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National Council Report on the Fulfillment of the Fässler (10.3076) and Noser (11.3429, 11.3430, 11.3431) Postulates

Venture Capital in Switzerland

Bern, June 2012

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1 Summary

Start-up companies in high-growth industries make a significant contribution to new jobs and help renew economic structures. Start-up companies create over 20,000 jobs a year in the year of their establishment.¹ Estimates show that more than 350,000 of today's jobs were the product of start-up companies over the past decade.² It is the primary reason why the Swiss government, the cantons and the municipalities have focused so much attention companies in this category. If start-ups encounter a good framework on the ground, it is the best way to improve the innovation capacity and competitiveness of an economy. The following report is designed to provide an overview of the various issues facing venture capital. At the same time several parliamentary motions are answered. The report begins with a definition and thematic demarcation of venture capital in Switzerland and how it measures up internationally. After an assessment report on the Swiss federal laws governing venture capital companies that expired in May 2010, the main section of the report covers existing and possible new regulations and instruments to support venture capital. The regulations were then differentiated between the fiscal and non-fiscal as requested in the postulates. Finally stock is taken and forecasts made.

The potential problems in terms of venture capital can be classified in to three potential gaps:

- Innovation Gap:* Gap between what research produces for knowledge and what the economy needs to profit from it. An innovation gap can be generated from insufficient research and development findings and/or the insufficient usage of such in new products.
-
- Information Gap:* Investors do not have enough information about the possible innovation projects and start-ups do not know enough about potential sources of financing.
-
- Funding Gap:* Insufficient funding to develop existing product ideas for the market and have them be successful.
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In addition a difference needs to be made based on the various phases of the company.

The Swiss Federal Council has uncovered neither an innovation gap, nor an information or funding gap over the past few years. However, it is particularly difficult to obtain funding in the seed stage in Switzerland.

The following measures are planned to improve the framework conditions:

- To strengthen legal certainty in the area of quasi-securities trading, the Swiss Federal Tax authorities intend to amend the Circular over the course of 2012.
- As part of the Corporate Tax Reform Act III the Swiss Federal Council plans to eliminate issuing levies on equity capital as well as reforms to the participation deduction system for legal entities.
- The currently pending revision of the law governing stock corporations in parliament foresees the capital bandwidth as a new instrument for increasing or reducing capital: The Annual General Meeting may grant the Management Board the power to increase or decrease equity capital within a specified bandwidth for a certain period of time.

¹ Source Federal Statistics Office, 2009

² Based on the company demography at the Federal Statistics and Meyer, Rolf (2004): Economic Significance of Start-Ups in Switzerland.

2 The Fässler and Noser Postulates

On June 18, 2010 the National Council accepted the postulate from National Councillor Hildegard Fässler and then transferred it to the Federal Council. On April 28, 2010 the Federal Council declared its willingness to accept the postulate titled “Federal Act on Venture Capital Companies – What now?”

The postulate requests that the Federal Council create an evaluation report on the Federal Act Governing Venture Capital Companies (BRKG). “On the one hand the report should illustrate the impact of the law while on the other hand also evaluate whether the law should be allowed to expire with no follow up regulations.”³ Should subsequent legislation come into consideration, the postulate primarily demands non-fiscal stimulation.⁴

In 2007, the Federal Council published an evaluation report of the law to answer Postulate Walker 02.3702.

⁵. At the time the Federal Council left open the possibility for an extension of the BRKG. Since then, however, numerous changes to the framework conditions for venture capital have been made. Thus the Federal Council refused to make a suggest to parliament pertaining to an extension of the BRKG, however, it suggested the creation of an assessment report after the expiration of the law. The assessment is presented in Chapter 0 of this report.

Nonetheless demand for venture capital will also remain an issue after the expiration of the law. In his postulate filed on April 14, 2011 ⁶ Federal Councillor Ruedi Noser demanded the assessment of various measures and improvements, to support the flow of venture capital to Swiss companies.

In Postulate 11.3429, the Federal Council was requested to assess to what extent entrepreneurs took advantage of the tax relief on capital that is kept in their companies. In addition the tax treatment of employee stock options needs clarification as all actors; in particular business angels do not have their investments in start-up companies taxed as capital gains on assets.⁷

In addition the National Councillor Noser in Postulate 11.3430 demanded an assessment as to whether new companies should have waivers for administrative fees and tax expenses, such as not being forced to have all deposits notarized or waiving stamp duties for start-up companies.⁸

Finally Postulate 11.3431 requests that the Federal Council examine whether the flow of venture capital into Swiss companies can be supported. The Federal Council declared its willingness to examine the influence of select fiscal framework conditions on the flow and support for venture capital. The examination is provided in Chapter 0 of this report. National Councillor Noser also requested clarification of taxation on carried interest for asset managers. Chapter 0 covers this subject.

The following report is in answer to the Postulates filed. In addition to an assessment of the BRKG, this report discusses the fiscal (Noser Postulate) as well as non-fiscal instruments (Fässler Postulate).

³ Postulate 10.3076

⁴ See Chapter 0

⁵ “The Swiss government's policy favouring small and medium-sized enterprises (SME)”, Federal Council's report answering the Walker (02.3702) postulate and evaluation report on the Swiss Federal Act Governing Venture Capital Companies, June 8, 2007.

⁶ Postulates 11.3429, 11.3430 and 11.3431

⁷ See Chapter 7.3

⁸ See Chapter 7.3

3 Conceptual and Thematic Delimitation

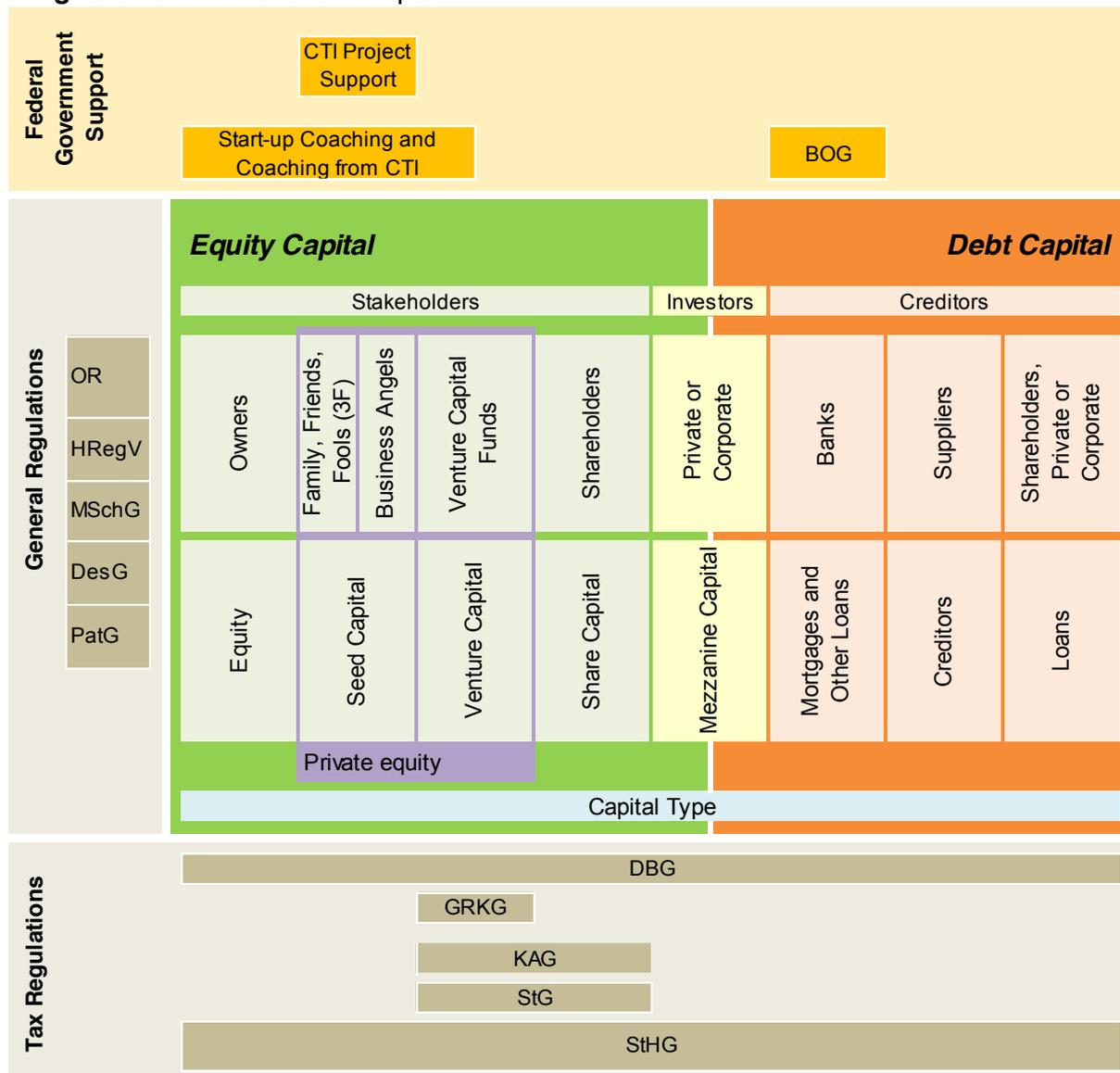
3.1 Classification of concepts

Concepts such as risk capital, private equity or venture capital are used internationally to signify various concepts and are not clearly defined. The literature⁹ explains this situation with the fact that these concepts were first created in practice and are thus not the result of some theoretical design.

Before defining the various concepts in venture capital, Image 1 illustrates the classification of these concepts. At the same time the presentation illustrates the connection between the concepts and the existing federal regulations and support measures.

⁹ Machot, Philipp (2009): Secondary Buyouts: An Empirical Examination of Value Drivers, Pg. 20

Image 1: Classification of concepts¹⁰



Source SECO, individual production

In general the equity in a company may be defined as capital-at-risk. Thus it is also referred to as conventional capital at risk capital. Today capital-at-risk is also often used as a synonym for venture capital. The following defines some important concepts associated with risk capital used in this report:

¹⁰ BOG Federal Law dated October 6, 2006 governing financial aid to commercial-oriented surety organisations (SR 951.25)
 DBG Federal Law dated December 14, 1990 governing the direct federal tax (SR 643.11)
 DesG Federal Law dated October 2001 governing the protection of designs (Design Act, SR 232.12)
 GRKG Federal Law dated October 2001 governing venture capital companies, amended June 17, 2005 (SR SR 642.15)
 HRegV Commercial Register Ordinance dated October 17, 2007 (SR 211.411)
 KAG Federal Law dated 23.06.06 governing collective investments (Collective Investment Act SR 951.31)
 MSchG Federal Law dated August 28, 1992 governing the protection of trademarks and certificates of origin (Trademark Protection Act, SR 232.11)
 OR Federal Law dated March 30, 1911 governing the amendment to the Swiss Civil Code (Fifth Volume: Code of Obligations, SR 220)
 PatG Federal Law dated 25.06.54 governing invention patents (Patent Act SR 232.14)
 StG Federal Law dated 25.06.73 governing stamp duties (SR 641.10)
 StHG Federal Law dated December 14, 1990 governing the harmonization of direct taxes in the Cantons and municipalities (SR 642.14)

- a) **Capital-at-Risk / Venture Capital:**
Should capital be provided to innovative companies, which by their very nature are highly risky but with corresponding growth potential, then it is referred to as capital-at-risk or venture capital. Venture capital is also capital used to finance innovations or innovations in new products, processes and production techniques. Risk capital may include both equity and debt with equity characteristics.
- b) **Risk Capital Company/ Venture Capital Company:**
A venture capital company acquires venture capital and invests it in start-up companies. Venture capital companies specialize in the assessment of start-ups. They assess the business idea, the revenue opportunities and the market potential for the product as well the management skills of the young entrepreneurs before they invest the venture capital.
- c) **Risk Capital Funds / Venture Capital Funds:**
Fund-supported venture capital companies often create so-called venture capital funds, where the investors can participate indirectly in start-ups. The investment company manages the fund, invests the capital in companies according to pre-determined criteria and accompanies these investments with active participation at the management and/or administrative level. Corporate venture capital funds in companies are a special form of capital-at-risk.
- d) **Private Equity:**
Private equity is a general term for all forms of participation on the part of private investors in companies. The participations capital investors cannot be traded on regulated exchanges (over-the-counter equity). The capital provider may be private or institutional investors, often they take the form of funds specialized in this form of participation (= private equity funds).
- e) **Seed Capital:**
Funds that are used to cover financial needs in the early or seed stage of a company. In this phase the funding such as seed capital is generally used for research and development as well as for the necessary market research and business plans to get a product or service market ready. The phase is characterized by a very high level of risk, since the no finished product is available and the potential commercial success is very difficult to assess in this stage.
- f) **Business Angels:**
Business angels (or BA) are wealthy individuals who participate in companies and support the entrepreneurs with funding, expertise and contacts. Usually they are experienced entrepreneurs and executives who have more management experience and contacts than the entrepreneurs due to their many years of business experience.
- g) **Initial Public Offering (IPO):**
IPO is the term used for the listing of a company on a stock exchange and is possible method for compensating the risk capital provider partially or in whole.
- h) **Crowdfunding:**
Crowd funding is a means of raising capital using small contributions from large crowds of people. With economies of scale, it can be used to acquire large amounts of financing. In general the capital is acquired via a corresponding Internet platform (e.g. www.cofundit.com, investiere.ch). The form is a passive investment on the part of the capital provider; no active participation is foreseen.
- i) **Microcredit:**
A microcredit is the extension of very small loans to small businesses with no more than

nine employees. The maximum amount of the loans according to the European Union is EUR 25,000.¹¹

Due to their significance in the various stages of a company, a detailed comparison of the business angels and venture capital companies is very useful. While business angels are involved in the very early stages of a company, venture capital investors are generally only active after initial success has been proven on the markets and the risk has subsided substantially. Both investor categories thus assume very different roles and have different characteristics. The following table provides a comparative overview (see Table 1)

Table 1: Comparison of venture capital companies and Business Angels

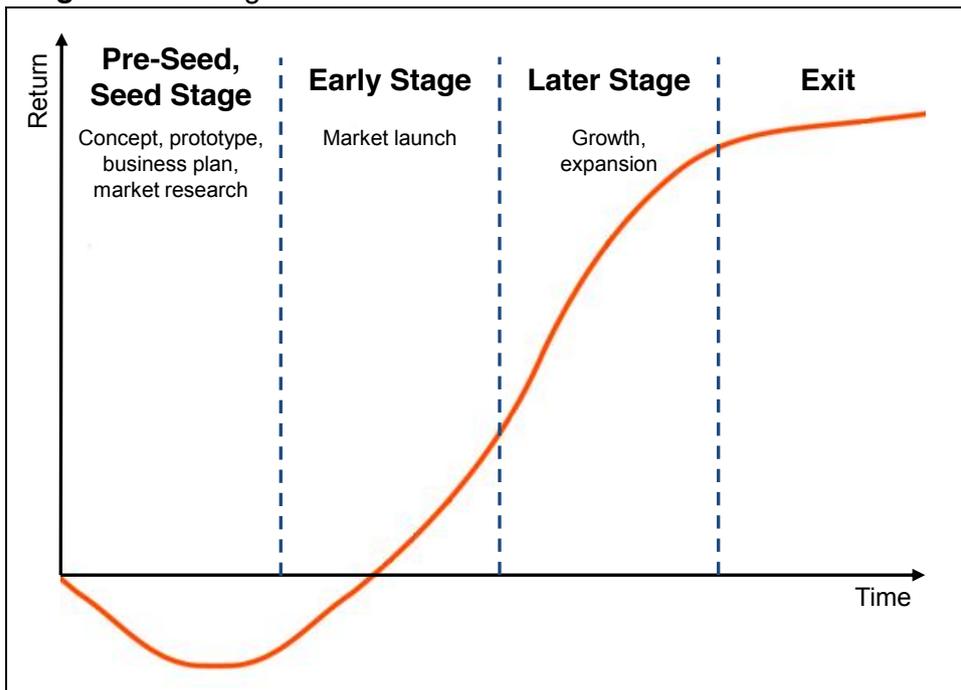
	Venture capital companies	Business Angels
Financing volumes	At least CHF 500,000	CHF 10,000 to 500,000
Investment motivation	Return focus	Not merely focused on returns, strong "emotional component"
Access for entrepreneurs	Independent, mostly visible presence on the market, large part of the participation opportunities via the contact network of venture capitalists.	Prefers anonymity, usually access via private recommendations or associations of Angel Investors.
Geographic focus	National or international	Usually regional, maximum four hours travel from residence.
Reason for investing	Completely developed product, track record, experienced team, sustained competitive advantage	Personal chemistry with the entrepreneur, detailed market analyses, sustained competitive advantage.
Company assessment	Relatively slow and methodical procedure.	Relatively quick and seldom extensive assessment.
Long-term benefits	Extensive experience in growth management, available capital, network for additional financing, exit experience.	Operational experience, common understanding of the company, specific expertise or relationships.
Time to exit	3 to 7 years	5 to 10 years

Source André (2009)

3.2 Financing Phases of Companies

Every company goes through different development phases. Even if these phases seem very unique and different for each company, they do tend to follow the same development pattern: In the beginning a product or service idea is developed, which will be placed on the market step by step after the company is founded. If successful, an expansion or growth phase follows (later stage), which will then lead to a company (generally listed) with an international presence and market leadership.

