



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



Discussion document | January, 2020

Topics of this document

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

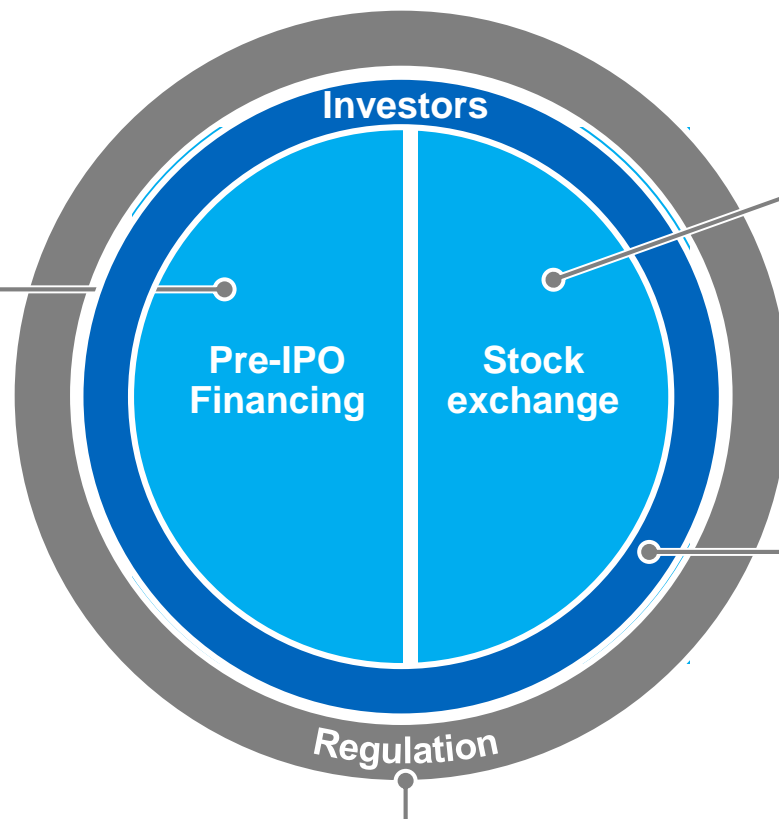
II Perspective on the status quo of the Austrian capital market

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.?



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?

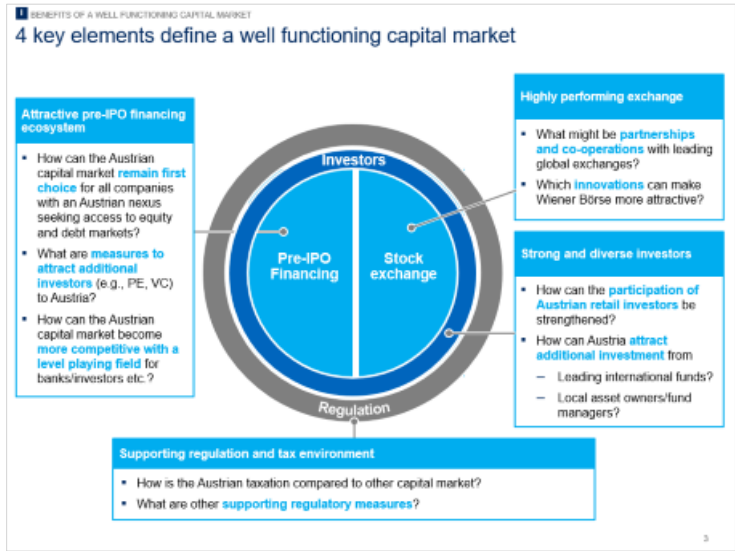
Supporting regulation and tax environment

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

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 catalysator 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 bio-tech, 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

