

BAI feedback statement

Targeted consultation on private equity exits

I. Preliminary Note

The German Alternative Investments Association (Bundesverband Alternative Investments e.V. - **BAI**) welcomes the opportunity to give feedback on the planned measures regarding private equity exits.

As an industry association we represent more than 300 national and international members active in the institutional alternative investments sector (i.e. infrastructure, private equity, private debt, liquid alternatives), representing the entire value chain (asset manager, funds, banks, service providers, etc.). Likewise institutional investors (insurance companies, pension funds, occupational pension schemes, etc.) are represented in our investor board so that our activities have a dedicated focus on the asset owner side and their investment topics and needs as well.

From the point of view of our members active in private equity, we do not believe it is necessary for the European Commission (EC) to put forward measures to facilitate private equity exits in the European Union, as the market already has efficient solutions for exits in private equity investments. This also applies to the institutional investors in the private equity sector.

Furthermore, we do not consider a regulated trading platform for private equity shares to be a suitable solution to the exit challenges faced by the private equity sector. However, we do not intend to make a statement regarding the usefulness of trading platforms for non-listed companies in general.

II. Challenges and current market practice

Exit conditions in private equity have become more challenging in recent years, reflecting cyclical factors such as higher interest rates, reduced M&A activity and subdued public markets. These dynamics have led to longer holding periods and a temporary build-up of unrealised assets.

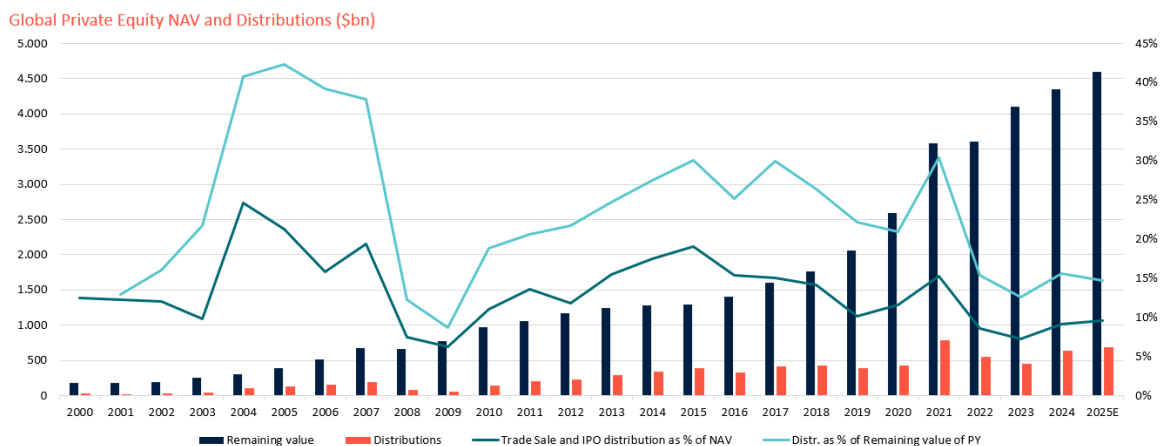
Challenges in private equity exits can be meaningfully distinguished between the asset (portfolio company) level and the fund level, with the former being of primary economic relevance.

BAI feedback statement

Targeted consultation on private equity exits

At the asset level, exit constraints are primarily driven by company-specific and market-based factors. Portfolio companies operate in real economies and are therefore directly exposed to macroeconomic conditions, sector cycles, financing environments, and buyer appetite. In periods of higher interest rates or economic uncertainty, potential acquirers face tighter financing conditions and increased risk sensitivity, which can delay or reduce exit opportunities.

At the fund level, challenges relate more to liquidity management, portfolio construction and the alignment of investment horizons with market conditions. Slower exit environments can lead to extended holding periods and delayed distributions to investors.