¹¹ Jayo, Barbara (2010): 2008-2009 overview of the Microcredit Sector in the European Union, European Microfinance Network Working Paper No. 6, Juni 2010

Image 2: Financing Phases

Source SECO, individual production

The following phases can be traced in the development of a company:

1) **Seed Stage:**

In the seed stage cash is generally needed for research and development to get the product or service ready for market. In this phase the basis for the business plan is created and market research performed.

Financial involvement in this phase is associated with enormous risk, since no finished product has been presented and the probability of commercial success is also very difficult to determine at this time. In this stage most financing is provided by family, friends or support from philanthropic foundations or the government.

Even before the seed stage there is the so-called pre-seed stage of pre-founding activities and ideas for developable, potential entrepreneurs (e.g. university students in the early semesters) can be financed to help carryout projects for the future.

2) **Early Stage:**

At this stage a finished product is created that needs to be marketed. Marketing activities along with the ramping up of production capacity are needed to ensure a successful market launch. Even at this early stage, the commercial success is still hard to determine and the risk is still very high, which is why banks generally do not get involved and venture capital funds are very hesitant. In the early stage business angels, who provide financial support and expertise as well as contacts (so-called smart money) shortly after or during the start-up of the company.

3) **Later Stage:**

The later stage is also called the growth or expansion phase. The company generates revenue from the sale of its products and has proven commercial success. Additional capital is needed so that the company can continue to develop its product and distribution capacity. In this stage venture capital funds along with shareholder loans and mezzanine financing are used. Only after the balance sheet is robust and the cash flow from sales are stable, does debt financing come into the picture.

4) **Exit:**

After five to ten years (maybe even longer depending on the venture capital strategy) the exit (divestment) comes, meaning that the investors withdraw from the company. The following exit strategies are standard:

- *Trade Sale*: The start-up is acquired by another company, usually in the same industry.
- *Initial Public Offering (IPO)*: Listing of the company
- *Secondary Sale*: The venture capital provider sells his holdings to a third party.
- *Company Buy-Back*: The company buys out the holdings of the venture capital provider.
- *Liquidation*: Should the company not succeed on the market, then it will have to be liquidated in the worst case.

With an IPO the company can be provided extra capital to finance further growth or to improve its equity capital structure. Even company succession as well as spin offs may be eased through listing on a stock exchange. It also often makes it easier to sell the company to a larger corporation or to a group.

3.3 Limiting the Investigation and Connection to Other Relevant Subjects

Venture capital is an extremely broad subject and there are numerous publications available on the subject. In the past it has often been the object of political motions.¹²

This report thus focuses on the issue of access to venture capital. To do so it will focus specifically on the tax and legal conditions that directly influence venture capital. The general economic policy of the Swiss government supports companies by providing the best possible framework conditions, such as rule of law. Industrial policy intervention is generally avoided.

Innovation policy is not the subject of this report. Even though the report discusses subjects important to innovation, it is not a report about innovation policy. Innovations are the foundation of our prosperity. Switzerland and its strong export sector live from innovation. Innovations need smart people and excellent ideas generated from research. In addition to decent economic conditions such as a beneficial tax regime (innovation policy in its broadest sense), research policy, research support as well as technology transfers between research facilities and company (innovation policy in the narrower sense) are also important parts of the general task of innovation policy. The government thus is thus responsible for the conditions conducive to innovative companies in Switzerland.

At the same time the object of this report is to provide measures to ease the administrative burden at companies. Administrative work can be particularly burdensome for start-up companies. In the early stage entrepreneurs are investing all their energy into building their company and its successful development. However, there are certain protections that are absolutely necessary in terms legal requirements and controls. Therefore unnecessary administrative burdens need to be lifted without compromising the integrity of a regulation. On August 24, 2011 the Swiss Federal Council approved a report on easing administrative burdens and presented an assessment of efforts over the past year while also presenting new measures.¹³ To relieve SMEs SECO launched an SME portal in 2001. The www.kmu.admin.ch website is constantly being expanded while serving as an informational source for dealing with operational issues. An important element of the SME portal is the online counter for start-ups SECO launched in 2004.¹⁴ The Swiss government's start-up portal provides the opportunity for individual entrepreneurs to found private limited companies, public limited companies, limited partnerships or have entries made in the commercial register, VAT, register for old age and survivors insurance and accident insurance all in the same place at the same website. Users receive help in filling out the

¹² A list of initiatives on the subject of risk capital is available in the appendix.

¹³ <http://www.seco.admin.ch/themen/00374/00453/index.html?lang=de>.

¹⁴ www.startbiz.ch

forms. A study from the Zurich University of Applied Sciences Winterthur from 2005 shows that entrepreneurs are 50 percent faster than they would normally be.¹⁵

In 2010 the Institute for Intellectual Property (IGE) launched an SME platform for intellectual property.¹⁶ The platform provides an overview of trademarks, patents, designs, copyright laws, certificates of origin and how they can be protected. It is designed specifically for SMEs and offers a contact for all issues pertaining to intellectual property. This report also does not deal with the role of intellectual property in the innovation process.

This report will also not focus on additional government measures that can be put in place for innovative companies in the tourism sector, notes of surety for mountain regions and new regional policies. The issues of company culture, willingness to accept risk as well as the general populace's attitude towards entrepreneurs are important in the development of start-up companies but are not examined in this report, as the focus is intentionally restricted to funding opportunities. Educational policy, which has the potential to support and give rise to entrepreneurial spirit at all levels of education, is also not included.

Corporate law such as provisions governing debt, operating and bankruptcy law influence venture capital. However, they are also important for existing companies and as such these issues will only be discussed in a general context. The report will only focus on issues specifically associated with risk capital.

The report thus allows for a general overview, but makes no claim to comprehensive coverage of the numerous factors influencing risk capital.

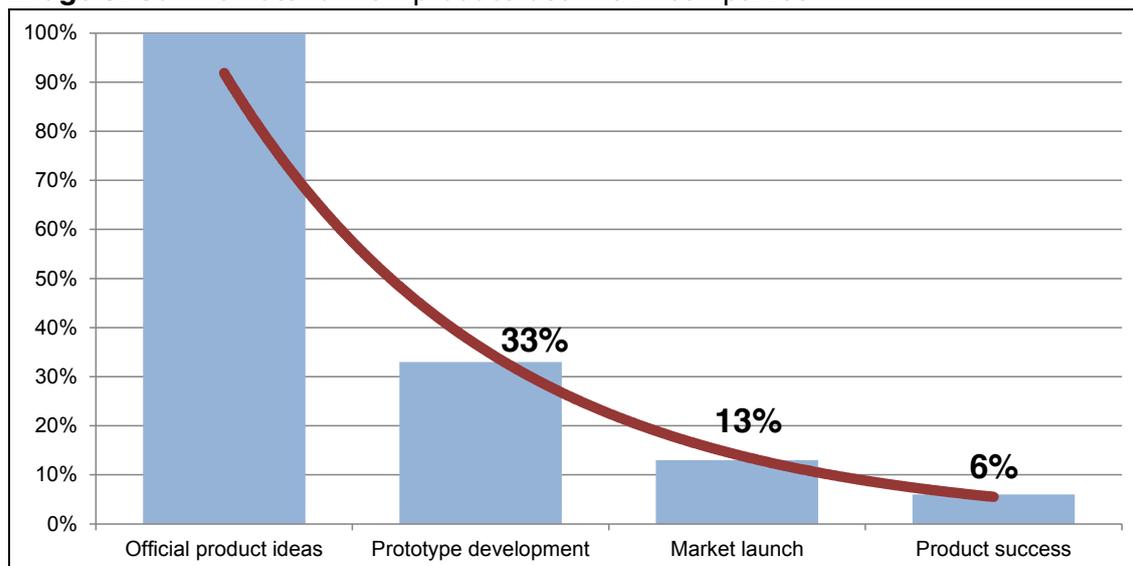
4 Potential Gaps in the Risk Capital Market

4.1 Introduction

Studies show that regardless of government regulations and general conditions, only a small number of original product ideas actually make it to market and even fewer are effective and successful. Based on an innovation study from the Institute of Applied Innovation Research IAI Bochum, only six percent of innovative ideas within companies actually become successful products. (see Image 3).

¹⁵ More than 27,000 entrepreneurs have founded their companies over the past seven years using this platform. In 2010, 1,741 entries were made with the commercial register, 1,246 registration for old-age and survivors insurance, 752 VAT registrations as well as 364 accident insurance registrations were made.

¹⁶ <https://kmu.ige.ch>

Image 3: Survival rate for new product idea within companies

Source Institute for Applied Innovation Research IAI Bochum (2006), Innovation Research 2006/2007

This tendency should also apply to Switzerland. Various reasons may be responsible for it:

- Too early or too late in marketing
- Company or customer risk aversion
- Lack of financing
- Lack of skilled workers
- Organizational problems with starting the company
- Hierarchical and inflexible company structures
- Lack of information
- Poor integration between research and economy
- Lack of customer acceptance

While the illustration above shows the survival rate of new product ideas within companies, the success rate among start-ups varies wildly. The survival rate of start-ups after one year is approximately 80 percent and then drops to slightly less than 50 percent after five years.¹⁷

4.2 Description of Potential Problems

To assess the regulations and instruments for venture capital, it is important to analyze potential problem areas. When it comes to supply of and demand for venture capital the problems can be placed in three areas: The "Innovation Gap", the "Information Gap" as well as the "Funding Gap" (see Image 4).

The innovation gap is the gap between what research has produced for findings and what the economy actually needs to profit from it. An innovation gap can be generated from insufficient research and development findings and/or the insufficient usage of research and development findings in new products. Ideally innovative concepts will always lead to commercial success. In reality, this is seldom the case. The cause of an innovation gap may be risk aversion within a company or insufficient networking between researchers and businesses.

The Global Innovation Index (GII)¹⁸ from INSEAD¹⁹ can be used as a possible indicator of an innovation gap. While other innovation indicators measure and compare inputs (research

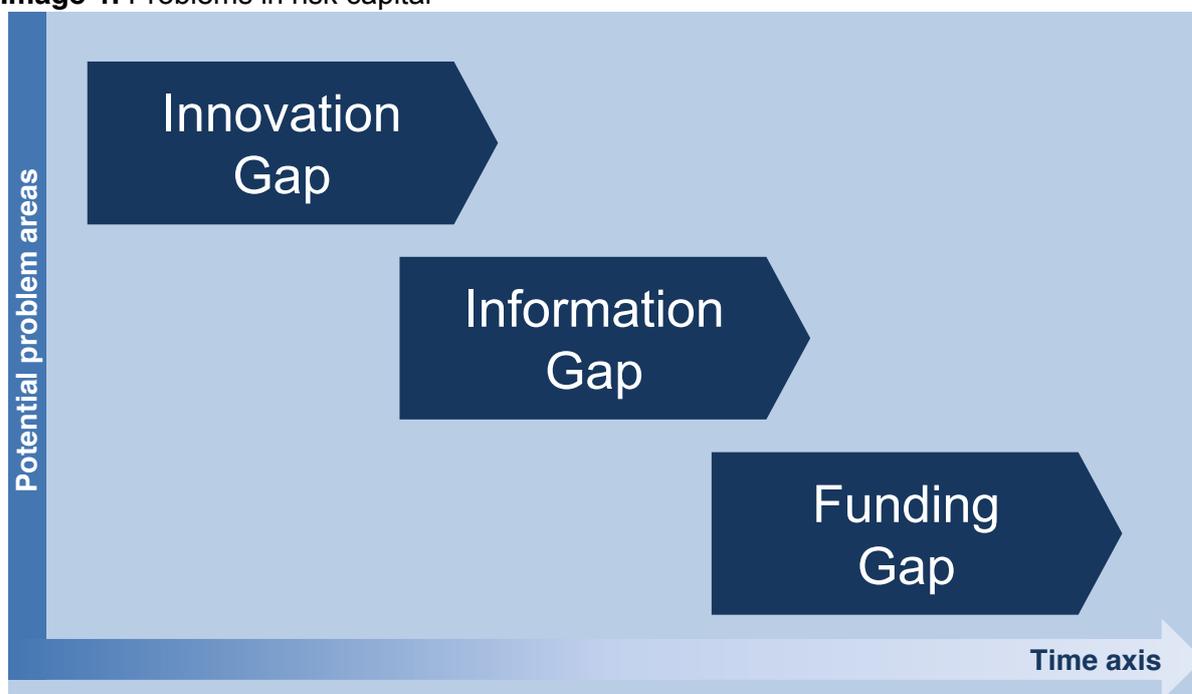
¹⁷ See Federal Statistics Office, Company Demography: Survival Rate of Start-ups

output, number of publications etc.), the Global Innovation Index also takes into account the output to provide information about the quality and marketability of innovations.

An information gap exists when the market participants do not have sufficient information: Investors need to know about innovation projects and start-up companies about possible sources of funding. The search for potential investors can be associated with relatively high transaction costs particularly for start-up companies, which have not yet established a large network. Various private initiatives thus try to bring together start-up entrepreneurs and potential investors via exchange platforms.

A funding gap means that not enough funding is available to get existing products ready for market and make them a success. A funding gap can appear at various stages in the life cycle of a company. A SECO survey of financing for SMEs showed that 68 percent of SMEs do not have access to bank loans and work solely with equity or other external sources of financing such as loans from third parties.²⁰ For start-ups the percentage is even higher. The investments from owners and shareholders thus form one of the most important funding instruments. Equity needs to carry the greatest risk and is thus expensive for the company. In cases where the project is still in the idea phase and sales cannot yet be guaranteed, risks are so high that financing is often only possible using equity.

Image 4: Problems in risk capital



Source SECO, individual production

5 Risk Capital in Switzerland and Internationally

5.1 Switzerland in international comparison

Switzerland is well positioned when it comes to economic competitiveness. The World Economic Forum's Global Competitiveness Report 2010-2011 placed Switzerland first in

¹⁸ www.globalinnovationindex.org

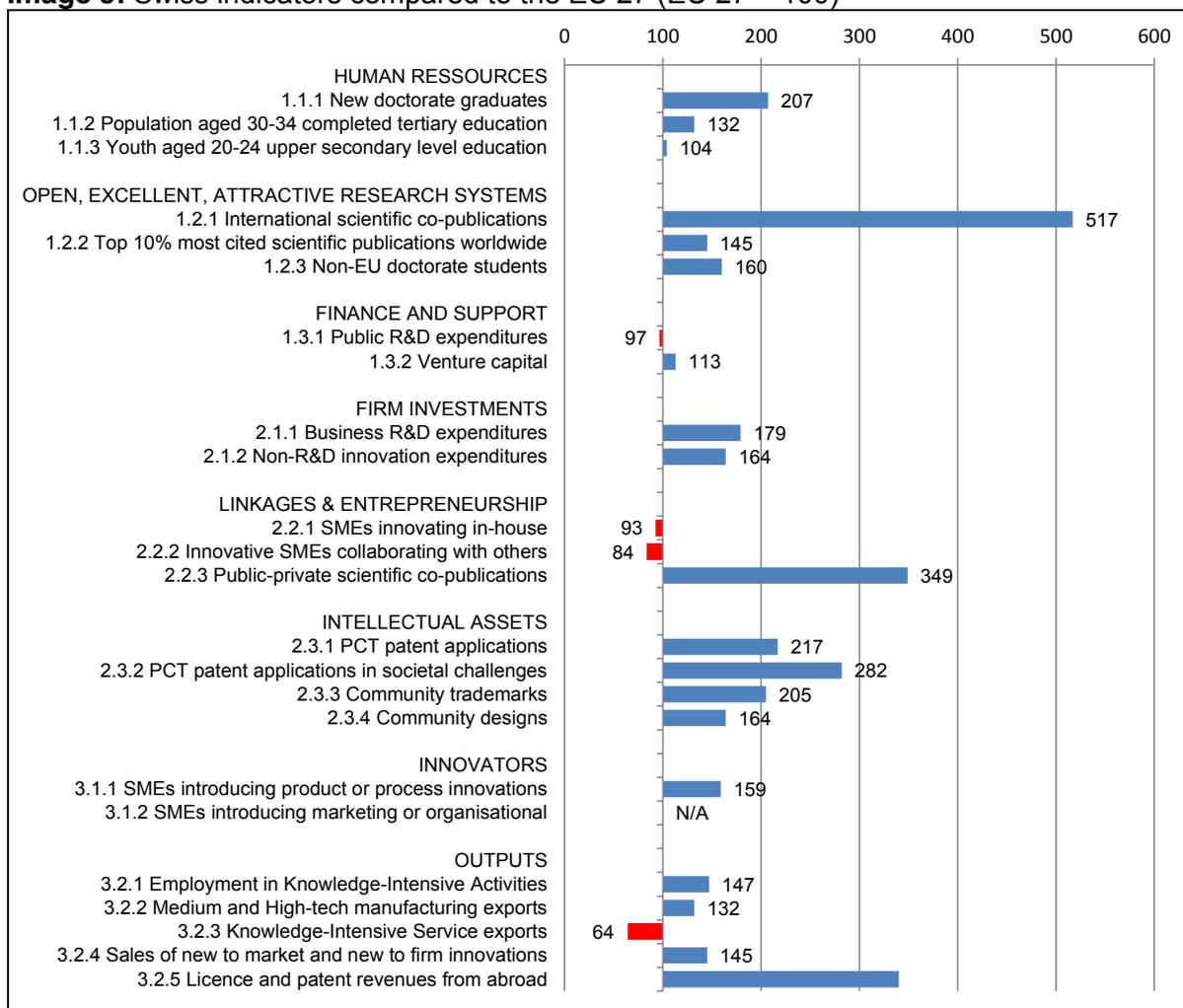
¹⁹ INSEAD is a business schools with locations around the world. The name INSEAD is an acronym for the original French name "INStitut Eurpéen d'ADministration des Affaires".

