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IMPACT ASSESSMENT

Accompanying the document

Proposal for a REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL

amending Regulation (EU) No 345/2013 on European venture capital funds and Regulation (EU) No 346/2013 on European social entrepreneurship funds

{COM(2016) 461 final}
{SWD(2016) 229 final}

Contents

1. Introduction

The Commission is taking action to revive and reinvigorate the EU economy. Recognising the central role small and medium sized enterprises (SMEs) have in achieving this, a key element of this work is to deepen the range of funding opportunities available to them from non-traditional sources. This work is wide-ranging, encompassing actions to support SMEs in different ways.

The Investment Plan for Europe[1] provides a comprehensive strategy to tackle the lack of finance which is holding back Europe's potential to grow and provide jobs for its citizens. It plans to mobilise at least €315 billion of additional investment by 2018 via the European Fund for Strategic Investment[2], through maximising the impact of public resources and using these to unlock private investment. The Plan also aims to achieve this greater investment through improving the regulatory environment and eliminating related barriers, the issues captured by the Capital Markets Union (CMU)[3] project. A key objective of CMU is to mobilise additional capital in Europe and to channel it to companies that need it, in particular SMEs. One of the measures announced under the CMU initiative is to revise the specialist EU venture capital and social impact investment fund frameworks - the European Venture Capital Funds (EuVECA) Regulation 345/2013[4] and European Social Entrepreneurship Funds (EuSEF) Regulation 346/2013[5] in order to increase their uptake.

The EuVECA and EuSEF fund structures were created to offer new opportunities for market participants to raise and invest capital in small companies throughout Europe in a simplified way. The two frameworks have had some success, with a number of funds which have been established and intend to market mostly cross-border, so integration has improved. So while the frameworks have started to be accepted by the market, and the expectations of the initial Impact Assessment were partially met, there is nevertheless the need to push quickly for an even stronger support for venture capital. The Commission has therefore decided to anticipate reviews required under the EuVECA and EuSEF Regulations in 2017 by starting a legislative review as part of its 2016 REFIT[6] work programme. For similar reasons, the Commission has decided not to use the possible option of combining this review with the broader review of the Alternative Investment Funds Manager Directive (AIFMD)[7] planned to start in 2017: it is judged important to encourage take-up of these funds to boost the venture capital market as quickly as possible. The aim of the review (which is in Annex 4 to this impact assessment) is to assess how the two frameworks have performed so far, in particular whether they have been effective, efficient, coherent, relevant, and have brought added value to the EU.

The review has identified a number of factors holding back the development of these funds, in particular the rules that govern the way the funds invest in assets, the way the managers run the funds, the way the EuVECA and EuSEF legislations interact with other existing investment fund legislation and the way the funds can be passported cross-border.

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[1] http://ec.europa.eu/priorities/jobs-growth-and-investment/investment-plan_en

[2] http://www.eib.org/efsi/index.htm

[3] http://ec.europa.eu/finance/capital-markets-union/index_en.htm

[4] Regulation (EU) No 345/2013 of the European Parliament and of the Council of 17 April 2013 on European venture capital funds

[5] Regulation (EU) No 346/2013 of the European Parliament and of the Council of 17 April 2013 on European social entrepreneurship funds

[6] http://ec.europa.eu/smart-regulation/refit/index_en.htm

[7] Directive 2011/61/EU

The EuVECA and EuSEF frameworks share many similarities. There are, however some significant differences between the markets for venture capital and social impact investment. While venture capital is well established, the market for social impact investment is at a much earlier stage of development, which goes some way to explain the difference in take-up between the two frameworks. The review and subsequent impact assessment have identified where differences in the markets give rise to different challenges, with some policy responses consequently tailored in particular for EuVECA.

This impact assessment builds on the review, examining the problems and identifying a range of policy options with the potential to improve the ability of EuVECA and EuSEF to channel investment to SMEs while maintaining the level of protection that investors benefit from when investing in these funds. The process to prepare the impact assessment report and the related initiative is set out in Annex 1.

This work should not be seen in isolation; there are a wide range of reasons why investors do and do not invest in start-ups and social enterprises across borders. Tax incentives play a major role. Culture towards non-bank financing also varies across Member States. And cross-border investment can be inhibited by the propensity for investors to be more closely involved in early stage businesses and social ventures than other types of investment, particularly for social ventures. These are out of scope of the EuVECA and EuSEF Regulations.

2. Procedural issues and consultation of interested parties

2.1. Background

The Single Market Act I (SMA I) adopted by the Commission in April 2011[8] sets out twelve levers to boost growth and strengthen confidence in the economy. The SMA I underlined the importance of sustainable finance for SMEs and social entrepreneurs in tackling social exclusion and increasing employment. Adoption of the EuVECA and EuSEF Regulations was a practical means of supporting the provision of sustainable finance.

The EuVECA Regulation introduced a "European Venture Capital Fund" label that qualifying funds supporting young and innovative companies were permitted to use – and enabled these funds to be marketed cross-border without additional barriers in order to meet their investment needs[9].

Social impact capital is generally linked with investments made into companies or organizations with the intention to generate positive social impact alongside a financial return. The EuSEF Regulation introduced a "European Social Entrepreneurship Fund" label analogous to the EuVECA label, and with the same cross-border marketing benefits, but that was restricted to funds investing in underlying enterprises that have a positive social impact as their primary objective.

An important subsequent workstream has been to support the measurement of social impact. Work has been carried out by the Commission expert group on social entrepreneurship (GECES[10]) to develop a methodology which would be appropriate for the specific social

[8] http://ec.europa.eu/growth/single-market/smact/index_en.htm
[9] See Annex 6
[10] Groupe d'experts de la Commission sur l'Entrepreneuriat Social - http://ec.europa.eu/growth/sectors/social-economy/enterprises/expert-groups/index_en.htm

impact measurement needs of EuSEF funds. This work has also informed the output[11] of the report of the Social Impact Investment Taskforce established under the UK's presidency of the G8, published in September 2014.

The EuSEF Regulation also forms part of the Commission's Social Business Initiative[12], 8th pillar of the SMA I.

2.2. Related EU initiatives

A number of steps are being taken by the Commission to improve financing channels for SMEs. The first and second pillars of the **Investment Plan for Europe** focus on providing, and facilitating take-up of additional EU funding to SMEs. These new tools come on top of programmes that the EU has established over a number of years. In this respect, the equity financial instruments proposed under the **Programme for the Competitiveness of Enterprises and SMEs (COSME)**[13], as well as under **Horizon 2020**[14], play a significant role as drivers of SME financing. COSME in particular plays a key part in attracting institutional investors back to the venture capital industry. An equity facility is also under discussion under the **EU Programme for Employment and Social Innovation (EaSI)**, targeting social enterprises to promote a high level of quality and sustainable employment, guaranteeing adequate and decent social protection, combating social exclusion and poverty and improving working conditions.

The Commission is planning, together with the European Investment Fund, to launch by this summer a call to create a Pan-European venture capital Fund of Funds. The venture capital Fund of Funds, which would invest in a combination of early-stage, later stage and expansion stage venture capital funds - including possibly EuVECA and EuSEF funds would be attractive to major investors. The envisaged size of the VC Fund of Funds is at least €500 million and would bring much needed additional private investment to the European venture capital market.

As part of the third pillar of the Investment Plan to improve the business environment, the **CMU Action Plan** contains a range of measures that aim to facilitate the financing of SMEs. These include, in particular, actions to strengthen feedback given by banks declining SME credit applications, to reinforce credit information on SMEs, to review the fiscal incentives and tax reliefs Member States offer to SMEs and investors in SMEs, and to review the regulatory barriers to SME admission to public and SME growth markets.

Moreover, in the context of the **Single Market Strategy**[15] the Commission will also push for high quality, online public services to reduce administrative burden and make Europe a more attractive destination for innovators from both inside and outside the EU. In particular, the Commission will launch a **Start-up initiative**, to initiate a broad assessment of requirements for start-ups and ways to reduce such requirements and, where this is not possible, to facilitate compliance.

[11] http://www.socialimpactinvestment.org/reports/Measuring%20Impact%20WG%20paper%20FINAL.pdf
[12] COM(2011) 682 final
[13] http://ec.europa.eu/growth/smes/cosme/
[14] https://ec.europa.eu/programmes/horizon2020/
[15] (COM(2015)0550 final)

Work is ongoing to develop and implement all these measures. The review of the EuVECA and EuSEF frameworks should therefore be seen in this broader perspective of Commission work to facilitate access to finance.

2.3. Consultation of interested parties[16]

On 18 February 2015 the Commission launched a Green Paper consulting on its overall approach to building a CMU. This included asking whether changes should be made to the EuVECA and EuSEF Regulations to improve the attractiveness of EuVECA and EuSEF funds. Almost 60% of respondents to these questions agreed that specific changes should be made.

On 30 September 2015, the Commission services launched a public consultation[17] on the review of the EuVECA and EuSEF Regulations. 46 responses have been received: 30 from private organisations or companies; 13 from public authorities or international organisations and three from private individuals (the summary of responses received is included in Annex 7). On the same date, the Commission services also launched a Call for evidence[18] inviting feedback and empirical evidence on the benefits, unintended effects, consistency and coherence of the financial legislation adopted in response to the financial crisis. 29 out of the 287 responses received referred to the EuVECA or EuSEF Regulations.

On 27 January 2016 DG FISMA organised a technical workshop aimed at managers of existing EuVECA and EuSEF funds, together with practitioners, supervisors and other stakeholders interested in offering these funds. The workshops concluded that it would be beneficial for larger managers to be able to run EuVECA and EuSEF funds; that EuVECA funds would benefit from being able to invest in a wider range of eligible assets, and that a more consistent approach to fees from regulators would be helpful (the minutes of the workshop are included in Annex 7).

2.4. Inter Service Steering Group

Work on the Impact Assessment started in January 2016 with the first meeting of the Steering group held on 28 January 2016, followed by three further meetings, on 10 March 2016, 6 April 2016 and 19 May 2016

The Inter Service Steering Group was formed by representatives of the Directorates General Competition, Economic and Financial Affairs, Internal Market Industry Entrepreneurship and SMEs, Justice, Employment, Social Affairs & Inclusion, Research and Innovation, Communications Networks Content and Technology, the Legal Service and the Secretariat General. The draft report was sent to the Regulatory Scrutiny Board on 13 April 2016. The Regulatory Scrutiny Board delivered a positive opinion with recommendations to further improve on the draft report on 13 May 2016, which has subsequently been modified. The main points raised by the Regulatory Scrutiny Board are as follows:

1) Context and timing: The report should provide more background on the challenges and potential of the EU venture capital market in general and situate the specific EuVECA/EuSEF labels in that context. It should explain why the regulation is considered as not delivering on the take up of the funds and what are the bottlenecks to a higher take up? In particular, it should also analyse to what extent the demand side is playing a role in the slow start of the

[16] For further details on the feedback from the stakeholders please refer to Annexes 2, 11 and 12.
[17] http://ec.europa.eu/finance/consultations/2015/venture-capital-funds/index_en.htm
[18] http://ec.europa.eu/finance/consultations/2015/financial-regulatory-framework-review/index_en.htm

funds. In addition, the report should justify the timing of the legislative revision: on which ground is the take up of the funds assessed to be low at this early stage? Why should the review take place now and why will it not be undertaken in the context of the subsequent review exercises like the review of the Alternative Investment Fund Managers Directive (AIFMD)?

2) Options: First, the report should better argue why enlarging the scope of the regulation to mid-caps would not dilute the original objectives of financing the smaller SMEs. Second, the report should "unbundle" option 2 for extending eligible assets under the EuVECA label and assess separately the impacts of the three sub-options. Third, while being very similar regulations, the important difference between the EuVECA and EuSEF labels should be better brought forward in the assessment of the options in the report.

3) REFIT: Being a REFIT initiative, the report should provide more insight on how the proposed revision will diminish regulatory burdens and quantify potential benefits and costs as far as possible. If this is not the case, it should be explained why.

3. Problem definition

3.1. Introduction

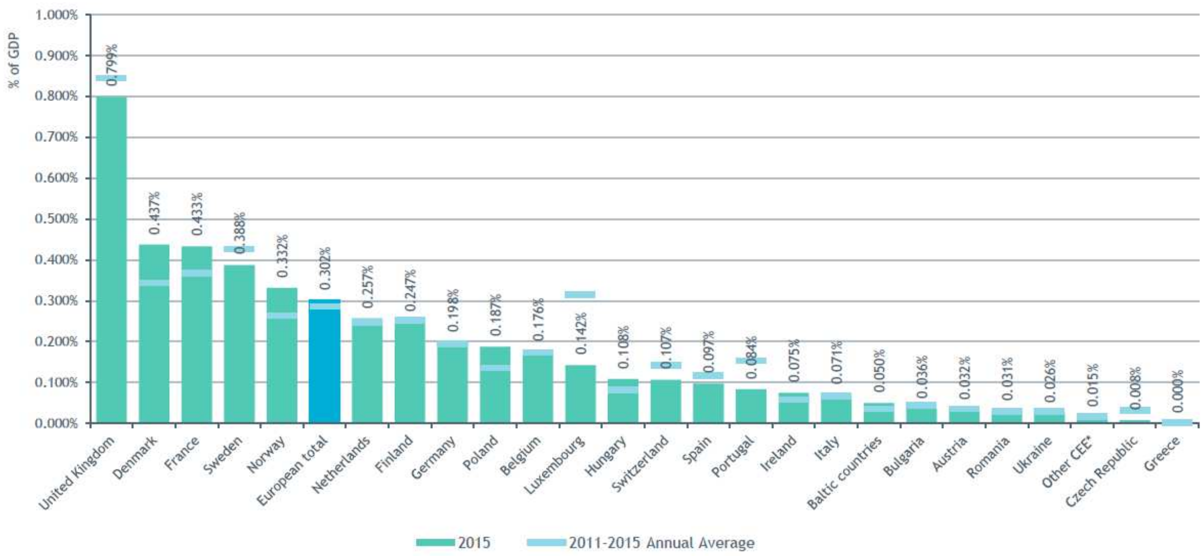
3.1.1. Venture Capital[19]

Venture capital is generally linked to the financing of young and newly established companies. In exchange for a direct cash injection into the company, the fund receives an equity stake in the company in the form of a common or preferred stock and becomes (part-) owner in the business. Venture capital can be supplied in many ways, for example, directly to selected portfolio companies (the investor will typically engage directly and remain a major investor in the companies as they expand), or through venture capital funds that pool capital from a number of investors. Collective investment in funds lowers risk through diversification so the failure of a single asset does not mean the entire value of an investment will be destroyed. Funds give access to markets which may be difficult for non-specialists to get exposure to. In addition, funds are run by managers who, in return for a management fee, provide expertise in picking and then managing suitable investments for the ultimate benefits of the investors of the funds they manage.

Young and high risk companies in the EU lack access to finance - Annex 8 provides an explanation of this equity gap. Venture capital is a subset of the broad Private Equity sector which, even though limited in many Member States, is an important source of funding. This is especially the case for higher risk and innovative projects – even though Private Equity doesn't have the same significance as traditional financing venues. Taking all types of private equity investments into consideration, private equity activity is the highest in the most developed capital markets, but with the exception of the UK, even in these countries it remains below 0.5% of GDP.

Chart 1 - Private Equity as % of GDP (2015)

[19] Further details of the venture capital sectors are presented in Annexes 9, 10 and 11.



Source: Invest Europe

3.1.2. EU social impact capital

Investments in social enterprises aim to generate positive social or environmental impacts. These externalities can be characterised in a variety of ways – environmental, social, or ethical impacts, such as reduced use of pollutants or jobs for excluded sections of society. While a business activity produces a range of impacts on society, social enterprises specifically target positive social or environmental outcomes. These 'social enterprises ' offer a focal point for investors seeking social impact alongside a financial return. Social enterpises are often young, small and innovative companies which do not have to offer dividends but typically re-invest much or all of their financial surpluses. This does not, however, mean that there is automatically no financial return for investors.

Like venture capital funds, social impact funds diversify their portfolio to balance risks and returns. However, not all investors anticipate or seek competitive returns[20]. Social impact funds started over a decade ago and the market is growing. However, most of the funds are young and small, often without a track record and sometimes with high transaction costs, making it difficult to attract investors.[21]

3.2. Initial objectives of the EuVECA and EuSEF Regulations

The general objective of the EuVECA and EuSEF Regulations, as identified in their original 2011 Impact Assessments[22], was to make EU industry more competitive in a global marketplace.

The 2011 Impact Assessments focused on the development of efficient capital markets for dedicated venture capital and social impact funds. The preferred policy choice for boosting venture capital and social impact funds was to increase the depth and liquidity of their capital

[20] Saltuk, Y., A. Idrissi, A. Bouri, A. Mudaliar, and H. Schiff (2014), "Spotlight on the Market: The Impact Investor Survey", Global Social Finance, J.P. Morgan and the Global Impact Investing Network

[21] World Economic Forum (2014), "Charting the Course: How Mainstream Investors can Design Visionary and Practical Impact Investing Strategies"

[22] http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52011SC1515&from=EN

base. In line with the underlying principles of the internal market, it was assessed that this choice could best be implemented by opening up cross-border fundraising opportunities for those funds that specialise in venture capital financing and social investment.

The EuVECA and EuSEF Regulations prescribe a set of items that must be reviewed by 22 July 2017. These items are listed in Annex 5.

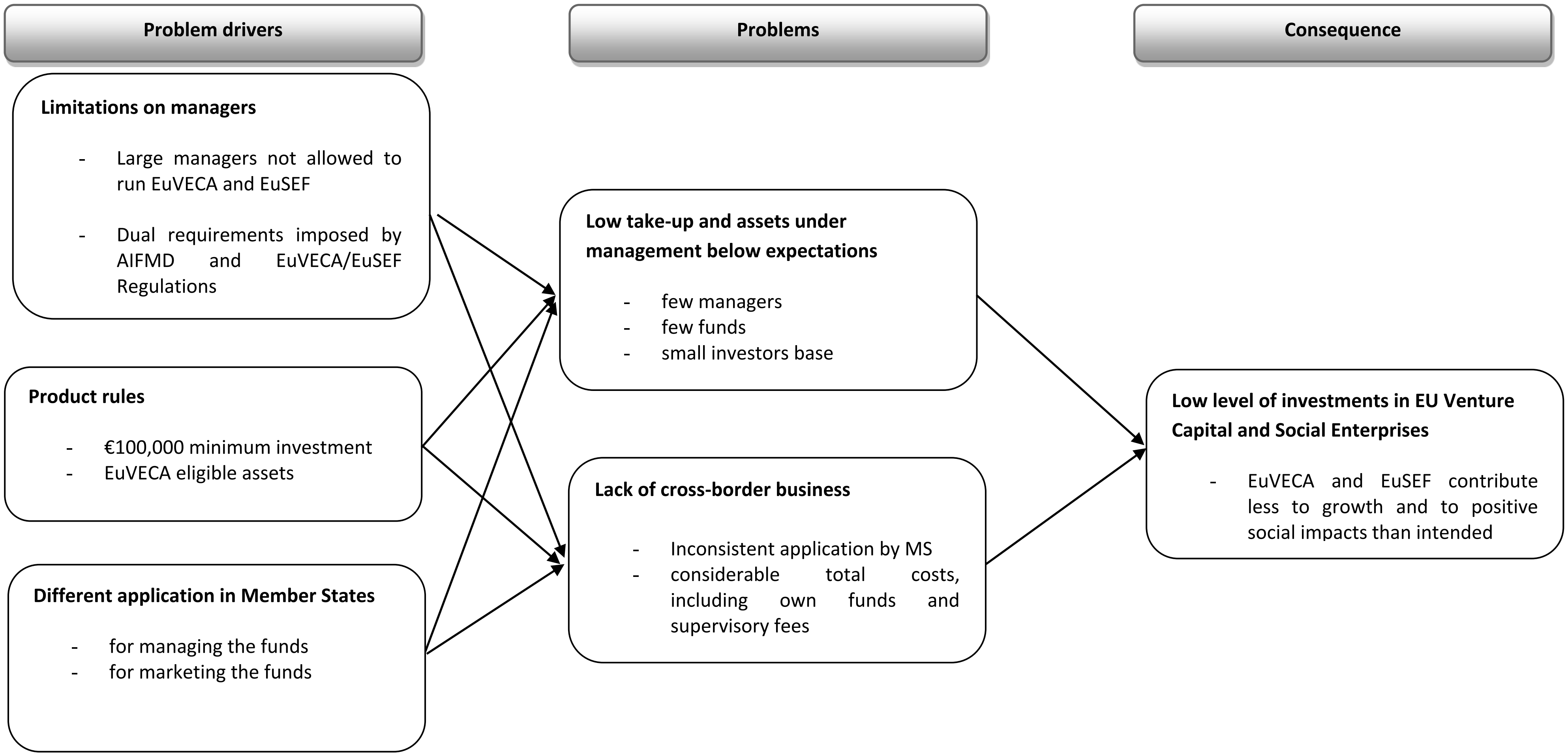
The review of whether the initial objectives of the Regulations have been met is both early, and as a result, partial. It therefore considers only limited evidence at this stage. The review can be found in Annex 4 and the main results and conclusions are summarised below.

On the effectiveness of the EuVECA and EuSEF Regulations, the quantitative data shows that while take-up of the opportunities presented by the Regulations is satisfactorily increasing, it could still be further improved. This is because EU intervention is limited by a range of barriers which prevent more widespread take up of these funds. A particular concern is that managers whose portfolio exceeds €500 million may not apply for registration, set up and operate such funds, nor may they use these two designations to market them in the EU. Another specific concern relates to the funds rules which govern the EuVECA and EuSEF funds, in particular the definitions of qualifying portfolio undertaking and the €100,000 minimum entry ticket for non-professional investors.