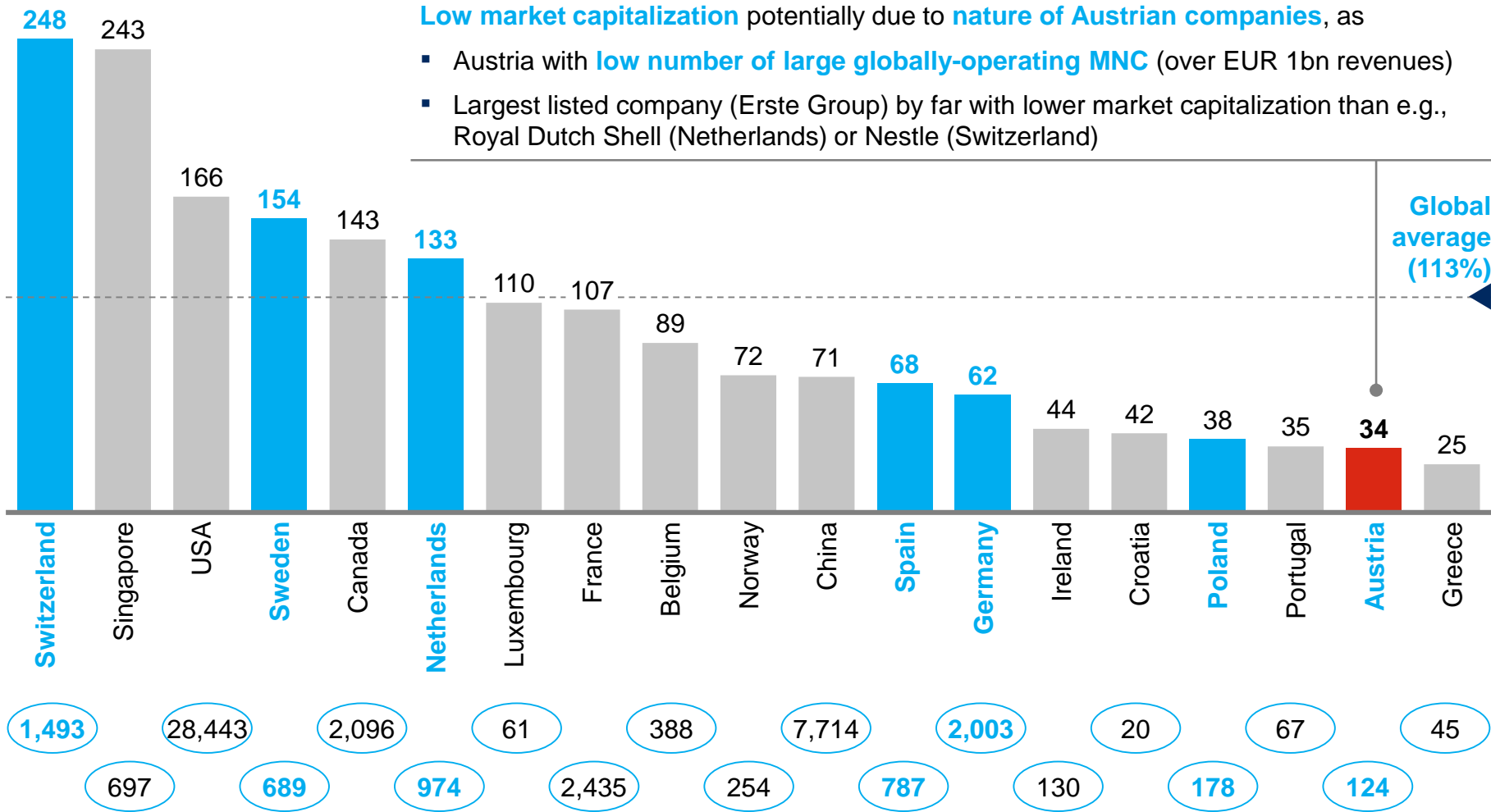


Helps to **minimize transaction and information costs**

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

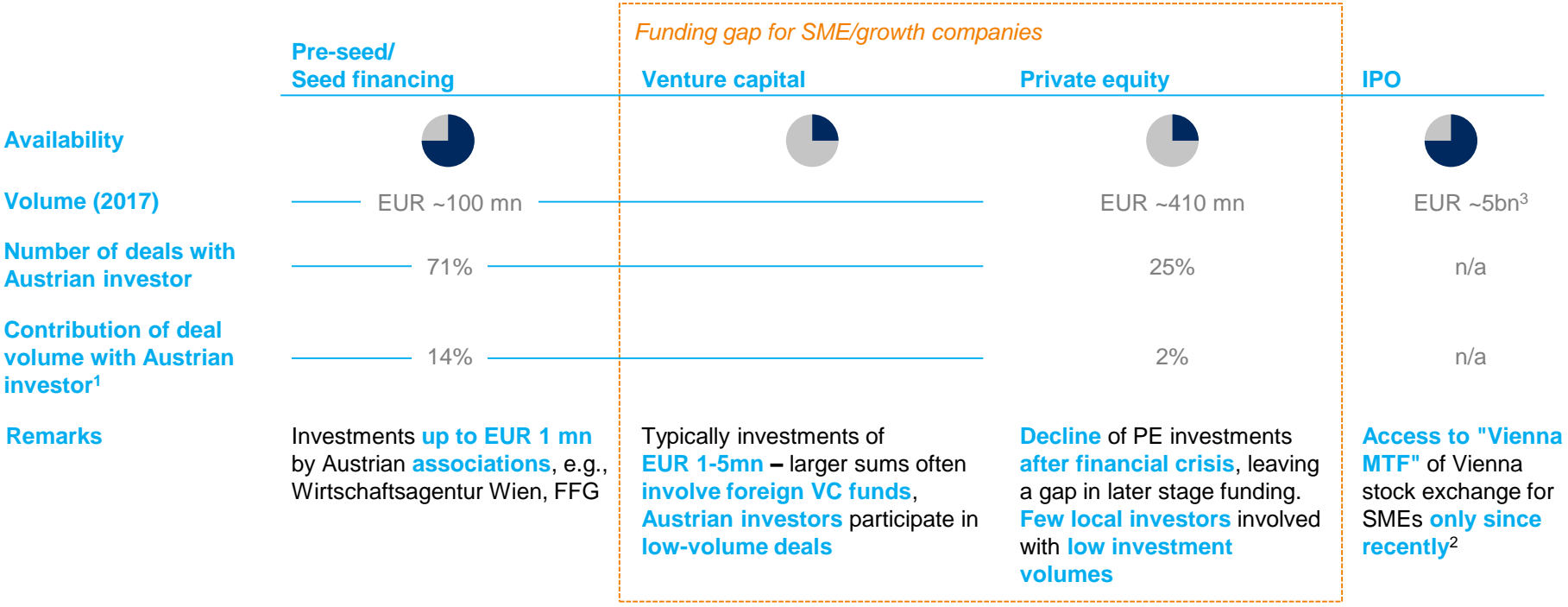
Market capitalization in relation to GDP, in %, 2017

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
 SOURCE: IMF; World Economic Outlook Database (GDP); Invest Europe; EDC; Dealroom; Country