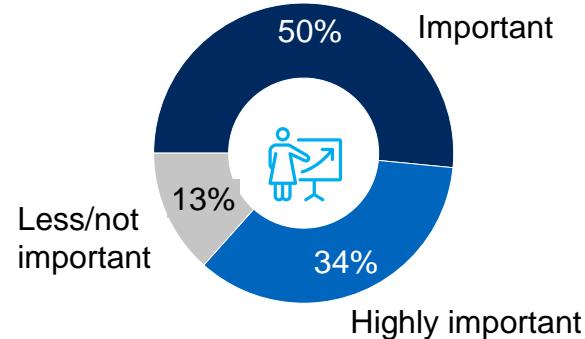


... however, **financial education** in Austria is currently evaluated as **insufficient**

“ Is financial education in high schools sufficient? ”



“ I consider enhanced financial education in school as ... ”



*Results of a study by Wiener Börse with the objective to capture the perceived financial literacy of Austrians, August 2017, N = 800*

## Remarks

Some **financial education activities already exist**, but only with limited scope and driven by single FIs, e.g.,

- “**Geldundso**”-Schulpaket, which are learning material for Sekundarstufe 1, sponsored by **ERSTE Bank**
- “**Börse und Kapitalmarkt**” presentation over stock exchanges and capital markets for schools by Wiener Börse

# 9 potential ideas to strengthen the Austrian capital market have been developed

Key needs	Prioritized ideas
A Attractive pre-IPO financing ecosystem	1 Strengthen <b>growth funding</b> 2 Launch <b>platform</b> to connect investors with entrepreneurs
B Strong and diverse investor base	3 Develop <b>financial education plan</b> to increase financial literacy 4 Implement " <b>Dritte Säule</b> " in pension funds and fuel private pension contribution
C Supporting regulation and tax scheme	5 Foster <b>retail investments</b> through tax incentives 6 Foster <b>institutional investments</b> through tax incentives 7 Further strengthen <b>corporate governance</b>
D Highly performing stock exchange	8 Establish <b>selected leading niche markets</b> 9 Improve conditions for <b>SME/Mid Corps financing</b>

# Since our study in 2018 first activities have already been started

## Key needs

**A** Attractive pre-IPO financing ecosystem

**B** Strong and diverse investor base

**C** Supporting regulation and tax scheme

**D** Highly performing stock exchange

## Prioritized ideas

- 1 Strengthen **growth funding**
- 2 Launch **platform** to connect investors with entrepreneurs
- 3 Develop **financial education plan** to increase financial literacy
- 4 Implement "Dritte Säule" in **pension funds and fuel private pension contribution**
- 5 Foster **retail investments** through tax incentives
- 6 Foster **institutional investments** through tax incentives
- 7 Further strengthen **corporate governance**
- 8 Establish **selected leading niche markets**
- 9 Improve conditions for **SME/Mid Corps financing**

## New activities since 2018 (examples)

- Digital minister Schramböck announced a **start-up initiative**, which aims to **incentivize foreign investors**
- Austrian Banking Association launches '**European Money Quiz 2019**' in order to **improve students' individual financial literacy**
- Vienna University of Economics and Business (in corporation with Berndorf Privatstiftung) launches an **education program in the fields of finance, economics and business law for young people**
- Wiener Börse is opening the segments 'direct market plus' and 'direct market', **targeting easy and low-costs IPO for local SMEs**
- **Easing of the conditions for quarterly reporting** in the top segment of the Wiener Börse – **exempted from the 1<sup>st</sup> and 3<sup>rd</sup> quarters** as well as **flexible design of the reports**, adjustment to international stock exchanges

# Strengthening growth funding and launching a market platform creates attractive pre-IPO financing ecosystem for SMEs and start-ups

	Description	Best practice examples
1 1	<ul style="list-style-type: none"> <li>▪ Strengthen <b>growth funding</b> to fuel Austrian SMEs/start-ups,             <ul style="list-style-type: none"> <li>– <b>Directly invest equity</b> in SMEs/start-ups to provide early stage financing</li> <li>– <b>Provide loans/guarantees</b> to SMEs/start-ups to fuel growth</li> <li>– <b>Investing in private funds</b>, which invest specifically in SMEs/start-ups</li> </ul> </li> <li>▪ Establish <b>corporate fund</b> with <b>SMEs as dedicated investment objective and target group</b></li> </ul>	   Polish Growth Fund
		
		 DB1 Ventures
2 2	<ul style="list-style-type: none"> <li>▪ Launch <b>platform to connect investors (e.g., VCs and HNWIs) with entrepreneurs</b> – potential scope even for CEE would ensure significant scale             <ul style="list-style-type: none"> <li>– Point out potential investment opportunities from early to late growth stages</li> <li>– Facilitate funding process</li> <li>– Organize dedicated networking events for investors and entrepreneurs</li> </ul> </li> <li>▪ Support <b>founders and entrepreneurs</b> with e.g.,             <ul style="list-style-type: none"> <li>– Infrastructure and office space</li> <li>– Management and legal advice</li> </ul> </li> </ul>	   Deutsche Börse Venture Network
		 softwarepark hagenberg