In respect of efficiency, different requirements in different jurisdictions, in particular at the level of setting-up fees, costs for the host registration and sufficient amounts of own funds, appear to constitute an impediment to the setting up of EuVECA or EuSEF funds and enabling cross-border investment.

In terms of the EU added value, EuVECA and EuSEF Regulations addressed a gap that previously existed in legislation by introducing a new framework aiming to meet the need of small managers seeking to market funds cross-border and to increase the amount of non-bank capital available for investment in start-ups and social enterprises.

Chart 2 - Problem tree



3.3. Problem drivers

3.1.3. Limitations on managers

The EU's regulatory framework is built on two complementary pillars[23]:

i. The Directive on Undertakings for Collective Investment in Transferable Securities (UCITS)[24] regulates 'traditional' investment funds intended to be marketed to retail investors and marketed across borders, providing a strong consumer protection framework which ensures the funds are suitable for retail investors. Eligible funds are permitted to use the UCITS label and benefit from a cross-border marketing passport, allowing them to market without barriers to all investors throughout the EU.

ii. The AIFMD Directive[25] regulates managers of alternative investment funds. Managers of venture capital and social impact funds are regulated by AIFMD, as well as other non-UCITS funds including hedge funds, private equity, and real estate funds. AIFMD managers are required to comply with a framework for consumer protection and management of prudential risk suitable for professional investors. In return, AIFMD managers benefit from a marketing passport allowing them to market across borders throughout the EU to professional investors. Marketing to retail investors remains only at Member State discretion.

Venture capital and social impact fund managers typically benefit from an exemption under which AIFMD allows smaller managers (with aggregate assets under management below a threshold of €500 million for unleveraged funds – henceforth called sub-threshold managers) to be exempted from the vast majority of the Directive's requirements. According to Invest Europe, 98% of European venture capital fund managers manage a portfolio of venture capital funds that are beneath the €500 million threshold. However, by opting for this exemption managers loose the automatic right to the marketing passport, while choosing to comply with the full AIFMD requirements is considered to be disproportionately expensive for many sub-threshold managers.

The EuVECA and EuSEF Regulations recognise the importance of venture capital and social entrepreneurship investment by providing sub-threshold managers of venture capital and social entrepreneurship funds with the ability to market their funds across the EU without incurring all the regulatory cost of applying the full AIFMD requirements. This new ability to passport is combined with a specially created uniform approach to the categories of investors eligible to commit capital to such funds. The Regulations were the first EU legal instruments in the alternative asset management area which laid down uniform "single rule books" ensuring that investors know exactly what they get when they invest in the funds.

Investment in such funds is also likely to be appropriate for high net worth retail investors, so the Regulations extend the marketing passport to investors able to commit €100,000 or more. They also establish labels intended to provide confidence that the funds are invested in appropriate venture capital or social impact initiatives, and that there is an appropriate level of consumer protection.

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[23] See Annex 6

[24] Directive 2009/65/CE of the European Parliament and of the Council of 13 July 2009

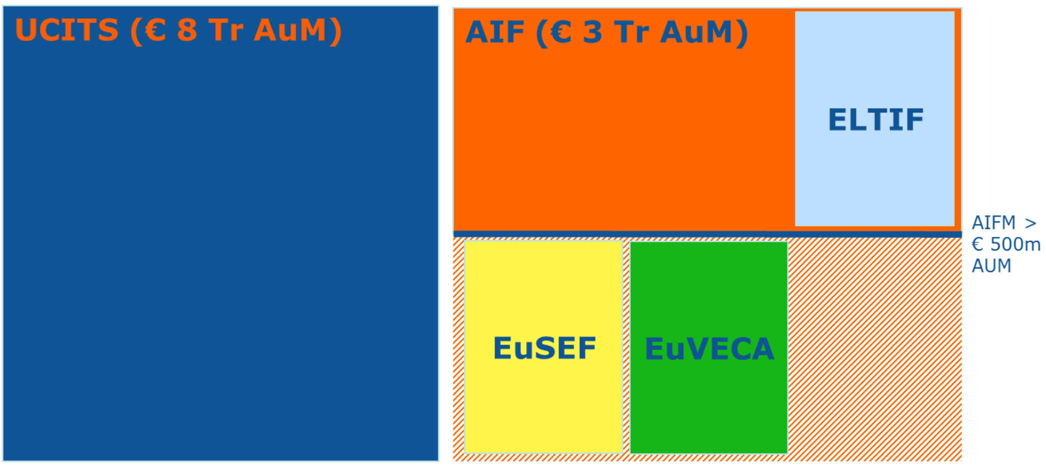
[25] Directive 2011/61/EU of the European Parliament and of the Council of 8 June 2011

The range of managers eligible to manage EuVECA and EuSEF funds is limited by the Regulations. Only sub-threshold managers of venture capital and social funds are eligible to benefit from the EuVECA and EuSEF Regulations, though managers which subsequently grow their total asset under management to more than €500 million may maintain use of the labels while complying with full AIFMD requirements. Therefore, large managers which are already fully AIFMD authorised cannot benefit. The rationale for this was that large managers already have access to a marketing passport. However, large managers do not benefit from the advantages of EuVECa and EuSEF, namely (i) the automatic right to market to high net worth retail investors across Europe, (ii) the use of the EuVECA and EuSEF labels to signify an effective regulated framework targeted at venture capital and social enterprises and (iii) favourable capital treatment for some professional investors, for example under Solvency II. The ability to market to high net worth retail investors is regarded as particularly attractive, while use of the EuVECa and EuSEF labels should, as they become established, become attractive to professional investors that value the assurance provided by a strong and reliable regulatory framework.

Feedback to the consultations suggests this is a missed opportunity. Although larger managers have the experience and expertise to manage and market venture capital and social impact funds, they are prohibited from doing so under the EUVECA and EuSEF Regulations. There is a clear interest from large managers in gaining the benefits of the EuVECA Regulation in marketing their venture capital funds.

Moreover, sub-threshold managers of venture capital and social funds are obliged to register with National Competent Authorities (NCAs) both under AIFMD and under EuVECA or EuSEF Regulations. While the registration under EuVECA or EuSEF Regulations and the AIFMD would be possible under the same administrative process, some NCA require two separate registrations. This is further described in the review in Annex 4.

The chart below illustrates the market average of the current EU fund regulatory landscape, including UCITS, AIFMD, EuVECA, EuSEF and ELTIF[26] (a specialised European long-term investment fund framework) as further described in Annex 6.



[26] Regulation (EU) 2015/760 of the European parliament and the Council of 29 April 2015 on European long-term investment funds.

3.1.4. *Fund rules*

EuVECA and EuSEF Regulations regulate both the types of investor the funds may be marketed to and the eligible assets in which the funds can invest. They also contain rules that cover the way managers can act in their daily operations, mostly with the aim to protect investors.

The bulk of the capital in the venture capital ecosystem comes from large institutions such as pension funds, endowments, charitable foundations, insurance undertakings and corporations. All these investor types fall under the category of professional investors, as defined under the Markets in Financial Instruments Directive (MiFID) [27], and as such can invest in AIFs sold cross-border. However, EuVECA and EuSEF funds may be sold to non-professional investors as well, provided they invest at least €100,000 in one fund and that the investors state in writing that they are aware of the risks associated with the investment. This allows high net worth individuals to invest in these funds, while still safeguarding small retail investors from the relative risks of this type of investments. This is also intended to deepen the internal market by giving incentives to sub-threshold managers to offer funds across border to professional investors and high net worth individuals. The breakdown of the investor categories is presented in Annex 11.

As set out in Annex 7, a significant number of respondents to the public consultation argued that the threshold is too high and should be reduced. This could naturally increase the number of retail investors. Other stakeholders, notably venture capital industry trade bodies, argue in favour of the current threshold, in order to avoid the likely additional costs of regulatory and administrative requirements necessary to sell to retail investors.

EuVECA and EuSEF funds are subject to specific requirements on eligible assets and must invest a minimum of 70% of their committed capital in these assets. EuVECA funds are invested in SMEs, as based on the Commission Recommendation[28] introduced in 2003, which include companies in the earliest stage of development, i.e. unlisted companies that employ fewer than 250 people, with annual turnover of no more than €50 million or annual balance sheet of not more than €43 million. The focus is on providing finance to companies that are generally very small, that are in the initial stages of their corporate existence and that display a strong potential for growth and expansion. This fits within the broader context of Commission policies and programs which support SMEs through the provision of venture capital and which generally exclude buyouts or replacement capital.

Eligible EuSEF funds are invested in unlisted companies with the achievement of measurable, positive social impacts as their primary objective. A social enterprise qualifies for funding if it i) provides services or goods to vulnerable or marginalised, disadvantaged or excluded persons; ii) uses a method of production of goods or services that embodies a social objective; or iii) provides financial support exclusively to social businesses as described in i) and ii).

Responses to the consultation suggested that the definitions could be too narrow, limiting the ability of such funds to channel investments to worthwhile SMEs and social ventures. For EuVECA it limits the ability of funds to support SMEs with further stage funding as they develop or are listed, limiting the attractiveness of the offer. For social enterprises,

[27] Directive 2004/39/EC of the European Parliament and of the Council of 21 April 2004
[28] Commission Recommendation 2003/361/EC

understanding of how these work – and how to best support them - has developed since EuSEF has been adopted, and it has been proposed that EuSEF should instead rely on the wider definition of a social enterprise, such as the one used in the Social Business Initiative of the European Commission [COM(2011)682][29].

3.1.5. Different application in Member States

Member States determine whether and at what level to set regulatory fees, which cover costs such as assessing registration and ongoing supervision of compliance with the regulations. Responses to the public consultations raised two issues around this:

- Initial registration costs and marketing fees vary considerably across Member States, with a number of respondents arguing that these may be prohibitive in some cases, especially for EuSEF funds. For instance, a EuSEF manager provided the following breakdown of the registration costs: €40,000 (external costs), €25,000 (legal advice), €14,000 (costs related to the NCA and ESMA), €50,000 (estimation of costs supported by the fund management internally) and €130,000 (internal and external arising from post-registration obligations (e.g. ESMA reporting via special interface)).

  Given the higher costs of running socially driven funds, where staff are usually highly engaged and spends a lot of "hands on" time on non-financial support to social enterprises (providing coaching, consulting, access to networks, fundraising capability, being part of their board, etc.), high registration costs are a considerable extra burden.

- Respondents also note that additional fees are charged for marketing by other host Member States' NCAs, even where the fund manager has already paid for the fund's passport in its home Member State. Again, this approach varies across the EU.

Moreover, while both Regulations require managers to hold 'sufficient own-funds' to be able to properly discharge their obligations on an on-going basis, neither the amount nor the methodology for the own-funds calculation are prescribed. It is up to the Member States to determine them and to charge what they consider appropriate.

Such differences in national rules raise direct and indirect costs for EuVECA and EuSEF funds when they are marketed across borders.

More evidence on differences between Member States' prescribed fees, registration costs and requirements for sufficient own funds for EuVECA and EuSEF funds and managers is available in Question 3, Section 7 of Annex 4 (Review of the EuVECA and EuSEF Regulations), and also in Annex 13.

3.4. Problems

3.1.6. Low take-up and assets under management below expectations

[29] http://ec.europa.eu/internal_market/social_business/docs/COM2011_682_en.pdf

Since the EuVECA and EuSEF designations became available in 2013, data from the European Securities and Markets Authority (ESMA) reported a total of 32 EuVECA funds intending to raise capital of €1.3 billion in the period between 2013 and May 2015. As of the beginning of April 2016 there are 70 EuVECA funds registered in the ESMA database and there is currently no publicly available data to confirm whether these fund raising targets have actually been achieved. Moreover, many of the EuVECA funds have been registered in the last six months. For EuSEF funds, it is clear that the current situation is disappointing, with only 4 funds registered in only 2 Member States: ESMA data suggests that in April 2016 there was 1 EuSEF fund registered in France and 3 EuSEF funds in Germany, with total assets under management of € 32 million.

This can be compared with the expectations for EuVECA and EuSEF at the ouset. The original Impact Assessment assessed overall EU cross-border fundraising as low: in the period 2007-2010, funds raised outside a venture capital fund's home jurisdiction accounted for just 12% of funds raised in the venture capital sector amounting to circa € 2.5 billion over that period. EuVECA was targeted with raising €4.2 billion.

EuVECA and EuSEF fundraising should also be considered in the context of broader fundraising. According to Invest Europe (see Annex 10), in the period between 2011 and Q3 2015 (preliminary), there were 316 new venture capital funds which raised €15,971 million. Based on Invest Europe data the average size of EU based venture capital fund is relatively small - calculated at some €50 million and this should be compared with US, where the average US-based venture capital fund is estimated to around €120 million. Moreover, the EU venture capital market is still highly concentrated with up to 90% of venture capital firms concentrated in eight member states.

According to Thomson ONE, since 2012, European venture capital fund-raising has fallen by 33 percent, while U.S. investment has increased by 45 percent to approach a ten-year high. In consequence, the gap between U.S. and European investment widened to about €21 billion.

Furthermore, compared with their U.S. counterparts, European venture capital investments as a percentage of GDP are not gaining ground. In 2014, European VC investments were lower than to 0.05%, while the U.S. venture investments 0.29%.

Despite the paucity of data it is reasonable to infer that the EuVECA framework is showing some potential at an early stage and expectations have been partly met. But more is needed, particularly in comparison with other markets such as the U.S.

Moreover, the macroeconomic context has now changed, with EU growth much weaker than expected, and therefore there is the need to push quickly for an even more cross-border investment in small and growing firms, with EuVECA and EuSEF an important means of achieving this.

The Commission's consultative exercises highlighted current limitations to the EuVECA and EuSEF frameworks, and the scope to improve them in order to make them more attractive to managers and investors:

- AIFMD-authorised managers are not allowed to manage and market EuVECA and EuSEF funds. Most of the respondents to the public consultations argued that authorised managers under AIFMD are already compliant with requirements that are more stringent than those under the EuVECA and EuSEF Regulations. They can manage and market other alternative investment funds including alternative investment funds having the same investment strategy and investment limit as EuVECA and EuSEF. According to the respondents, smaller asset managers have less marketing means and distribution channels opportunities than large asset managers.

The large majority of respondents mentioned that the main disadvantage of the current situation for managers authorised under AIFMD is that they may not manage and market EuVECA and EuSEF to high net worth individuals on a cross-border basis. This, in turn, does not improve the cross-border distribution of alternative investment funds and does not allow investors to reap the benefits of competition (i.e. lower prices, more choice, and higher quality). This narrows the business opportunities for large venture capital funds, potentially making it less attractive to offer their funds EU-wide.

- The dual registration requirements are seen by some respondents to the public consultation as a hindrance to the development of EuVECA and EuSEF funds. Currently, a EuVECA or EuSEF manager must obtain an authorisation under the AIFMD as soon as its overall portfolio exceeds the AIFMD threshold of €500 million. In these circumstances, the EuVECA and EuSEF Regulations only provide for the continued use of the EuVECA or EuSEF labels, provided they comply with both the selected provisions of the EuVECA or EuSEF Regulation and the AIFMD (the so-called "limited grandfathering").

  Moreover, the EuVECA label is permitted only for "pure" venture capital funds. The focus is on providing finance to undertakings that are generally very small, that are in the initial stages of their corporate existence and that display a strong potential for growth and expansion. This falls in the broad context of Commission policies and programmes which support SMEs through the provision of VC and exclude buyouts or replacement capital. Participants in the workshop noted that the EuVECA definition of eligible assets built on the standard SME definition does not encompass the entire landscape, i.e. larger companies are excluded.

- Respondents claimed that the entry ticket threshold of €100,000 is too high and it limits the number of retail investors. The respondents, in particular professional associations, also highlighted the definition of eligible assets as being too restrictive limiting the investment opportunities for EuVECA and also their development. A public authority in the reply to the call for evidence claims the eligible assets definition in the EuVECA Regulation excludes many businesses which would otherwise be eligible for investment, such as labour intensive companies, for example those in services, or businesses listed on a growth market such as the UK Alternative Investment Market (see Annex 2).

- A participant in the workshop added that the EIF never required social funds to be EuSEF and venture capital funds to be EuVECA, which would have otherwise led to greater take-up.

EuVECA and EuSEF are only part of the solution for revamping the venture capital funds market in Europe. Demand for Venture Capital fluctuates during the economic cycle, but has remained high during the economic and financial crisis (see Annex 15 for an overview of the

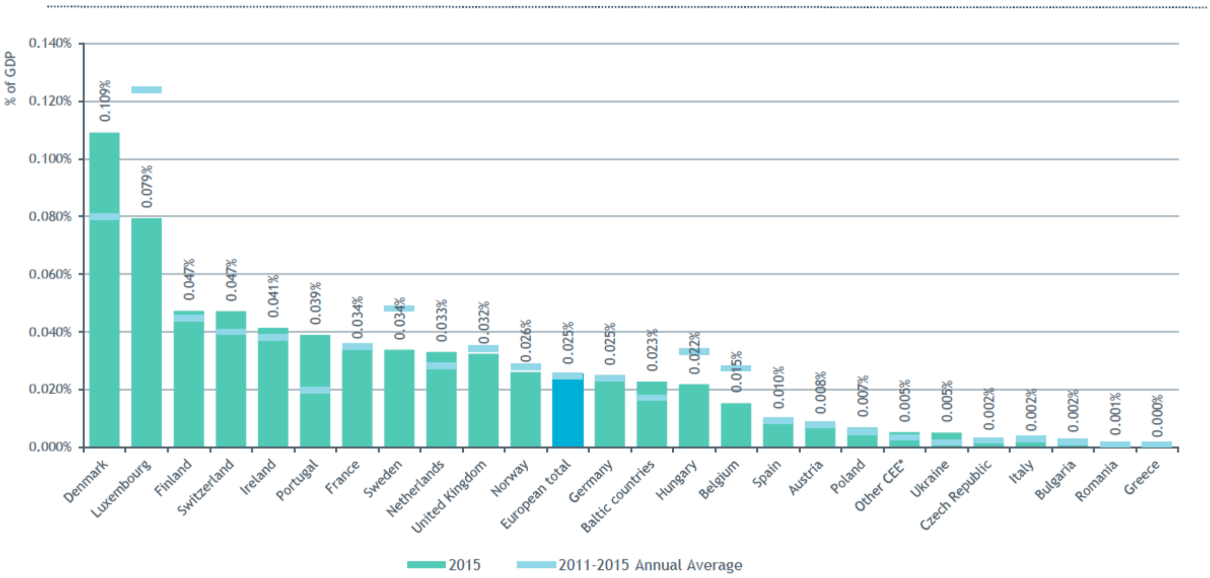
European venture capital market). However, venture capital funds remain niche given their focus on riskiest stage of their development. It is often challenging for venture capital funds to create returns that would mobilise average investors' interest. This Impact Assessment recognises that there are still many big factors outside scope of Regulation – e.g. approach to non-bank finance across MS, tax regimes, etc and a number of these others factors are being addressed through further initiatives – e.g. credit data sharing on SMEs.

3.1.7. Lack of cross-border business

Some respondents to the consultation concluded that the combination of excessive registration and marketing fees may disincentivise managers from establishing EuVECA and EuSEF funds preferring national regimes, at the expense of marketing cross-border. A further challenge is lack of harmonisation in the interpretation of "sufficient own funds" requirements, leading to confusion and concerns over regulatory arbitrage.

Venture capital, used for start-ups and more risky undertakings, constitutes a small fraction of private equity. This type of financing is most developed in Denmark (0.1% of GDP), Luxembourg, Finland and Ireland. Venture capital incremental investments into European companies reached with €5.3bn its highest level since 2008, following an 8% increase over the previous year.

Chart 2 – Venture Capital as % of GDP (2015)



Source: Invest Europe

In 2014 around 90% of all venture capital investments were concentrated in eight Member States: UK, Germany Sweden, Denmark, Finland Netherlands, France and Spain all have VC assets under management in excess of €1,5 billion. At the least, this suggests that any additional cross-border marketing has not expanded significantly the maturity of markets across the EU.

More evidence on venture capital cross-border investor base (i.e. where are the investors into European venture capital funds are coming from) and cross-border venture capital investments are available in the Section 5 and Section 6 of Annex 11.

The EU venture capital sector remains a niche sector. Within the broad range of private equity investors, venture capitalists account for between 8.4% and 16%, depending on the chosen year of reference.

As at the end of 2014 there were about 1,963 private equity managers headquartered, including 819 venture capital firms in the EU. In aggregate, these managers accounted for €548 billion of assets under management. Exactly 10.5% of this amount, approximately €57,7 billion, can be attributed to the venture capital funds. European venture capital industry is relatively small compared to European UCITS and non-UCITS assets under management that at the end of 2014 reached €11 trillion (€ 8 trillion UCITS and € 3 trillion non-UCITS) [30].

The average EU venture capital fund's size decreased by 13 percent - from €85 million, an all-time high, to €70 million - from 2012 through 2014, widening the distance to the average U.S. fund's size by 30 percent.[31]

Please refer to Annex 4 on the review of the EuVECA and EuSEF Regulations with the assessment of the presence of the cross-border activities among the Member States.

As of April 2016, 70 EuVECA funds are registered with ESMA and 71% are marketed cross-border. While there is a paucity of data, it can at least be inferred that there is a potential from these frameworks for marketing EuVECA and EuSEF funds cross-border. So while the frameworks have started to be accepted by the market, and the expectations were partially met, there is nevertheless the need to push quickly for an even stronger support. The CMU initiative recognises this as it focuses on building cross-border capital framework with cross-border VC funds an essential part of it.