²⁰ M.I.S. Trend (2009/2010): "Study of Funding for SMEs in Switzerland," survey commissioned by SECO www.seco.admin.ch/aktuell/00277/01164/01980/index.html?lang=de&msg-id=33346

overall competitiveness among the 139 countries surveyed.²¹ The findings stem primarily from the excellent innovation capacity and strong business cultures in Switzerland. The Global Competitiveness Report also places Switzerland only at 20th place when it comes to the availability of venture capital.²²

Switzerland is one of the most innovative countries in the world, particularly when compared to other European countries. Based on the Innovation Union Scoreboard 2010²³ the relative strength of Switzerland is primarily in the open and attractive research system, in its intellectual capital as well in its output. The Scoreboard sees certain weaknesses in the public funding of research and development, in the share SME internal innovations in their new or improved products, the cooperation among SMEs with other companies when comes to innovation as well as the competitiveness of the knowledge-intensive service sector (see Image 5).

Image 5: Swiss indicators compared to the EU 27 (EU 27 = 100)



Source Innovation Union Scoreboard 2011

The strengths of Switzerland and other West European countries are primarily in the creation of ideas and production of research findings. Europe has a much higher number of registered patents per million inhabitants than the USA for example (see Image 6). Switzerland is actually one of the global leaders in research. Measured by the number of patent registrations per inhabitant, Switzerland is one of the most active countries in the OECD. In

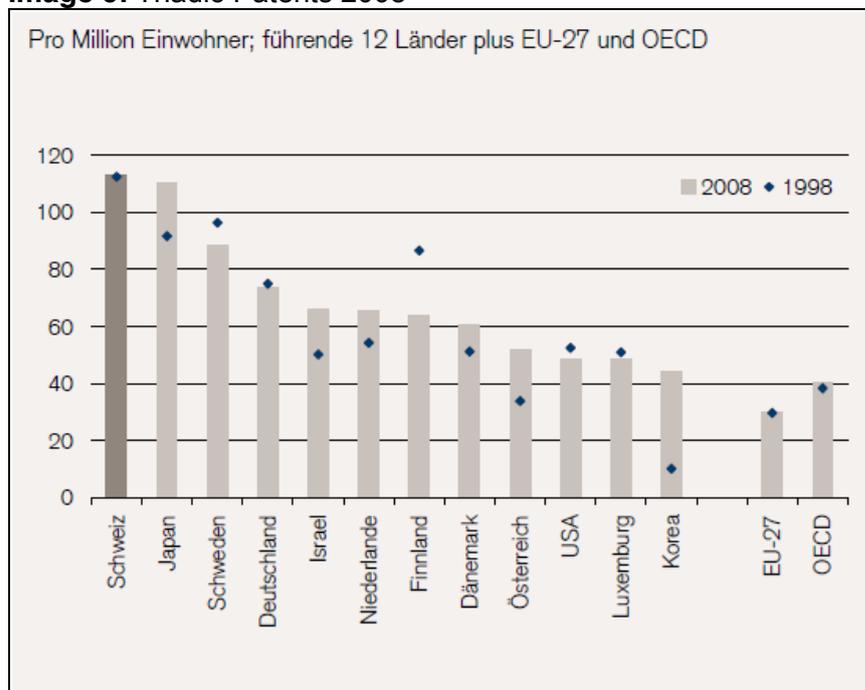
²¹ www3.weforum.org/docs/WEF_GlobalCompetitivenessReport_2010-11.pdf

²² See appendix III

²³ See European Commission: Innovation Union Scoreboard 2010

2008 Switzerland was ahead of Japan for the most patents per million inhabitants.²⁴ The high number of patent registrations is also due to Switzerland's popularity as a corporate headquarters location. A large share of the patents come from large companies.

Image 6: Triadic Patents 2008



Source OECD, IMF

One of the greatest challenges lies in getting these numerous ideas to the point of marketability. The relatively conservative attitudes towards business and risk in Switzerland generally acts as a damper when compared to the US for example. The National Swiss Report for the Global Entrepreneurship Monitor (GEM) shows that during the survey about 5% of the Swiss adults were about to start a company or would label themselves start-up entrepreneurs (owner or managing director of a company no older than three and a half years).²⁵ Switzerland is thus slightly below the average for innovation-based economies (5.6%) and much lower than countries like Iceland (10.6%), Norway (7.7%) and the USA (7.6%).

According to another study,²⁶ most Swiss university students in all majors want to work as an employee at an SME or a large company after earning their degrees. Entrepreneurial plans and activities among Swiss university student are below average internationally but have begun to improve over the past few years. The improvement has come mainly from students of business administration. When compared internationally, the natural science and social science students are still less entrepreneurial.

In the Global Innovation Index, which does not focus on the input factors (research spending the number of publications) like other indicators but also takes output into consideration, to provide information about the quality and marketability of innovations, ranks Switzerland first in front of Sweden, Singapore, Hong Kong and Finland.²⁷

Innovativeness as well as entrepreneurship and venture capital conditions are all closely associated with one another and need to be constantly improved. In an industry that is ever more characterized by international competition, it is not advantageous for a relatively small

²⁴ OECD (2011): MSTI data base. Division STI / EAS, Paris, January 2011

²⁵ Global Entrepreneurship Monitor, Swiss National Report 2010.

²⁶ Sieger / Baldegger / Fueglistaller (2011): Entrepreneurial Intentions and Activities of University Students in Switzerland.

²⁷ www.globalinnovationindex.org

country like Switzerland to place great significance on the critical level of investment transactions. The size of an effective funding mechanism such as a venture capital fund is ideally between 100 and 150 million francs. Since this level cannot even come close to being achieved, venture capital funds play a subordinate role for SMEs. Switzerland therefore needs to create better conditions than other countries and maintain its leading position in innovation. Such a process is not limited to amendments to legislation but also requires a change in attitude, which will take much more time and cannot be achieved solely using political instruments.

CTI investigated why more innovative projects were not brought to marketability in Switzerland as part of an early funding initiative. In doing so, the influence of measures were examined using five different dimensions (legal, economic, tax, political, and cultural dimensions).

In contrast to Switzerland many other governments provide direct funding for start-up companies, in particular since 2008 when many governments decided to compensate for the failure of the private market with government support. Switzerland supports start-ups with professional advice, which is a critical success factor for companies, as well as assistance in the search for appropriate partners.²⁸

The United States has the oldest and one of the largest venture capital markets. It is not only the result of an entrepreneurial and risk-accepting culture but also the continuous supply of venture capital from business angels, private capital and public programs. However, the financial and economic crisis left its mark on the American venture capital market. In 2008 the investment in venture capital declined by 20 percent, in 2009 it dropped by 47 percent.²⁹ Apparently the venture capital market in Switzerland suffered far less from the financial and economic crisis. Switzerland has improved significantly over the past few years in international comparisons. The most recent figures from the European Venture Capital Association (EVCA) show that the Switzerland is significantly above the European average when it comes to investments in venture capital.³⁰

Current figures from the OECD³¹ show that Switzerland has one of the most developed venture capital markets on the planet. Switzerland was ranked fourth in 2009 in the percentage of venture capital to GDP behind Israel, the USA and Sweden. The percentage of venture capital to gross domestic product (GDP) was 0.077 percent. Of which 0.055 percent was seed, start-up and early-stage capital. When it came to investment in seed, start-up and early-stage capital Switzerland actually came first. No other country in the world invested a greater share of its GDP in this area. However a precise differentiation is important in the interpretation of the figures. The share of seed capital is very modest in this category at a mere three percent. However, it needs to be taken into account that the data for the pre-seed and seed stages are not very reliable as reliable data is often not available.

Switzerland's good position was also confirmed through the Global Venture Capital and Private Equity Country Attractiveness Index 2011. Switzerland was ranked fifth in this international benchmark behind the United States, the United Kingdom, Canada and Singapore.³²

A comparison of seed, start-up and later stage investments with other European countries confirms the excellent position of Switzerland. Based on data from the European Private

²⁸ See Chapter 8.1

²⁹ OECD (2010): A Pilot OECD Scoreboard on SME and Entrepreneurship Financing Data and Policies.

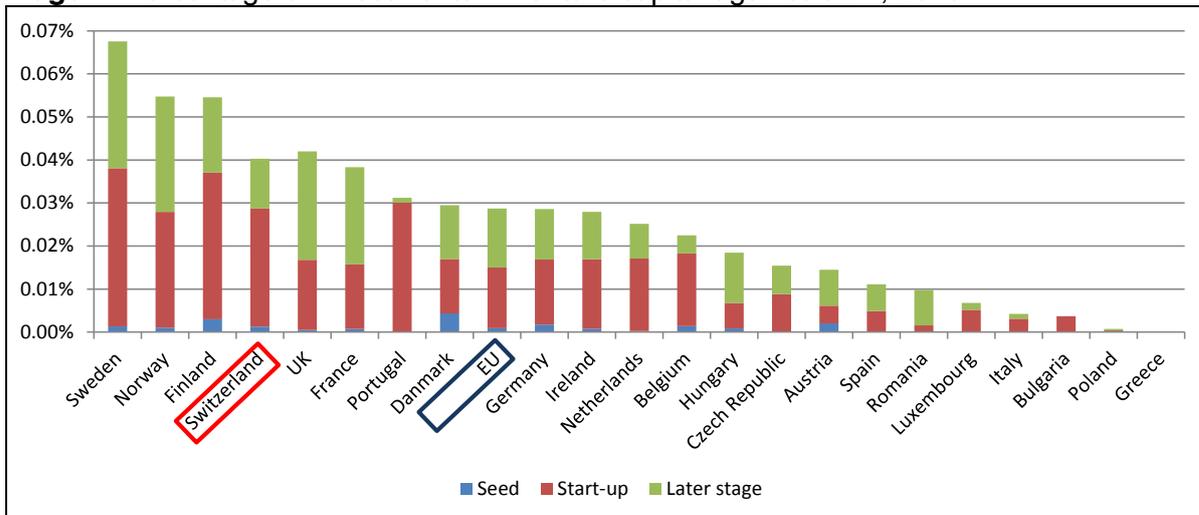
³⁰ See EVCA Yearbook 2011.

³¹ Since there is no uniform definition of venture capital phases between the venture capital companies and other data suppliers, the data was generated using a harmonization table for the Entrepreneurship Financing Database of the Entrepreneurship Indicators Programme (EIP)

³² See Groh A., Liechtenstein H. and Lieser K. (2011): The Global Venture Capital and Private Equity Country Attractiveness Index 2011.

Equity and Venture Capital Association (EVCA) Switzerland is ranked fourth in investment behind Sweden, Norway and Finland (See. Image 7).

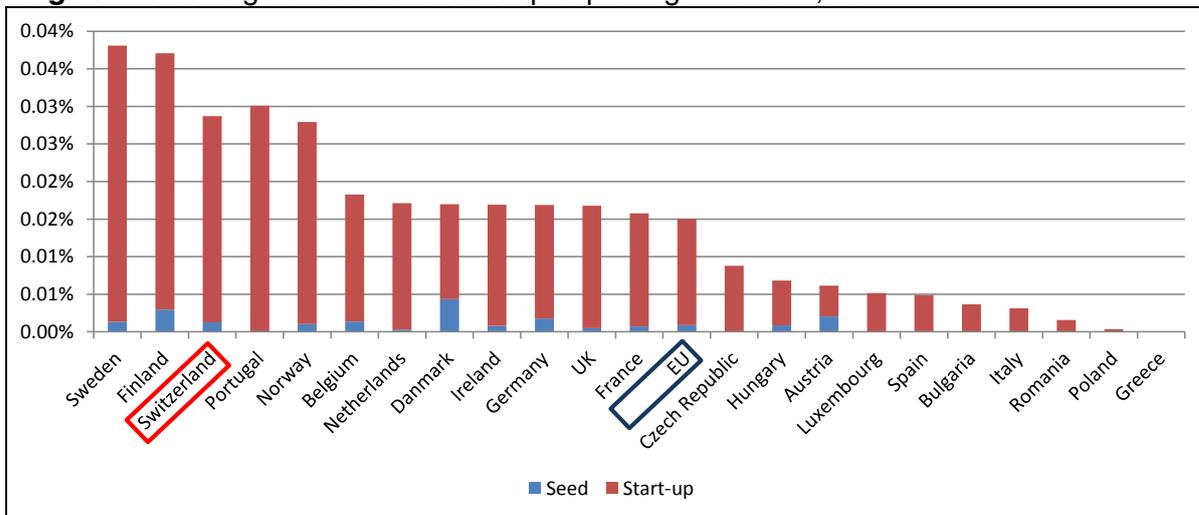
Image 7: Percentage of investments in venture capital against GDP, 2010



Source EVCA Yearbook 2011.

Were the investment in the later phases excluded on only investments in the seed and start-up stage included, Switzerland would be ranked third ahead of Norway. This comparison also illustrate that other European countries also invest relatively little in the seed stage (see Image 8).

Image 8: Percentage of seed and start-up capital against GDP, 2010



Source EVCA Yearbook 2011.

Actually the percent of investment in the seed stage is under ten percent of overall investment in venture capital in all the countries (see Table 2). Switzerland is even lower than the European average. For start-ups, it seems to be more difficult to find the necessary funding in the earlier stages than in other European countries. Financing in the early stages appears to be generally difficult in all countries. This particularly applies in economically difficult times when investors are less willing to take risks. The general lack of seed capital is confirmed by OECD studies³³ : “The financial crisis widened the existing gap at the seed and early stage with venture capital firms moving to later investments stages where risks are lower.” And Lerner states: “There are well documented reasons why the venture industry

³³ OECD (publisher), (2011): Financing High Growth Firms: The Role of Angel Investors.

may undersupply equity finance for some firms, particularly the youngest and smallest ventures.³⁴

Table 2: Share of Seed Capital in Venture Capital 2010

	Switzerland		Germany		Netherlands		Sweden		Finland		Europe	
	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010
Seed	2.6%	3.1%	8.8%	6.2%	2.9%	1.1%	2.8%	2.0%	9.9%	5.4%	3.7%	3.2%
Start-up	67.7%	68.1%	55.1%	52.8%	62.9%	66.9%	50.9%	54.5%	56.6%	62.5%	49.0%	49.2%
Later stage	29.7%	28.7%	36.1%	41.0%	34.2%	32.0%	46.3%	43.6%	33.5%	32.1%	47.3%	47.6%
Total venture	100.0%											

Source EVCA Yearbook 2011.

Internationally in 2010 the private equity market seems to be recovering after the strong fall during the global financial crisis. In the regions that suffered the most from the crisis, North America and Europe, investment recorded increases of 192 and 160 percent over the previous years.³⁵

5.2 Venture Capital in the EU

5.2.1 The framework programme for competitiveness and innovation (CIP)

In March 2000 the Lisbon European Council set the goal of making Europe into one of the most competitive and dynamic knowledge-based economic zones in the world by 2010. Europe was to be made into an attractive investment location by supporting entrepreneurial initiatives and creating a productive environment where the capacity for innovation could grow and blossom.

Subsequent to the ideas presented in the Spring Council 2003, the European Commission decided on a recommendation to implement a Competitiveness and Innovation Framework Programme (CIP), which would form the primary legal basis for all community measures in the area of innovation and competitiveness.

The Competitiveness and Innovation Framework Programme (CIP) focuses primarily on small and medium sized enterprises (SME), supports innovative activities, creates easier access to financing and offers regions support services for companies. The program runs from 2007 to 2013 and has an overall budget of EUR 3.621 billion.

In addition, the European Commission decided in December 2011 to double the overall budget for research and innovation supplemental to the national programs for the 2014-2020 period to EUR 80 billion (EU Programme Horizon 2020). However, this recommendation from the commission requires ratification from the relevant bodies (EU Council and Parliament). In the face of the tight EU budget., it is now questionable whether the Council and Parliament will pursue the request from the Commission. A decision is not expected before the end of 2012.

5.2.2 European venture capital market

Currently there is no integrated European venture capital market, the status of regulation is different in every country and the markets fragment along national borders. The EU is attempting to unify the venture capital market so innovative small companies have easier access to funding. To do so, the EU is sponsoring international venture capital investments. In February 2011, the European Council demanded the removal of legal and bureaucratic hurdles for the trans-national use of venture capital. As a result, the European Commission in its Internal Market Act has promised to pass legal regulations by the end of 2012 which will

³⁴ Lerner (2009): Boulevard of Broken Dreams.