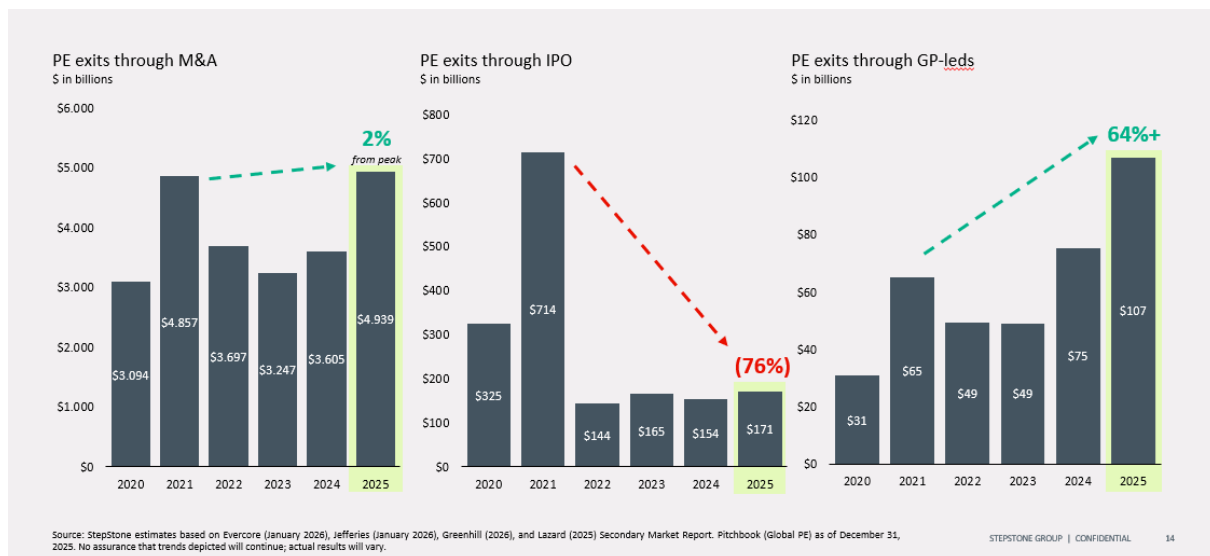


Quelle: Schroders

BAI feedback statement

Targeted consultation on private equity exits

However, the private equity market has already figured out various options for investors who plan to exit their investment in private companies when the “traditional” exit opportunities such as IPOs became less of an option.