3.5. Consequences

SMEs are of crucial importance to the EU economy as a sector that can provide real growth and returns. The source and the availability of financing for an SME are important factors behind its development, growth and success. In order to promote new areas of growth and move towards an innovation-led economy, there is a need to strengthen new avenues of financing to support start-ups, innovative SMEs and social enterprises. Since banks are typically in a less strong position to provide these types of financing, requiring as they do highly capital-intensive and specialised ongoing analysis and support, access to venture and social entrepreneurship capital is key to financing the growth of this segment of the EU economy.

However, only a small number of managers are authorised to manage EuVECA and EuSEF funds and the funds are below the optimal size. This in real terms implies a lack of choice and financing opportunities for SMEs.

The restrictions on the size of managers under the EuVECA and EuSEF Regulations have not improved the access for SMEs to capital for growth. Management of investments in venture capital and social enterprises is a labour-intensive activity and can involve high operating

[30] http://www.efama.org/Publications/Statistics/Quarterly/Quarterly%20Statistical%20Reports/260311_Quarterly%20Statistical%20Release%20Q4%202014.pdf

[31] Michael Brigl, Heinrich Liechtenstein (2015), The State of European Venture Capital, BCG Perspectives, IESE Business School.

costs (project evaluations, development of internal investment criteria, management of sizeable amount of diverse investments, support services to the ventures and social enterprises etc.). These factors are to some extent scalable, so precluding larger managers reduces the overall efficiency of EuVECA and EuSEF funds.

As a consequence, SMEs, including social businesses, have fewer alternative sources of capital to draw on. Instead of being able to select from a larger pool of competing, sufficiently capitalised and highly specialised investment funds with economies of scale, SMEs have a narrower selection of more domestically oriented and therefore less specialised and less cost effective venture capital or social funds.

This decreases the bargaining power of SMEs, makes them more dependent on local investment funds, which may lack both capital and expertise to make a significant impact both on equity endowment and business expertise provided to the target company. This leads to higher cost of finance, and lower value-added support for the commercial development of the funded target company. The relative scarcity of funding opportunities decreases the innovation capacity that SMEs can build on.

4. Subsidiarity

The legal basis of the EuVECA and EuSEF Regulations is Article 114 of the Treaty on the Functioning of the European Union (TFEU).

Under Article 4 TFEU EU action for completing the internal market has to be appraised in the light of the subsidiarity principle set out in Article 5(3) of the Treaty on European Union. Action on EU level should only be taken when the objectives of the proposed action cannot be sufficiently achieved by Member States alone. .

First, it has to be assessed whether the objectives of the proposed action could not be sufficiently achieved by Member States in the framework of their national constitutional systems, the so-called “necessity test". In the case of the EuVECA and EuSEF Regulations, there is no scope for Member States to remove their limitations alone, as the Regulations do not allow Member States to modify the Regulations individually.

Secondly, it has to be considered whether and how the objectives could be better achieved by action by the EU, the so-called "test of European added value". The problems identified above concern limitations in, and divergences of application of, the EuVECA and EuSEF Regulations across Member States. The EU level is the only appropriate level to address these problems in order to ensure uniform rules are applied consistently across all Member States.

Leaving limitations of and divergences of application in, the EuVECA and EuSEF Regulations - or addressing them in an uncoordinated manner, risks generating more fragmentation and exacerbating the problems. Only coordinated EU intervention can resolve them. Therefore, it is necessary for the EU to intervene in order to address identified weaknesses in the EuVECA and EuSEF Regulations.

5. Objectives

Operational objectives

1. remove limitations for larger managers to manage EuVECA and EuSEF funds and dual registration requirements
2. strike the right balance between the need to have a light touch regime and a sufficient level of investor protection
3. streamline the rules for marketing and managing the funds

Specific objective 1

Make it easier for managers to run EuVECA and EuSEF and attract more investors

Specific objective 2

Facilitate operations and decrease costs for EuVECA and EuSEF funds

General objective

Increase investments into venture capital and social enterprises via EuVECA and EuSEF funds.

In light of the analysis of the risks and problems above, the general objectives is to increase investments into venture capital and social enterprises via EuVECA and EuSEF.

Reaching this general objective requires the attainment of the following more specific policy objectives:

(1) make it easier for managers to run EuVECA and EuSEF and attract more investors;
(2) facilitate operations and decrease the costs for funds operating in particular on cross-border basis.

The specific objectives listed above require the attainment of the following operational objectives:

(1) remove limitations for larger assets managers to manage EuVECA and EuSEF funds and dual registration requirements;
(2) strike the right balance between the need to have flexible product rules and a sufficient level of investor protection;
(3) streamline the rules for marketing and managing the funds.

Identified options have been selected on the basis of their capacity to address these operational objectives, and will be assessed in the light of the specific and general objectives outlined here.

6. Options

6.1. Number of EuVECA and EuSEF managers, number of funds and size of assets under management

6.1.1. Description of the policy options

To attain the operational objectives, the following options were considered

Option 1 – No policy change

Option 2 – Allow AIFMD-authorised managers to manage and market EuVECA and EuSEF funds

Option 3 - Exempt EuVECA and EuSEF managers from the AIFMD authorisation requirement if they exceed the AIFMD threshold

6.1.2. Analysis of impacts and comparison of options

Option 1: the prohibition on AIFMD authorised managers using the EuVECA and EuSEF labels will remain and the situation would not evolve without action at EU level. AIFMD authorised managers would still be prohibited from using the EuVECA and EuSEF wider marketing passport and labels.

Option 2: the restriction on large managers whose assets under management exceed the AIFMD threshold of €500 million (henceforth referred to as large managers) managing EuVECA and EuSEF funds would be removed. Large managers would be free to set-up the EuVECA and EuSEF funds and to market the funds cross-border to high net worth individuals able to commit at least €100, 000 in a single investment and state in writing that they are aware of the risks associated with the investment.

To avoid regulatory arbitrage over the application of fund rules between sub-threshold managers and large managers, the relevant fund rules and other fundamental provisions of the EuVECA and EuSEF Regulations would apply to large managers too. In addition, large managers would continue to be fully subject to the AIFMD requirements in particular capital obligations, organisational and governance requirements, remuneration rules, regular disclosure of information to investors and reporting to national supervisory authorities.

Option 3: Under this option, EuVECA and EuSEF managers whose assets under management grow and subsequently exceed €500 million would no longer be required to comply with the full AIFMD requirements. This "carve-out" would allow them to continue to grow their funds with minimal additional regulatory burden.

Impacts on stakeholders

Option 2 Allowing AIFMD-authorised managers to market and manage EuVECA and EuSEF funds would have a number of impacts:

- It would bring economic benefits to large managers as they would be able to set up these funds, enabling them to market cross-border to high net worth individuals and use the funds' associated labels. Large managers could potentially provide economies of scale, lowering operational costs, which could foster the development of EuVECA and EuSEF funds. Venture capital and social impact capital screening processes are very labour intensive and large managers can leverage wider infrastructure in support of this - including expert staff, in-house information and IT tools.

- Investors would also benefit, having more investment opportunities and receiving a broader choice of investment offerings from managers with wider distribution channels, all this without undermining investor protection as large managers are already subject to the more stringent AIFMD rules. Investors might also be more willing to invest in EuVECA or EuSEF funds managed and marketed by large managers that are well known.

Along the same lines, access to a greater range of EuVECA and EuSEF funds run by large managers could be seen as attractive vehicles for professional investors such as insurance companies compared to other venture and social impact funds managed by smaller subthreshold managers. Professional investors may benefit from the first EU legal instruments in the alternative asset management area which laid down uniform "single rule books" ensuring that investors know exactly what they get when they invest in the funds. Moreover, EuVECA and EuSEF funds benefit from favourable treatment under the Solvency II Directive[32] where the capital charge is reduced from 49% to 39%.

Sub-threshold managers may be subject to greater competition for investment in their funds. However, over time, with more take up of the EuVECA and EuSEF labels and wider recognition among investors, sub-threshold managers would also benefit from the increased trust in, and awareness of, these labels.

The larger fund base is also likely to bring additional benefits for SMEs and social undertakings that will have access to financing provided by more venture and social risk investment sources. SMEs could benefit from a better functioning internal market through scale effects and lower transaction costs of larger EuVECA and EuSEF managers.

This option has some impacts on national supervisory authorities such as registering and monitoring the funds and large managers, but these additional costs should be compensated by the additional fees charged on the new funds and managers.

Option 3 would provide EuVECA and EuSEF managers whose total assets under management grew above the AIFMD threshold with a regulatory carve-out from the application of the full AIFMD rules.

This option would in theory bring benefits to managers of EuVECA and EuSEF funds whose assets grew above the €500 million threshold, as it would allow them to grow considerably without incurring the additional costs of full AIFMD compliance. This could put them at an economic advantage to larger managers, being able to offer their funds at lower costs.

However, large managers could see this as an unfair advantage to (initially) sub-threshold managers. It could also be argued that this option diminishes and weakens the EU regulatory framework on systemic risks and introduces the potential for regulatory arbitrage.

Current data shows that venture capital and social entrepreneurship funds have on average €70 million and €14 million of assets under management respectively. There is no indication

[32] Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009

of current EuVECA and EuSEF managers approaching the €500 million threshold of aggregate asset under management. As a consequence, there is no evidence that a carve-out of the AIFMD requirements for EuVECA and EuSEF managers growing above the threshold will foster the development and translate into more EuVECA and EuSEF funds.

This option would, therefore, have currently no material impact on sub-threshold managers in deciding whether to set-up and market EuVECA or EuSEF funds, nor would it allow already AIFMD authorised managers to set-up EuVECA and EuSEF funds. It should also be noted that there is already capacity for managers to temporarily go above the €500 million threshold when managing their portfolios. EuVECA and EuSEF managers may already exceed the threshold of €500 million for up to three months, before being subject to AIFMD authorisation.

Respondents to the public consultation, including Member States, strongly support allowing AIFMD authorised managers to manage and market EuVECA and EuSEF funds. They argue that opening-up of the two labels to large managers could further improve the take-up of the labels, increase their recognition among investors and lead to larger volumes of investment. There is no support for Option 3.

Comparison of options:

Option 2 may have positive economic impacts and would foster the use of the EuVECA and EuSEF labels. There would be no impact on investor protection. Both professional and non-professional investors would benefit from a broader choice and large managers from a larger EU-wide investor base. **Option 3** would provide more flexibility to EuVECA and EuSEF managers when they grow above the €500 million threshold of asset under management. At the same time, this could have a fundamentally negative impact on investor protection as several managers with significant assets under management would not be subject to the full AIFMD – and would introduce possibilities for regulatory arbitrage.

Preferred option	Description	Types of asset managers impacted	Estimated impact
Option 2	Allow AIFMD authorised manager to market and manage EuVECA and EuSEF funds.	AIFMD authorised managers	**AIFMD authorised managers may want to set-up EuVECA and EuSEF funds to offer a more complete range of products to their clients.**

The preferred option is, therefore, Option 2 - to allow also AIFMD authorised managers to manage EuVECA and EuSEF funds. **Option 2** provides considerably greater advantages for managers, investors and ultimately SMEs than the current EuVECA and EuSEF Regulations with no detriment to consumer protection.

Table 3: Increase the number and size of EuVECA and EuSEF funds – Impact on Stakeholders and achievement of objectives relative to option 1 ('do nothing')

Impact on Stakeholders	*Efficiency*	*Effectiveness*

Option 1	*0*	*0*	*0*
Option 2	*++ Investors will benefit from broader choice and offer from AIFMD-authorised managers++ AIFMD-authorised managers will benefit from the marketing passport to high net worth individuals and attractiveness of the labels* *++ AIFMD-authorised managers would be incentivised to offer EuVECA and EuSEF funds to insurance companies as those funds benefit from a favourable treatment compared to other alternative investment funds under Solvency II* *++ No impact on investor protection*	*++ AIFMD-authorised managersare incentivised to run EuVECA and EuSEF funds* *++ Increase the number of EuVECA and EuSEF funds*	*++ Low implementation costs* *++ Positive impact on the EuVECA and EuSEF Labels*
Option 3	*-- Negative impact on investor protection* *++ Lower costs for EuVECA and EuSEF managers which grow above the €500 million AIFMD threshold*	*-- no significant impact as EuVECA and EuSEF managers are far from the €500 million threshold* *-- Negative impact on systemic risk monitoring*	*-- Will not have an impact on the take up of EuVECA and EuSEF funds.*

++: major improvements; +: some improvements; 0: no or marginal impacts; - some deterioration; -- significant deterioration,

6.2. EuVECA eligible assets – qualifying portfolio undertakings definition [33]

6.2.1. Description of the policy options

To attain the operational objectives, the following options were considered

Option 1: Do nothing i.e. keep the current definition of qualifying portfolio undertakings

Option 2: Permit investments in small mid-caps

Option 3: Permit investment in SMEs listed on SME growth markets, as defined in MiFID 2[34]

Option 4: Permit follow-on investments in firms that exceed the qualifying portfolio criteria.

[33] The focus of the EuSEF Regulation is different from that of the EuVECA Regulation. The EuSEF Regulaiton focuses on unlisted social entities. No action is needed on the EuSEF eligible assets at this stage as the scope of the EuSEF eligible assets is sufficiently broad to capture the entities that fulfil relevant social objectives.

[34] See Article 33 of Directive 2014/65/EU.

6.2.2. Analysis of impacts and comparison of options

Option 1 focuses the investment of EuVECA managers into smaller entities. If no action is taken, the eligible assets of EuVECA funds would remain limited to unlisted entities falling within the current criteria for SMEs, which are based on the Commission Recommendation introduced in 2003[35]. The current criteria are highly inter-correlated, comprising non-listed companies, up to 250 employees and with an annual turnover not exceeding €50 million or an annual balance sheet total not exceeding €43 million.

Option 2 would base eligibility on the "small mid-cap" definition used in venture capital programmes managed by the European Investment Fund, supported by EU programmes (i.e. InnovFin) and the European Fund for Strategic Investments. Small mid-caps, are defined as non-listed companies with up to 499 employees. This option would raise the limit of the number of employees in qualifying non-listed investments from 250 to 499 and not consider the turnover and balance sheet restrictions, compared with Option 1.

Option 3 would allow growth stage entities that have already access to financing such as SME growth markets to also receive capital from EuVECA and EuSEF funds.

SME growth markets address an identified lack of capital available to SMEs by creating a new tailor-made framework. SMEs listed in SME growth markets must have a market capitalisation of less than €200 million. This option therefore also fosters investments into listed companies and would contribute to the development of the SME growth markets.

In order to avoid EuVECA funds being diverted away from SMEs, only companies listed on an SME Growth Market with an average market capitalisation of less than €200 million at the point of investment would be eligible for investment by EuVECA funds. MiFID II[36] permits SME growth markets to list companies with a capitalisation that exceeds this threshold provided they constitute less than 50% of the companies listed; larger companies would be excluded from investment by EuVECA funds. Growth stage entities that already have access to financing through listing but for which there is an identified gap in funding would become eligible for EuVECA investment.

Option 4 deals with a limitation where at present follow-on investment is prohibited once the target entity exceeds the criteria.

Impact on stakeholders

Option 2 provides more net benefits than Option 1 for small and growing companies in need of greater investment, including small mid-caps, expanding eligible assets criteria will provide an additional attractive source of venture capital. This is expected to naturally open the number of eligible portfolio undertakings. Several respondents to the public consultation mentioned that the criteria on 250 employees is restrictive and should be increased or directly removed. This sub-option would allow EuVECA funds to finance companies (e.g. services companies) that need more workforces in order to develop and growth. Investors will benefit from a wider range of eligible assets in which their funds could invest. Widening the criteria

[35] Commission Recommendation 2003/361/EC.

[36] Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU

of eligible entities will be beneficial to the EU economy, as it will allow investments in later stage companies for which other financing sources are still limited.

Option 3 would allow growth stage entities that have already access to other sources of financing such as SME growth markets to also receive investment from EuVECA funds. Entities that are listed in market dedicated to SMEs do not have a large capitalisation, 89% of the entities listed in the AIM London Stock Exchange have a market capitalisation of less than €200 million. Consequently, this option would foster investments into listed companies and will contribute to the development of the SME growth markets. This will permit a less risky portfolio as it will be more diversified and invested in entities that are in more advanced stages of development.

Option 4 refers to the fact that the current definition allows only for the initial investment in eligible entities and this may impede a manager's ability to provide his portfolio companies with subsequent rounds of funding. Allowing managers to follow-on with investments into entities were they already invested, even when the companies grow beyond the thresholds of the definition, would increase investment opportunities. Moreover, many companies need to receive additional investments in order to continue to growth and reach a critical size to be able to attract others source of funding. According to statistics from Invest Europe, in 2014 the investments in later stage companies represented 44% of the amounts invested by venture capital funds. Venture capital funds have a clear interest in different stages of growth of the investee companies and they could be allowed to follow-on with investments in entities were already invested. Investors will also gain from funds that are able to retain equity in successful companies as they move up the funding ladder.

However, the main drawbacks of **Option 2, 3 and 4** are that SMEs would have to compete with a wider pool of eligible investments from EuVECA funds. This would be mitigated – and quite likely outweighed – by the larger pool of investment into the funds.

Comparison of options

Whether to expand the investment criteria beyond the SME definition currently applied is a trade-off. There are drawbacks in expanding the current definition of eligible assets:

- By focusing the scope of investment, the current definition ensures that all investment by EuVECA funds is directed at the smallest firms in need of venture capital and with limited access to other sources of equity. There is a risk that by diluting this focus, some EuVECA funds may well focus on larger entities, where the risk of investment may be lower.
- Larger firms are less likely in need for EuVECA investment as they are more likely to have access to other sources of capital.
- A key aim of the EuVECA Regulation is over time to establish a strong brand. This should provide confidence to investors where their funds are being invested. If the eligible range of investments is expanded, this would complicate the understanding of the fund's investments.

However, there are also strong arguments for expanding the definition. In determining whether to launch EuVECA funds, managers need to determine whether the benefits outweigh the costs and restrictions. Respondents suggest that the present restrictions on investment limit their appetite to set up new funds: this decreases the opportunity for cross-border investment to support SMEs. The arguments are as follows:

- There is already a strong identified need for capital for growing firms not currently eligible for investment by EuVECA funds. Firms listed on SME growth markets have been identified as needing greater access to capital in the MiFID 2 Impact Assessment.[37] There is also a clear need for investment in small mid-caps identified by EU programmes such Horizon 2020. Expanding the eligible investment criteria would help to provide investment to these entities and also ensures a consistency of approach.[38]
- There is also strong feedback in the consultation that some types of companies – for example service companies - quickly grow their workforces at a relatively early stage of investment.
- There is a need for these companies to benefit from venture capital. Permitting investment in small mid-caps by EuVECA funds would help support these companies.
- Preventing EuVECA funds from providing follow-on investment limits their longer-term participation in the funding ladder for SMEs and their potential for making returns from high-growth companies as well as the limit of ongoing support they can offer. Many companies need to receive additional investments in order to continue to grow and reach a critical size to be able to attract others source of funding. According to statistics from Invest Europe, in 2014 the investments in later stage companies represented 44% of the amounts invested by venture capital funds[39]. Venture capital funds have a clear interest in different stages of growth of the investee companies. The current limit on EuVECA managers - which can no longer invest in entities once they cross one of the eligibility criteria - impairs the ability of venture capital funds to participate in the development of growing entities. This in turn makes investing in them less attractive. Removing this restriction would again make investing in these funds more attractive and support growth more widely.
- Although there is a risk of diluting investment by EuVECA funds by expanding the eligible assets, permitting investment in larger funds is likely to make the funds more attractive to investors and grow the overall pool of eligible venture capital including for SMEs.

Options 2, 3 and 4 would widen the scope of eligible assets and would foster the development of the SME growth markets. Moreover, these options would allow EuVECA managers to invest in entities which have more employees (e.g. service companies that are more labour intensive) without having limits on balance sheet or turnover. Allowing investment follow-on would permit further opportunity for the funds to support the development of an entity as it grows to a larger size.

In consultations, the definition of qualifying portfolio undertakings has been criticised for being too restrictive. Several respondents claimed that eligible entities may be difficult to find

[37] http://ec.europa.eu/finance/securities/docs/isd/mifid/111020-impact-assessment_en.pdf

[38] EIB/PWC (2012): Innovative Mid-Cap Financing Study (Risk Sharing Finance Facility (RSFF). New Ways to Finance Innovative Mid-Caps).

[39] See Annex 11

and some entities that do not fulfil all the criteria are excluded from the EuVECA investments despite the fact that they would still need additional investments to continue growing. Respondents suggested to remove or increase the number of employee limits and to remove the turnover and balance sheet limits.

Preferred options	Expansion of investment criteria	Types of impacted managers/undertakings/ investors	Estimated impact
Option 2	Allow entities with up to 499 employees.	EuVECA managers, undertakings and investors	**It can be expected that EuVECA managers will be able to finance a greater range of entities and in particular those that employ a larger labour force**
Option 3	Allow entities with market capitalisation < €200M listed on the SME growth market to be eligible portfolio undertaking	EuVECA managers, small, undertakings and investors.	**It can be expected that EuVECA managers could play a crucial role in the development of the SME growth market. This will also reduce, to some extent, the risk for investors as they will be investing in a portfolio containing less risky entities.**
Option 4	Allow for subsequent investment in qualifying portfolio undertakings	EuVECA managers, undertakings and investors.	**It can be expected that EuVECA managers will have more flexibility and less constraint in using the criteria. They will be able to follow-on and finance undertakings that are in other stage of development.**

The preferred options are, therefore, Options 2, 3 and 4 combined, i.e. to expand the EuVECA definition of qualifying portfolio undertakings in Option 2 and 3 and also to allow follow-on investments under Option 4

These combined options are most likely to increase the pool of cross-border capital available to small and growing companies. This would provide significant economic benefits to SMEs, small mid-caps and SME listed on SME growth markets. SMEs would receive a smaller proportion of funding from a considerably larger pool of investment in funds that are more attractive to investors.