³⁵ See Bain & Company: Global Private Equity Report 2011

make it easier for venture capital funds to set up subsidiaries in member states and invest in a member country unimpaired and with no additional regulations.

Various national regulations in the areas of administration, law and taxes make international investments more difficult. If a fund wants to invest in several EU member states, it generally needs to set up a management company or unit in these countries. It is expensive, takes a huge amount of time and is really only possible for larger funds. The EU and its member states are thus working removing these barriers to international investment.

The commission wants to pass new measures to revive the internal market by the end of 2012. One of the key actions is the passing of a regulation making it easier for a venture capital fund established in one member state to invest in another member state unimpaired with no additional regulations.

5.2.3 High-Tech Gründerfond in Germany

Since being established in 2005 the High-Tech Gründerfond I has invested in approximately 250 start-up technology companies; where more than 2,300 future-oriented jobs were created. In addition, € 335 million could be raised primarily from private sources for follow-up funding, double the amount that the High-Tech Gründerfond invested itself. It is now seen as a seal of quality and revived the dormant market for risky start-up funding.

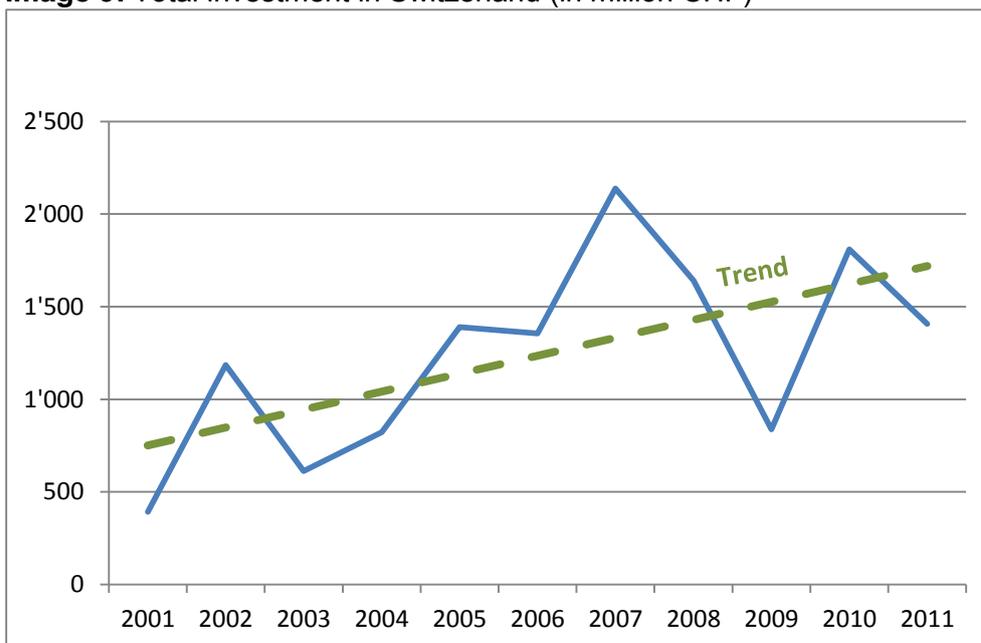
The High Tech Gründerfond II follows the High Tech Gründerfond I, which the German Ministry of the Economy and Technology together with the government's KfW Bank and six partners from the industry had established in 2005 and whose investment phase ended in 2011.

The new fund has a volume of €288.5 million. The primary investor is still the German government at €220 million (76%), followed by the KfW Bank with €40 million (14%). The High Tech Gründerfond is a public-private partnership, which will be further expanded. Twelve companies are participating in the High Tech Gründerfond II, twice as many companies as in the first fund: Altana, BASF, Bosch, B. Braun Melsungen, Carl Zeiss, CeWe, Daimler, Deutsche Post DHL, Deutsche Telekom, Qiagen, RWE Innogy, Tengermann. The share for private companies is approximately 10%.

This programme shows how public financing instruments can be used to support young innovative technology start-ups. Other initiatives such as Venture Capital Trusts (VCT) in the United Kingdom or Fonds Commun de Placement dans l'Innovation (FCPI) in France are less dependent on public funding and make it possible to channel a large percentage of the money into venture capital without distorting the market.

5.3 Venture Capital in Switzerland

Excluding the sudden drop in overall investment in the wake of the financial and economic crisis in 2008/2009, venture capital investment in Switzerland has been positive over the past few years. Image 10 illustrates the development of overall investment over the past ten years. With the exception of 2008 and 2009 (financial and economic crisis) the overall investment has tended to grow. The investment volume in Switzerland has more than quadrupled over the past ten years. However the statistic includes all private-equity investments from seed to start-up, later stage, growth and buyout capital. Nevertheless, the share of financial capital for seed and early stage has declined significantly in the past few years, as in other countries (see Table 4). Venture capital is more frequently invested at a later stage where the risk is smaller and the guarantee of a minimal financial return larger. It should also be noted that the inflows of risk capital from abroad regularly exceeds the outflows of domestic capitals abroad, i.e. there is a net inflow of risk capital into Switzerland.

Image 9: Total investment in Switzerland (in million CHF)

Source EVCA Yearbook 2012.

The figures used for international comparisons usually only include the activities of venture capital funds registered in a country. Only in the past few years have the published figures made it possible to record the flows from other countries (see. Table 3).

Table 3: Private equity investments in Switzerland based on the geographic source and destination

In million CHF	2004	2005	2006	2007	2008	2009	2010	2011
Investment by domestic companies	420.60	561.45	1'326.72	1'486.43	2'074.71	1'072.38	2'086.95	839.58
Of which invested abroad	-82.54	-250.19	-473.14	-1'138.82	-1'491.70	-761.40	-812.16	-575.93
Invested domestically through foreign companies	483.11	1'078.03	501.99	1'790.07	1'058.00	527.16	534.75	1'143.99
Total investment in Switzerland	821.17	1'389.29	1'355.57	2'137.67	1'641.02	838.13	1'809.55	1'407.64

Source EVCA Yearbook 2012.

The consolidation of the risk capital flows illustrates that the Swiss market is open and receives about 30 percent of its funding from abroad. Foreign investments are commonly used in company takeovers. This was also the case in 2002, when the breakup of the Swissair Group had several subsidiaries acquired by venture capital companies. It means that the Swiss market generally has a sufficient supply of venture capital when it comes to significant operations and company buybacks. However, the same does not necessarily apply to the earlier stages of the company cycle; only rarely do foreign funds get involved in this segment.

Statistics from the European Private Equity and Venture Capital Association (EVCA) confirm that financing is provided primarily at the later phases and the financial funding for the seed stage at three percent is relatively modest

Table 4: Investment according to stages

<i>in TCH</i>	2007	in %	2008	in %	2009	in %	2010	in %	2011	in %
Seed	23'169	4%	30'880	12%	8'734	3%	6'923	3%	8'025	3%
Start-up	156'436	29%	128'991	50%	229'300	68%	151'410	68%	185'803	79%
Later stage venture	354'398	66%	99'474	38%	100'492	30%	63'859	29%	41'297	18%
Total venture	534'002	100%	259'345	100%	338'525	100%	222'192	100%	235'125	100%
Growth	334'500		330'098		115'870		271'828		53'522	
Rescue / Turnaround	-		7'950		-		8'561		1'798	
Replacement capital	13		7'343		9'438		7'037		596	
Buyout	1'269'155		906'869		434'717		1'299'930		1'116'600	
Total investment	2'137'670		1'511'605		898'550		1'809'548		1'407'641	
Eurokurs	1.6427		1.5874		1.5100		1.3823		1.2340	

Source EVCA Yearbook 2012.

The invested venture capital in the early (seed and start-up), in the later as well as in the growth stages has declined dramatically in past five years by two-thirds. According to the CTI Activity Report 2011, Switzerland is thus far behind other countries in Europe, which on average have seen growth in capital invested. "It is particularly had on business ideas that are still at their very beginning and rely on start-up/early stage investments."³⁶

5.4 The Role of the Cantons

Even if the focus in Switzerland is on improving the general conditions for companies and less on direct support, there are certain programs at the canton level available, in particular a series of support and networking initiatives. Cantonal economic support agencies play an important role here.

In Switzerland, private and public institutions to support entrepreneurship are closely linked. The cantonal economic support agencies work closely with the regional chambers of commerce, cluster organizations, founding centres, surety companies and knowledge and technology transfer agencies. In this manner the economic support agencies in the cantons act as intermediaries and consulting offices for venture capitalists.³⁷ The commercial surety industry³⁸ receives support in addition to that of the federal government in many cantons and a share of possible losses are assumed by the cantons.

The cantons also have decision making powers in terms of tax, where these powers are often used to attract businesses and business activities. Cantons may also grant tax easements or tax waivers when this is in their economic interest. Cantons have another possibility for direct innovation support in the form of the federal government's regions policies.³⁹ As part of programme agreements with the cantons, the federal government provides financial aid (a) to support initiatives, programmes and projects, (b) to support development projects, regional companies and other regional actors and (c) to support international cooperation. In addition low-interest or no-interest loans are granted for infrastructure projects or tax breaks on direct federal taxes⁴⁰.

The primary pillar of the new regional policies is the so-called Directive 1, which is used to support the development of innovations and a market-oriented economy. Its goals are the improvement of regional competitiveness and adaptation of the regions to globalization requirements. The directive encompasses direct support for initiatives, projects and programmes. The cantons and regions play the primary role.

³⁶ KTI Activity Report 2011, Pg 51

³⁷ See Fueglistaller U., Müller Ch., Volery Th. (2008): Entrepreneurship, Models – Implementation – Prospects

³⁸ See Chapter 0

³⁹ SR 901.0

⁴⁰ See Chapter 0

Platinn⁴¹ is an example of just such an initiative the federal government's regional policy seeks to support and is run by the six cantons in western Switzerland. Platinn supports business innovation projects at start-ups along with those at small and medium sized enterprises. It is designed to improve their innovative capacity and competitiveness. The support is provided through a network of accredited coaches. When needed, the coaches will contact specialists, for example in matters of proprietary rights, strategy or financing.

Various associations and organizations, several federal agencies as well as the cantonal economic and location support agencies got together to publish "Gründen 2.0". The publication offers background information about futuristic topics and business fields, short portraits of entrepreneurs that have taken the plunge into self-employment, as well as a service section with contacts and checklists.

5.5 Private Initiatives

Start-ups in Switzerland may benefit from a large number of private initiatives supporting futuristic business ideas. Some of these initiatives do not have any commercial interests (foundations). An overview with a selection of private initiatives can be found in the appendix. The CTI has published a list of foundations that provide financial support to Swiss technology start-ups in the seed stage.⁴²

An important public-private partnership initiative is CTI Invest, which benefits from the strong CTI brand. Living by the motto "from science to money to market", CTI Invest wants to bridge the financing gap in the start-up stage of a company using the CTI label for research. CTI Invest is a private independent association of investors and offers entrepreneurs a platform for presenting their business ideas to a broad audience of business angels as well as national and international venture capital companies. The objective of CTI Invest is to convince additional business angels and particularly foreign investors of the power of Swiss innovation. To do so, CTI Invest organizes events where start-up companies in the research stage can present themselves to potential investors (so-called match making events). It also organizes networking events focusing on the exchange of information and knowledge.

In addition private individual and companies are also involved as Business Angels and provide their expertise and contacts to a company in the early stages, without publicizing their involvement.

5.6 Summary

Various indicators show that Switzerland, one of the most innovative countries in the world, has no lack of ideas and research. At the same time there are various private initiatives, whose goal is to bring together start-ups and interested investors. Of course this exchange of information can always be improved. In particular the activities of business angels could be made more public so that start-ups and investors can be brought together more easily.

It is not always easy for potential investors to find enough attractive individual investments on the Swiss market. Experts find that is not the result of a lack of projects but the lack of professionalism on the part of the start-ups. Various existing projects are designed to support start-ups in these areas.⁴³

Hearings with experts in venture capital confirm that the availability of capital needs to be differentiated based on the stage of the company cycle. While banks as well as venture capital funds prefer to invest in the early or later stage, financing is difficult to come by in the seed stage. In this stage risk is still very high, so that savings or funding from family, friends or business angels are practically the only sources available. In addition, early stage

⁴¹ www.platinn.ch

⁴² www.ctistartup.ch/htm/cti_network-seed_funding.htm

⁴³ See also Chapter 8.1 (Start-up Coaching from CTI)

financing has proven to be far more sensitive to economic conditions than later financing stages.

Insufficient funding means that Switzerland is not very successful in the commercialization of its numerous innovative ideas and research. Experts refer to this as unused potential.

It raises the question as to how the framework conditions might be improved so that it is easier to raise funds in the earlier stages. However the raising of capital in the early stage varies greatly by sector. In the high-tech or ICT sectors for example there is hardly any funding gap. In these high growth sectors, the risks are compensated with very high profits.

However, the hesitancy to invest in the early stages is also associated with the attitude of investors and start-ups towards risk, which is characterized by great caution and a less dominant entrepreneurial culture. The attitude of the populace towards start-ups play a central role here. Changes in these soft-factors such as increasing entrepreneurial spirit will take a long time however. Individual projects are tackling the problem through programmes at schools.⁴⁴

6 Federal Law Governing Venture Capital Companies (GRKG)

The Federal Law Governing Venture Capital Companies (GRKG)⁴⁵ dated October 8, 1999 along with the accompanying ordinance (VRKG)⁴⁶ dated April 5, 2000 came into force on May 1, 2000. Based on Articles 100, 103, and 128 of the Swiss Constitution the Federal Government grants tax breaks to support the founding of companies through the improved access to venture capital. The law was limited to ten years and expired at the end of April 2010 with no follow-on law.

6.1 History of the GRKG

Venture capital has been on the political agenda several times over the past few decades. In the mid nineties parliament discussed the general lack of venture capital in Switzerland. In 1996 the National Council's Committee for Economic Affairs and Taxation (CEAT-N) launched a parliamentary initiative with incentives for investors. With their report dated January 7, 1997, the CEAT-N made their suggestions for a federal draft legislation limited to ten years governing venture capital companies. Afterwards the situation changed dramatically. The boom in the Internet sector caused the venture capital industry to develop rapidly. The bill was reworked entirely and lead to the Federal Law on Venture Capital Companies (GRKG). This law created incentives for investment structures and regulations for private investors (business angels).

In September 2000 the Federal Council presented the Swiss Parliament with a report on support for start-up companies (BBI 2000 5547), in which it reacted to parliamentary initiatives which were provided as part of the consultations to help draft the GRKG. The report covered several topics, which are still current to this day. In 2007 a report from the Federal Council was released in answer to the Walker Postulate explaining the federal policies in favour of small and medium sized enterprises (SME), (BBI 2007 5787) and an evaluation of the GRKG, as Parliament had requested.

⁴⁴ E.g. Young Enterprise Switzerland (www.young-enterprise.ch) the Business Weeks from the Ernst Schmidheiny Foundation (www.esst.ch)

⁴⁵ SR 642.15

⁴⁶ SR 642,151

6.2 Goal of the GRKG

The Federal Law on Venture Capital Companies was designed to support the establishment of companies through easier access to venture capital. The intention of the law was not to support the start-ups themselves but the financiers.

Start-ups generate losses in their first years of operations and taxes are thus seldom an important cost factor for them. Start-ups have much greater difficulty financing their projects, since they generally cannot post the collateral needed for a bank loan. It was therefore assumed to be much more effective when the tax breaks went to venture capital companies and natural persons who supply the recently established companies with venture capital.

6.3 GRKG Instruments

The GRKG planned tax breaks for venture capital companies and business angels. The corresponding requirements are compiled in Table 5: Tax breaks in the Federal Law on Venture Capital Companies:

Table 5: Tax breaks in the Federal Law on Venture Capital Companies

	Target Groups	
	Venture Capital Companies (VC)	Business Angels (BA)
Tax breaks in the GRKG	<ul style="list-style-type: none"> • Waiving of federal emissions levy • Direct federal tax: Waiving of capital gains tax for participation in companies (participation levies), in as far as the participation <ul style="list-style-type: none"> - Is at least five percent of the subscribed capital - Or a has a market value of 250,000 francs 	<ul style="list-style-type: none"> • Direct federal tax: <ul style="list-style-type: none"> - Tax deferment for subordinated debt, in the form of a lump investment deduction of 50 percent of the loan amount at most, totalling no more than 500,000 francs for the duration BRKG (10 years). - Losses that exceed the investment deduction, may have up to half deducted, totalling maximum 250,000 francs.
Requirements of VC and BA	<ul style="list-style-type: none"> • Recognition of the Federal Department of Economic Affairs. Requirements of recognition: <ul style="list-style-type: none"> - Swiss Stock Corporation - Company object: Provide venture capital - At least 50 percent of invested funds in start-ups - Investment in the form capital participation, subordinated loans or other receivables with venture capital characteristics - Publication of an issue prospectus, disclosure of accounts and audits from a recognized auditor 	<ul style="list-style-type: none"> • Natural person • Investment <ul style="list-style-type: none"> - From private assets - In the form of subordinated loans - To prepare for the establishment of companies • Recognized VC invested within a year in the same project (at least an equal amount). • Or the Department of Economic Affairs approves after SECO audit. • Creditor may not be the primary party responsible and not control a majority of the capital. • Investments must be greater than 50,000 francs.
Requirements the supported companies need to meet.	<ul style="list-style-type: none"> • Domicile as well as important operations in Switzerland • Not quoted on a major stock exchange • Not have more than 25 percent controlled by a large company. • Responsible parties in the company are not simultaneously involved in the financing of the VC. • The company is younger than five years. • Innovative, international projects for products and services 	

Source INFRAS/Eco'Diagnostic

The recognized VC is not subject to the federal emission levy (one percent for domestic shareholdings), and the barrier for deducting participations was reduced from 20 to five

percent. So the capital gains for the VC are thus not taxed, if it only has minority holdings. The VC that wants to be recognized needs to prove that at least 50 percent of their funds are invested in Swiss companies, which are younger than five years and independent, or intends to make such investments.