# Improving financial literacy and fueling private pension contribution strengthens investor base

	Description	Best practice examples
3 Develop financial education plan to increase financial literacy	<ul style="list-style-type: none"> <li>▪ <b>Financial education</b> as mandatory subject in <b>national education plan</b> – therefore, e.g., <ul style="list-style-type: none"> <li>– Provide learning material and <b>compulsory financial classes</b> for students</li> <li>– Offer <b>training courses for teachers</b></li> <li>– Organize <b>school competitions</b></li> </ul> </li> <li>▪ Conduct <b>corporate program</b> to improve financial literacy<sup>1</sup> <ul style="list-style-type: none"> <li>– Corporate employees can <b>visit schools/universities</b> and <b>give lectures</b> about specific finance topics as well as <b>share practical examples</b></li> <li>– Develop <b>online app</b> to establish a learning and mentoring platform</li> </ul> </li> </ul>	 Nationwide financial education plan  MY FINANCE COACH  JPX
4 Implement "Dritte Säule" in pension funds and fuel private pension contribution	<ul style="list-style-type: none"> <li>▪ Strengthen "<b>Dritte Säule</b>" in pension scheme e.g., <ul style="list-style-type: none"> <li>– Continue and <b>further promote "prämienbegünstigte Zukunftsvorsorge"</b></li> <li>– Establish <b>voluntary private pension plan</b> e.g., amount of contribution of employers is matched by employer or government</li> </ul> </li> <li>▪ Make <b>investment of pension funds</b> in capital market <b>mandatory</b> e.g., <ul style="list-style-type: none"> <li>– Determine specific <b>investment ratio</b> of pension funds<sup>2</sup></li> <li>– Support specific investments by government through e.g., through <b>tax exemptions</b> or guarantees on high-risk investments</li> </ul> </li> </ul>	 Introduction of fund investments as 3 <sup>rd</sup> pillar in pension system

<sup>1</sup> Complementing government-driven national financial education plan; <sup>2</sup> E.g., ratio of investments in e.g., capital market products, domestic companies

# Implementing tax incentives fosters retail and institutional investments – window of opportunity as tax reform is expected for 2019

	Description	Best-practice examples
5 Foster retail investments through tax incentives	<ul style="list-style-type: none"> <li>▪ Create <b>positive tax environment</b> to foster retail investments, e.g.,           <ul style="list-style-type: none"> <li>– Decrease of "<b>Kapitalertragssteuer</b>" on capital market gains</li> <li>– Increase <b>tax allowance for gains</b> on capital market investments</li> <li>– Introduce <b>tax break for long-term investments</b></li> <li>– Offer <b>tax reliefs for retail investments</b> into domestic SMEs/start-ups</li> </ul> </li> <li>▪ <b>Attract foreign (HNWI) investments</b> to Austrian capital market</li> </ul>	 Support start-up investments  Golden visa program  Investor visa
6 Foster institutional investments through tax incentives	<ul style="list-style-type: none"> <li>▪ Provide <b>tax reliefs/exemptions for institutional investments in SMEs and start-ups</b> (for both foreign and domestic institutional investors) including e.g.,           <ul style="list-style-type: none"> <li>– Partial or full tax relief on <b>corporate income tax</b> (for a specific time period)</li> <li>– Partial or full tax relief on <b>dividends</b>, interest, and royalty paid</li> </ul> </li> <li>▪ Adapt taxation level on "<b>Eigenkapitalkosten</b>" and "<b>Fremdkapitalzinsen</b>", as currently only interest rates of FK can be deducted</li> </ul>	 Partial/full corporate income tax relief for 10 or 13 years respectively 
7 Further strengthen corporate governance	<ul style="list-style-type: none"> <li>▪ <b>Further strengthen corporate governance</b> by, e.g.,           <ul style="list-style-type: none"> <li>– Increasing required <b>qualification of board members</b></li> <li>– Professionalizing <b>selection process of board members</b></li> </ul> </li> </ul>	 Break-up of "Deutschland AG"

# Creating leading niche markets and improving conditions for SMEs could bring Wiener Börse on the next S-curve

	Description	Best-practice examples
8 Establish selected leading niche markets	<ul style="list-style-type: none"> <li>First ideas for potentially interesting <b>niche market</b> include<sup>1</sup>, e.g.,           <ul style="list-style-type: none"> <li>Become European platform/index for <b>family owned companies</b></li> <li>Become hub for <b>specific asset class/product segment</b></li> </ul> </li> </ul>	 <b>SIX</b> Swiss Exchange
9 Improve conditions for SME/ Mid Corps financing	<ul style="list-style-type: none"> <li>Austrian SMEs should be allowed to <b>join "Vienna MTF "</b><sup>2</sup> – legislative change necessary that <b>allows trade of Inhaberaktien</b></li> <li>Facilitate listing on <b>regulated market</b> of Wiener Börse (currently perceived as <b>too expensive</b> and <b>complicated for SMEs</b>) through launch of dedicated SME segment</li> </ul> <p><b>Note:</b> Wiener Börse launched SME segment (direct market and direct market plus) in 2019 following a legislative initiative by Bundesministerium für Finanzen<sup>3</sup></p>	 <b>DEUTSCHE BÖRSE</b> SCALE  <b>AIM</b> London Stock Exchange  <b>ENTERNEXT</b>  <b>NASDAQ OMX</b> FIRSTNORTH

1 Especially relevant if Wiener Börse becomes part of a larger stock exchange

2 "Vienna MTF " as attractive entry market for SMEs due to lower entry barriers (i.e., fewer accounting requirements) than on regulated market

3 Trade of "Inhaberaktien" forbidden since 2011 and only possible to trade "Namensaktien" on "Vienna MTF "; legislative initiative by Bundesministerium für Finanzen in fall 2018 resulted in re-opening for SMEs in 2019