Table 4: Eligible assets of EuVECA– Impact on Stakeholders and achievement of objectives relative to option 1 ('do nothing')

	Impact on Stakeholders	*Efficiency*	*Effectiveness*
Option 1	*0*	*0*	*0*
Option 2	*++ Investors will benefit from broader investment base* *- Unlisted SMEs may have reduced investment focus from EuVECA, albeit from a wider capital pool* *+ SME labour intensive firms will benefit from additional investments* *0 No impact on investors protection*	*++ More financing to more developed small mid-caps and SMEs* *- Potentially less financing to SMEs* *++ More diversified portfolio* *++ Increased the number of EuVECA funds.* *++ Aligned with the*	*++ Low implementation costs* *++ Positive impact on the EuVECA label* *+ Follows the market practice, i.e. how the market actually invests*

		investment approach of Horizon 2020 programs	
Option 3	*++ Investors will benefit from broader investment base* *++ SME growth market will benefit from greater liquidity and capital* *- Unlisted SMEs may have reduced investment focus from EuVECA, albeit from a wider capital pool* *0 No impact on investors protection*	*- Potentially less financing to SMEs* *++ More diversified portfolio* *++ Increased the number of EuVECA funds.* *++ Aligned with the investment approach of horizon 2020 programs*	*++ Low implementation costs* *++ Positive impact on the EuVECA label*
Option 4	*++ Investors will benefit from broader investment base* *++ SME growth market will benefit from greater liquidity and capital* *- Unlisted SMEs may have reduced investment focus from EuVECA, albeit from a wider capital pool* *+ SME labour intensive firms will benefit from additional investments* *0 No impact on investors protection*	*- Potentially less financing to SMEs* *++ More diversified portfolio* *++ Increased the number of EuVECA funds.*	*++ Low implementation costs* *++ Positive impact on the EuVECA label* *++ Supports how the market actually invests*

++: major improvements; +: some improvements; 0: no or marginal impacts; - some deterioration; -- significant deterioration, AIFM - AIFMD-authorised managers

6.3. The investor base and related investor protection rules

6.3.1. Description of the policy options

To attain this operational objective, the following options were considered

Option 1 – Do nothing, i.e. maintain the €100,000 minimum investment

Option 2 – Reduce the €100,000 minimum investment without restrictions

Option 3 – Reduce the €100,000 entry ticket and introduce investor protection safeguards

6.3.2. Analysis of impacts and comparison of options

Under **Option 1**, the baseline scenario, the €100,000 minimum investment for non-professional investors, such as high net worth individuals, angel investors, entreprenuers would be maintained, together with the requirement that the investors state in writing that they are aware of the risks associated with the envisaged commitment or investment. **Option 1** also means that EuVECA and EuSEF managers would not be required to introduce further retail investor safeguards. Consequently, a limited number of non-professional investors could potentially invest in EuVECA and EuSEF funds.

Option 2: There is a relatively large pool of non-sophisticated savers who have investible assets equivalent to a small multiple of the €100,000 minimum investment. However, the current level of the minimum investment excludes investors for whom a EuVECA or EuSEF fund may still be appropriate.

Option 3: Reducing the limit would permit EuVECA and EuSEF funds to be marketed to investor' with potentially lower financial literacy and less ability to absorb losses from funds. Under Option 3 the current safeguard - a statement in writing that the retail investor is aware of the risks associated with the investment in the EuVECA and EuSEF fund - would not be regarded as proportionate. Option 3 would therefore introduce additional safeguards to strengthen the retail investor protection.

This could be based upon ELTIF, which imposes on the ELTIF fund manager diversification requirements and the appointment of a depositary. Moreover, the ELTIF manager has to ensure that a retail investor with a portfolio of up to €500,000 does not invest an aggregate amount exceeding 10% of his/her portfolio in ELTIFs, provided that the initial amount invested in one or more ELTIFs is not less than €10,000. These requirements would seem to fully serve the purpose of lowering the minimum investment.

In the feedback received in the consultation there was a wide range of views around whether the investment threshold should be modified – with a considerable number of responses to the consultation supportive of reducing the minimum investment since this would require the inclusion of additional investor safeguards which would increase the costs for the funds.

Three respondents, including EIB group, proposed €50,000 for the minimum investment. Another referred to "one-object funds" which are also permissible in Germany for “semi-professional investors” at a minimum investment amount of €20,000. Other proposals fell within the range of €20,000 to €30,000, with a philanthropic association proposing a €10,000 minimum investment for EuSEF only suggesting it is still sizeable for a normal retail investor. However, many respondents were in favour of the current €100,000 threshold in order to preserve investor confidence in social investments. Other respondents confirmed that the wider opening to less sophisticated investors should be coupled with the appointment of a depositary and some diversification criteria

There was broad recognition amongst both those supportive and those more critical that greater investor protection would be needed – and this would a significant drawback from many respondents, including trade bodies.

However, many respondents were in favour of the current €100,000 threshold in order to preserve investor confidence in social investments. Other respondents confirmed that the wider opening to less sophisticated investors should be coupled with the appointment of a depositary and some diversification criteria

Criteria including an investor's income, net assets, experience, and understanding of the risks involved were also proposed. A Member State and other respondents preferred to set a relative threshold rather than an absolute number to reduce concentration risk in investors' portfolios. A Member State suggested 10% of net investible assets, several respondents referred to wealth tests, and, more particularly, the ELTIF test. In addition, several respondents and stakeholders in bilateral meetings also explained that non-professional investors investing in venture capital funds mainly come from groups of highly sophisticated, high-net-worth individuals able to commit more than €100,000 per investment.

For smaller funds the minimum investment has been mentioned as a potential barrier, however smaller investments for non-professional investors are already available in social assets, through a number of alternative tools (e.g. crowdfunding, IPOs etc). EuSEF in particular is a different instrument for the longer term (e.g. these funds have a minimum lock-up period of 5 years) which requires higher thresholds and more investor protection.

Impacts on stakeholders

Options 2 and 3: Both options would allow managers to market to a wider range of retail investors. This would give investors access to a greater range of investment opportunities and allow the managers to market their funds to a wider pool of investors.

If retail investors with lower available capital were allowed to invest by decreasing the €100, 000 threshold, this would give them greater flexibility than at present to invest in start-ups and social enterprises. However, these retail investors may be less financially sophisticated than high net worth individuals and consequently not well placed to fully understand the risks associated with investing in EuVECA and EuSEF funds, nor afford the potential losses. This is the main reason why traditional safeguards would be needed to maintain an adequate level of investor protection and confidence in such products.

There are some safeguards already in place to support retail investors. EuVECA and EuSEF require investors to state in writing that they are aware of the risks associated with their investment, which should at least push investors to reflect on the risk they are taking on. In addition, EuVECA and EuSEF funds are considered as complex products under MiFID II, so they must be sold with advice and retail investors are required to pass a suitability test.

If the minimum investment is reduced, the current safeguards are unlikely to be sufficient. To be consistent with safeguards for products with similar levels of risk, the manager would need to undertake a full assessment of whether the investor is well-informed and understands what he is investing in, rather than simply whether he can afford the investment. A number of responses to the EuVECA and EuSEF consultation noted that it is likely that managers would therefore be subject to higher investor protection rules which imply higher compliance costs which are not likely to be mitigated by the increased take-up in volume by retail investors. Furthermore, the risks of the funds would need to be reduced, most likely along the lines of ELTIF, with greater diversification requirements and use of a depositary mandate. These measures would also increase costs for managers, and consequently for investors. Moreover, these requirements would impact the investment strategies of these managers and respondent to the consultations claimed that the potential benefit would not offset the drawbacks.

The risks for retail investors would be greater. In fact, investors with lower overall capital typically can withstand smaller losses and may be less financially sophisticated to fully appreciate the financial risks. The investor should well-informed and understanding what he is investing in. This assessment is more needed rather than just an understanding of how much the investor can afford to invest. A number of responses to the EuVECA and EuSEF consultation noted that managers would therefore likely to be subject to greater compliance procedure and costs, which would not be mitigated by the increased take-up in volume by retail investors.

Invest Europe statistics (see Table 30 in Annex 11) in 2015 report that the incremental amount raised by family offices and private individuals is lower than 15%.Indeed, it seems that managers tend to raise money from many different individual and non-professional investors and that the €100,000 minimum investment is not perceived as being restrictive so far.

Comparison of options

Options 2 and 3 would enlarge the eligible investor base. However, under **Option 2** the reduced minimum investment would introduce significant investor protection risks and might hamper investor confidence in EuVECA and EuSEF funds. **Option 3** would provide for suitable safeguards as would build on investor protection like under the ELTIF Regulation. Lowering the investment threshold would inevitably need to be coupled by additional retail investor protection measures which would only serve to detract from the ultimate benefit of more flexible EuVECA and EuSEF regimes.

As the EuVECA and EuSEF are for the time being a niche market, it seems more appropriate to let this market develop with a light touch regime before introducing additional layers of investor protection requirements.

Given the trade-off between the objectives of ensuring adequate consumer protection and to increase investments into the EuVECA and EuSEF funds, the **preferred option is**, therefore, **Option 1**.

Table 5: Enlarge investor base – Impact on Stakeholders and achievement of objectives relative to option 1 ('do nothing')

	Impact on Stakeholders	*Efficiency*	*Effectiveness*
Option 1	*0*	*0*	*0*
Option 2	*++ More investors will have access to EuVECA and EuSEF funds* *- - Lack of investor protection* *+ Potentially more capital invested*	*++ larger investors base*	*- - Investors in Venture capital are high net worth individuals* *- - Lack of investor protection*
Option 3	*++ Positive impact on investor protection* *- - More costs for costs EuVECA and EuSEF managers*	*++ larger investor base*	*- - Will not have a positive impact on the take up of EuVECA and EuSEF funds.* *- - Negative impact on the light touch regime of the EuVECA and EuSEF Regulations* *-- Diversification rules and depositary requirements will hinder the development of EuVECA and EuSEF funds.*

++: major improvements; +: some improvements; 0: no or marginal impacts; - some deterioration; -- significant deterioration, AIFM - AIFMD-authorised managers

6.4. Differences in costs for launching and marketing EuVECA and EuSEF funds

6.4.1. Description of the policy options

To attain this operational objective, the following options were considered

Option 1 – No policy change: leave Member States flexibility to interpret EuVECA and EuSEF requirements (e.g. sufficient own funds, administrative requirements and registration processes)[40].

Option 2 – Guidelines or recommendations for more consistent application of the EuVECA and EuSEF Regulations.

Option 3 – Explicit clarifications in the EuVECA and EuSEF Regulations to avoid burdensome administrative processes and additional measures (including fees imposed by host Member States) and non-proportionate requirements imposed by home Member States.

6.4.2. Analysis of impacts and comparison of options

Under **Option 1**, the baseline scenario, the EuVECA and EuSEF Regulations leave flexibility in their implementation to Member States, which is corollary to the Regulations' light touch features. The EuVECA and EuSEF registration process remains parallel to the AIFMD registration. Some competent authorities would continue to rely on their interpretation of the Regulations and would still impose fees on in-bound EuVECA and EuSEF funds and add other requirements and would disproportionately apply own fund rules. As a consequence, under **Option 1** the patchwork of different approaches by competent authorities will be maintained and the dual registration process will remain in place.

Option 2: Guidelines or recommendations could be adopted by the Commission under Article 288 of the Treaty on the functioning of the European Union (TFEU)[41]. Alternatively guidelines or recommendations to competent authorities could be issued by ESMA under Article 16 of the ESMA Regulation[42]. Guidelines or recommendations would clarify the level of sufficient own funds the prohibition on competent authorities of host Member States to add other requirements and in particular impose fees on in-bound EuVECA and EuSEF funds.

Option 3 would specify in the EuVECA and EuSEF Regulations that Member States shall not impose requirements other than those foreseen in the Regulations and state clearly that fees may not be charged by competent authorities of host Member States. This Option would also combine the EuVECA and EuSEF registration process with the registration process under the AIFMD. Moreover, this Option would introduce more certainty as to the sufficient own funds

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[40] Articles 10 (1), 14 and 16 (2) of the EuVECA Regulation and Articles 11(1), 15 and 17(2) of the EuSEF Regulation.

[41] http://europa.eu/pol/pdf/qc3209190enc_002.pdf#page=51

[42] Regulation (EU) N°1095/2010 of the European Parliament and of the Council of 24 November 2010

through the modification of the EuVECA and EuSEF Regulations, accompanied by level-2 measures, to ensure that EuVECA and EuSEF managers are not subject to the same level of requirements foreseen for large managers authorised under the AIFMD.

Respondents to the consultation explain that several Member States have not taken into account the size of the EuVECA and EuSEF managers when interpreting and applying the EuVECA and EuSEF Regulations. It is also claimed that other requirements have been added. Examples are provided in the review in Annex 4.

Impact per stakeholders

Option 2 would present some benefits for EuVECA and EuSEF managers. Guidelines or recommendations may only promote common and proportionate approaches by supervisors. However, they are not legally binding. There is no guarantee that the lack of clarity among supervisors could be resolved by non-binding guidelines or recommendations. Competent authorities may be also reluctant to adopt the changes.

Option 3 would present significant benefits for all EuVECA and EuSEF managers in particular by keeping competent authorities of host Member States from charging fees and from imposing additional requirements or the same level of requirements as foreseen for large managers authorised under the AIFMD. Despite the fact that there is no evidence that the cost saved by the EuVECA and EuSEF managers will be passed to investors, **Option** 3 offers the opportunity for managers to market funds with lower costs.

Comparison of options

Option 2 provides more flexibility to competent authorities, but may not succeed in avoiding gold-plating in the application of the two Regulations or in simplifying the registration process. **Option 3** may better achieve the objective targeted by prohibiting additional measures and fees charged by competent authorities of host Member States and by promoting proportionate measures.

The indirect costs on managers for registering EuVECA and EuSEF funds include capital requirements. Respondents stressed that competent authorities vary in their interpretation of "sufficient own funds", with some competent authorities even applying the full requirements for authorised managers under AIFMD. For the same size of fund, these can range across Member States from € 6,500 to €125,000, the upper threshold is in line with the full capital requirements levied on AIMD authorised entities. Some Member States charge fees for marketing EuVECA and EuSEF funds on a cross-border basis in their Member State. In these cases, the annual fee levied are the same as for other AIFs being marketing in these Member States – and range from €300 to € 3,000. In addition, there are one-off fees charged by host NCAs when marketing commences, which also range from €300 to € 3,000.

Preferred option is, therefore, **Option 3**.

Preferred option	Description	Types of asset impacted managers/undertakings	Estimated impact
Option 3	Explicit clarification in the EuVECA and EuSEF	EuVECA and EuSEF managers	**This can have a positive impact on**

	Regulations that host Member States may not impose fees		**EuVECA and EuSEF managers as it can reduce the cross-border marketing costs.**
	Streamlined EuVECA and EuSEF registrations with the AIFMD	EuVECA and EuSEF managers and AIFMD-authorised managers	**Reduce the registration costs and administrative burden.**
	Explicit clarification of sufficient own funds through modifications of the EuVECA and EuSEF Regulations and level 2	EuVECA and EuSEF managers	**Reduce the compliance costs for EuVECA and EuSEF managers, fostered competition.**

Table 6: Decrease costs for EuVECA and EuSEF managers – Impact on Stakeholders and achievement of objectives relative to option 1 ('do nothing')

	Impact on Stakeholders	*Efficiency*	*Effectiveness*
Option 1	***0***	***0***	***0***
Option 2	***++ Less costs for EuVECA and EuSEF managers*** ***++ No impact on investors***	***- Not Legally binding*** ***- - Room for interpretations***	***- Less probability to achieve the goal*** ***- Low implementing costs but low results***
Option 3	***++ Less costs for EuVECA and EuSEF managers***	***++ Legally Binding*** ***++ Will avoid duplication of costs and non-proportionate requirements***	***+ Clearer rules for EuVECA and EuSEF funds managers***

++: major improvements; +: some improvements; 0: no or marginal impacts; - some deterioration; -- significant deterioration, AIFM - AIFMD-authorised managers

6.1. Overall impact of the proposed options, compliance costs and proportionality

The EuVECA Regulation			
Preferred policy options	**Cost impacts**	**Benefits for managers managing EuVECA funds, investors and portfolio undertakings**	**Proportionality**
Allow large AIFMD-authorised managers to manage and market	As the main features of the regime have been preserved, there will be no	The main featureof the regime have been preserved for small asset	The preferred options take

EuVECA funds Expand the definition of qualifying portfolio undertakings Maintain the €100,000 minimum investment Explicit clarifications in the EuVECA Regulation to avoid burdensome administrative processes and additional measures (including fees imposed by host Member States) and non-proportionate requirements imposed by home Member States.	additional costs for asset managers. The costs are likely to be lower than it is in the current situation as the adapted rules will explicitely specificy proportionality of the requirements. Allowing large AIFMD-authorised managers to manage and market EuVECA funds is likely to have a positive impact on fees paid by investors to managers. Large AIFMD-authorised managers rely on more economy of scale that in turn are beneficial for investors. Maintaining the €100,000 threshold is also limiting the introduction of new requirements such as depositary or diversification rules that will have an impact on the costs for the asset managers and indirectly to the fees paid by investors. No impact on the EU budget.	managers and will be further reinforced. The balanced approach between investor protection and attractiveness of the regime is preserved. There are no additional risks for investors. Large AIFMD-authorised managers will benefit from the EuVECA funds framework and will be able to market EuVECA funds to non-retail investors. They may aslo target institutional investors such as insurance companies that are already incentivised to invest in this fund framework. As more asset managers will be able to use EuVECA label, this in turn will have a positive impact on SMEs and small mid-caps. The brodened definition of qualifying portfolio undertaking with larger entities will diversify the portfolio of EuVECA funds and allow small mid-caps entities to have access to the EuVECA financing. Expanding the definition of qualifying portfolio undertaking by allowing investment in SME growth market will foster the development of those markets. Investors will have access to more diversified portfolio and in some extent less risky investment. The administrative for EuVECA managers burden will be reduced. The preferred options are coherent with other	account of the principle of proportionality, as enshrined in Article 5(4) of the Treaty on European Union, being adequate to reach the objectives and not going beyond what is necessary in doing so. The selected policy options seek to strike the right balance between public interest, protection of investors, safety and trust considerations as well as related costs. Unnecessary burdens are avoided. Given the underlying objective, the success of this initiative will to a large degree depend on achieving the right balance between proposed rights and obligations. The envisaged rules will, therefore, not go beyond what is necessary to achieve a common legal framework for EuVECA funds. They have been carefully considered and tailored to support the specific features, growth potential and innovativeness of the EuVECA sector.

		legislation and initiatives, in particular AIFMD, MiFID SME Growth Market, CMU, and reinforce EU financing programmes, includingHorizon 2020 and EFSI.	

The EuSEF Regulation			
Preferred policy options	**Cost impacts**	**Benefits for managers managing EuSEF funds and investors**	**Proportionality**
Allow large AIFMD-authorised managers to manage and market EuSEF funds Maintain the €100,000 minimum investment Explicit clarifications in the EuSEF Regulation to avoid burdensome administrative processes and additional measures (including fees imposed by host Member States) and non-proportionate requirements imposed by home Member States.	As the main features of the regime have been preserved, there will be no additional costs for asset managers. The costs are likely to be lower than it is in the current situation as the adapted rules will explicitely specificy proportionality of the requirements. Allowing large AIFMD-authorised managers to manage and market EuSEF funds is likely to have a positive impact on fees paid by investors to managers. Large AIFMD-authorised managers have more economy of scale that in turn are beneficial for investors. Maintaining the €100,000 threshold is also limiting the introduction of new requirements such as depositary or diversification rules that will have an impact on the costs for the asset managers and indirectly to the fees paid by investors. No impact on the EU budget.	The main features of the regime have been preserved for small asset managers and will be further reinforced. The balanced approach between investor protection and attractiveness of the regime is preserved. There are no additional risks for investors. Large AIFMD-authorised managers will benefit from the EuSEF funds framework and will be able to market EuSEF funds to non-retail investors. They may aslo target institutional investors such as insurance companies that are already incentivised to invest in this fund framework. As more asset managers will be able to use the EuSEF label this in turn will have a positive impact on social undertakings financing. Investors will have access to more diversified portfolio and in some extent less risky investment. The administrative burden for EuSEF managers will be reduced.	The preferred options take account of the principle of proportionality, as enshrined in Article 5(4) of the Treaty on European Union, being adequate to reach the objectives and not going beyond what is necessary in doing so. The selected policy options seek to strike the right balance between public interest, protection of investors, safety and trust considerations as well as related costs. Unnecessary burdens are avoided. Given the underlying objective, the success of this initiative will to a large degree depend on achieving the right balance between proposed rights and obligations. The envisaged rules will, therefore, not go beyond what is necessary to achieve a common legal framework for EuSEF funds. They have been carefully considered and tailored to support the

		The preferred options are coherent with other legislation and initiatives, in particular AIFMD and CMU, and reinforce EU financing programmes, including COSME, Horizon 2020 and EFSI.	specific features, growth potential and innovativeness of the EuSEF sector.

Considering an average fee for marketing AIFs cross-border of €1,500 per Member State per year, the cost saving would be € 40,500 per year per fund marketing in 27 Member States. This would be applicable to both EuVECA and EuSEF funds.

Using the data from InvesEurope which reported that there were 316 venture capital funds in the period 2011 – 2015 which raised almost € 16 bn in EU, and assuming in the next 5 years there will be the same number of new venture capital funds and that 50% will be EuVECA, the total cost saving of cross-border marketing fees would be € 31,995,000.