Quelle: Stepstone Group

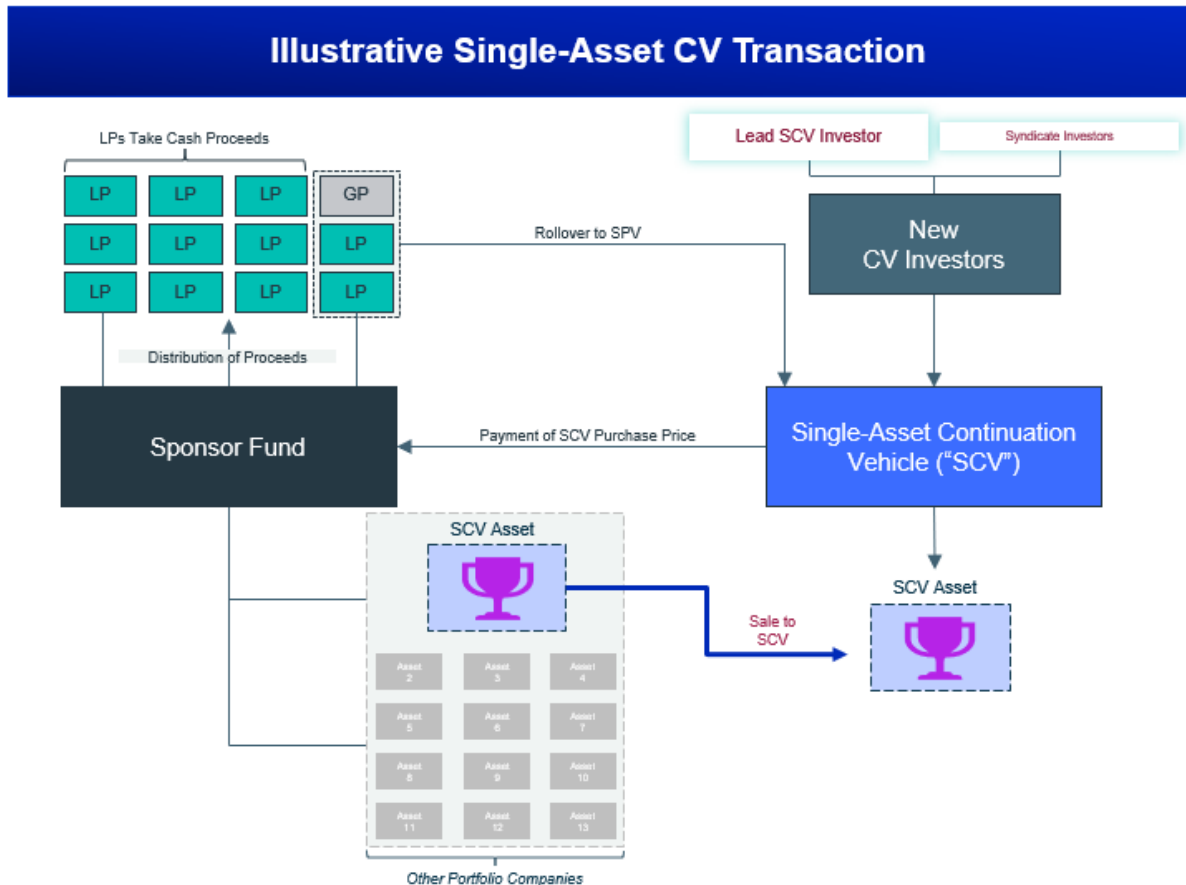
Continuation Funds

The most common example for GP-led options is the Continuation Fund. GPs of an existing private equity fund initiate another private equity fund (the Continuation Fund) which continues certain assets of the previous fund to find better exit options.

Limited partners of the previous fund have two options: Sell their shares or “roll over” by transferring their shares into the Continuation Fund. New investors can join to provide liquidity to the sellers and to finance the vehicle.

BAI feedback statement

Targeted consultation on private equity exits



Quelle: Lexington Partners by Franklin Templeton

This structure has gained significant traction since around 2020, mostly because of persistently high interest rates and challenging exit markets. Continuation Funds also bring several benefits for all parties involved: GPs can hold onto high value assets for longer to find a better exit opportunity, which maximises long term yields. Selling LPs can gain liquidity from illiquid assets to reallocate to liquid investments or new funds. Existing and new LPs gain exposure to proven assets with better conditions like lower fees. From an economic perspective, Continuation Funds therefore do not replace exits but rather defer them in a structured manner in order to maximise long-term value at the portfolio company level.

As a result, investors are not "stuck" in an illiquid fund but have the choice between reallocation of capital and cashing out to gain new liquidity.

BAI feedback statement

Targeted consultation on private equity exits

Secondaries

In addition to Continuation Funds, Secondaries represent a well-established and complementary liquidity solution. While Continuation Funds are GP-led and asset-specific, traditional Secondaries are typically LP-led and take place at the level of fund interests.

Secondaries refer broadly to the transfer of existing private equity interests from one investor to another, typically involving LPs selling fund stakes in order to obtain liquidity prior to the end of a term of a fund. These transactions are market-driven, bilateral or auction-based, and provide pricing signals based on supply and demand. Continuation Funds, by contrast, are a specific form of GP-led secondary transaction in which the general partner restructures ownership of one or more portfolio companies by transferring them into a newly established vehicle. Existing investors are typically offered the choice to exit or roll over their investment.

While both mechanisms enhance liquidity in otherwise illiquid markets, Continuation Funds differ in that they are initiated and structured by the GP and involve a higher degree of discretion and governance complexity compared to traditional LP-led secondary transactions.

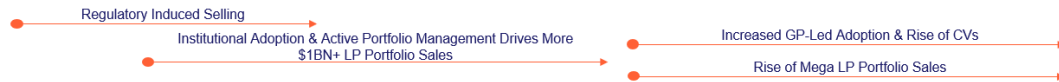
Despite this structural difference, Secondaries play a crucial role in the overall exit ecosystem. They enable investors to actively manage their portfolios, rebalance exposures and generate liquidity without requiring an immediate exit at the level of the underlying assets. This is particularly relevant in periods where traditional exit routes are temporarily constrained. However, they do not substitute exits at the level of the underlying portfolio companies.

Both mechanisms have evolved organically and contribute to the resilience and flexibility of the private equity market without the need for additional centralised infrastructure.