Private investors (business angels) enjoyed reductions in the direct federal tax, if they provide new companies with subordinated loans. The tax deduction was limited to 50 percent of the loan and could not exceed 500,000 francs. The write off the loan could be completely deducted. This break only applied to the direct federal tax.

6.4 BRKG Assessment

The Federal Law on Venture Capital Companies did not generate the desired results. Over the ten year term of the federal law between 2000 and 2010 only 31 companies filed official request at SECO. Of which 24 companies were recognized as Venture Capital Companies (VC).

Table 6: Number of Companies Profiting from the GRKG

Active companies as of April 30, 2010	14
Requests filed	31
Recognized Companies ⁴⁷	24
Cessation of operations/ Insolvency	6
Retracted recognition	1

Source SECO

Of the 24 recognized venture capital companies 14 were still active as the law expired at the end of April 2010. Three companies merged into a single venture capital company, six have ceased their activities or went bankrupt and another had its recognition retracted because it no longer met the necessary criteria.

The venture capital companies benefited from the waiving of stamp duties on issues. According to figures from the Federal Tax Authority (FTA) from an estimate made in 2006, the missing tax income from the waived stamp duties between 2000 and 2004 totalled 2.9 million francs. The figure takes into account the stamp duties on issues from companies that have since gone bankrupt. However, the amount does not take into account the tax duties that were levied on issues after the federal government lifted recognition as a VC.

An initial evaluation of the law on venture capital companies in 2003 produced the following findings:⁴⁸

- a) The law was not well known or at all after its passage among those active in the industry such as the venture capital companies and business angels.
- b) The assessment of the incentives for venture capital companies and business angels were disappointing. The tax incentives were generally seen as too meager to generate any significant change in conduct. This was particularly true for the limits to tax breaks on subordinated debt held by business angels. This and its relative obscurity may thus be seen as the primary reason why barely any claims were made to the support intended in the law.

⁴⁷ The number includes three VCC, which were merged into one VCC.

⁴⁸ See Infras: Evaluation of the Law on Venture Capital Companies, 2003

- c) There was no indication that the law motivated venture capital companies to increase their investments in Swiss companies. The tax incentives in the law did not have enough influence on the investment returns to cause any change in investment behaviour.
- d) Signs also show that the law generated a knock-on effect among recognized venture capital companies because the requirements could be met with no change in behaviour and thus the investments would have been made even without recognition.
- e) Tax breaks provided little to no incentives for wealthy individuals who were active as business angels.
- f) In general sufficient capital was already available for good, advanced projects in Switzerland. In such cases, the domicile of the intermediary was often not identical with the location where the venture capital was invested. Capital tended to flow where good projects were available.
- g) The provision of venture capital was generally dependent on the economic situation. A strong economy increased the chances of success for projects and thus the returns. Increased returns in turn were vital for the provision of venture capital. Tax breaks for venture capital companies and business angels were seen as far less important.
- h) The problems with start-ups was less the result of missing venture capital and had more to do with the risk-averse Swiss business culture.

The benefit of the Federal Law on Venture Capital Companies for private investors and business angels was the tax deferment for subordinated debt. At the time the investments were made, the investor could deduct 50 percent of the loan amount from the direct federal tax, but no more than 500,000 francs. At the time the loan is repaid by the company the amount needed to be taxed.

The reason why this measure was not very attractive was its limitation to subordinate loans. Business angels on the other hand tend to take direct shareholdings of company capital. In addition, the subordinated debt only provided a benefit for direct federal taxes and not for the cantonal taxes. In total, only two private investors filed a request for recognition. These investors could not be recognized because their projects were bankrupt at the time of the request.

Over the past few years the Swiss parliament has passed numerous amendments to legislation which have had a positive impact on venture capital. They included the Law on Collective Capital Investment⁴⁹ and the Corporate Tax Reform II.⁵⁰ Additional legislative changes to improve conditions are in the works (e.g. Corporate Tax Reform III). Due to the amendments passed or planned for passage, the Federal Law on Venture Capital became superfluous. The Parliament and Federal Council have created further tax incentives to support investment with these measures. For these reasons the Federal Council has waived the option of suggesting an extension of the federal law.

7 Fiscal Regulation and Instruments for Venture Capital

The following chapter lists which tax conditions support venture capital and which improvements have been put in place over the past few years and which changes are planned. The tax reforms are not directed specifically on support or benefiting venture capital, however venture capital also benefits through the improved framework conditions. As

⁴⁹ SR 951.31

⁵⁰ BBI 2005 4733

an introduction Chapter 0 presents the general tax policy directives that need to be taken into account in the following subjects..

7.1 General Tax Policy Directives

The Federal Council passed the directives and objectives for legislative planning for 2011-2015 in June 2011.⁵¹ In accordance with the initial directive, Switzerland needs to continue to have a healthy budget as well as efficient government institutions so that it can remain an attractive and competitive location. As part of this directive, improving the attractiveness of the Swiss tax code was listed as an explicit goal. Swiss tax policy needs to serve to maintain and improve the attractiveness of the country as a location for doing business. An attractive tax regime is a key requirement to secure growth and employment. Reform projects are vital to make sure that the tax conditions in Switzerland remain attractive in the globally changing economic, political and international environment. The Federal Department of Finance's tax policy reform agenda includes a project designed to simplify taxation and remove tax distortions. In general, they should have a positive influence on growth and employment. The requirements is that all reforms need to be viable for finance policy.⁵² In addition, an efficient corporate taxation regime was planned, which creates as few administrative expenses for companies as possible and makes sure that the consistent taxation of the tax substrate does not compromise economic performance.

7.1.1 Financing and allocation of earnings neutrality in the tax code

A company can cover financing needs in three ways:

1. As part of debt financing it will create additional debt.
2. With equity financing the company creates new shares. Just as with debt financing it is a form of financing from outside.
3. Internal financing is possible if the retained earnings can be used for independent financing. This is like the participation financing is a form of equity financing.

The selection of the financing procedure of a company should not be influenced by tax considerations and should be based on operational considerations as to the advantages and disadvantages of each form. The requirements for doing so are met if the tax system is financing neutral. Financing neutrality can be broken down into capital structure neutrality, which keeps the selection between equity and debt undistorted, and the allocation of profits which will not influence the decision between compounding and distribution of the profits. Specifically this would mean that the tax load for all three financing possibilities remain at the same level. However the Swiss tax system violates this condition.⁵³

The Swiss tax system violates capital structure neutrality because debt interest payments are deductible while notional equity interest cannot be deducted under income tax laws. It creates a tax incentive for debt financing.

Profit allocation neutrality is violated if the taxation of distributed and the retained earnings differ greatly from one another. In Switzerland the combination of economic double taxation on distributed profits and the incentives to internal financing violate profit allocation neutrality and creates incentive to retain earnings instead of distribute them and finance investments internally instead of acquiring new equity externally. The tax benefits for internal financing have a negative impact on efficiency. It partially negates the growth supporting function of the capital market to place available investment funding in the most profitable companies and thus to the investment projects that will generate the greatest returns. Thanks to the

⁵¹ <http://www.news.admin.ch/message/?lang=de&msg-id=39933>

⁵² <http://www.efd.admin.ch/themen/steuern/00701/index.html?lang=de>

⁵³ See EFD, Comment on the Federal Law to Improve Tax Conditions for Business Activity and Investment (Corporate Tax Reform II) dated June 22, 2005 (05.058), Chapter 1.7.3.1 S. 4768 ff. <http://www.admin.ch/ch/d/ff/2005/4733.pdf>

predominance of internal financing, the problem of either over or under investment occurs depending on the type of company.

The Corporate Tax Reform II (USTR II) removes double taxation for persons holding at least 10 percent of the share capital in a company or association and under some cantonal laws even overcompensates.⁵⁴

7.1.2 Legal form neutrality

The principle of legal form neutrality states that the selection of the legal form shall not be influenced by tax considerations but solely by operational criteria, such as capital acquisition and limitation of liability. Corporate taxation in Switzerland varies in its treatment of public limited companies and private companies and is thus not neutral in terms of legal form. Whether the taxation of public companies is effectively supported or impaired primarily depends on the distribution characteristics. Secondly is how effective a specific measure to ease the double taxation would be. When there are higher dividends and no controlling ownership, the economic double burden of dividends dominates the entire tax burden at the corporate and personnel levels, so that stock corporations would be at a disadvantage. Should dividend levels be low, then the entire tax burden essentially only depends on taxes on profits and can thus be much lower than with private companies. The private companies are at a disadvantage when it comes to their treatment for social security compared to the stock corporations.

7.1.3 Summary

Financing and legal form neutrality are important elements in efficient corporate taxation. The efficiency goal needs to be weighed against the location goal. The primary intention of the next corporate tax reform that the Federal Council announced December 10, 2008, was to improve and maintain the attractiveness of Switzerland as a business location. However the efficiency goal needs to be included when assess possible measures.

7.2 Existing Fiscal Regulations

7.2.1 Non-taxation of capital gains for natural persons

Natural persons with a tax domicile in Switzerland where they hold liquid assets such as securities among their private holdings generally do not have to pay any tax on capital gains⁵⁵, while returns on assets such as interest and dividends are subject to income tax. Just as with capital gains on the other hand private capital losses may not be deducted.

Tax freedom for private capital gains leads to differentiation issues, which increase administrative costs while also generating legal uncertainty. In doing so it deals with the following constellations:

- a) Two possible exemptions apply to the tax freedom on private capital gains apply when selling, partial liquidation⁵⁶ and transpositioning⁵⁷. These factors are so-called change of system cases. In such cases holdings shift from private into commercial assets (for example a holding company), whereby the latent tax burden of the undistributed income would expire without specific legal regulations. Should certain requirements listed in the law be met, the sales profit shall be re-qualified as the taxable asset returns. The federal law dated June 23, 2006 governing vital adjustment to corporate tax rates (in force since January 1, 2007) the situation has been rectified. The legislators decided on a liberal

⁵⁴ See Chapter 0

⁵⁵ Art. 16 Para. 3, DBG (SR 642.11)

⁵⁶ Art. 20a Bst. a DBG

⁵⁷ Art. 20a Bst. b DBG

regulation when compared to the prior legislation, whereby the definition of tax-free capital gains was expanded.

- b) Difficulties also occurred where the demarcation between employment and self-employment is not clear and thus with the associated demarcation between private and commercial assets. When it comes to qualifying as private or commercial assets, the most important issue is whether a person has as an employment relationship or is self-employed, since income from self-employment may only be realized as business assets. Employment relationships are defined in the law⁵⁸. When seen in comparison, the concept of self-employment is open to interpretation. The law describes only the occupations by listing "Income from a commercial, industrial, agricultural, manufacturing and forestry operation, from a freelance profession and from other self-employed professions." The teachings and practice have thus generated characteristics to describe self-employment. It states that a person is engaged in self-employment if said person engages in an organization through their own labour and capital at their own risk in a sustained, regular manner and obviously for the purpose of earning a profit while participating in economic transactions. The overall picture of the actual relationships is decisive for the qualification.
- c) Even when selling securities, a difference is made between private asset management and the realization of income from self-employment. Thus the principle applies that securities are either classified as private or business assets and that income from self-employment may only be deemed business assets. As soon as trading in securities exceeds the simple management of private assets, it becomes income from self-employment and thus no private, or tax-free, capital gains can be realized.

In contrast to Switzerland, most other countries tax private profits, which includes gains from equities. In some areas lower tax rates apply to capital gains than to income taxes.

7.2.2 Corporate tax reform II

On March 23, 2007, the Swiss parliament passed the Corporate Tax Reform Law II⁵⁹. Afterwards a referendum was held where the populace accepted the law on February 24, 2008. The majority of the clauses took effect as of January 1, 2009.

Corporate Tax Reform II brought numerous benefits to SMEs. The double tax burden was eased, substance distorting taxes were removed or lowered and private companies had lower taxes. In addition the capital investment principle was introduced for withholding and income taxes.

7.2.2.1 Dividend tax

National Councillor Noser in his Postulate 11.3429 "Legal Certainty for Company Founders and Business Angels" that the Federal Council examine whether and to what extent tax breaks on capital company founders hold in their own company.

Profits from participation in stock corporations and associations that are in the possession of natural persons are subject to income tax. Since Corporate Tax Reform II came into effect on January 1, 2009, earnings from such participations representing private assets shall only have 60% subject to the federal tax and those assets which are business assets shall only have 50% placed in the amount subject to income tax. The requirement for the reduction of the taxable amount is that the participation make up at least 10 percent (= qualified participation) of the registered capital in the company or association.

The federal law dated December 14, 1990 governing the Harmonization of Direct Taxation in the Cantons and Municipalities (StHG)⁶⁰ leaves it up to the cantons whether they want to

⁵⁸ Art. 17 DBG.

⁵⁹ AS 2008 2893

offer similar reductions. Should they introduce such a rebate, then this will only be possible if the participation also makes up at least 10 percent of the registered capital in the company or association. Most cantons have introduced a corresponding regulation in their cantonal tax legislation.

The Federal Council is of the opinion that no additional tax breaks on capital are needed for company founders, since such indirect support would violate the principal of taxation based on economic performance. In addition the fiscal incentives used in the limited Federal Law on Venture Capital Companies did not have the desired effect.

7.2.2.2 Investment deduction

Based on existing laws, stock corporations and cooperatives may claim a deduction from their profit tax in the form of an investment deduction, in as far as the amount is equal to at least 20 percent of the registered capital in another company or if such participation has a market value of more than two million francs (Art. 69 aDBG).

One new feature is the reduction of the threshold for claiming the investment deduction which was halved to 10 percent or a market value of one million francs. The investment deduction shall still also apply to owners of participation rights, which grant a claim to at least 10 percent of the profits and the reserves of a another company.

The new regulations for the investment deduction came into effect January 1, 2011 and also apply to the Cantons due to their anchoring in the StHG from this time on.

7.2.2.3 Capital investment principal

Based on existing laws the reimbursement of capital investments in legal entities to the shareholder as taxable capital gains income and was thus subject to the withholding and income taxes.

The Corporate Tax Reform II⁶¹ in Article 20 Paragraph 3 and Article 125 Paragraph 3 of the DBG und in Article 5 Paragraph 1^{bis} of the federal law dated October 13, 1965 governing the withholding tax (VStG) the reimbursement of deposits, transfers and support for owners of participation rights were newly regulated. It states that the reimbursement of capital investments to the holders of participation were treated in the same manner is the reimbursement of registered capital and are no longer subject to income and withholding taxes (capital investment principal).

The capital investment principal took effect on both the national and cantonal levels on January 1, 2011. It states that all open capital investments from shareholders, including premiums and subsidies (including reorganization subsidies), are treated as repayment of registered capital when reimbursed into private holdings and thus remain tax free.

The capital investment principal allows for a substitute for the nominal value principal, which previously had applied to physical persons holding participations. Capital investments are seen as premiums, subsidies or reorganization contributions. In principle taxation only applies to dividend payments from generated profits, liquidation surpluses and the reimbursement of collateralized capital investments.

7.2.3 Collective capital investments / carried interest

In Postulate 11.3431 "Venture Capital. Support for Investments" National Councillor Noser requests clarification of the taxation placed on the gains of fund managers.

⁶⁰ SR 642.14

⁶¹ AS 2008 2893

Due to the economic double burden numerous investors have turned to investment structures abroad which have the advantage of “Tax Transparency”. In general these are Swiss Law Limited Partnerships, an increasingly common company form in the Anglo-American realm.

The Federal Law on Collective Investments (KAG)⁶² the limited partnership (Kommanditgesellschaft) was introduced as an investment vehicle for collective capital investments (KGK), which is very similar to that defined in the English speaking realm (Swiss Law Limited Partnership). Since the collective capital investment is not a tax subject⁶³ and is thus transparent, it is not subject to profit taxes. The investors/ partners (limited and general partners) may thus profit from the transparent taxation when the distributed asset amounts are still subject to income and profit taxes, the capital gains (in private assets) still remain tax free. The general partner, who is also the director of operations and functions as company representative or the partner with unlimited liability needs to be a stock corporation with headquarters in Switzerland and subject to standard taxation.