Moreover, it could be estimated a cost saving from the single registration process of € 10,000, from legal and administrative cost reductions applicable to EuVECA and EuSEF funds. Using the same assumptions as above, namely that in the next 5 years there will be the same number of new venture capital funds and that 50% will be EuVECA, the total cost saving would be € 1,580,000.

7. Monitoring and evaluation

The Commission will monitor how Member States apply the changes to the two Regulations. Providing for a robust monitoring and evaluation mechanism is crucial to ensure that the rights and obligations envisaged in the EuVECA and EuSEF Regulations are complied with.

In line with the objectives underpinning the Commission's policy choice, the post-adoption monitoring and evaluation will focus on four issues: (1) whether the amended framework provides sufficient incentive for large managers to manage and market EuVECA and EuSEF funds, i.e. whether are large managers managing EuVECA and EuSEF funds; (2) whether the modified framework has contributed to an increase in assets under management in EuVECA and EuSEF funds; (3) whether modification of the qualifying portfolio undertaking criteria has increased the capital raised, and investments undertaken, by EuVECA funds; and (4) whether the modifications including the prohibition on host Member State marketing fees and clarification of the meaning of sufficient funds have led to decreased administration and marketing costs for EuVECA and EuSEF funds. (i) whether the modified framework is attractive for AIFMD-authorised managers to manage and market EuVECA and EuSEF funds, (ii) whether the framework has contributed to an increase in assets under management in EuVECA and EuSEF funds, and more broadly to assets invested in venture capital and social impact projects, (iii) whether the modified qualifying portfolio undertaking criteria increased the capital raised, and investments undertaken, by EuVECA funds, and (iv) whether the clarifications including the prohibition on host Member State to impose fees and sufficient own funds have decreased administration and marketing costs for EuVECA and EuSEF funds.

The revised EuVECA and EuSEF Regulations should be evaluated 4 years after their entry into application, and potentially reviewed earlier, in order to determine whether the objectives have been achieved and no unintended undesirable consequences have arisen. The review date of 22 July 2017, as laid down in current EuVECA and EuSEF Regulations, will be aligned to the new deadline and a new deadline will be set for the evaluation, which will also consider the further elements referred to in Annex 5 that are not covered in this revision. Furthermore, the application of the revised Regulations should be monitored on an ongoing basis with regard to the extent to which the objectives have been achieved. Indicators for this monitoring would include, for example:

- the number of large managers managing EuVECA and EuSEF funds;
- value of assets under management in EuVECA and EuSEF funds and average size of EuVECA and EuSEF funds;
- the cost of marketing, including marketing fees, of cross-border EuVECA and EuSEF funds;
- consistency of level of own funds held by sub-threshold managers.

Indicators for this monitoring would include (i) overall data on EU venture and social impact capital sectors, including venture and social impact capital funds which are neither EuVECA nor EuSEF funds, (ii) the number of EuVECA and EuSEF funds and the number of AIFMD-authorised managers managing and marketing EuVECA and EuSEF funds as well as the number of EuVECA and EuSEF managers registered under Regulation (EU) 345/2013 and Regulation (EU) 346/2013, (iii) value of assets under management in EuVECA and EuSEF funds and average size of such funds, (iv) the cost of marketing of cross-border EuVECA and EuSEF funds, and (v) consistency of level of own funds held by EuVECA and EuSEF managers. Monitoring will be conducted in co-operation with ESMA, tasked with keeping a register of EuVECA and EuSEF managers and EuVECA and EuSEF funds and, where available, based on reporting under AIFMD. Commercial data and reports concerning the EuVECA and EuSEF sectors and EU venture and social impact capital markets will also be reviewed to capture the impacts of EuVECA and EuSEF funds in a broader perspective.

Monitoring will be conducted in cooperation with ESMA, which is already tasked with keeping a register of EuVECA and EuSEF managers. Information could also be obtained from a monitoring work stream, data and information already collected and provided by NCAs and EU industry associations, or through a survey. This could be further complemented by a targeted study.

Since the data that would feed into monitoring is already collected and assessed under existing national and industry practices, it is not expected that the monitoring envisaged here would create any additional administrative burden for EuVECA and EuSEF funds and other relevant stakeholders. The impact of additional monitoring activities on national and EU supervisory authorities is expected to be of a purely incremental nature that would be absorbed readily into business as usual practices.

The Commission will also monitor that the applicable rules adequately reflect the evolution of the venture capital and social investment sector. In this respect, the Commission will also regularly assess changing business practices, at EU and international levels.

8. Annex 1 (Procedural information concerning the process to prepare the impact assessment report and the related initiative)

- Lead Directorate-General: Directorate-General for Financial Stability, Financial Services and Capital Markets Union.
- Commisson Work Programme reference 2015/FISMA/153.
- Organisation and timing of Inter Service Steering Group's meetings: four meetings on 28 January, 10 March, 6 April 2016 And 19 May 2016. The Inter Service Steering Group was formed by representatives of the Directorates General Competition, Economic and Financial Affairs, Internal Market Industry Entrepreneurship and SMEs, Justice, Communications Networks Content and Technology, the Legal Service and the Secretariat General.
- Evidence used in the impact assessment:
  - Replies by stakeholders to the following public consultations:
    - From 18 February 2015 to 13 May 2015: a public consultation launched by the Green Paper titled Building a Capital Markets Union. It included questions on the EuVECA and EuSEF Regulations; http://ec.europa.eu/finance/consultations/2015/capital-markets-union/index_en.htm
    - From 30 September 2015 to 6 January 2016: a public consultation on the review of the EuVECA and EuSEF Regulations: http://ec.europa.eu/finance/consultations/2015/venture-capital-funds/index_en.htm
    - From 30 September 2015 to 31 January 2016: Call for evidence on the EU regulatory framework for financial services inviting feedback and empirical evidence on the benefits, unintended effects, consistency and coherence of the financial legislation adopted in response to the financial crisis; http://ec.europa.eu/finance/consultations/2015/financial-regulatory-framework-review/index_en.htm
  - A targeted technical workshop aimed at managers of existing EuVECA and EuSEF funds organised on 27 January 2016 by the Directorate-General: Directorate-General for Financial Stability, Financial Services and Capital Markets Union.
  - Targeted consultations through bilateral meetings, teleconferences with stakeholders, statistics provided by industry associations.
- Expert advice and information provided by the European Securities and Markets Authority (ESMA): https://www.esma.europa.eu/
- In due course, the Expert Group of the European Securities Committee will be consulted on the draft legal texts: http://ec.europa.eu/finance/securities/egesc/index_en.htm

9. Annex 2 (Stakeholder consultations)

Stakeholders (asset managers, investors, industry associations, public authorities) were consulted through three public consultations organised in 2015, through which the Commission's minimum standards for consultation have been met.

- From 18 February 2015 to 13 May 2015: a public consultation launched alongside the *Building a Capital Markets Union* Green Paper . The consultation included questions on the EuVECA and EuSEF Regulations; almost 60% of respondents agreed that specific changes should be made.
- From 30 September 2015 to 6 January 2016: a public consultation on the review of the EuVECA and EuSEF Regulations. 46 responses have been received: 30 from private organisations or companies; 13 from public authorities or international organisations and three from private individuals. The summary of responses received is included in Annex 7.
- From 30 September 2015 to 31 January 2016: Call for evidence on the EU regulatory framework for financial services, inviting feedback and empirical evidence on the benefits, unintended effects, consistency and coherence of the financial legislation adopted in response to the financial crisis. 29 out of the 287 responses received referred to the EuVECA or EuSEF Regulations.

In addition, on 27 January 2016, the Directorate-General for Financial Stability, Financial Services and Capital Markets Union organised a targeted technical workshop aimed at managers of existing EuVECA and EuSEF, together with practitioners, supervisors and other stakeholders interested in offering these funds. The purpose of the workshop was to analyse the practical challenges posed in offering and running these funds. It also considered what practical challenges exist to successful cross-border marketing. The minutes of the workshop are included in Annex 7.

10. Annex 3 (Who is affected by the initiative and how)

- **Sub-threshold managers of EuVECA and EuSEF funds**. Reduced costs for EuVECA and EuSEF managers through explicit clarification of, and common approach to, calculation of sufficient own funds, that host Member States may not impose fees and EuVECA and EuSEF registration processes that are streamlined with the AIFMD
- **Large AIFMD-authorised managers.** Opening up management and marketing of EuVECA and EuSEF funds to managers fully authorised under AIFMD will allow such managers to offer a full range of products to their clients. They will be able to set up these funds, bringing the ability to market to high net worth individuals and use EuVECA and EuSEF funds' associated labels. Large managers could potentially apply economies of scale to labour intensive processes such as risk capital screening through leveraging their wider infrastructure in support of this - including expert staff, in-house information and IT tools. This would lower operational costs and in return could foster the development of EuVECA and EuSEF funds.
- **Investors in EuVECA and EuSEF funds**. Investors will benefit from a wider range of funds marketed by a wider range of managers, both sub-threshold and large. Allowing large AIFMD-authorised managers to manage and market EuVECA and EuSEF funds is likely to reduce fees paid by investors to managers through greater competition and economies of scale. For EuVECA investors, the greater range of eligible assets in which their funds will be able to invest will result in a portfolio made less risky through greater diversification and investment in entities at a more advanced stage of development. Investors will also gain from funds that are able to retain equity in successful companies as they move up the funding ladder.
- **Social undertakings.** As more asset managers will be able to use the EuSEF label, this in turn will increase the financing available to social undertakings.
- **SMEs, mid-caps, SMEs on SME growth markets and other companies listed on SME growth markets which are not SMEs.**
    - **Mid-caps:** there is a clear need for investment in small mid-caps identified by EU programmes such as Horizon 2020. Expanding the eligible investment criteria will help to provide further investment to these entities, ensuring a consistency of EU-wide approach and further reinforcing these financing programmes.
    - **SMEs listed on SME growth markets within the meaning of the MiFID 2:** there is already a strong identified need for growth capital for growing firms not currently eligible for investment by EuVECA funds. Firms listed on SME growth markets will have greater access to capital.
    - **SMEs**: permitting investment in mid-caps and SMEs on SME growth markets is likely to make the EuVECA funds more attractive to investors and grow the overall pool of eligible venture capital available for investment, including in SMEs.
    - By permitting follow-on investments **companies** that eventually exceed the eligible assets criteria (SMEs, mid-caps, SMEs on SME growth markets) would still qualify for EuVECA investments, allowing further investment hand continued close support.

11. Annex 4 (Review of the EuVECA and EuSEF Regulations)

Section 1 Executive Summary

The European Venture Capital Funds (EuVECA) Regulation 345/2013 and European Social Entrepreneurship Funds (EuSEF) Regulation 346/2013 aim to increase the amount of non-bank capital available for investment in SMEs, such as start-ups and social enterprises. The ultimate objectives are to make European SMEs more competitive in a global marketplace, taking part in the benefits of the single market, and contribute to the EU goals on inclusive and sustainable growth.

Both initiatives have been included in the 2016 European Commission's Regulatory Fitness and Performance programme (REFIT). Inclusion in the REFIT programme was justified as the uptake of these two fund schemes has been up to now below the expectations implying that legislation was not fit for purpose. It is for this reason that the Commission has decided to accelerate the planned review of 2017 and to start a legislative review as part of the 2016 REFIT work programme. The aim of the review is to assess to what extent the existing regulations have met their principle objectives and in particular whether they have been efficient, effective, coherent, relevant and had added value EU-wise.

Given that both regulations have been applicable only since mid-2013, this assessment does not consitute a full evaluation, as it is too early to draw a firm conclusion on long-term impacts. Instead, the review provides the assessment of the initial results focusing on the potential factors that may have prevented the wider take-up of the funds (as compared to initial expectations). To the extent possible, the review analysed the performance of the regulations in the context of the five evaluation criteria, as required by the Better Regulation guidelines.

Given the urgency of adressing any potential problems with the existing regulations, the review has been conducted in parallel with the work on the impact assessment (IA) and is presented as a standalone annex to the IA.

Both the EuVECA and EuSEF Regulations were proposed by the Commission on 7 December 2011 and adopted by the co-legislators on 17 April 2013. They apply from 22 July 2013. Their legal basis is Article 114 TFEU. The two Regulations share the same structure and include the same wording with the exception of the definitions of qualifying portfolio undertaking. The definitions determine the investment focus of the funds, i.e. young and innovative companies for EuVECA funds or social enterprises for EuSEF funds. Therefore, this report considers both the EuVECA and EuSEF Regulations.

This review is based primarily on desk research of Commission services[43] and stakeholder consultations including:

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[43] The Directorate General for *Financial Stability, Financial Services and Capital Markets Union* was in charge of this review. It was supported by the Directorates General and services which participated in the steering group

- numerous bilateral meetings between the Commission services and stakeholders;
- three public online consultations: (i) the consultation on the Green Paper on the Capital Markets Union; (ii) the EuVECA and EuSEF consultation, and (iii) the Call for evidence[44];
- technical workshop organised by DG FISMA with managers of existing EuVECA and EuSEF funds as well as practitioners who are interested in offering these funds.

As to the effectiveness of both the EuVECA and EuSEF Regulations, this review concludes that while the take-up of the opportunities offered by the EuVECA Regulation could still be further improved, the limited take-up by EuSEF funds is clearly unsatisfactory. Both the EuVECA and EuSEF Regulations are limited by a range of barriers, in particular limitations on large managers whose portfolio exceeds €500 million that may not set up and operate such funds, a €100,000 minimum entry ticket for non-professional investors and a specific limitations as to eligible investments (i.e. definition of qualifying portfolio undertaking). As regards efficiency, the review identifies different requirements in different jurisdictions, in particular at the level of setting-up fees, costs for the host registration and sufficient amounts of own funds which constitute an impediment to setting up of EuVECA or EuSEF funds. In terms of relevance, both EuVECA and EuSEF frameworks are recognised as integral to the work on CMU. The EuVECA and EuSEF Regulations form part of the Commission's initiative to increase non-bank finance for the economy, and are aligned with the objectives of President Junker's Investment Plan for Europe to increase competitiveness and to stimulate investments for the purpose of job creation. coherence is achieved due to the fact that the EuVECA and EuSEF Regulations, are actually complemementing AIFMD, as they address small managers whose portfolios are below €500 million with a view to give them the opportunity to market EuVECA and EuSEF funds cross border. In terms of the EU added value, EuVECA and EuSEF Regulations covered a gap that existed in legislation before by introducing a new framework aiming to address the need of small managers to market funds cross border and to increase the amount of non-bank capital available for investment in start-ups and social enterprises. A further EU added value was that the Regulations, being "single rule books" aimed to ensure that investors had the best possible and comparable informationfor investing in EuVECA and EuSEF funds around Europe.

Section 2 Introduction

The European Venture Capital Funds (EuVECA) Regulation 345/2013 and European Social Entrepreneurship Funds (EuSEF) Regulation 346/2013 aim at increasing the amount of non-bank capital available for investment in SMEs, such as start-ups and social enterprises. Unlisted start-up companies do not always have the size or structure to gain access to mainstream financing, such as issuing shares on a listed market or issuing bonds. The EuVECA and EuSEF Regulations aim to deepen the capital pool available for investments in unlisted SMEs.

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for the impact assessment, in particular the Secretariat General and Directorate General for *Internal Market, Industry, Entrepreneurship and SMEs*, Directorate General for *Competition*, Directorate General for *Economic and Financial Affairs*, Directorate General for *Justice*, Directorate General for *Communications Networks Content and Technology* and the Legal Service.

[44] http://ec.europa.eu/finance/consultations/2015/financial-regulatory-framework-review/index_en.htm

EuVECA and EuSEF frameworks form part of Commission's initiative to increase non-bank finance for the economy in a well regulated way, and are aligned with the objectives of President Junker's Investment Plan for Europe, to increase competitiveness and to stimulate investments for the purpose of job creation.

The scope of this review are the EuVECA Regulation and the EuSEF Regulation, with a specific focus on assessing the take-up of the funds. Indeed, for the other objectives it is too early to evaluate fully the impacts, in particular for the assessment of the competitivness of European SMEs in the global marketplace, and how EuVECA and EuSEF funds contribute to the EU inclusive and sustainable growth. This is because both Regulations became applicable on 22 July 2013. As a result, the data available for conducting this review is limited.

This review is based primarily on desk research of the Commission services45. On 18 February 2015 the Commission launched a consultation on the Green Paper on the Capital Markets Union. The CMU consultation paper asked whether changes to the EuVECA and EuSEF Regulations would be necessary to improve the attractiveness of EuVECA and EuSEF funds and almost 60% of respondents proposed on the specific questions suggested changes to the Regulations. The information used in this review stems primarily from a public online consultation (the EuVECA and EuSEF consultation) the Commission services conducted from 30 September 2015 to 6 January 2016. Forty six answers have been received: 30 from private organisations or companies; 13 from public authorities or international organisations and 3 from private individuals. On 30 September 2015, the Commission services also launched a Call for evidence46 in which interested parties were invited to provide feedback and empirical evidence on the benefits, unintended effects, consistency and coherence of the financial legislation adopted in response to the financial crisis. 29 out of 287 responses received included claims as to the EuVECA or EuSEF Regulations. On 27 January 2016 DG FISMA organised a technical workshop aimed at managers of existing EuVECA and EuSEF as well as practitioners who are interested in offering these funds. Furthermore, numerous bilateral meetings have been held between the Commission services and stakeholders.

All analysis, considerations and conclusions apply to both EuVECA and EuSEF, unless explicitly mentioned.

Section 3 Background to the initiative

Description of the initiatives and their objectives

The EuSEF Regulation

The EuSEF Regulation entered into force on 15 May 2013 and applies from 22 July 2013. It meant to adress the structural problems indentified by the 2011 IA in the market of social investment funds targeting social businesses (SEF) which in that time impedes the matching of supply of private capital from investors with demand for such capital from social businesses, so such businesses were often strongly dependent on public finance and investors were unable to allocate their capital as they might wish.

The description of the aims of the Regulation is contained in its Recital 3:

It is necessary to lay down a common framework of rules regarding the use of the designation 'EuSEF' for qualifying social entrepreneurship funds, in particular on the composition of the portfolio of funds that operate under that designation, their eligible investment targets, the investment tools they may employ and the categories of investors that are eligible to invest in them by uniform rules in the Union. In the absence of such a common framework, there is a risk that Member States take diverging measures at national level having a direct negative impact on, and creating obstacles to, the proper functioning of the internal market, since funds that wish to operate across the Union would be subject to different rules in different Member States. Moreover, diverging quality requirements on portfolio composition, investment targets and eligible investors could lead to different levels of investor protection and generate confusion as to the investment proposition associated with qualifying social entrepreneurship funds. Investors should, furthermore, be able to compare the investment propositions of different qualifying social entrepreneurship funds. It is necessary to remove significant obstacles to cross-border fundraising by qualifying social entrepreneurship funds, to avoid distortions of competition between those funds, and to prevent any further likely obstacles to trade and significant distortions of competition from arising in the future. Consequently, the appropriate legal basis for this Regulation is Article 114 of the Treaty on the Functioning of the European Union (TFEU), as interpreted by consistent case law of the Court of Justice of the European Union.

The EuSEF Regulation's general objectives are:

(a) Enabling social businesses and entrepreneurship to contribute to EU goals with regards to inclusive, sustainable growth.
(b) Social businesses should be able to flourish across the EU and fully take part in the benefits of the single market.

The EuSEF Regulation's specific objectives are:

(a) Increase the choice, confidence and trust of EU investors in the social investment funds offered to them. To this extent design funds with defining characteristics that differentiate them from other alternative investment funds.
(b) Enable social investment funds having better access to interested investors across the EU.
(c) Ensure better allocation of existing capital to social businesses.

The EuSEF Regulation's operational objectives are:

(a) Improve clarity and comparability of social investment funds.
(b) Improve tools for assessing and analysing social returns.
(c) Ensure regulatory frameworks across EU are proportionate and effective for maximising fundraising opportunities for social investment funds.

Its purpose is described in Article 1:

This Regulation lays down uniform requirements and conditions for managers of collective investment undertakings that wish to use the designation 'EuSEF' in relation to the marketing of qualifying social entrepreneurship funds in the Union, thereby contributing to the smooth functioning of the internal market.

It also lays down uniform rules for the marketing of qualifying social entrepreneurship funds to eligible investors across the Union, for the portfolio composition of qualifying social entrepreneurship funds, for the eligible investment instruments and techniques to be used by qualifying social entrepreneurship funds as well as for the organisation, conduct and transparency of managers that market qualifying social entrepreneurship funds across the Union.

The intervention logic below provides a description - in a summarised diagram format - on how the EuSEF Regulation was expected to work. It is also used in this assessment in order to identify particular review questions.

Needs:

Create a European system for the cross-border fundraising of social entrepreneurship funds that will:

- Improve legal clarity and simplify cross-border fundraisings
- Decrease costs for cross-border fundraising

Objective:
Facilitate equity financing for social enterprises and reduce financing costs

Objective:
Create a common regulatory approach governing European qualifying social entrepreneurship funds

Objective:
Improve investors' portfolio diversifications

Input:

REGULATION (EU) No 346/2013 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 17 April 2013on European social entrepreneurship funds (EuSEF)

Output:
Restrictive requirements for managers that want to market EuSEF in the Union

Output:
Portfolio composition rules, eligible investment instruments and techniques, eligible investors

Output:
Create a network of administrative cooperation for qualifying EuSEF

Results:
Enable EuSEF funds to reach critical size

Results:
Lower setting-up fees and costs

Impact:

Take-up of EuSEF funds to enable venture capital financing

Enhance the contribution of social businesses and entrepreneurship to EU goals on inclusive, sustainable growth

Foster competition by allowing large managers to register EuSEF funds

The EuVECA Regulation

The EuVECA Regulation entered into force 15 May 2013 and applies from 22 July 2013.