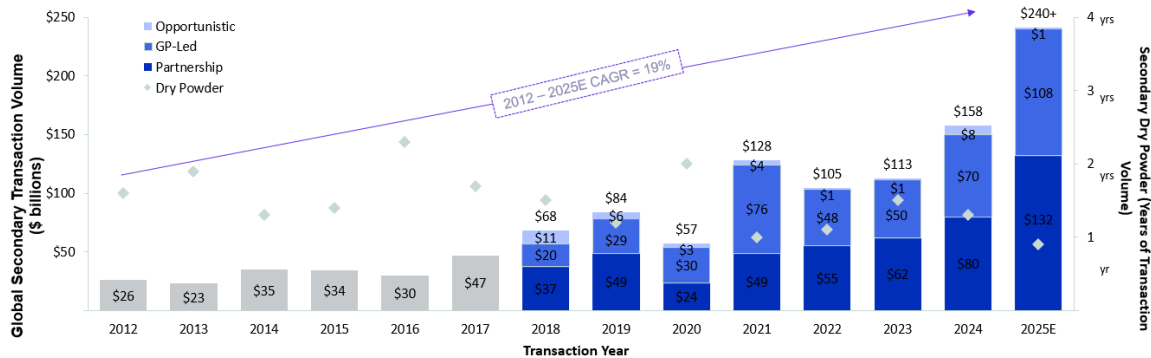
BAI feedback statement

Targeted consultation on private equity exits

Secondary Market Evolution



Secondary Transaction Volume & Dry Powder



Quelle: Lexington Partners by Franklin Templeton

Consultants

In addition, consultants specialised in PE exits (e.g. strategy consultants, operations experts and specialist transaction advisers) are involved in every aspect of an exit. They usually start their consulting services regarding investment exits 18 to 24 months prior to the planned exit date. During this period, consultants increase transparency, structure and performance by analysing the assets, performing a vendor due diligence, identifying risks, adjusting business plans and optimize pricing structures.

A well-developed ecosystem of consultants, vendor due diligence providers and structured data rooms has substantially reduced information asymmetries and improved transaction transparency.

III. Intermittent Multilateral Secondary Trading Platform

The implementation of an intermittent multilateral secondary trading platform for private equity exits should be grounded in a careful cost-benefit analysis. While the proposed framework may offer incremental improvements in transparency and accessibility, its implementation would entail significant operational and regulatory costs. These include the establishment and maintenance of the platform itself,

BAI feedback statement

Targeted consultation on private equity exits

compliance with new disclosure and standardisation requirements and the need for market participants, particularly smaller firms, to adapt their internal systems and processes.

Such costs are unlikely to be evenly distributed. Smaller transactions and market participants would be disproportionately affected, as fixed compliance burdens weigh more heavily on lower deal sizes. This raises the risk that precisely those segments the initiative seeks to support could face reduced participation or higher barriers to entry.

Furthermore, any consideration of an intermittent multilateral secondary trading platform should consider its potential impact on the underlying portfolio companies. Unlike publicly traded firms, private equity-backed companies typically rely on stable and concentrated ownership structures, which enable effective governance, long-term strategic alignment, and efficient decision-making. The introduction of a trading mechanism that facilitates more frequent transfers of ownership stakes risks increasing shareholder fragmentation and introducing investors with shorter time horizons or differing objectives rather than majority shareholders. This could complicate governance processes and weaken the alignment between owners and management. It is therefore essential that any such framework preserves appropriate consent rights and safeguards at the level of the portfolio company and avoids creating incentives for excessive fragmentation of ownership that could ultimately undermine value creation.

Additionally, it remains uncertain whether a centralised platform would materially improve liquidity or price discovery beyond what is already achieved through existing secondary markets and competitive bilateral processes. Given the bespoke and information-intensive nature of private equity assets, forced standardisation may deliver only limited efficiency gains.

Comparable initiatives, such as the United Kingdom's *PISCES* (Private Intermittent Securities and Capital Exchange System), illustrate that the concept of intermittent trading platforms for private market assets is at an early and largely experimental stage. The *PISCES* framework is designed to enable private companies to offer and trade their existing shares in a controlled, intermittent manner through designated trading windows without undergoing a full public listing. It is part of the UK's Financial Market Infrastructure Sandbox and running for a five-year period beginning in late 2025. Participation is limited to approved investors under the UK financial promotion rules

BAI feedback statement

Targeted consultation on private equity exits

(professional investors, employees of participating companies and self-certified or certified sophisticated investors) and their access will be managed through brokers, called Registered Auction Agents (RAAs), who will be responsible for checking the eligibility of investors and enabling their participation in an auction.