deep-dive analysis – Austrian FinTech ecosystem - Q22018 by INVYO SAS (as of June 2018); Pitchbook; Press search

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

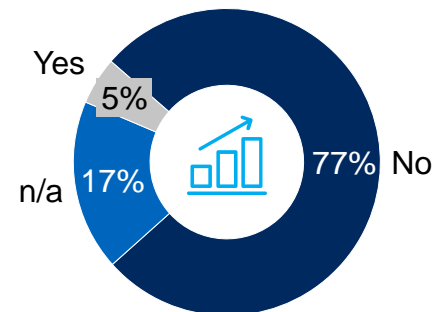
85%

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

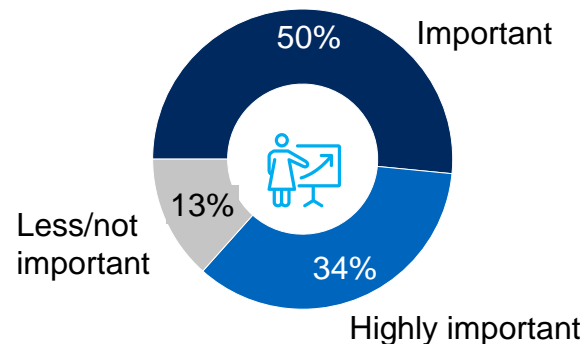


... however, **financial education** in Austria is currently evaluated as **insufficient**