The description of the aims of the Regulation is contained in its Recital 2:

It is necessary to lay down a common framework of rules regarding the use of the designation 'EuVECA' for qualifying venture capital funds, in particular the composition of the portfolio of funds that operate under that designation, their eligible investment targets, the investment tools they may employ and the categories of investors that are eligible to invest in them by uniform rules in the Union. In the absence of such a common framework, there is a risk that Member States take diverging measures at national level having a direct negative impact on, and creating obstacles to, the proper functioning of the internal market, since venture capital funds that wish to operate across the Union would be subject to different rules in different Member States. Moreover, diverging quality requirements on portfolio composition, investment targets and eligible investors could lead to different levels of investor protection and generate confusion as to the investment proposition associated with qualifying venture capital funds. Investors should, furthermore, be able to compare the investment propositions of different qualifying venture capital funds. It is necessary to remove significant obstacles to cross-border fundraising by qualifying venture capital funds, to avoid distortions of competition between those funds, and to prevent any further likely obstacles to trade and significant distortions of competition from arising in the future. Consequently, the appropriate legal basis for this Regulation is Article 114 of the Treaty on the Functioning of the European Union (TFEU), as interpreted by consistent case law of the Court of Justice of the European Union.

The EuVECA Regulation's general objective is to make European SMEs more competitive in a global marketplace

The EuVECA Regulation's specific objective is to create a European system for the cross-border fundraising of venture capital funds

The EuVECA Regulation's operational objectives are:

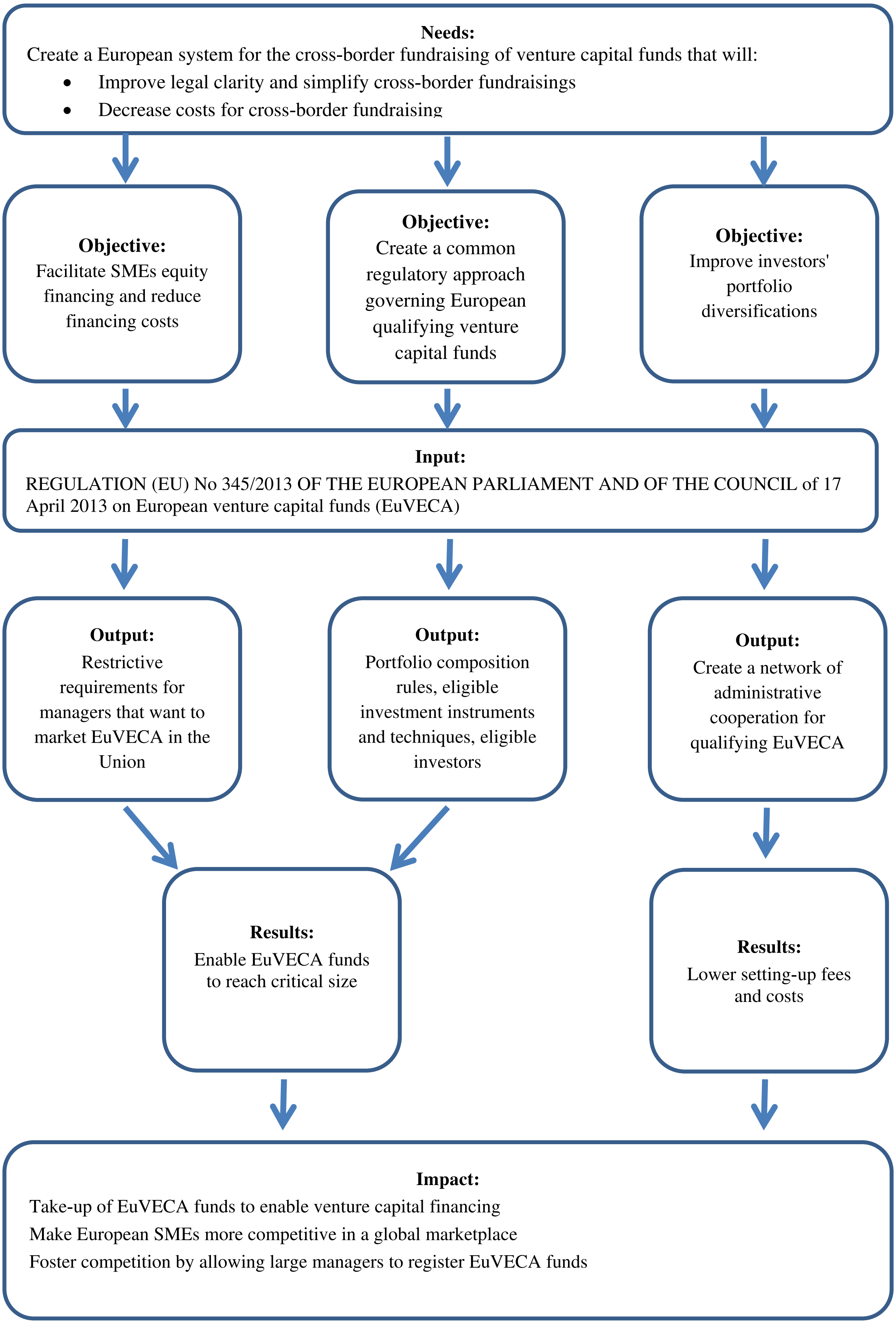
(a) Establish a notion of what constitutes a qualifying 'venture capital fund'
(b) Create a common regulatory approach governing qualifying 'venture capital funds' and their managers
(c) Create a network of administrative cooperation for the effective introduction and supervision of managers of European qualifying venture capital funds

Its purpose is described in Article 1:

This Regulation lays down uniform requirements and conditions for managers of collective investment undertakings that wish to use the designation 'EuVECA' in relation to the marketing of qualifying venture capital funds in the Union, thereby contributing to the smooth functioning of the internal market.

It also lays down uniform rules for the marketing of qualifying venture capital funds to eligible investors across the Union, for the portfolio composition of qualifying venture capital funds, for the eligible investment instruments and techniques to be used by qualifying venture *capital funds as well as for the organisation, conduct and transparency of managers that market qualifying venture capital funds across the Union.*

The intervention logic below provides a description - in a summarised diagram format - on how the EuVECA Regulation was expected to work. It is also used in this assessment in order to identify particular review questions.


Needs:
Create a European system for the cross-border fundraising of venture capital funds that will:
• Improve legal clarity and simplify cross-border fundraisings
• Decrease costs for cross-border fundraising
Objective:
Facilitate SMEs equity financing and reduce financing costs
Objective:
Create a common regulatory approach governing European qualifying venture capital funds
Objective:
Improve investors' portfolio diversifications
Input:
REGULATION (EU) No 345/2013 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 17 April 2013 on European venture capital funds (EuVECA)
Output:
Restrictive requirements for managers that want to market EuVECA in the Union
Output:
Portfolio composition rules, eligible investment instruments and techniques, eligible investors
Output:
Create a network of administrative cooperation for qualifying EuVECA
Results:
Enable EuVECA funds to reach critical size
Results:
Lower setting-up fees and costs
Impact:
Take-up of EuVECA funds to enable venture capital financing
Make European SMEs more competitive in a global marketplace
Foster competition by allowing large managers to register EuVECA funds

The need for a new initiative

The EuSEF 2011 Impact Assessment reported that social businesses were a significant part of the European economy. Approximately one in four businesses founded in Europe would be at that time a social enterprise. As mentioned in the Impact Assessment, social businesses derived significant proportions of their funding from grants, whether from foundations, individuals or from the public sector. As businesses, however, their sustainable growth depended on drawing on a wider range of investments and financing sources. In this regard, the EU market for investment funds began to play a significant role. A market for investment funds whose main objective was investing in social undertakings had taken shape. This also reflected the increasing interest of many investors in making investments – typically as part of a wider portfolio – that aimed to achieve positive social effects over and above the quest of financial returns. Investment funds targeted at social undertakings were one important form of such investments.

The EuVECA 2011 Impact Assessment reported that there a 23 million SMEs in the European Union. SMEs are seen as the key drivers for economic growth and the creation of jobs in the European Union. SMEs account for nearly 99% of all European businesses. SMEs provide around 90 million jobs (2/3 of all private sector jobs) and contribute to entrepreneurship and innovation. SMEs are critical to the development of the European economy. However, one of the most serious impediments preventing SMEs from deploying their full innovation and growth potential is the absence of appropriate forms of long-term (equity) finance.

Both EuVECA and EuSEF Impact Assessments presented a situation where raising funds for investments in venture capital or social projects remained at sub-optimal levels. This lack of size had negative repercussions on the optimal allocation of resources. In particular, the relatively small sizes of European venture capital funds prevented the emergence of economies of scale. These economies were, in turn, a prerequisite for the specialisation necessary to operate a successful venture capital fund[47].

Before the adoption of the EuVECA and EuSEF Regulations only managers whose assets under management were above a threshold of €500 million benefited from European passporting granted by the AIFMD, i.e. allowing access to non-retail investors across the EU, unless sub-treshold managers (assets under management of less than €500 million) opted in the full AIFMD regime. The novel feature of the two Regulations was that they opened up passporting possibilities to sub-treshold managers of EuVECA and EuSEF funds and speciffically created a uniform approach for the categories of investors eligible to commit capital to such funds. The Regulations were first EU legal instruments in the asset management area which laid down two uniform "single rule books" ensuring that investors know exactly what they get when they invest in the funds.

Section 4 Review Questions

[47] Communication from the Commission on *Removing obstacles to cross-border investments by venture capital funds* COM(2007) 853 final, 21.12.2007)

This section summarises the review questions addressed in our assessment.

Question 1: What is the current situation?

Question 2: How effective has the EU intervention been?

- To what extent have the objectives been achieved and what factors influenced the achievements observed, namely types of managers that can manage and market the EuVECA and EuSEF funds, types of investors who can invest in the EuVECA or EuSEF funds and range of eligible assets adequate for the EuVECA and EuSEF funds?

Question 3: How efficient has the EU intervention been?

- How affordable were the costs borne by EuVECA and EuSEF managers, given the benefits they received? In particular is it too expensive to set up EuVECA or EuSEF funds? Are there significant differences in costs (or benefits) between Member States and what is causing them? Are the costs relating to fund registration proportionate to the potential benefits for funds from having the passport?
- Are the requirements for minimum own funds imposed on the EuVECA or EuSEF managers relating to fund registration proportionate to the potential benefits for funds from having the passport?

Question 4: How relevant is the EU intervention?

- To what extent is the intervention still relevant and how well do the original objectives correspond to the needs within the EU?

Question 5: How coherent is the EU intervention internally and with other (EU) actions?

- To what extent is the intervention coherent internally?

Question 6: What is the EU added value of the intervention?

- To what extent the intervention changed situation and to what extent do the issues addressed by the intervention continue to require action at EU level?

Section 5 Methodology

This review is based primarily on desk research of Commission services[48] and stakeholder consultations including:

- numerous bilateral meetings between the Commission services and stakeholders;

[48] The Directorate General for *Financial Stability, Financial Services and Capital Markets Union* was in charge of this review. It was supported by the Directorates General and services which participated in the steering group for the impact assessment, in particular the Secretariat General and Directorate General for *Internal Market, Industry, Entrepreneurship and SMEs*, Directorate General for *Competition*, Directorate General for *Economic and Financial Affairs*, Directorate General for *Justice*, Directorate General for *Communications Networks Content and Technology* and the Legal Service.

- three public online consultations: (i) the consultation on the Green Paper on the Capital Markets Union; (ii) the EuVECA and EuSEF consultation, and (iii) the Call for evidence[49];
- technical workshop organised by DG FISMA with managers of existing EuVECA and EuSEF funds as well as practitioners who are interested in offering these funds.

Where possible the conclusions of the review are based on triangulation of information from different sources.

Limitations

The EuVECA and EuSEF Regulations become applicable only in mid-2013 (i.e. less than 3 years of application) therefore the data available for extensive analysis is limited.

EuVECA and EuSEF funds are still in the early period of their development and they are small and niche markets compared with other more well-known and developed investment funds.

Although under the AIFMD reporting rules there is a set of information required from the all funds to be provided to the National Competent Authorities, the breakdown of the information provided does not take in to account EuVECA and EuSEF funds specifically. Moreover, ESMA reported that the AIFMD reporting system is not fully operational yet, and the data are not immediately comparable.

Respondents to the EuVECA and EuSEF consultation also noticed that the ESMA database on EuVECA and EuSEF is not updated on a regular basis and this is not helping to make the labels more visible and to compare the progress on registrations in different Member States.

For all the above reasons, data, and in particular granular data about the costs of setting-up a fund and of getting it approved, as well as the contribution of EuVECA and Eusef Regulations to the funding of the SME market was very difficult to identify.

Therefore, for the puprose of quantifying impacts, this review makes very cautious use of available data which should be rather understood as 'anecdotal evidence' rather than as comprehensive.

Section 6 Implementation state of play (Results)

The EuVECA and EuSEF Regulations are directly applicable in EU Member States from 22 July 2013. Establishing common EU requirements through binding measures was aiming at reducing inconsistencies, and hence compliance costs.

The Commission Services are not aware of cases currently pending before national courts, which eventually could also present questions about interpretation and application of the EuVECA and EuSEF Regulations to the Court of Justice of the European Union.

[49] http://ec.europa.eu/finance/consultations/2015/financial-regulatory-framework-review/index_en.htm

Several respondents claim that some Member States has gold plated the provisions of Article 3, Paragraph 3, of the AIFMD by requiring that all national AIFMD-authorised managers, including sub-threshold managers (i.e. also EuVECA and EuSEF managers), should be authorized and comply with the same organizational and supervisory requirements. While EuVECA and EuSEF managers are formally registered (not authorized), the conditions to to obtain registration are *de facto* the same as for an authorization under the AIFMD (including, for instance, the appointment of a depositary). This results in EuVECA and EuSEF managers in some Member States face longer time to market (e.g. more than 8 months to obtain the registration) and incur heavier establishment and organizational burdens than many of their EU competitors. Moreover, managers may be "pushed" to traditional AIFM structures, considering that no preferential treatment is granted to EuVECA and EuSEF managers in terms of registration, organizational and supervisory requirements. The only advantage thus remains the possibility to market to non-professional investors investing at least €100,000.

The legal form of EuVECA and EuSEF instruments Regulations, which do not require national transposition measures. However, a respondent to the EuVECA and EUSEF consultation reported that some host Member States are (considering or already) imposing additional fees and charges and/or other requirements on EuVECA or EuSEF managers looking to use their EuVECA or EuSEF passports and to market in those jurisdictions. These costs, which are to be paid in addition to the home national registration costs, constitute a substantial burden for such managers, contribute to regulatory divergence and are an impediment to cross-border marketing. In fact, they are a disincentive to firms to operate in other Member States and are already discourage some fund managers from marketing in certain jurisdictions, thereby restricting the free flow of capital across EU borders and undermining the single market. Host marketing fees also discourage managers from marketing funds in the whole EU. The benefit of marketing a fund in the EU may become limited compared to the costs, and especially smaller funds may decide not to market a fund in most EU Member States. Accordingly, some managers are reluctant to request extensive passport authorization and focus only on those jurisdictions where they consider having a realistic prospective investors' base.

The burden of completing the forms which many Member States are also requiring (including the costs of discovering which forms need to be completed) is significant and should not be overlooked. Where a EuVECA or EuSEF manager has been authorised by its 'home' Member State to use the EuVECA or EuSEF label and to market this fund in other Member States, it cannot be obliged to pay any fee or charge to the authorities in any 'host' Member State as a condition of marketing in that jurisdiction. In order to facilitate consistent implementation, ESMA published on 11 November 2014 Questions and Answers on the application of the EuSEF and EuVECA Regulations (ESMA/2014/1354). The purpose of ESMA's document was to promote common supervisory approaches and practices in the application of the two Regulations. The document aimed at NCAs, with a view to ensure that in their supervisory activities their actions are converging.

***Question 1*: What is the current situation?**

Venture capital is an important source of funding, alternative to traditional bank loans, which could play a growing role in the EU economy.

However, the take-up is not sufficient. Despite a similar size of economy, the United States provide more risk capital to companies, including SMEs: in 2013, European firms received more than 5 times less capital from venture capital funds than US firms (€5 billion vs. €26 billion). Over the same period, €20bn was invested by angel investors in US SMEs, versus only €6bn in Europe.[50] The CMU Green Paper reports that if the EU venture capital markets were as deep as in the US, as much as €90 billion of funds would have been available to finance companies between 2008 and 2013.

Data from Invest Europe (see table 1 below) shows incremental funds raised by venture capital funds in Europe in the period between 2011 and Q3 2015 (preliminary), with 316 funds and almost €16 billion. This is to be compared with data from ESMA at May 2015 reporting a total of 32 EuVECA funds intending to raise capital of €1.3 billion in the period between 2013 and May 2015[51]. There is not current breakdown of the effective capital raised, compared to the committed capital at funds' inception.

As of beginning of April 2016 there are 70 EuVECA funds registered in the ESMA database. These figures show that while take-up of the opportunities presented by the EuVECA Regulation is increasing it could still be improved further.

Table 1: Incremental funds raised (2011-Q3 2015 preliminary), by number of funds and by amount

Firm type	Buyout		Generalist		Venture		Total	
Fund stage focus	EUR million	Number of funds	EUR million	Number of funds	EUR million	Number of funds	EUR million	Number of funds
Early Stage Fund	9	1	661	38	8,609	194	9,279	233
Later Stage Venture Fund			247	13	2,474	29	2,720	42
Balanced Fund	399	5	3,154	60	4,889	93	8,442	158
Total VC	**409**	**6**	**4,062**	**111**	**15,971**	**316**	**20,442**	**433**
Growth Fund	7,525	47	2,521	32	482	18	10,527	97
Buyout Fund	132,094	245	14,531	49	50	1	146,675	295
Mezzanine Fund	9,867	22	2,305	14	11	1	12,182	37
Generalist Fund	881	13	6,911	152	441	11	8,234	176
Grand Total	**150,776**	**332**	**30,329**	**355**	**16,956**	**346**	**198,061**	**1,033**

Source: Invest Europe/PEREP_Analytics
Note: This covers all Europe, including Norway and Switzerland.

As regards EuSEF funds, there is no such a publicly available breakdown for EuSEF and social investment funds. ESMA data suggest that in March 2016 there was 1 EuSEF fund in France and 3 EuSEF funds in Germany, with total assets under management of € 32 million.

[50] AFME response to the review of the European Venture Capital Funds (EuVECA) and European Social Entrepreneurship Funds (EuSEF) Regulations

[51] Figures for funds registered with the European Securities and Markets Authority (ESMA). There is currently no publicly available data to confirm whether these fund raising targets have actually been achieved.

These figures are clearly below the expectations as, according to EVPA's latest Industry Survey on "European Venture Philanthropy and Social Investment 2013/2014", the average size of European social investment funds - which are not covered by the EuSEF Regulation - is €13,8 million[52]. EuSEF average size is around € 8 million.

Section 7 Answers to the review questions

***Question 2*: How effective has the EU intervention been?**

- *To what extent have the objectives been achieved and what factors influenced the achievements observed, namely types of managers that can manage and market the EuVECA and EuSEF funds, types of investors who can invest in the EuVECA or EuSEF funds and range of eligible assets adequate for the EuVECA and EuSEF funds?*

Given the date of entry into application (i.e. not even 3 years before this review) it is too early to assess to what extent the EuVECA Regulation achieved the general objectives to make European SMEs more competitive in a global marketplace and ultimately to contribute to EU goals on inclusive, sustainable growth. It is also too early to assess the specific general objective of the EuSEF Regulation to have social businesses able to flourish across the EU and fully take part in the benefits of the single market.

The EuVECA Regulation's specific objective was to create a European system for the cross-border fundraising of venture capital funds. This objective has been met as according to the ESMA data at the end of March 2016, 71% of the EuVECA funds are marketed cross-border[53].

The EuSEF Regulation's specific objectives were to allow EU investors to have confidence and trust in the social investment funds offered to them. This requires that such funds have defining characteristics differentiating them from other alternative investment funds. Also, that social investment funds have better access to interested investors across the EU and better allocation of existing capital to social businesses. According to the ESMA data at the end of March 2016, 75% of the EuSEF funds are marketed cross-border[54]. However, considering the limited number of funds and the small amounts of committed capital, these objectives have not been met yet.

The two Regulations partially met the operational objectives of creating a common regulatory framework governing social investment funds, venture capital funds and their managers. Indeed, the Regulations established the main characteristics of venture and social investment funds and improved the comparability between them (by standardising the portfolio composition, defining eligible assets, and requiring reporting). This objective has been met.

[52] This figure is based on the data collected from 24 social investment fund managers representing 37 social investment funds.
[53] 48 out of the 58 funds are marketed in at least one host Member State on top of their home Member State.
[54] 3 out of 4 EuSEF funds are marketed in at least one host Member State on top of their home Member State.