In the private equity industry it is normal to have management participate in the profit of the fund. The management profit participation in a private equity company or another equity company is deemed carried interest, which is only granted only after the investors have been provided with a minimal rate of return (hurdle rate).

Management often depends on the selection of the legal form and the specific structure of the collective capital investment. The various tax codes (namely determination of profits for legal entities, income assessment for employed or self-employed professions) shall be applied based on the structure selected. Income from management activities shall be taxed as income from self employment for natural persons and as profits on corporate income for legal entities.

Should a fund manager working for a management company make a private investment in a fund, then the activity of the fund manager then nothing will stand in the way of qualifying his/her participation in the collective capital investment as a private asset, provided that the carried interest is paid to the management company. Should there be private assets, the returns will qualify as taxable returns from personal property. Capital gains from the sale of participations in the management company or participations in collective capital investments as well as the distribution of capital gains from collective capital investments, which are classified as private assets, will then qualify as tax-free private assets.⁶⁴

If the fund management is carried out personally by the fund manager, as a commission or via a private company that the fund manager is a shareholder in and the fund manager or the private company has claim to a profit participation, than the participation in the private company as well as the holdings of the fund manager in the collective capital investment are thus part of income from self-employment and are thus commercial assets. The capital gains, earnings and carried interest qualify as taxable income from self employment, capital losses may then also be deducted.

Depending on the structure of the fund, the fund manager is subject to different legal standards. However, it always remains the same legal standards that are also applied to taxable entities, namely either the corresponding clause applicable for the taxation of legal entities (Art. 49ff DBG) or those applicable for self-employment (Art. 18ff DBG). For this reason the Federal Council see no need for clarification and thus no reason for action.

⁶² SR 951.31

⁶³ Applies to collective capital investment with no direct real estate holdings. Collective capital investments with direct property holdings are considered a standard legal entity.

⁶⁴ See Chapter 7.2

7.2.4 Employee participation

National Councillor Noser requested clarification of the tax treatment of stock options in his Postulate 11.3429 “Legal Certainty for Company Founders and Business Angels”. Assurance should be given that investments in start-ups are not treated as capital gains from commercial assets for tax purposes.

The Federal Law on Taxation of Employee Participations⁶⁵ states that both freely available as well blocked employee shareholdings need to be taxed at the time of acquisition. Due to the lack of availability of blocked employee holdings, the market value of these shares is reduced using a discount of 6% annually for a maximum of ten years. This limitation relevant to the assessment only applies not only to direct federal taxes but also in the Cantons.

For listed employee stock options which are freely available or exercisable, the monetary advantage is also taxable at the time acquisition. On the other hand, unlisted and blocked employee stock options will be taxed once again when exercised. They thus no longer have to be valued using complicated financial mathematical formulas greatly easing matters.

The proprietor of non-listed or blocked employee stock options may shift or be active in numerous countries between the acquisition and exercising of the options. If the beneficiary is located in Switzerland during this time, then Switzerland shall have a pro rata claim to taxes. This portion corresponds to the duration of the activity practiced in Switzerland by the employee measured against the time between the option acquisition and the generation of the exercising rights. Should the beneficiary be living abroad at the time of exercising, then the Swiss company shall pay the taxes pro-rata (so-called withholding taxation). The federal tax has a rate of 11.5 percent. Due to the collective wage freedom, the cantons may set the level of this rate for the expanded withholding tax at their own discretion. With its focus on the proportional tax code, Switzerland uses the standard taxation principles applied abroad. It thus reduces the risk of international double or non taxation.

The Federal Law on the Taxation of Employee Participations shall come into force on January 1, 2013.

The Federal Council is of the opinion that the Federal Law on the Taxation of Employee Participations, governs the issuing of stock options to governing company founders clearly. In particular it increases legal security in this area. Thus there is no further need for action.

7.2.5 Tax breaks

The cantons may provide the following tax breaks to companies that are newly founded and serve the economic interest of the canton for the year of foundation and the nine subsequent years. A material change to operations can be seen as a new establishment⁶⁶.

As part of the new regional policy in certain areas of Switzerland, tax breaks for direct federal taxes are possible. Tax breaks make it possible to improve the attractiveness of locations for businesses to a certain extent. They serve as an incentive for the relocation of industrial operations or production-affiliated service companies and serves to expand and reinforce the regional economic base. It a method for supporting diversification of the labor market that is used primarily in traditionally industrial regions.

7.2.6 New VAT law (VAT-Reform Part A)

The Federal Council indicated its intention to simplify the value added tax in two phases independent of one another in June 2008. The first part (Part A) of the reform has been passed by parliament and has been in force since January 1, 2010. This reform helped

⁶⁵ BBI 2010 8987

⁶⁶ StHG, Art. 23 Abs. 3

further simplify the value added tax. It thus increased the legal certainty and transparency for taxable entities.

One of the most important new features of the completely revised Value Added Tax Act (nMWSTG) is a flexible design for group taxation, an expansion of pre-tax deduction for taxable companies, the introduction of notional pre-tax deductions and the expansion of simplified accounting using net tax rates. This and other changes were detailed in the new value added tax ordinance. The ordinance also allows the pre-tax deductions for numerous tax-exempt services provided abroad. It details the expenses for the notional pre-tax deduction or in the assessment basis in the event of employer services to staff. The ordinance also contains a definition of subsidies that are in line with subsidy act. The ordinance clauses are an important part of a simplified and transparent value added tax.

The Federal Council has suggested further reforms in a second part (Part B). This reform would produce a unified rate and eliminate most exemptions. However Parliament rejected this on December 21, 2011.

7.2.7 Elimination of issue levies on debt capital and easing of group financing

On August 1, 2010 the ordinances governing the stamp duty and the withholding tax⁶⁷ were altered so that group-internal financing would not have any withholding tax consequences and the issue levy can be made as soon as certain requirements are met.

With its motion of April 2011⁶⁸ the Federal Council suggested the elimination of the issue levy on debt capital. With its resolution of September 30, 2011 the Federal Assembly accepted changes to the federal law were made pertaining to the stamp duty⁶⁹ and eliminated the issue levy on debt capital. The law came into effect on March 1, 2012. This change led to a lifting of Art. 16a of the Stamp Duty Ordinance passed on August 1, 2010.

7.3 Possible New Fiscal Regulations

7.3.1 Taxation of business angels / quasi securities trading

In his Postulate 11.3429 “Legal Certainty for Company Founders and Business Angels” National Councillor Noser requests that investments in start-up companies not be seen as capital gains from business assets for tax purposes. This should also apply to business angels who invest as such investments carry great risks and are vital for innovation.

As explained in Chapter 0, the issue of whether enough capital is available for start-up companies needs to be seen through the lens of its function in the business stage. While it is no problem in the later stages when a marketable product is already in place as a functioning capital market is already exists, this appears to be associated with high transaction costs in the earliest stages (seed and early stage). This depends on the risk on the one hand and the various actors in the different stages. Venture capital funds invest in the later stages, when the risk has already been sizably reduced and qualitative confirmed information about the product and the enterprise are already available. On the other hand private individuals, so-called business angels, are active in the earlier phases and have already taken a correspondingly higher risk level into account. Business angels are thus particularly important in the early phases.

Business angels are not seen as private individuals under certain circumstance but as professional investors and thus lose the benefit of having their capital gains go untaxed. The

⁶⁷ SR 641.101, 642.211

⁶⁸ Message of April 20, 2011 for amendments to the Banking Act (Improving Stability in the Financial Sector; too big to fail), BBl 2011 4717

⁶⁹ SR 641.10

Federal Council intended to deal with this subject as part of the second corporate tax reform.⁷⁰ A tax reform was planned for so-called quasi securities trading, i.e. with the definition of criteria under which proceeds from the sale of securities and other financial investments are defined as taxable income or which capital gains are to be exempt from taxation. In doing so two quantifiable criteria are applied based on the two previous characteristics of commercial securities trading:

(a) debt financing (assumption of special risks) and (b) the significance and relative frequency of the transactions (which are outside the realm of mere management of private assets).

Differences of opinion between the two councils led to a stalemate causing these elements be removed from Corporate Tax Reform Act II⁷¹ reform packet which had the approval of the general populace. The subject is still a matter of political contention in both houses to this day. No solution could be found. Due to the applicable legislation, the investors thus face legal uncertainty which may lead to a certain degree of hesitancy when investing.

The Federal Council acknowledges the needs of investors for greater legal certainty when it comes to quasi-securities trading. As the parliamentary consultations illustrate, it is difficult to specify it at the legislative level. The Federal Tax Administration intends to amend the existing circular⁷² over the course of 2012 to the latest Swiss Supreme Court verdicts and thus improve legal certainty.

7.3.2 Corporate Tax Reform II Elimination of issue levies on equity capital and easing of group financing

In his postulate 11.3430 “Financing Start-ups. Reducing Administrative and Tax Burdens” National Councillor Noser demand that stamp duties be waived for start-up companies.

In December 2008 the Federal Council requested that the Swiss Finance Department work out a draft consultation paper for a further corporate tax reform (USTR III). It decided on reforms to remove the tax burden for companies in Switzerland and improve Switzerland’s position in the international competition for taxes. The issue levy is to be eliminated and tax barriers removed for the financing activities of groups. The system of participation deductions for legal entities was to be improved. The Federal council is also planning to make adjustment to cantonal holdings and administrative companies. Nation and international earnings of such companies shall be treated equally.

The draft consultation paper for USTR III has not yet been released. The Federal Council has included elements of USTR III in its Too Big to Fail projects (see chapter 0). In addition on August 24, 2011 it made an additional announcement about improving stability in the financial sector, which plans to shift interest on debt obligations and money market paper for withholding taxes from the debtor to payment principle. With these changes the financing activities of Swiss groups will be eased, the capital markets invigorated and the certainty objective of the withholding tax reinforced.

The elimination of issue levies on equities is to be the object of USTR III. The Federal Council recognizes the need for action to aid start-ups. However, it believes that the elimination of issue levies for equities should apply to all companies.

⁷⁰ BBI 2005 4733

⁷¹ AS 2008 2893

⁷² Circular dated June 21, 2005

(<http://www.estv.admin.ch/bundessteuer/dokumentation/00242/00380/index.html?lang=de&download=NHZlpZig7t.Inp6I0NTU042I2Z6In1acy4Zn4Z2qZpnO2YUq2Z6gpJCDdIF7gGym162dpYbUzd.Gpd6emK2Oz9aGodetmqaN19XI2IdvoaCUZ,s->)

8 Non-Fiscal Regulations and Instruments for Venture Capital

The federal government now has various non-fiscal instruments at its disposal to support venture capital. It offers various services designed to ease the establishment and start-up stages and generate the best possible framework conditions.

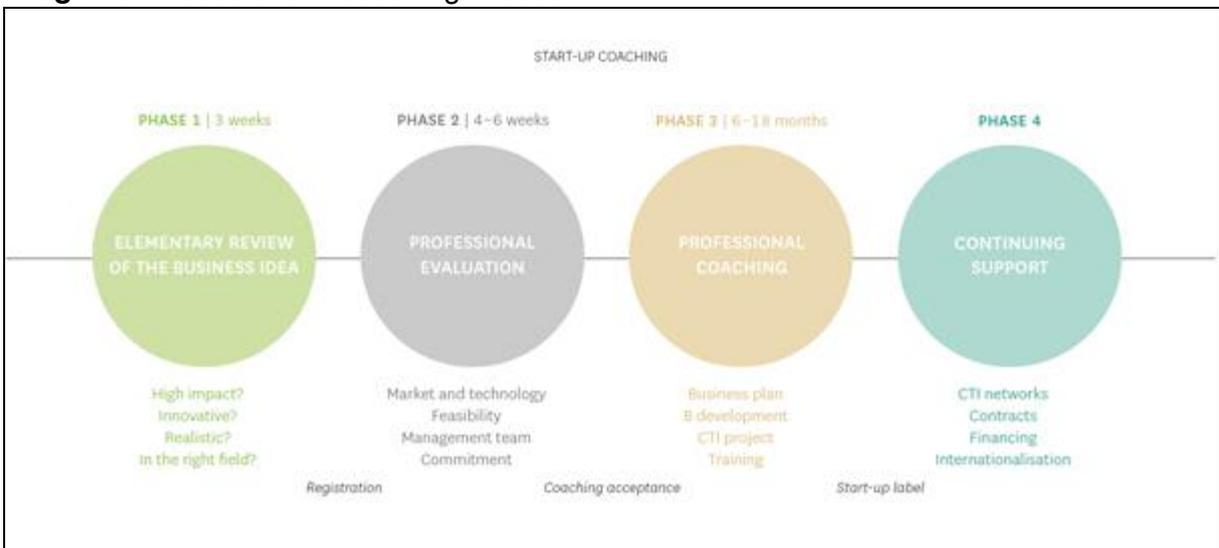
The following chapters describe both the existing non-fiscal regulations and instruments and illustrate possible new initiatives.

8.1 Existing Non-Fiscal Regulations and Instruments

8.1.1 Start-up training from CTI

CTI Start-up provides business trainers and experts from various areas during the start-up stage. The training process uses three clearly structured steps to obtain the CTI Start-up Label, which is awarded by a jury of prestigious industry experts. To do so, entrepreneurs invest time and effort but no money: CTI Start-up will cover all costs.

Image 10: Phases of the Coaching Process



Source CTI

In Phase 1 CTI Start-up evaluates a business idea using basic criteria. Should the project meet these criteria it will be accepted and registered.

Professional experts in phase 2 assesses the current business concept and the acceptance to the training process with the help of the start-up company. Together, business strategies and positioning are refined to create a sustained and competitive business model.

In Phase 3 the start-up company optimizes its business strategy. It is trained to develop important areas of its business and presents the results to the label jury from CTI Start-up. With this decisive step the start-up company confirms its readiness to enter the market and acquire financing.

To support the start-ups in their growth strategies, CTI in the fourth stage will increase advising for the start after the label is awarded. In doing so, it improves the start-up's chances of success in particular particularly on international markets.

Since CTI Start-up was launched in 1996, more than 247 companies with the CTI Start-up Label have created over 3,500 jobs. Of these Label businesses, more than 86 percent are still active and successful.

In 2011, 160 company founders filed a request to be included in the training process. Of them 97 met the support criteria. Eighty start-ups were then provided training. Twenty-six of the start-ups were able to earn the CTI Start-up Label.⁷³ The training and the CTI Start-up Label are now seen as a clear seal of quality among technology start-ups. Advising is a key success factor for start-up companies. Studies of companies with a CTI Label have also show that start-ups have difficulty in funding their market entry.

8.1.2 CTI project support

CTI stimulates cooperation between science and businesses through the annual financing of several hundred projects in applied research and development. It thus helps those young scientists who would like to transform their research findings successfully into products and services while working together with companies.

Businesses, in particular small and medium-sized enterprises are thus encouraged to use the R&D resources of the local universities. CTI helps scientist at universities use their research findings to work with companies to develop and competitive products and services.

Only those who can bring innovative ideas quickly to the market will be successful in global competition. CTI focuses on project support in this area. CTI finances joint R&D projects between universities and companies, public entities or non-profit organizations. CTI project support is open to all disciplines. The project partners define their project themselves. Important support criteria are innovation and economic impact. The funding support from the federal government is granted solely to universities. CTI thus finances the annual salary of around 1,000 researchers.

The companies have the double benefit of the project results and a pool of up-and-coming market oriented and skilled R&D staff. In particular SMEs with limited research resources can use the R&D services and infrastructure at the universities to carry out their own innovations faster.

The CTI project support for businesses is sustainable. It has been around for more than 60 years. In 2009 alone, 319 projects received support. They generated R&D turnover of more than 240 million francs. In addition to the contributions of 108 million francs from the government, businesses contribute almost 55 percent or 133 million francs. For each franc CTI invests, businesses supply an additional 1.35 francs. It is a sizeable lever. From 2008 to 2011 the total CTI budget was approximately 532 million francs. As part of its support for education, research and innovation, the Federal Council has requested 546.5 million francs for the period 2013-2016. In 2009 78% of all support went to SMEs and 75% in 2010.

As part of an effort to dampen the strength of the Swiss franc starting in August 31, 2011, the Federal Council approved a one-time increase in federal funding to the CTI of 100 million francs. At the same time, an amendment limited to December 31, 2011 to the Research and Innovation Ordinance (V-FIFG)⁷⁴ was passed and is intended to support the products up to their market launch instead of merely until marketability was proven.

Up to now, implementation partners generally provided half of the funding for project costs in accordance with the FIFG. As a second new measure CTI may now deviate from this principle to improve innovation, particularly if unfavourable exchange rates for the Swiss Franc significantly impair the innovation project. As a third measure, costs for optimizing the product and manufacturing process for series productions as well as costs for the market launch are now included in the deductible overall project costs. Finally, CTI will provide the complete costs for research work using a new, increased fee.

⁷³ See CTI Activity Report 2011 (2012)

⁷⁴ SR 420.11

The Federal Council feels measures provide a means to help companies feeling global competitive pressures maintain competitiveness through innovations despite sustained cost pressures rising from the strong franc. The Parliament approved the necessary supplementary or contingent credit from the 2011 suggestion at a level of 100 million francs on September 30, 2011.