” **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 **growth funding**

2 Launch **platform** to connect investors with entrepreneurs

B Strong and diverse investor base

3 Develop **financial education plan** to increase financial literacy

4 Implement "**Dritte Säule**" in pension funds and fuel private pension contribution

C Supporting regulation and tax scheme

5 Foster **retail investments** through tax incentives

6 Foster **institutional investments** through tax incentives

7 Further strengthen **corporate governance**

D Highly performing stock exchange

8 Establish **selected leading niche markets**

9 Improve conditions for **SME/Mid Corps financing**

Since our study in 2018 first activities have already been started

Key needs	Prioritized ideas	New activities since 2018 (examples)
<p>A Attractive pre-IPO financing ecosystem</p>	<p>1 Strengthen growth funding</p>	<ul style="list-style-type: none"> Digital minister Schramböck announced a start-up initiative, which aims to incentivize foreign investors
<p>B Strong and diverse investor base</p>	<p>2 Launch platform to connect investors with entrepreneurs</p> <p>3 Develop financial education plan to increase financial literacy</p> <p>4 Implement "Dritte Säule" in pension funds and fuel private pension contribution</p>	<ul style="list-style-type: none"> 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
<p>C Supporting regulation and tax scheme</p>	<p>5 Foster retail investments through tax incentives</p> <p>6 Foster institutional investments through tax incentives</p> <p>7 Further strengthen corporate governance</p>	<ul style="list-style-type: none"> Wiener Börse is opening the segments 'direct market plus' and 'direct market', targeting easy and low-costs IPO for local SMEs
<p>D Highly performing stock exchange</p>	<p>8 Establish selected leading niche markets</p> <p>9 Improve conditions for SME/Mid Corps financing</p>	<ul style="list-style-type: none"> Easing of the conditions for quarterly reporting in the top segment of the Wiener Börse – exempted from the 1st and 3rd 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

Strengthen growth funding

- Strengthen **growth funding** to fuel Austrian SMEs/start-ups,
 - **Directly invest equity** in SMEs/start-ups to provide early stage financing
 - **Provide loans/guarantees** to SMEs/start-ups to fuel growth
 - **Investing in private funds**, which invest specifically in SMEs/start-ups
- Establish **corporate fund** with **SMEs as dedicated investment objective and target group**



Polish Growth Fund

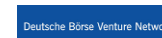


DB1 Ventures

2

Launch platform to connect investors with entrepreneurs

- Launch **platform to connect investors (e.g., VCs and HNWIs) with entrepreneurs** – potential scope even for CEE would ensure significant scale
 - Point out potential investment opportunities from early to late growth stages
 - Facilitate funding process
 - Organize dedicated networking events for investors and entrepreneurs
- Support **founders and entrepreneurs** with e.g.,
 - Infrastructure and office space
 - Management and legal advice



Improving financial literacy and fueling private pension contribution strengthens investor base

Description

Best practice examples

3
Develop financial education plan to increase financial literacy

- **Financial education** as mandatory subject in **national education plan** – therefore, e.g.,
 - Provide learning material and **compulsory financial classes** for students
 - Offer **training courses for teachers**
 - Organize **school competitions**
- Conduct **corporate program** to improve financial literacy¹
 - Corporate employees can **visit schools/universities** and **give lectures** about specific finance topics as well as **share practical examples**
 - Develop **online app** to establish a learning and mentoring platform



Nationwide financial education plan



4
Implement "Dritte Säule" in pension funds and fuel private pension contribution

- Strengthen **"Dritte Säule"** in pension scheme e.g.,
 - Continue and **further promote "prämienbegünstigte Zukunftsvorsorge"**
 - Establish **voluntary private pension plan** e.g., amount of contribution of employers is matched by employer or government
- Make **investment of pension funds** in capital market **mandatory** e.g.,
 - Determine specific **investment ratio** of pension funds²
 - Support specific investments by government through e.g., through **tax exemptions** or guarantees on high-risk investments



Introduction of fund investments as 3rd pillar in pension system

¹ Complementing government-driven national financial education plan; ² 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

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

- First ideas for potentially interesting **niche market** include¹, e.g.,
 - Become European platform/index for **family owned companies**
 - Become hub for **specific asset class/product segment**



9

Improve conditions for SME/ Mid Corps financing

- Austrian SMEs should be allowed to **join "Vienna MTF "2** – legislative change necessary that **allows trade of Inhaberaktien**
- Facilitate listing on **regulated market** of Wiener Börse (currently perceived as **too expensive** and **complicated for SMEs**) through launch of dedicated SME segment



Note: Wiener Börse launched SME segment (direct market and direct market plus) in 2019 following a legislative initiative by Bundesministerium für Finanzen³

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