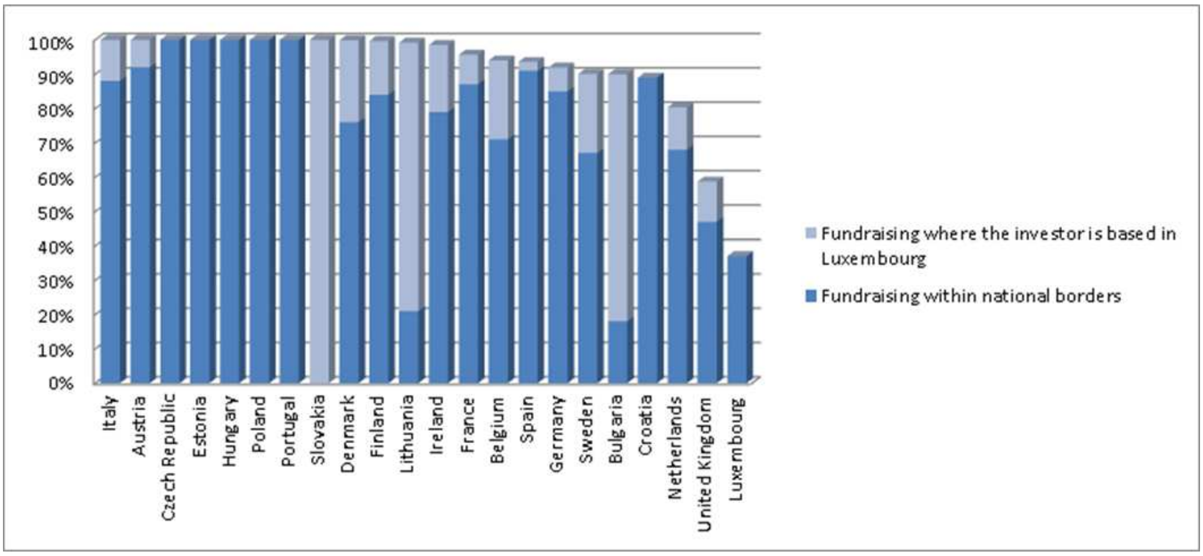
The two Regulations also created a network of administrative co-operation for the effective introduction and supervision of managers of EuVECA and EuSEF funds (notification processes among NCAs as regards cross-border operations, ESMA's supervisory convergence role and central database with registered EuVECA and EuSEF managers). Moreover, the EuSEF Regulation provides a regulatory framework for assessing and analysing social impacts/returns, including the measurement of the extent to which the social undertakings, in which the EuSEF funds invests achieve the positive social impact to which they are committed. This objective has been met.

However, the EuSEF Regulation's operational objective of ensuring that regulatory frameworks across EU are proportionate and effective for maximising fundraising opportunities for social investment funds has not been fully met – see Question 3 below.

Invest Europe data (see graph 2 below) shows the percentage of funds raised (in terms of amount) by venture capital funds from investors based within their own country (in dark blue) and investors based in Luxembourg (in light blue).

Graph 2: Cross-border venture capital fundraising in Europe (2011-Q3 2015 preliminary)

Geographic origin of venture capital funds managed from Europe



Source: Invest Europe/PEREP_Analytics

For the vast majority of Member States, European venture capital funds were almost entirely relying for their fundraising on national investors and investors based in Luxembourg. The Invest Europe assumption is that this money came for the vast majority from the EIF. Only a small percentage of the total amounts raised came from investors in another country. Putting Luxembourg aside (where much of the small amount of funds raised came from Belgium and the United States), only in two Member States did cross-border fundraising by venture capital funds amount to 20% or more: the United Kingdom and the Netherlands. This shows the extent of the fragmentation of the European market.

In this context, the fact that 71% of the EuVECA funds and 75% of the EuSEF funds are marketed cross-border shows the effectiveness of the fundraising opportunities across EU created by these two legal frameworks.

Several stakeholders reported that there are likely to be a range of barriers which prevent more widespread take up of these funds. A particular concern that has been raised is that managers whose portfolio exceeds €500 million may not apply for registration, set up and operate such funds, nor may they use these two designations to market the funds in the EU. Another specific concern was related to the funds rules which governs the EuVECA and EuSEF funds, e.g. the definitions of qualifying portfolio undertaking, the €100,000 minimum entry ticket for non-professional investors, etc.

Limitations on manager

The EuVECA and EuSEF Regulations are currently designed for management and marketing by EU domiciled managers who manage a total portfolio of assets of less than €500 million. This threshold was chosen because managers below this threshold do not benefit from the passport under the Alternative Investment Fund Managers Directive (AIFMD)[55] unless they opt in the full AIFMD regime for large managers. To fill this gap, the Regulations introduce a separate marketing passport for EuVECA or EuSEF only. According to Invest Europe data (2011), 98% of European venture capital managers manage a portfolio of venture capital funds that are beneath the €500 million threshold set out in the AIFMD There is no data on how many alternative investment fund managers (AIFM) manage venture capital funds as part of a broader portfolio.

Currently, a manager of either a EuVECA or a EuSEF fund must obtain an authorisation under the AIFMD as soon as its overall portfolio exceeds the AIFMD threshold of €500 million. In these circumstances, the EuVECA and EuSEF Regulations only provide for the continued use of the EuVECA or EuSEF labels, but not the marketing and management passports established in these Regulations ("limited grandfathering")[56].

ESMA in a Questions and Answers document on the application of the EuSEF and EuVECA Regulations[57] maintains that there are no prudential concerns in allowing large managers whose overall portfolio exceeds the AIFMD threshold of €500 million in allowing them to set up and market EuVECA and EuSEF funds to professional investors. ESMA explains that from

[55] Directive 2011/61/EU of the European Council and Parliament of 8 June 2011 on Alternative Investment Fund Managers.

[56] The relevant provisions read as follows: “Where the total assets aunder management of managers of qualifying venture capital funds registered in accordance with Article 14 subsequently exceed the threshold referred to in point (b) of Article 3(2) of Directive 2011/61/EU, and where those managers are therefore subject to authorisation in accordance with Article 6 of that Directive, they may continue to use the designation 'EuVECA' in relation to the marketing of qualifying venture capital funds in the Union, provided that, at all times in relation to the qualifying venture capital funds that they manage, they: (a) comply with the requirements laid down in Directive 2011/61/EU; and (b) continue to comply with Articles 3 and 5 and points (c) and (i) of Article 13(1) of this Regulation.

[57] ESMA/2014/1354

a regulatory and supervisory perspective, an authorization under the AIFMD is more stringent than a registration under the EuVECA and EuSEF Regulations. However, ESMA opinions are not legally binding and stakeholders subsequently asked for more legal clarity and certainty. Indeed, several bilateral contacts with stakeholders, as well as a recent ESMA consultation on the EuVECA and EuSEF Regulations, revealed that (large) managers authorised under the AIFMD perceive the limitation on managers as restrictive prohibiting them from managing and marketing EuVECA or EuSEF funds whilst using their respective labels.

Almost 60% of respondents to the CMU consultation proposed specific changes to the EuVECA and EuSEF Regulations and also pointed out that above-threshold and restrictions on AIFMD–authorised (large) managers are restrictive; they should be equally entitled to set up and market EuSEF and EuVECA funds.

Most of respondents to the EuVECA and EuSEF consultation underlined that AIFMD-authorised managers are already compliant with requirements which are more onerous and stringent than those in the two Regulations. Respondents claimed that disallowing AIFMD-authorised managers do not benefit investors: (a) as same products are not named the same way, (b) bigger players cannot put more resources in promoting EuVECA or EuSEF products; as large managers are not given access to the EuVECA and EUSEF labels, they are not in a position to pave the way for smaller players, and hence (c) further promote the development and financing of small and medium-sized enterprises. Other respondents argued that the restriction on managers does not *per se* increase the number of managers who would manage EuVECA and EUSEF funds; and, secondly, large managers are deprived of contributing with their experience in managing and marketing venture and social entrepreneurship funds.

Data collected by EVPA from 24 social investment fund managers representing 37 investment social funds shows that the existing social investment funds are still rather small and the eligible EuSEF fund managers, who currently typically manage only one social entrepreneurship fund, are far from reaching the €500 million threshold of aggregate assets under management. However, a number of bigger players (including finance-first AIFMD – authorized managers, etc.) are creating investment vehicles dedicated to the financing of social enterprises.

There is a general consensus that disallowing AIFMD-authorised managers to manage EuVECA and EuSEF funds does actually not benefit from reduced transaction costs by creating economies of scale (in terms of improved efficiencies such as streamlined reporting systems, lower administrative costs, leveraged knowledge and staff experience or enhanced attractiveness as an employer).

<u>Fund rules</u>

EuVECA and EuSEF funds are subject to specific requirements on the eligible assets they can invest into. Both funds are subject to a requirement to invest minimum 70% of their committed capital in qualifying portfolio undertakings. The EuVECA Regulation builds the definition of qualifying portfolio undertakings on the EU wide spread definition of SMEs, which include companies in the early stage of development, such as start-ups and innovative SMEs i.e. unlisted SMEs that employ fewer than 250 people with annual turnover of no more than €50 million or annual balance sheet of not more than €43 million. The EuSEF Regulation defines the eligible social enterprises as unlisted companies with the achievement of measurable, positive social impacts as its primary objective.

Some of the responses to the CMU Green Paper suggested that the range of products in which a EuVECA fund can invest is not sufficient. It should be borne in mind that the primary goal of the EuVECA Regulation was to provide funding to very small companies, SMEs that are at their initial stages and have strong growth potential. This should also be looked at in consideration with the EU programmes and policies of support for SMEs through venture capital, which currently exclude large buyouts.

Several respondents to the EuVECA and EuSEF consultation claimed that the inability to determine with enough certainty whether the obligation to invest 70% in eligible assets (SMEs or social undertakings respectively) is achievable throughout the full life of a fund (which could be even 10 years) is sufficient to discourage them from making an application. In this context, the respondents recalled that venture capital funds invest across a wide range of stages from funding start-ups to providing development capital and later stage growth equity.

The EuSEF definition of qualifying portfolio undertakings (i.e. social undertakings) was not criticised by the large majority of the respondents. However, some suggested to rely on the wider definition of a social enterprise, such as the one used in the Social Business Initiative of the European Commission [SBI - COM(2011)682].

The SME definition used in the qualifying portfolio undertakings definition in the EuVECA Regulation was identified as a potential issue, excluding companies that would be considered 'small or medium' sized by fund managers and investors. A respondent to the EuVECA and EuSEF consultation argued that many innovative and rapidly growing SMEs can achieve the defined threshold very early on. For example, companies active in the services field (i.e. non-manufacturing, active in the provision of health and care services, education, etc.) may fairly rapidly reach 250 employees but from a financing and business development perspective are still 'early stage' and looking for funding from venture capital or other active fund investors.

Large fund managers tend to execute transactions of a larger size, i.e. they look at and invest in companies that are larger than those defined by the EuVECA Regulation (but are still considerably smaller than the size of companies typically involved in large buy-out financings elsewhere in the private equity market). As a consequence, the restriction on managers discriminates against managers with large amounts of capital to invest. There is an increasing number of managers that have funds in the €100-200 million bracket that do invest in early stage companies, although often those with more than 250 employees. Moreover, there is still a huge size gap between the SMEs, as defined in the EuVECA Regulation, and those which are mature/eligible to eventually go on the SME exchanges or other listed markets. The EuVECA Regulation could not have stepped in as a pipe-line of funds that would invest into these companies up to this stage of their development. Other respondents claimed that the restriction impedes a manager's ability to provide his portfolio companies with subsequent rounds of funding if they grow beyond the SME definition after his early stage investments. From the responses received it is the number of employees aspect that is proving to be most problematic, rather than the turnover/balance sheet criteria.

Minimum investment

Whereas the AIFMD passport only covers marketing of funds to professional investors, the passports in the EuVECA and EuSEF Regulations extend the passport also to marketing to certain retail investors defined as those able and willing to commit at least €100,000 of their investable funds to them. This minimum "entry ticket" was introduced to ensure consumer protection. However, the entry ticket has been criticised as being prohibitively high, particularly by managers interested in setting up EuSEF funds.

EuVECA and EuSEF funds are marketed in Member States alongside domestic funds with similar profiles which have lower minimum entry tickets. For example, the minimum investment in France is €30,000 provided some other fund-related requirements are met. A high threshold does not attract private non-professional investors. A high entry ticket into the EuVECA and EuSEF funds restricts the range of investors from Member States with less experience in venture and risk social capital.

Several respondents to the EuVECA and EuSEF consultation were considering this entry ticket appropriate. Investors in such funds are typically institutional investors as well as family offices and certain types of individuals. Individual investors may include:

- Entrepreneurs and other angel investors (many of which are entrepreneurs themselves), who have traditionally constituted an important source of “intelligent capital” to the small funds sector;
- Members of management teams running companies in which the fund invests;
- Industry sector experts (where the fund has a sector focus);
- Venture capital experts which would include both venture capital executives and other professionals connected with the industry;
- Finance sector experts; and
- High net worth individuals.

There is a consensus among the respondents that the high entry ticket does not need to be inevitably accompanied by an imposition of further (retail) investor protection requirements. The less burdensome investor protection requirements do not serve to detract from the ultimate benefit of a lower compliance regime combined with an EU passport that the EuVECA and EuSEF Regulations provide.

Some respondents suggest that the minimum entry ticket does not offer advantages and guarantees like, for instance, a maximum investment amount, as introduced by the UK Financial Conduct Authority in its crowdfunding rules (investors do not face barriers to investing, but they can only invest a certain percentage of their net investible assets to ensure they are not over-exposed to one particular asset class). Other respondent pointed the EuVECA and EuSEF frameworks miss criteria which could relate to the investor's income, net assets, knowledge, experience, understanding of the risks involves etc.

Also in the EuSEF framework, the respondent reported that EuSEF funds currently tend not to raise money from many different individual/non-professional investors and the €100,000 threshold is not (yet) perceived as being restrictive. This being said, most of the received testimonials are pointing to more sensible smaller entry tickets (e.g. €50,000 or €20,000), as private investors (or sometimes foundations) do not usually invest “big” tickets of €100,000. Finally, a respondent pointed out that investors in venture capital funds are typically investing well above the €100,000 threshold. Also, some of the (bigger) impact funds are applying higher entry tickets (e.g. €500,000) and are therefore not really impacted by the threshold in the existing Regulations (which is a minimum).

It appears there is not a clear consensus on the minimum investment, but the restricted population of investors does not need to be balanced against the increases in administrative work this may entail and which, therefore, did not have a negative impact on fund costs.

Question 3: How efficient has the EU intervention been?

- *How affordable were the costs borne by EuVECA and EuSEF managers, given the benefits they received? In particular is it too expensive to set up EuVECA or EuSEF funds? Are there significant differences in costs (or benefits) between Member States and what is causing them? Are the costs relating to fund registration proportionate to the potential benefits for funds from having the passport?*
- *Are the requirements for minimum own funds imposed on the EuVECA or EuSEF managers relating to fund registration proportionate to the potential benefits for funds from having the passport?*

The procedure for the registration under the EuVECA and EuSEF Regulations is meant to be a much swifter, less burdensome process than under the AIFMD authorisation. In principle the EuVECA or EuSEF manager notifies its home Member State competent authority of its intention to manage and/or market and EuVECA or EuSEF, the home competent authority checks the EuVECA or EuSEF meets the requirements of the applicable Regulation and notifies the relevant competent authorities in the host member state. These host Member State competent authorities would not charge the manager additional fees, insist on a detailed review of the application and the fund documents or insist on the appointment of additional, local service providers.

However, fund registration fees vary considerably between Member States and may affect take-up by fund managers. As already noted in the 2011 EuVECA and EuSEF impact assessments, venture capital activities are not homogenously spread across the European Union.

Moreover, in the framework of the CMU consultation, some respondents referred to different treatment in some Member States in relation to the level of "own funds" (as specified in Article 10 and Article 11 of the EuVECA and EuSEF Regulations respectively) required for EuVECA and EuSEF managers to be authorised.

<u>*Home Member State*</u>

The legal frameworks resulting from the transposition of the AIFMD into Member States' laws differ in material aspects in the various Member States, and this affects also the EuVECA and EuSEF registration procedures. Respondents to the EuVECA and EuSEF consultation claimed that registration requirements are perceived as a hindrance for small managers which sometimes do not even consider an application for registration. Inappropriate requirements from a perspective of small managers include high minimum capital requirements, high registration and marketing fees, the requirement to set up a local IT infrastructure or to use local service providers as opposed to well-known international cloud offerings, the requirement to hire an external auditor for the manager, and finally the separation of roles for micro entities.

Regarding fees and other requirements imposed by home Members States to managers in connection with the marketing of their funds in Europe, Invest Europe, an industry association, claimed in its response to the EuVECA and EuSEF consultation the following:

- Luxembourg: The CSSF levies fees of 5,000 EUR with respect to the processing of the initial registration of EuVECA managers / funds.
- Italy: CONSOB is requesting communication of information and data for the purpose of the calculation of fee amount due to the regulator. Pursuant to the Italian laws and regulations implementing the AIFMD and the EuVECA Regulation, an Italian EuVECA fund manager is subject to almost the same organisational and structuring requirements and burdens imposed on an Italian AIFM. Accordingly, setting up an EuVECA fund in Italy is more expensive than in other European jurisdictions.
- Germay: from a German perspective, the additional organisational requirements imposed by the German competent authority (BaFin) are substantial and are only accepted because otherwise there is no alternative to market for small fund managers. However, not all managers can afford these costs and so venture capital funds simply refrain from cross-border marketing.
- Spain: The CNMV is requesting the payment of an initial registration fee of EUR 2,500 (Tarifa 4.5.1) pursuant to Law 16/2014 (http://www.boe.es/boe/dias/2014/10/01/pdfs/BOE-A-2014-9895.pdf).
- Czech Republic: No EuVECA or EuSEF fund has yet been registered in the Czech Republic, therefore, the potential costs of fund registration can only be estimated. Nevertheless, the respondent presumes that registration costs for the first EuSEF/EuVECA fund in the Czech Republic will be quite high and possibly higher than the benefits stemming from having the passport. However, the actual registration fees for EuSEF/EuVECA funds will be very low and should not amount to more than 2,000 EUR for the EuVECA/ EuSEF manager licence fees, and less than 75 EUR for the registration of EuVECA/ EuSEF funds. No fees for the funds from other Member States are applied.
- Malta: The MFSA is requesting payment of notification and supervisory fees as described in the relevant local law.

The different levels of fees for registration/authorisation of the AIFs which are applied by Member States in the AIFMD framework are not in the scope of this review, but they will be analysed in the AIFMD review planned for 2017.

Total costs, including own funds

Moreover, in the framework of the CMU consultation, some respondents referred to different treatment in some Member States in relation to the level of "own funds" (as specified in Article 10 and Article 11 of the EuVECA and EuSEF Regulations respectively) required for EuVECA and EuSEF managers to be authorised.

The approach to the minimum own funds requirements, as set out in the two Regulations, i.e. merely imposing a general obligation to have sufficient own funds, with no specific amounts required, was intended to allow flexibility to cater for a proportionate approach to these smaller funds. The obligation is intended to be on the manager to be able to justify the sufficiency of their own funds to maintain operational continuity.

However, it seems that in practice some NCAs interpret the requirements for minimum own funds differently and as a result, the level of own funds requirements differs considerably. Respondents to the EuVECA and EuSEF consultation reported that some Member States are considering imposing on EuVECA and EuSEF managers high capital requirements, along the lines of those required under the AIFMD (for example, in Germany the manager is required to retain ¼ of the yearly overhead costs (in line with the AIFMD). A similar case can be observed in Luxembourg, where the own funds requirement amounts to €125,000. In Denmark the own funds requirement totals 1/8 of the costs for the preceding year, which is considered to be reasonable. In Ireland, under certain circumstances the ¼ can be reduced to 1/8 of the yearly overhead costs. At the other end, the UK imposes an amount of £5,000).

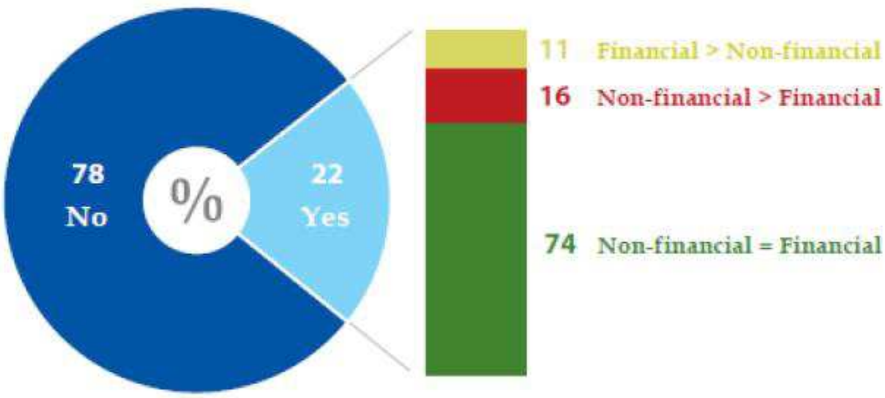
Moreover, the requirements are often to a large extent aligned to the requirements of the AIFMD, especially in terms of human resources (segregation between portfolio and risk management), infrastructure (including IT) and audit requirement at manager level.

One of EVPA's Members reported in the EuVECA and EuSEF consultation the following costs for the EuSEF registration of its fund: €40,000 (external costs), €25,000 (legal advice), €14,000 (costs related to the NCA and ESMA), +/- €50,000 (estimation of costs supported by the fund management internally). On top of those +/- €130,000, that same EVPA's Member also mentioned additional costs (internal and external; exact amounts yet to be confirmed) arising from post-registration obligations (e.g. ESMA reporting via special interface).

On the EuSEF framework, respondents to the consultations highlighted that compared to more traditional passive funds investing in listed companies, the staff of socially driven funds is usually highly engaged and spends a lot of "hands on" time supporting social enterprises non financially (providing coaching, consulting, access to networks, fundraising capability, being part of their board, etc.). As shown in the Graph 3 below, social enterprises highly value the non-financial support they received from their funders, considering it as being at least as valuable as the financial support they get.

