

We have reviewed the Access to Finance Review Stage 2 Review ("the Review") and set out our comments below.

1) We support the proposed creation of mechanisms to promote alternative sources of funding in Wales. In our view, the costs involved and level of regulation in providing either (a) small investments or (b) investments with multiple investors can often be disproportionate to the size of the loan itself. There are existing toolkits which can be accessed; for example, Eversheds (and other law firms) have worked with the British Business Angels Network ("BBAN") to produce a precedent set of investment documents appropriate for angel-type investment which are freely available on the BBAN website.

2) The Review is not even handed in its review of Finance Wales' contribution to the Welsh economy and tends to focus on the assumption that "viable businesses" have been put off taking investment from Finance Wales due to the level of interest rates offered. There appears to be no compelling evidence provided that this is the case.

3) The Review questions whether Finance Wales is "fit for purpose" but only focuses on a narrow part of Finance Wales' operation; namely the interest rates applied to the provision of debt. It does not consider equity investment or business support offered by Finance Wales. We do not understand how the Minster could conclude that Finance Wales is not fit for purpose based on this limited basis.

4) We are surprised that the Review does not commend the growth of Finance Wales, both in Wales and further afield. This is evidenced by the funds managed by FW Capital in England. These are regarded as a negative in the Review rather than a successful export of Welsh corporate finance services which help to fund activities in Wales. Brand and market reputation are key requisites of a successful corporate finance organisation and the Review seems to suggest that these should be discarded after years of building. Also, contrary to suggestions in the Review, in our experience Finance Wales is well networked within the corporate finance sector.

5) We believe that Finance Wales' ambition to be a leading provider of finance to SMEs is aligned to the growth of the Welsh economy; this is not a conflicting aim as suggested in the Review.

6) We are surprised that the Review does not include any alternative options. The only option put forward is the set up of a new entity, the Development Bank for Wales, which will have no track record or reputation in the market for 'deal doing'. We note that a more straightforward and less costly alternative would be to bolt on further services to the existing Finance Wales group; that is, a "Finance Wales+" model.

6) There is no mention of the significant costs which would be incurred by the reorganisation proposed in the report. Also, the reduction of interest rates is likely to have an adverse effect on running costs; if discounted interest rates are offered then any lost revenue will need to be met out of the public purse. We believe that the Minister should be fully briefed on the cost implications of the proposals prior to any decision being made. We would recommend that the cost implications of ALL available options are considered.

7) We have doubts whether a number of the specific proposed changes are legally possible. For example, the Review itself notes the difficulties highlighted in previous discussions relating to Finance Wales 'spinning out'. Also, there is a suggestion that the new entity could include Business Growth Fund monies whereas BGF is a separate entity owned by banks, therefore, as far as we are aware, Welsh Government would have no jurisdiction over such funds.

8) The State aid position as stated within the Review does not reflect the complexities of the State aid rules and does not deal with how the rules, in reality, apply to the nature of the deals that Finance Wales undertakes. In particular, the State aid elements of the Review fail to take into account a number of important caveats in terms of the use of the Reference Rate Communication as a benchmark for loans provided by Finance Wales.

9) We agree with the Review's suggestion that investment into social enterprise should also be considered. HM Treasury's current consultation into tax incentives for social enterprises (which is not referred to in the Review) may be a catalyst for this. This is due to be introduced in the 2014 Budget.

Yours faithfully

Eversheds LLP