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EU to Modify IPO Rules to Attract Deep Tech Startups

On July 4, the European Union ("EU") announced that it would modify IPO rules by a new "Listing Act" to attract more "Deep Tech" startups. "Deep Tech" startups, to date almost exclusively the province of the U.S. and China, refers to startup tech companies whose business plans involve significant innovation to resolve existing scientific or engineering challenges. Because of the lengthy research and development stages and capital-intensive investment cycles necessary to bring such projects to fruition, Deep Tech startups often require longer term investment commitments and more financing rounds than many other classes of tech startups, and therefore venture capital and private equity investors with a commensurate commitment, a stomach for slower progress and a longer exit horizon than is the case for many other classes of VC and PE investment. Facilitating access to the public capital markets is another means of facilitating Deep Tech investment.

The proposed EU Listing Act, to be introduced in the second half of this year just started, aims to attract €45 billion (\$47 billion) in private money by simplifying and standardizing listing regulations across the

27-member state bloc and allowing founders and families to retain control of the company post-listing while allowing them the benefits of public listing such as access to larger investor pools and capital and greater liquidity through the use of dual share structures familiar in the U.S. as a means to maintain founder/family control when going public. Other proposals for the Listing Act include:

- Establishment of "Regulatory Sandboxes," allowing startups to experiment with flexible regulatory requirements to ease their regulatory compliance burden and costs. "Test bed" Regulatory Sandboxes will be initially established for renewable hydrogen and Artificial Intelligence, or "AI."
- Permitting EU member states to use state aid for testing and experimentation infrastructure.
- Creation of a working group to allow startups to offer stock options to employees and other initiatives to help EU startups to retain talent in the face of the regular "brain drain" to the U.S., attempt to attract more talented immigrants from non-EU countries by making startup visas easier to obtain and find 1 million people to work in Deep Tech overall.
- Attempt to close the gap between the larger, wealthier, northern EU countries and the smaller, poorer, southern ones through the creation of "Deep Tech Innovation Valleys" to ensure regional parity in access to development funding across the bloc, using €10 billion from the European Regional Development Fund.
- Several initiatives to address the under-representation of women and minorities in Deep Tech startups.

For additional information, please contact us at info@kurtinlaw.com.

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