8.1.3 Commercial surety industry

In accordance with the Federal Law on Financial Aid to Commercial Surety Organizations (SR 951.25), the provision of surety bonds to performance-capable and developable small and medium sized enterprises shall make it easier for them to access bank loans and thus support the establishment of such operations.

The current organization of the commercial surety operations is a result of a postulate from the CEAT-N from 1999, in which the Federal Council requested an audit and support for the commercial surety industry. The order from CEAT-N was further amended as the result of parliamentary motion. The federal resolution dated June 22, 1949 was replaced in 2007 with a new law⁷⁵ that simplified the surety industry and made it more attractive for SMEs. The Federal Council on June 27, 2007 passed an ordinance on financial assistance to commercial surety operations.⁷⁶ Thus the new surety regulations could take effect on July 2007 in their entirety. The goal was to double the surety volumes from 94.3 million francs (status end 2006) within four years at least. The objective was met. At the end of 2011 the surety volume was 211 million francs. By the end of 2015 the volume will increase to 270 million francs.

The commercial surety industry in Switzerland is currently composed of four organizations recognized by Federal Department of Economic Affairs and they are regionally organized and legally independent. They are the Ostschweizerische Bürgschaftsgenossenschaft (OBTG), located in St. Gallen, die Bürgschaftsgenossenschaft Mitte (BG Mitte) located in Burgdorf, the Cautionnement romand located in Pully, as well as the Gesamtschweizerische Bürgschaftsgenossenschaft der Frauen (SAFFA) located in Basel. The surety companies are able to issue notes of surety of up to 500,000 francs. In the event of default, the federal government will cover 65 percent of the losses. In addition, they can profit from fee-based risk splitting with the central agency for the commercial surety industry. The central agency for the commercial surety industry is not a recognized surety company in accordance with Art. 3 of the Federal Law on Financial Aid to Commercial Surety Companies. They themselves may not draw on surety notes according to federal law.

The volume of surety notes profiting from the loss coverage fund, called Plafond, may not exceed 600 million francs net and is set down in the Federal Law on Financial Aid to Commercial Surety Companies in Art. 8 Para.2, Due to the commercial focus of the surety industry and its focus on small enterprises, approximately 50 percent of the currently requested surety amounts are less than 150,000 francs. At the end of 2011 the surety companies had 1,653 surety notes outstanding. The companies receiving the support in 2011 had 2,800 existing and approximately 500 newly created jobs.

To meet the financial requirements for commercial surety industry, the federal government may issue coverage for 65 percent of the surety losses on subordinated loans to the surety companies to strengthen their equity base. It also pays the annual administrative fee, which is used to reduce the application audit and monitoring costs as well as to reduce the risk premium. These administrative costs are currently three million francs a year and are distributed annually in accordance with financial aid agreements depending on the achievement level.

⁷⁵ SR 951.25

⁷⁶ SR 951,251

The commercial surety industry as support instrument of the federal government has been successful in establishing its new focus since 2007 and supporting SMEs. The Federal Council intends to carry out an effectiveness analysis as well and examination of the effective and optimal market positioning of the commercial surety industry.

8.1.4 Surety from CO₂-Fee levies

As part of the complete revision of the CO₂ Law⁷⁷ an instrument to support venture capital was created. Based on Art.35 of the new law, the federal government may guarantee loans to companies that develop and market new technologies to reduce greenhouse gas emissions, support the use of renewable energy and save natural resources. To cover any surety losses 25 million francs are taken from the CO₂ Fee and placed in a technology fund.

8.2 Possible New Non-Fiscal Regulations and Instruments

8.2.1 Financial support for programmes to support start-up companies

The strengths of Switzerland and other West European countries are primarily in the creation of ideas and production of research findings. Europe has a much higher number of registered patents per million inhabitants than the USA for example. Switzerland is one of the global leaders in research. Measured by the number of patent registrations per inhabitant, Switzerland is one of the most active countries in the OECD.

The analysis of the previous chapters illustrate that the Swiss venture capital market generally functions quite well. In various international comparisons, Switzerland was always in the top of the ranks when it came to overall investment. Problems were found in the early stages. Financing is also difficult in these early stages for other countries as well. The share of investment in the pre-seed and seed stage in all the other countries was less than ten percent. However as it is at only about three percent, Switzerland is much lower than the European average.⁷⁸ In addition, early stage financing has proven to be far more sensitive to economic conditions: Investment in the seed stage fluctuate severely, which the past few years clearly illustrate (2008: CHF 30.9 million / 2010: CHF 6.9 million)⁷⁹.

In the start-up stage it is particularly difficult to obtain funding in the so-called pre-seed-funding⁸⁰ and seed funding stages. The informational imbalance between capital lenders and borrowers in the early stages of companies but not in the later stages often means that generally marketable products from start-ups cannot obtain financing in those stages when a functioning capital market exists. While banks as well as venture capital funds prefer to invest in the early or later stage, funding is difficult to come by in the seed stage.

⁷⁷ SR 641.71

⁷⁸ See Actually the percent of investment in the seed stage is under ten percent of overall investment in venture capital in all the countries (see Table 2). Switzerland is even lower than the European average. For start-ups, it seems to be more difficult to find the necessary funding in the earlier stages than in other European countries. Financing in the early stages appears to be generally difficult in all countries. This particularly applies in economically difficult times when investors are less willing to take risks. The general lack of seed capital is confirmed by OECD studies : "The financial crisis widened the existing gap at the seed and early stage with venture capital firms moving to later investments stages where risks are lower." And Lerner states: "There are well documented reasons why the venture industry may undersupply equity finance for some firms, particularly the youngest and smallest ventures."

in Kapitel 5

⁷⁹ See Statistics from the European Private Equity and Venture Capital Association (EVCA) confirm that financing is provided primarily at the later phases and the financial funding for the seed stage at three percent is relatively modest

in Kapitel 0

⁸⁰ Financing in the preparation or idea phase of developable, potential entrepreneurs (e.g. university students in the lower semester), to realize a project at some time in the future.

If investors stay away in economic down times, there is the danger that the success of a start-up will depend more on economic trends than on the quality of the project. It means that innovative potential could be lost. SECO shall continue to focus on the problems of pre-seed and seed financing and continue to observe the market.

Entrepreneurs in the early phases nowadays primarily use friends, acquaintances and relatives for funding. In addition there are also philanthropic donors in private programmes. These programmes are not enough to finance potential entrepreneurs both within and external to the research sector. In particular, non-research driven innovations are not at all covered by current offers. Currently the private philanthropic offers are enough to cover roughly 50 start-ups a year. The potential for university projects on the other hand is roughly between roughly 150 to 200 start-ups plus projects with similar potential which are not under the remit of the university research sector.

8.2.2 Investments by pension funds

The changes to ordinance BVV 2⁸¹ made on April 1, 2000 adjusted the rules for investment in the area of retirement funding and created greater flexibility when it comes to the investment of pension funds in venture capital. In doing so, the English Prudent Man Rule was used, which allows alternate investments in as far as the pension fund has a clear and balanced strategy.

With the revision to the investment rules on September 19, 2008 a limit for alternative investments of 15% was expressly included in the investment regulations. This limit may be exceeded in justified cases and when the pension fund has sufficient risk capacity. The pension funds invest at their own risk. They will attempt to optimize their returns based on the potential return on investment and their risk capacity. The current legal parameters (minimum amount and conversion rate) in occupational retirement funds set very stringent requirements.

The independent action of the pension funds has proven effective through numerous financial crises. Were the state to compel pension funds to invest in start-ups, then it needs to bear the political and financial responsibility for any losses. For these reasons the Federal Council is of the view that pension funds should not be compelled to make greater investments in venture capital.

8.2.3 Reporting obligations for capital loss or excessive debt

National Councillor Noser in his Postulate 11.3430 requested that the Federal Council examine how entrepreneurs could be relieved when it comes to administrative fees and taxation costs. He sees one possible measure in waiving the obligation to notarize every loan taken out in particular those to compensate capital losses and excessive debt.

The following will examine the public certification of rights issues specifically or retraction as part of financial problems within a company. It is limited to the presentation of stock corporations, since it is assumed that the large share of start-ups will select this legal form. For a private limited company and limited partnerships the principals of the reporting obligations for stock corporations apply.

⁸¹ SR 831.441.1

8.2.3.1 General/ Concepts

A capital loss is manifest under Article 725 Paragraph 1 of the Swiss Code of Obligations (OR)⁸² if the total of share capital (including any participation capital) and the legally required reserves cannot cover costs.

Over-indebtedness as defined in Article 725 Paragraph 2 OR is manifest if the total assets are less than total debt.

8.2.3.2 Sense and purpose of the reporting obligation

In the event of a capital loss, the management board has to immediately call a session of the General Shareholder Meeting and then request specific restructuring measures. The capital loss is an alarm signal that forces the management board to deal with the financial disparities as soon as possible. The reporting obligation of capital losses protects the interest of the shareholders, creditors, employees and other economic participants.

Should the intermediate report created due to well-founded fear of over indebtedness actually conclude that the company is over indebted, then the supervisory board must notify the magistrate in as far as a company creditor will not subordinate his/her claim to the other creditors. The magistrate then needs to open bankruptcy proceedings should no prospect of restructuring be possible. It is designed to prevent the board of directors from conducting business as usual despite the disappearance of equity. The reporting obligation in the event of over indebtedness protects creditors' interests and those of the company itself by preventing a further deterioration of the assets and maintaining the possibility of restructuring.

8.2.3.3 Restructuring measures

Upon presentation of a capital loss the board of directors has great discretion when it comes to the selection of possible measures. In addition to the liquidation of the company or the merger with another company, the following non-exhaustive list can come into consideration:

- Capital increase through the issue of shares for cash or conversion of debt capital into equity (so-called debt/equity swap);
- Capital reduction with immediate increase through new cash (harmonica), in-kind investments or through the reduction of debt (debt/equity swap);
- À fonds perdu contribution from shareholders;
- Creditor waivers.

The magistrate must not be notified in the event of over indebtedness, if a sufficient number of creditors subordinate their claims to other creditors, i.e. bindingly declare that their claims will only be exercised after the other creditors have been satisfied. If a magistrate needs to be notified then he/she will generally start bankruptcy proceedings. If a corresponding restructuring plan is presented, the judge may then postpone bankruptcy. Should there be the prospect of a composition agreement, the magistrate may grant the company a moratorium.

8.2.3.4 Capital increase and capital reduction procedures in detail

Should equity capital need to be adjusted due to financial difficulties both the capital increases as well as the capital reduction need to be carried out in accordance with the relevant procedures described in the Swiss Code of Obligations. The currently pending

⁸² Federal Law dated March 30, 1911 governing the amendment to the Swiss Civil Code (Fifth Volume: Code of Obligations, SR 220)

revision of the law governing stock corporations in parliament foresees the capital bandwidth as a new instrument for increasing or reducing capital: The Annual General Meeting may grant the Administrative Board the power to increase or decrease equity capital within a specified bandwidth for a certain period of time.

Should the capital increase or capital decrease make changes necessary to the articles of association then the corresponding resolutions need to be certified in accordance with Article 647 Swiss Code of Obligations and entered in the commercial register. The notary fees generated are based on the applicable cantonal tariffs. The fee framework for the commercial register were arranged by the Federal Council in an ordinance⁸³. The relevant cantonal commercial registry office shall levy the fees.

The Federal Council has not expressed doubt about the official disclosure of changes to articles of association and is of the view that these formalities are definitely justified as they prevent inappropriate actions and serve as a source of reliable evidence. Even though the investors in start-ups are aware of their elevated risk, the Federal Council does not believe it to be any justification to waive proven protection mechanisms. In addition, a decision to waive the certification costs only for start-ups would violate the principle of equality.

9 Conclusions

Over the past few years Switzerland has improved its conditions, and the venture capital industry has also profited. The implementation of the Federal Law on Collective Capital Investments⁸⁴ and Corporate Tax Reform II⁸⁵ have led to improvements. The current OECD and EVCA figures show that the initiative are slowly but surely having an impact. Nevertheless the various sides will always make demands for improvement of the general conditions on the venture capital market.

The potential barriers to venture capital were discussed in this report using the three problems of the innovation gap, the information gap and the funding gap. In addition a difference needs to be made based on the various phases of the company. The individual issues are also often tied to one another and cannot be viewed in isolation. If certain difficulties are uncovered in the commercialization of innovations (innovation gap), this may be the result of limited available funding for the early stages (funding gap).

An innovation gap as the result of a lack of ideas or research findings has not been a problem in Switzerland over the past few years. International comparisons show that Switzerland is one of the most innovative countries in the world, producing numerous new projects. An innovation gap resulting from insufficient commercial exploitation of research and development work may be possible but cannot be proven empirically. Determining unused potential from research and development findings is common among experts. It is important that start-ups get the necessary funding. To do so, transparency and a functioning exchange of information is important. Right now various government programs are in place to close any possible innovation gaps. CTI offers services as part of coaching courses for start-ups. The Federal Council is generally of the opinion that the current offerings from the government and the private sector in terms of innovation support are sufficient.

Even in terms of exchange of information no gaps resulting from market failures could be found. While the exchange of information within the peer group that is closely involved with venture capital functions quite well, there is still a certain need to appeal to other interests

⁸³ Ordinance on Fees for the Commercial Register dated December 3, 1954 (SR 221.411.1)

⁸⁴ SR 951.31

⁸⁵ AS 2008 2893

outside of this peer group and gain additional potential investors. Switzerland has various private initiatives, whose goal is to bring together start-ups and interested investors. Of course this exchange of information can always be improved. In particular the activities of the business angels could be made more public so that start-ups and investors can be brought together more easily. The Federal Council is of the opinion that this is primarily the task of the private sector. The Start-up Monitor and Capital proximité are examples of such initiatives.⁸⁶

Then there is the issue as to whether enough venture capital is available or whether a funding gap has been created. In general it can be determined that the consolidation of the venture capital flows illustrates that the Swiss market is open and receives about 30 percent of its funding from abroad.

The available data along with hearings with experts in venture capital confirm that the availability of capital needs to be differentiated based on the stage of the company cycle. While banks along with venture capital funds generally prefer to invest in a company with a finished product or a company in the growth or expansion stage, signs of a funding gap can be seen primarily in the early stages (seed stage for research and development or in drafting a business plan). In this stage, risk is still very high, so that savings or capital from family, friends or business angels are practically the only available funding options. In addition, early stage financing has proven to be far more sensitive to economic conditions:

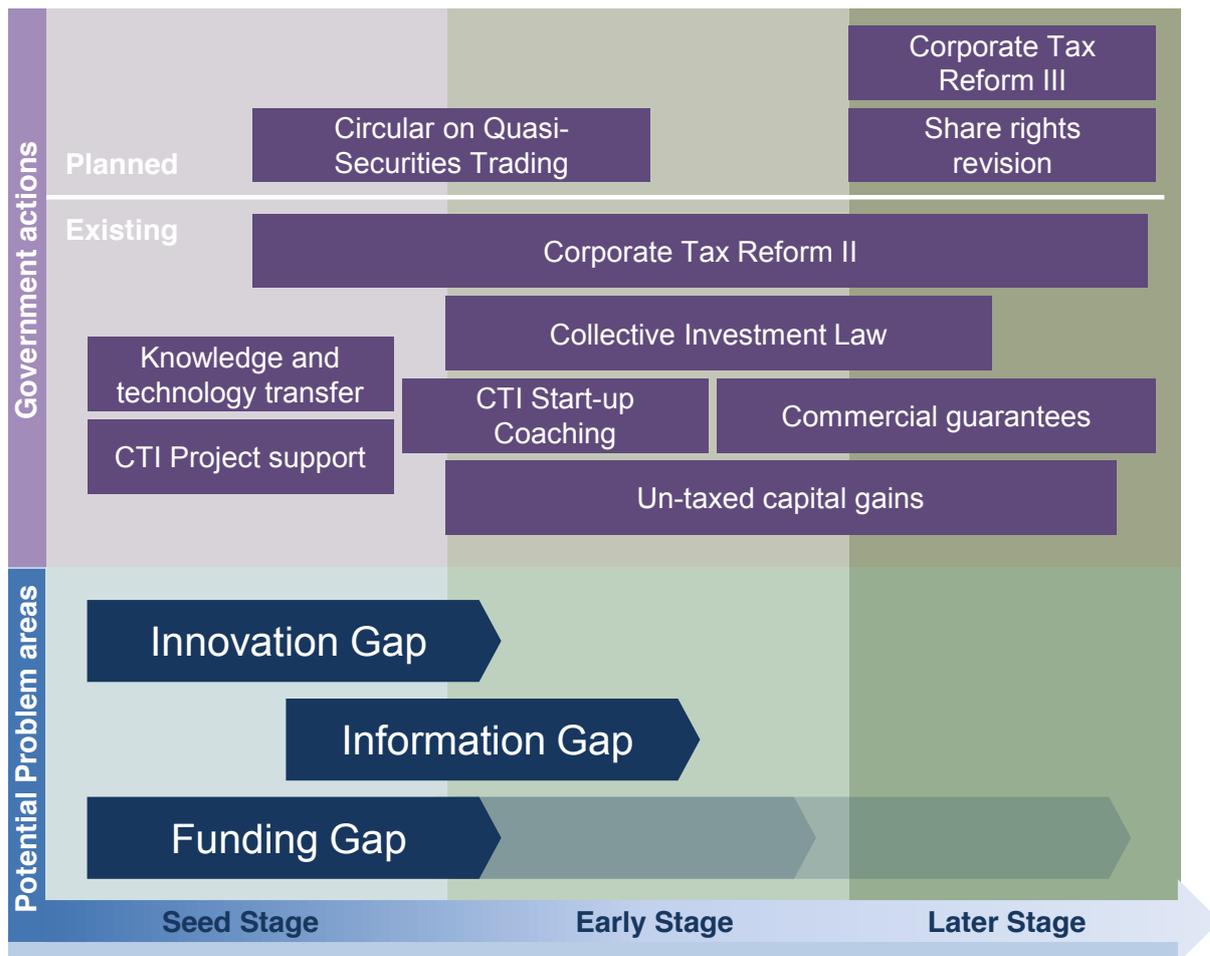
Hesitancy on the part of investors in the early stages is also associated with their general attitude towards risk. Based on their cultural attitudes, European investors appear more hesitant than American investors. Thus the attitude of the populace towards start-ups also plays a central role. Changes in these soft-factors such as increasing entrepreneurial spirit will take a long time however and can be supported by educational offerings.