In contrast to attempts by other markets to create something similar (e.g., the *Nasdaq Private Market* (NPM)), *PISCES* will enable companies to have significant control over timing of trading windows, eligibility of investors that can participate and pricing within a standardised framework with regulatory oversight. Additionally, transfers of shares on a *PISCES* platform are exempt from all UK stamp duty taxes.

However, *PISCES* was not designed to facilitate private equity exits in the first place, even though this might also be a use case. Instead, *PISCES* shall be a new type of private stock market that gives investors more opportunities to buy stakes in growing companies.

While such frameworks aim to enhance liquidity and broaden investor access, market discussions and initial industry feedback indicate that their practical effectiveness remains uncertain. Especially the concept of designated trading windows might be hindering for companies needing liquidity at short notice. Additionally, companies need to change their articles and capital structures to comply with *PISCES* requirements, also posing challenges around the balance between ensuring freely transferable shares in a trading window and maintaining ongoing control of the share register/cap table.

Finally, we are concerned about the risk of adverse selection dynamics created by a centralised platform for private equity exits. In practice, it is likely that “trophy” assets would continue to be transacted through established bilateral processes or competitive auction environments, where sellers can maximise value and control investor selection. By contrast, assets perceived as less attractive, more complex or harder to exit may be disproportionately channelled through a centralised trading platform. This could result in a concentration of “lower quality” assets, reducing overall investor confidence and impairing price discovery. Over time, such segmentation may lead to a two-tier market, where the platform is associated with discounted or distressed assets, thereby limiting its effectiveness and potentially reinforcing, rather than alleviating existing liquidity challenges.

BAI feedback statement

Targeted consultation on private equity exits

IV. Conclusion

The private equity market has developed effective mechanisms for providing liquidity through Secondaries and Continuation Funds. Advisory firms and due diligence processes significantly reduce information asymmetries, whilst competition among buyers ensures market-based pricing. As such, current exit constraints should be understood as part of a normal cyclical adjustment process, rather than evidence of a persistent market failure requiring regulatory intervention. Intervention would reduce flexibility and could lead to inefficient forced sales. Initiatives such as *PISCES* illustrate that centralised trading approaches remain experimental and their practical benefits uncertain for professional investors in private equity. However, we do not presume to judge the usefulness of such a concept for non-listed equities.

We therefore believe that there is no structural market failure regarding private equity exits that would justify regulatory intervention. Instead, greater trust should be placed in the existing corrective mechanisms the private equity market has already developed.

Against this background, additional regulatory infrastructure such as an intermittent multilateral secondary trading platform remains unconvincing for private equity exits. Imposing such a platform could lead to increasing transaction costs and reduced flexibility, particularly for smaller deals, while potentially crowding out innovative market-led solutions.

Bonn, May 11th, 2026

Contact:

Frank Dornseifer, Attorney-at-law

- Managing Director -

dornseifer@bvai.de

Tel.: +49 (0)228-96987-50

Anna de Waele, LL.B., Attorney-at-law

- Consultant Law & Policy -

de.waele@bvai.de

Tel: +49 (0)228-96987-32

BAI feedback statement

Targeted consultation on private equity exits

Bundesverband Alternative Investments e.V.
Poppelsdorfer Allee 106
53115 Bonn
www.bvai.de

The **Bundesverband Alternative Investments e.V. (BAI)** is the cross-asset and cross-product lobby association for the alternative investment industry in Germany and we consider ourselves as a catalyzer between professional German investors and suppliers of Alternative Investment products worldwide. The overarching goal is that German institutional and professional investors must be able to diversify their investment with regard to Alternatives better and more easily. The BAI is promoting a broad diversification which includes Alternative Investments as indispensable, in particular in terms of safeguarding long-term retirement pensions and the provision of money for construction, maintenance, and development of public infrastructure and renewable energies.

BAI members are recruited from all areas of the Alternative Investments' industry, e.g., AIF managers and banks as well as service providers. At present, the BAI counts more than 300 national and international member companies and is growing continuously.