The improvements are planned to the general conditions: The Federal Council shall examine further instruments as part of the Corporate Tax Reform II and the Stock Corporation Act revisions. The Swiss Tax Authority plans to reinforce legal certainty pertaining to the taxation of quasi securities trading through amendments to the circular over the course of 2012. Image 11 shows the various support mechanisms in place over the various stages of a company's development. Such actions also help minimize the potential gaps mentioned in innovation, information and funding.

In addition to these government initiatives numerous private initiatives have been put in place to support young entrepreneurs. However, it will be a continuous task to test the general conditions for more possible improvements in the future so that Switzerland can maintain and expand its excellent position in international comparisons.

⁸⁶ See appendix III Private Initiatives

Image 11: Problems and Measures



Source SECO, individual production

10 Appendix

I. Consulting Experts

As part of drafting this report on Venture Capital in Switzerland several meetings were held to consult with various experts outside of the federal government as the result of a hearing.

- Baumann Brigitte, President, European Trade Association for Business Angels, Seed Funds and other Early Stage Market Players (EBAN)
Bordry Pierre, Director Capital proximité
Burkhardt Peter E., Director EVA - the Basel life science start-up agency, Director Basel Incubator and President Biovalley Business Angels Club BioBAC
- Gantenbein Pascal, Professor of Finance Management at Basel University
- Montserrat Jordi, Managing Director Romandie of the Institut für Jungunternehmen (Institute for Start-ups) (IFJ)
- Müller, Christoph, Titular Professor for Business Administration with Focus on SME and Start-ups at St. Gallen University
- Pedernana Maurice, Managing Director Swiss Equity & Corporate Finance Association (SECA)
- Schillig Beat, Founder and Managing Partner of the Institut für Jungunternehmen (IFJ/ Institute for Start-ups)
- Vuilleumier Jean-Pierre, Managing Director CTI Invest and Managing Director W.A. de Vigier Stiftung
- Walker Josef, Professor for Entrepreneurship and Chair of the “Entrepreneurial Management” as well as research at the University of Technology and Business HTW Chur

II. Private Initiatives

The following is a select list of example of private initiatives to support innovative business ideas (no claim to completeness):

- *BioValley Business Angels Club:*
The BioBAC based in Basel searches for early stage investments in life sciences start-ups with a special focus on university spin offs.
- *Business Angels Switzerland (BAS)*
BAS Business Angels Switzerland offers dinner meetings as a platform where start-ups can present themselves to interested investors. The association has 62 members and is divided into two sections, one in the German section of Switzerland (33 members) and Romandie (29 members).
Capital proximité:
This Internet platform is a contact exchange for investors and companies, which have entered a corresponding profile and can then search for a corresponding match.
- *Club Valaisan of the Business Angels:*
The goal of the club is support investment in Walisian start-ups. Training and arranging contacts at regularly held angel dinners should assist in this.
- *Cofundit or investiere.ch:*
The matchmaking platform wants create enthusiasm for investment in start-ups and to make crowdfunding useful for start-ups along with small and private investors, who do not have good networks.
- *Company Market:*
Companymarket.ch is a matchmaking platform for companies and provides support during company acquisitions, succession solutions or company purchases.
CTI Invest:
CTI Invest is a private and independent association of investors and offers start-ups a platform for presenting their business ideas to a broad audience of business angels as well as national and international venture capital companies.
- *Eidgenössische Stiftung zur Förderung schweizerischer Volkswirtschaft durch wissenschaftliche Forschung:*
The foundation aims to support technology transfer of research from Swiss universities and other government labs to private industrial companies to generate independent economic activity in Switzerland. The foundation funding comes from returns on the fund capital of approximately 2.5 million francs along with private donations. The foundation was set up in 1918.
Fondetec:
The Fondatec foundation supports the start-up development of companies in the city of Geneva.
Genilem:
Genilem was founded in 1995 as a non-profit association with the objective of supporting innovative start-ups in the early stages with a 3-year training programme. Genilem's partners are both private companies and public institutions, whose primary objective is to support the establishment of innovative start-ups, to make a contribution to the general dynamism and vitality of the overall economy, to help create jobs and thus bring prosperity to all.
Go beyond:
The focus of Go Beyond is early stage investing. Go Beyond is a national business angel network that also offer fixed structured co-investment models for business angels.
Go! Ziel selbständig (www.gozielselbstaendig.ch):
Go! supports people with consulting and coahing who are looking for professional success as self-employed individuals.

Inno-Swiss:

Inno-Swiss is the first social media platform with objective of promoting Swiss innovations and companies internationally.

Institut für Jungunternehmen IFJ:

For more than 20 years the IFJ has assisted entrepreneurs from all possible industries obtain independence. To do so it has started diverse programmes and tools to help entrepreneurs realized their entrepreneurial vision.

- *Cantonal Banks:*

Various cantonal banks are also involved in innovation support. The Zürcher Kantonalbank (ZKB) has provided 100 million francs worth of venture capital over the course of five years. It particularly included start, structuring, expansion and acquisition financing for SMEs and entrepreneurs as well as financing for innovation projects using sustainable technologies that were riskier than most.

Another example is the innovation foundation at Schwyzer Kantonalbank. On the one hand it aids innovative SMEs on the threshold of growth and on the other hand on established companies that need additional funding to organize succession.

- *Microcredit Solidarität Schweiz:*

It supports entrepreneurs who cannot obtain bank loans for their project, since they cannot provide the standard collateral required. Support is provided to the establishment of smaller enterprises that create jobs through the granting of micro-credits from capital gathered from numerous donations.

- *Startfinance.ch:*

This matchmaking platform is affiliated with the Zurich Startzentrum and acts as an intermediary between companies and investors.

- *startup.ch:*

Startup.ch is an Internet platform for innovative companies, investors and individuals in the Swiss start-up scene.

- *startwerk.ch*

Startwerk.ch is a platform for Swiss start-ups. The reports on start-ups and their development and focuses on founders and successors in all industries, while the target audience also includes employees at and investors in start-ups. Subjects such as marketing and financing as well as reports on event round off the offerings. An essential element of the blog is networking. Starwerk.ch is a blog from Blogwerk AG in cooperation with the Institut für Jungunternehmen (IFJ).

- *Seed Capital Freiburg Foundation:*

The charitable foundation provides innovation support to businesses in the Freiburg area and helps in the financing of business development of current and future companies that present a significant economic interest for the Freiburg Canton and are also active in high-value-added, scientific and technology industries. It works with projects in the initial phase of development.

- *Swiss Private Equity & Corporate Finance Association SECA:*

SECA's objective is to represent private equity and corporate finance activities to the relevant target groups. In addition it supports the exchange of ideas and cooperation among its members and their customers. They support professional continuing education as well as the development of ethical codes of conduct and their implementation and other duties.

- *Swiss Start-up Monitor:*

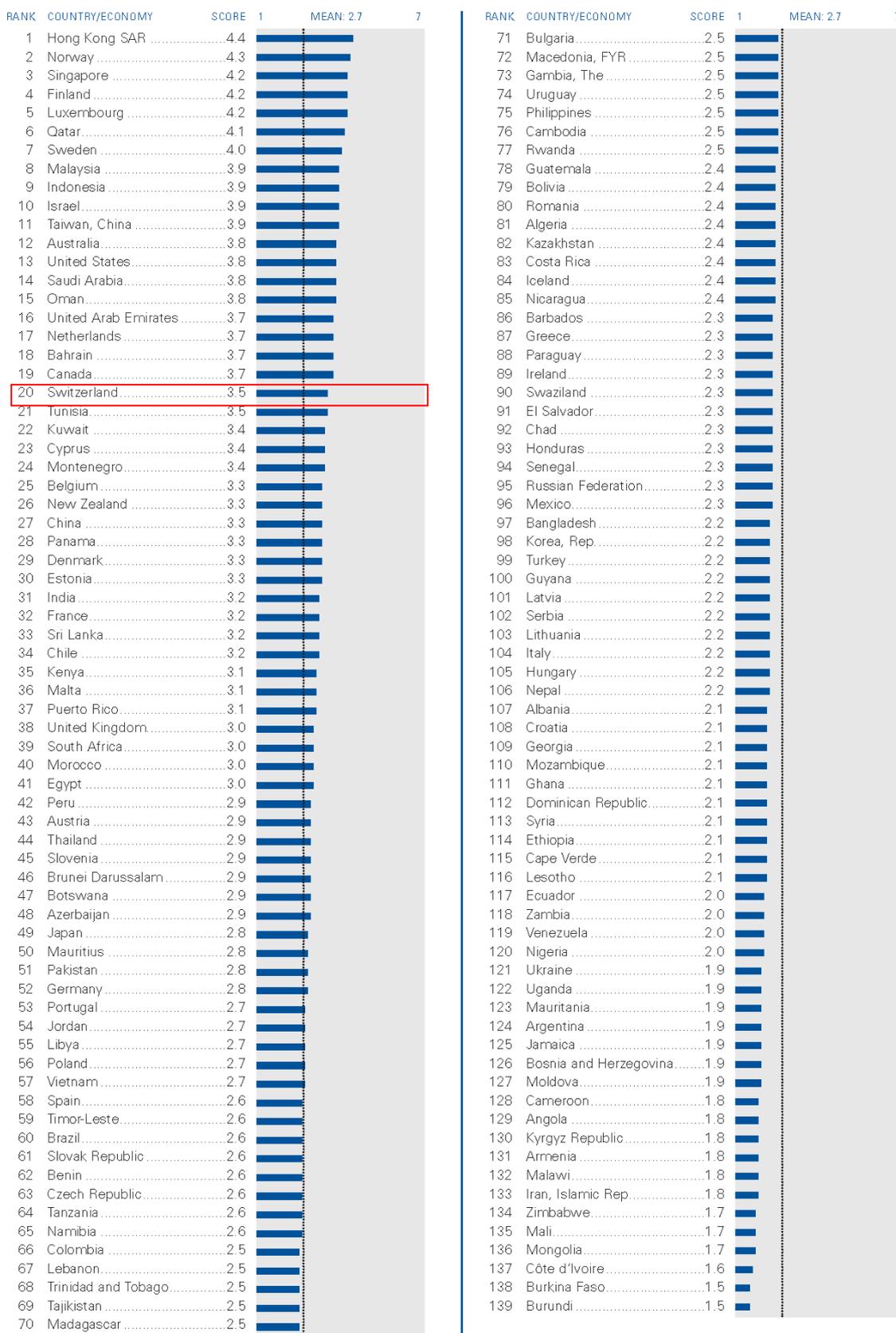
The Swiss Start-up Monitor is a project from the University of St. Gallen. The idea behind the project is to put together an independent and trustworthy data base for all of Switzerland where the secure recording, processing and exchange of start-up

performance data is possible. The objective is to efficiently track the development of high-potential start-ups in Switzerland efficiently based on region, industry and university.

- *Technoparks and Founding Centres:*
Technoparks provide a joint infrastructure to select start-ups from the technology sector. The companies profit from the location factors. Experts are easily available and it is possible to establish numerous joint ventures within the technology park. It is possible because most of the companies within a park are working with the same branch of technology and the firms are very close to one another.
- *venture kick:*
In 2007 the IFJ and various foundations set up the support programme Venture Kick, which is designed to double the number of start-ups at Swiss universities. To do so Venture Kick distributes 2 million francs a year and provides seed capital to individual start-up of up to 130,000 francs.
- *W.A. de Vigier Foundation*
Since 1987 the W.A. de Vigier Foundation has awarded a prize of CHF 100,000 to innovative and futuristic business ideas. In addition to this seed funding the prize winners also receive valuable contact, can exchange experiences at alumni events along with a media presence. This is one example of the numerous active foundations in Switzerland.

III. Venture Capital Availability (WEF)

In your country, how easy is it for entrepreneurs with innovative but risky projects to find venture capital? [1 = very difficult; 7 = very easy] | 2009–10 weighted average



SOURCE: World Economic Forum, Executive Opinion Survey

IV. Policy Motions

- 11.3431 Venture Capital. Support for Investments (Po. Noser)
- 11.3430 Financing Start-ups. Reducing Administrative and Tax Burdens (Po. Noser)
- 11.3429 Legal Certainty for Entrepreneurs and Business Angest (Po. Noser)
- 10.3076 Federal Law on Venture Capital Companies. What Next? (Po. Fässler)
- 09.4309 Bonus Percentage. Innovation Funds (Mo. Heim)
- 09.3936 Support for Start-up Companies (Mo Darbellay)
- 09.3935 Lower Tax Takes from Exemptions for Start-up Companies (Po Darbellay)
- 09.3931 Easing the Investment in General Funding Vessels to Support Start-up Companies (Mo. Darbellay)
- 09.3825 Innovation Support in SMEs (Po. Robbiani)
- 09.3575 Crisis Funds. Green Knowledge to Counter Crisis (Mo. Green Fraction)
- 09.3004 Research and Innovation to Counter Economic Downturn (P. Commission for Science, Education and Culture)
- 08.4004 Easier Access to Credit (Po. Rennwald)
- 08.3559 Lack of Clarity with Hedge Funds (Ip. Sommaruga)
- 08.3054 Better Market Access for Successful Innovations (Ip. Schelbert)
- 07.3582 Establishment of a Parc d'innovation suisse (Mo. FDP-Liberal Fraction)
- 07.3378 Pension Fund Investments in Hedge Funds and other High-Risk Investments (Ip. Rechsteiner)
- 06.3790 Packet of Measures for SMEs (Mo. Jermann)
- 04.3736 Removal of Issue Levy on Equity (Mo. Bühler)
- 04.3577 Corporate Tax Reform (Ip. Wicki)
- 04.3545 Corporate Tax Reform (Ip. Christian-Democrat Fraction)
- 04.3407 Establishment of Businesses. Revision of the Federal Law on Venture Capital Companies (Mo. Favre)
- 04.3169 Support for Venture Capital. Creation of a Swiss Law Limited Partnership Company Form (Mo. Bühler)
- 02.469 Corporate Tax. Reform (Parliamentary initiative from the Christian-Democrat Fraction)
- 02.3667 SME. Fund for Innovation and Development Networks Mo. Christian-Democrat Fraction
- 02.3255 Establishment of Businesses. Revision of the Federal Law on Venture Capital Companies (Mo. Favre)
- 02.3048 Federal Law on Venture Capital Companies Expansion of Application (Ip. Favre)
- 99.3461 Support for Establishing Companies II (Po. CEAT-SR)

- 99.3460 Support for Establishing Companies I (Po. CEAT-SR)
- 98.3392 Venture Capital for Hotel and Spa Renovation (Mo. Hess)
- 98.3042 Allocation of Gambling Income (Mo. Simon)
- 97.400 Venture Capital (Parliamentary initiative of the CEAT-NC)
- 97.3412 SME. Large Bank Practices in Issuing Loans (Ip. Comby)
- 97.3004 Pension Funds and Venture Capital (Mo. CEAT-NC)
- 97.3002 Exchange for Venture Capital Companies and Other Companies (Mo. CEAT-NC)
- 97.3001 Pension Funds and Venture Capital (Mo. CEAT-NC)
- 96.3651 Support for Start-ups through Tax Breaks on Direct Federal Taxes on Venture Capital Investment Companies and Other Measures (Mo. Forster)
- 96.3623 Support for Start-ups through Tax Breaks on Direct Federal Taxes on Venture Capital Investment Companies and Other Measures (Mo. Freely Democratic Fraction)
- 96.3477 Pension Fund Availability for Use as Venture Capital (Mo. Thür)
- 96.3403 Tax Breaks for Small and Medium Sized Companies (SME), which Create New Jobs (D.Ip Christian-Democrat Faction)
- 96.3190 Support for Small and Medium-Sized Companies (Mo. Commission-NC)
- 95.3029 Support for Start-ups and Innovation (Mo. Lepori)
- 93.3346 Start-up Support (Ip. Loeb)
- 92.3600 Venture Capital (Po. Christian-Democrat Fraction)

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