Graph 3 |Importance of non-financial support (NFS) for social enterprises[58]

[58] 2013-2014 EVPA Survey. Question asked to Venture Philanthropy Organisations "Do VPOs measure investees' [i.e. the social enterprises] perceived value of non-financial support – and in that case, how do investees value non-financial vs. financial support?" cf. "A Practical Guide to Adding Value Through Non-Financial Support", EVPA, December 2015



Adding the NFS support to the explicit costs it can be very hard for managers of smaller funds to meet all the requirements, which are often more modelled on trading funds, and risk damaging the sector.

A respondent to the EuVECA and EuSEF consultation provided a country overview based on experiences of venture capital managers that have been through the EuVECA process:

- Denmark: the fees are relatively limited.
- Ireland: the registration requirements are not a hindrance to setting up new EuVECA funds. Once the AIFM is registered, when a new fund is established, no further registration is required unless the registered AIFM details are changed significantly. The registration requirements are moderate and manageable.
- Netherlands: the registration requirements are not considered a hindrance for setting up a EuVECA fund.
- Germany: the process in is more akin to a full AIFMD authorisation.
- UK: full AIFMD authorisation is also required in the UK but under a very similar licensing regime to the pre-existing domestic authorisation regime, and therefore one which is reasonably well understood and manageable.
- France: require full-scope AIFMD authorisation.
- Italy: the legislative framework for implementation of the AIFMD has not provided a lighter regulatory regime for sub-threshold managers, which is different from that imposed on fully AIFMD compliant and authorised managers.
- Finland: managers have been facing local “fit & proper” requirements which were not clear at all and took some time to resolve.
- Luxembourg: registration requirements are also perceived as a hindrance for small managers which sometimes do not even consider an application for registration. Inappropriate requirements include high minimum capital requirements, high registration and marketing fees, the requirement to set up a local IT infrastructure or to use local service providers as opposed to well-known international cloud offerings, the requirement to hire an external auditor for the manager, and finally the separation of roles for micro entities.

Requiring a full AIFMD authorisation process means that a venture capital fund manager wishing to use the EuVECA designation and passport must comply with a number of operational, organisational and transparency requirements, including those related to portfolio composition, and concerns regarding borrowing, delegation, conflicts of interest and valuation. These obligations and compliance requirements impose additional costs on the setting up of such funds. Sub-threshold managers who also decide to obtain the EuVECA passport must comply with the full set of obligations and requirements under the AIFMD.

Host Member States' fees

One of the key benefits of the internal market passport offered by the two Regulations was that it would enhance efficiency at EU level (avoiding multiple time-consuming registrations in each Member State) and have neutral to positive cost effects in comparison to having to obtain first time or ongoing professional legal advice on a country-by-country basis of changes to the national private placement regimes in those Member States where the manager wants to market.

The level of fees charged by some Member States to managers in connection with the marketing of their AIFs in Europe has been noted by ESMA in the ESMA's Opinion to the European Parliament, Council and Commission and responses to the call for evidence on the functioning of the AIFMD EU passport and of the National Private Placement Regimes (30 July 2015)[59]. Indeed, ESMA has identified divergent approaches with respect to marketing rules, including heterogeneity of fees charged by the NCAs where the AIFs are marketed. Examples include:

- Austria, where the FMA charges €1,000 per AIF for processing documents required for a marketing passport, plus €220 for each additional sub-fund and €600 annually once the fund is marketed;
- France, where the AMF charges €2,000 per AIF being marketed;
- Germany, where BaFin charges €772 per AIF for processing the passport notification and €216 for each amendment;
- Luxembourg, where the CSSF charges a flat fee of €2,650 for AIFs with a single compartment and €5,000 for EEA AIFs with multiple compartments;
- Malta, where the regulator imposes an application notification fee of €2,500 per AIF and an annual supervisory fee of €3,000 per AIF and more if the AIF has sub-funds;
- Spain, where the CNMV has recently informed passporting managers that it will also require the payment of additional fees.

The different levels of fees for the marketing of AIFs in the AIFMD framework are not in the scope of this review, but they will be analysed in the AIFMD review planned for 2017.

However, Article 16(2) of the EuVECA Regulation (which corresponds to Article 17(2) of the EuSEF Regulation) states: "*The host Member States indicated in accordance with point (d) of Article 14(1) shall not impose, on the manager of a qualifying venture capital fund registered in accordance with Article 14, any requirements or administrative procedures in relation to the marketing of its qualifying venture capital funds, nor shall they require any approval of the marketing prior to its commencement.*"

[59] https://www.esma.europa.eu/file/4763/download?token=IYJr07yR

Question 4: How relevant is the EU intervention?

- *To what extent is the intervention still relevant and how well do the original objectives correspond to the needs within the EU?*

Venture capital investors provide finance to companies that are generally very small and new, often innovative start-ups, with strong growth potential. This type of investment, which often takes the form of temporary stakes in the capital of the companies, entails high risk since returns are linked to the success of newly created companies. For this reason some venture capital investors also provide important non-financial support to these companies, such as consultancy services, financial advice, marketing strategy and training.

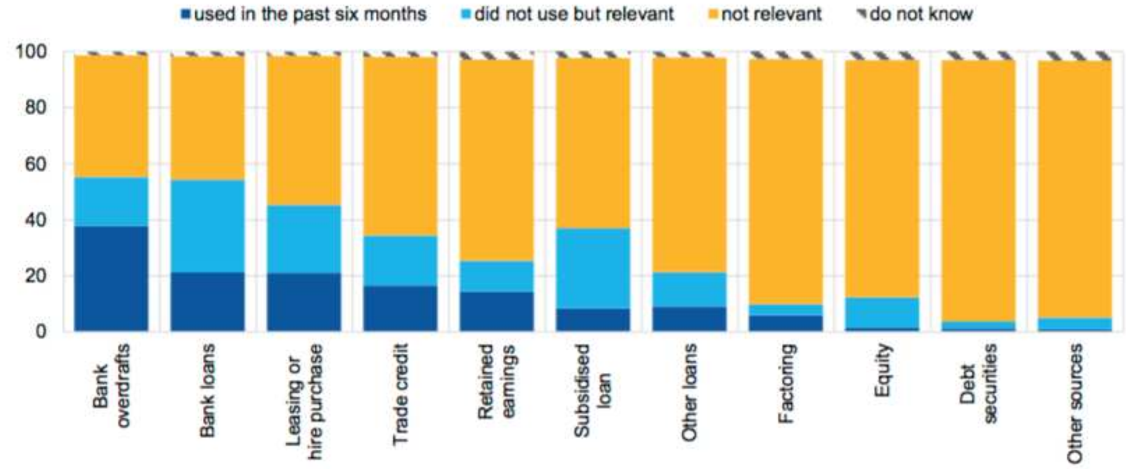
Social entrepreneurs often tackle challenges and fill gaps not addressed by mainstream business or via philanthropic work. But to do this they need access to a wider range of finance than is currently usually available. Venture capital funding which explicitly targets social entrepreneurs is one of those sources of funding. Social enterprises are usually small business which target social, ethical or environmental goals as their primary and explicit corporate objective in what are often highly innovative ways. In common with other SMEs they often struggle to get funding. Indeed their challenges are often greater as their business models and emphasis on social rather than economic return is not always understood. Yet their role in focusing on areas that fall beyond the traditional boundaries of State responsibilities, complementing public policy rather than replacing it, is vital to Europe's economy.

As shown in graph 4 below, from the latest ECB Survey on the Access to Finance of Enterprises in the euro area (April to September 2015)[60], bank-related products remain the most relevant source of finance for SMEs vis-à- vis market-based products and other sources of finance. The survey reports that during the period from April to September 2015, 54% of SMEs considered bank loans to be relevant, while 55% included bank overdrafts. Furthermore, 37% signaled that grants and subsidised loans, which involve support from public sources in the form of guarantees or other interventions, were relevant for their financing. Leasing and trade credit were also relevant for 45% and 34% of SMEs respectively. Other loans, for example from family, friends or related companies, were important sources of financing for 21% of SMEs. Market-based sources of finance, as well as factoring, were reported less often as relevant instruments. Internal funds played an important role as an alternative source of finance, as indicated by 25% of SMEs.

Graph 4: Financing structure of euro area SMEs

[60] https://www.ecb.europa.eu/pub/pdf/other/accesstofinancesmallmediumsizedenterprises201512.en.pdf?2c146594df6fe424c7adb001e1306c73

(over the preceding six months; percentage of respondents)



Q4. Are the following sources of financing relevant to your enterprise, that is, have you used them in the past or considered using them in the future? If 'yes', have you obtained new financing of this type in the past six months?

Base: All SMEs. Figures refer to round 13 (April-September 2015) of the survey.

Source: EBC

High bank dependency means that enterprises, and particularly SMEs, have difficulties accessing alternative funding sources when they cannot get credit from banks. For many companies, particularly in vulnerable Member States, access to finance has become markedly more difficult with the financial crisis. Difficulty in accessing finance is one of the obstacles that prevent SMEs from launching new products, broadening their activities and markets, strengthening their infrastructure and taking on more employees. This situation is equally true for well-established SMEs and those innovating ones that are small and rapidly expanding. Financing conditions remain tight in countries whose economies have been hit most severely by the crisis and especially for start-ups, SMEs and/or innovative companies.

The EuVECA objectives to (i) make European SMEs more competitive in a global marketplace and to (ii) create a European system for the cross-border fundraising of venture capital funds; as well as the EuSEF objectives of (i) having the contribution of social businesses and entrepreneurship to EU goals on inclusive, sustainable growth should be fully realised and (ii) having social businesses able to flourish across the EU and fully take part in the benefits of the single market, are aligned with the objectives of the Capital Markets Union (CMU) initiative.

Indeed, the CMU initiative has three main objectives[61]:

- The CMU will broaden the sources of financing in Europe towards non-bank financing by giving a stronger role to capital markets. It will offer to borrowers and investors a broader set of financial instruments to meet their respective needs[62].

[61] See: SWD(2015) 183 final

- The CMU will help deepen the single market for financial services. Capital markets will benefit from the size effects of the single market and become deeper, more liquid and more competitive, for the benefit of both borrowers and investors.
- The CMU will help promote growth and financial stability. By facilitating companies' access to finance, in particular SMEs, the CMU will support growth and jobs' creation. At the same time, by promoting more diversified funding channels to the economy, it will help address possible risks stemming from the over-reliance on bank lending and intermediation in the financial system. By diversifying the risks, it will make the whole system more stable and help financial intermediaries granting more funding to the economy.

Non-bank financing does not merely substitute for investment that was previously funded by banks, but it enables additional investment that banks would not be ready to fund. Market financing is usually regarded to being better at dealing with uncertain environments and therefore better suited to fund riskier investment projects (with a higher required rate of return).

Deep, liquid and efficient capital markets bring advantages to borrowers and investors. They have three main advantages for companies seeking finance: (i) improve their access to funds; (ii) reduce their capital costs by creating competition among investors; and (iii) reduce the risk of disruption in financing by diversifying their funding sources. On the investors' side, by increasing the investment opportunities, efficient capital markets offer investors a broader set of financial products to (i) meet their investment objectives, (ii) diversify and manage their risks, and (iii) optimise their risk-return profile, while respecting their investment constraints – whether in terms of risk, duration, or other assets' characteristics. Overall, capital markets (especially equity markets) facilitate entrepreneurial and other risk-taking activities, which have a positive effect on economic growth.

Large and well-integrated capital markets can contribute to jobs and growth through a number of channels. They can contribute to allocative efficiency by opening up investment and diversification opportunities for investors across Europe, improving access to risk capital for borrowers, and allowing greater competition (unleashing corresponding benefits such as productivity gains, lower costs, greater choice, financial innovation, etc.). Unobstructed capital flows within the single market should allow financial resources to reach the most profitable investments.

Question 5: How coherent is the EU intervention internally and with other (EU) actions?

- *To what extent is the intervention coherent internally?*

With assets under management of more than €17 trillion, the European asset management industry plays a pivotal role in channelling investors' money into the economy. A great deal of this success is the direct result of Europe's investment funds frameworks. The UCITS (Undertakings for Collective Investment in Transferable Securities)[63] framework for mutual

[62] The term "borrower" is here used for the counterpart that demands funding independent on whether funding is requested in the form of debt or equity.

[63] Directive 2014/91/EU

funds is a recognised international standard, while the AIFMD has created a framework within which European alternative investment managers are able to operate.

The EuVECA and EuSEF Regulations created voluntary marketing passports for managers to market funds under the EuVECA and EuSEF labels across the EU. The EuVECA and EuSEF Regulations are complementary to the AIFMD and they do not overlap with other legal frameworks in the asset management sector, in particular the UCITS Directive. EuVECA and EuSEF funds offer entrepreneurs wider fund raising options by bringing together investors and unlisted SMEs (as well as other mid-range, small or start-up companies) and by increasing non-bank finance. The main purpose of the EuVECA Regulation is stimulate economic growth, contribute to the creation of jobs and capital mobilisation, foster the establishment and expansion of innovative undertakings, increase undertakings investment in research and development and to foster entrepreneurship, innovation and competitiveness. The EuSEF Regulation provides a common framework for providing funding to social enterprises that are acting as drivers of social change by offering solutions to social problems.

EuVECA and EuSEF funds can only be designed and managed by sub-threshold managers of alternative investment funds, i.e. managers who manage an overall portfolio of assets of below €500 million. Investors must invest at least €100,000. Importantly, every fund using the EuVECA and EuSEF labels has to invest a high percentage of investments (at least 70% of the capital commitments) in supporting so-called qualifying portfolio undertakings, i.e. young and innovative companies or social enterprises respectively.

Question 6: What is the EU added value of the intervention?

- To what extent the intervention changed situation and to what extent do the issues addressed by the intervention continue to require action at EU level?

In terms of the EU added value, EuVECA and EuSEF Regulations covered a gap that existed in legislation before by introducing a new framework aiming to address the need of small managers to market funds cross border and to increase the amount of non-bank capital available for investment in start-ups and social enterprises. The novel feature of the two Regulations was that they opened up passporting possibilities to sub-treshold managers of EuVECA and EuSEF funds and speciffically created a uniform approach for the categories of investors eligible to commit capital to such funds. The Regulations were first EU legal instruments in the asset management area which laid down two uniform "single rule books" ensuring that investors know exactly what they get when they invest in the funds.

Apart from tackling the issue of market fragmentation, the EuSEF and EuVECA frameworks were motivated by a preventive approach - trying to address certain issues before they emerge into full view. The pre-emptive approach is motivated by several considerations: (i) historic experience in the area of investment funds and (ii) recent experience gained in the more mature area of venture capital funds and (iii) experience in the field of investor protection.

The European legislator did not await significant proliferation of divergent retail schemes before embarking on the UCITS Directives. As early as 1985, a common approach to investor protection was taken in UCITS. Action in harmonising the key features of retail investment funds were therefore taken already in the run-up to the creation of a single market by the end of 1992. Experts in the field of investment management services would converge in agreeing that a common UCITS brand could no longer have been introduced, with any promise of success in take-up, at a later stage, say in 2000.

Experience therefore militates in favour of early action, when markets are still emerging and when differences in regulatory cultures have not yet taken hold. Especially when regulation at EU level aims to launch a new market (such as UCITS did for pan-European retail investment funds which were safe and liquid enough to be suitable for all retail clients across Europe) intervention has to be times carefully so as to achieve maximum effect and take-up in the market. This issue of potential take-up is crucial for voluntary schemes, such as UCITS, which coexist alongside national schemes and apply only to those operators who wish to engage in cross-border activities.

Both the EuVECA and EuSEF Regulations lay down uniform "single rule books" governing the marketing of funds under the EuVECA and EuSEF designations. The two funds are defined by three essential requirements: 1. they invest 70% of the capital committed by its sponsors eligible assets (SMEs and social undertakings respectively); 2. they provide equity or quasi-equity finance to these SMEs and social undertakings; and 3. they do not use leverage (i.e. the funds do not invest more capital than that committed by investors so is not indebted). All funds that operate under these designations must abide by uniform rules and quality standards (including disclosure standards to investors and operational requirements) when they raise funds across the EU. The "single rule book" ensures investors know exactly what they get when they invest in EuVECA and EuSEF funds.

The EuVECA and EuSEF Regulations also maintain a uniform approach for the categories of investors which are eligible to commit capital to EuVECA and EuSEF funds, investors including retail able and willing to commit at least €100,000 of their investable assets in EuVECA and EuSEF funds. The uniform rules on such investors make sure that marketing can be tailor-made to the needs of these investor categories.

The Regulations provide all managers of EuVECA and EuSEF funds with a European marketing passport allowing access to eligible investors across the EU. This is a market improvement - the passport provided under AIFMD is only applicable to managers whose assets under management are above a threshold of €500 million.

Moreover, the EuSEF Regulation requires EuSEF funds to give an account of their investment strategies, screening criteria for selecting target undertakings and their criteria for measuring the social impacts achieved by their target undertakings. On this basis, measurement tools and methodologies to precisely determine social impacts can be developed. Here again, if disclosure requirements are allowed to develop in an uncoordinated manner, they will be of little value as a basis for developing a common approach to social impacts and the metrics used for their measurement.

Section 8 Conclusions

On the effectiveness of the EuVECA and EuSEF Regulations, figures of the current situation show that while take-up of the opportunities presented by the EuVECA Regulation is satisfactorily increasing, it could still be improved further (as of beginning of April 2016 there are 70 EuVECA funds registered in the ESMA database, the limited take-up of EuSEF funds is clearly unsatisfactory (ESMA registered 1 EuSEF fund in France and 3 EuSEF funds in Germany). This is because EU intervention is limited by a range of barriers which prevent more widespread take up of these funds. A particular concern is that managers whose portfolio exceeds €500 million may not apply for registration, set up and operate such funds, nor may they use these two designations to market them in the EU. Another specific concern was related to the funds rules which governs the EuVECA and EuSEF funds, in particular the definitions of qualifying portfolio undertaking and the €100,000 minimum entry ticket for non-professional investors.

In respect of the efficiency, different requirements in different jurisdictions, in particular at the level of setting-up fees, costs for the host registration and sufficient amounts of own funds, seems to constitute an impediment to setting up EuVECA or EuSEF funds and enabling cross-border investment.

In terms of relevance, both fund frameworks are designed to channel money from private investors into SMEs and so to boost job creation and growth. They have, therefore, been recognised as integral to the work on the CMU. The EuVECA and EuSEF Regulations form part of the Commission's initiative to increase non-bank finance for the economy, and are aligned with the objectives of President Junker's Investment Plan for Europe, to increase competitiveness and to stimulate investments for the purpose of job creation.

The internal coherency is achieved given the EuVECA and EuSEF Regulations were proposed and adopted to offer managers that are below the AIFMD threshold to benefit from the possibility to market funds cross border, provided that they respect the fund rules of the two Regulations. The EuVECA and EuSEF Regulations are intended to be proportionate regimes which ensure that small managers have access to a managing and marketing passport without having to comply with all the AIFMD requirements.

In terms of the EU added value, EuVECA and EuSEF Regulations covered a gap that existed in legislation before by introducing a new framework aiming to address the need of small managers to market funds cross border and to increase the amount of non-bank capital available for investment in start-ups and social enterprises. The novel feature of the two Regulations was that they opened up passporting possibilities to sub-treshold managers of EuVECA and EuSEF funds and speciffically created a uniform approach for the categories of investors eligible to commit capital to such funds. The Regulations were first EU legal instruments in the asset management area which laid down two uniform "single rule books" ensuring that investors know exactly what they get when they invest in the funds.

12. ANNEX 5 (review clauses of the EuVECA and EuSEF Regulations)

The EuVECA and EuSEF Regulations include a list of items that must be reviewed by 22 July 2017.

Articles 26 and 27 of the EuVECA Regulation describe the issues that must be review. These are: the extent to which the EuVECA designation has been used in different Member States; the geographical and sectoral spread of investments used by EuVECA; the appropriateness of the information requirements in Article 13; whether there is a need to amend the definition of qualifying investments; whether it should be extended the marketing to retail investors; the effectiveness, proportionality and application of administrative penalties; the impact of the Regulation on the venture capital market; should third country managers be allowed to use the EuVECA designation; the appropriateness of adding a depositary regime; a review of barriers impeding the use of the EuVECA designation and the interaction of the Regulation with the Alternative Investment Fund Managers Directive.

In the EuSEF Regulation it is Articles 27 and 28 that set out the issues to be reviewed. These are: the extent to which the EuSEF designation has been used in different Member States; the geographical and sectoral spreads of investments used by EuSEF; the appropriateness of the information requirements in Article 14; the use of different qualifying investments and the impact on the development of social undertakings in the EU; the appropriateness of establishing a European label for 'social enterprises'; should third country managers be allowed to use the EuSEF designation; the practical application of the criteria for identifying qualifying portfolio undertakings and its impact on social enterprises and their positive social impact; an analysis of the procedures put in place by managers to measure social impact; whether it should be extended the marketing to retail investors; whether EuSEF should be eligible assets under the UCITS Directive; if a depositary regime is appropriate; an examination of tax obstacles and an assessment of the possibility of tax incentives to encourage social entrepreneurship; a review of barriers impeding the use of the EuSEF designation and the interaction of the Regulation with the Alternative Investment Fund Managers Directive.

13. ANNEX 6 (EU legal frameworks for investment funds)

13.1.1. The UCITS Framework

The UCITS Directive 2009/65/EC, as amended, establishes a harmonized legal framework for the creation, management and marketing of collective investment schemes with a focus on investors' protection and product regulation. This harmonized framework enables UCITS funds, once registered in a home Member State, to be freely marketed to retail and professional investors across borders. It creates a single set of rules covering investment policies (diversification, risk exposure) or safekeeping that can accommodate investment strategies involving shares, bonds, money market instruments or strategies based on tracking diversified and widely recognised indices. Likewise, the UCITS framework can also accommodate so-called 'mixed' funds which engage in a mixture of the above mentioned investment strategies.

The UCITS Directive includes rules on, in particular:

- The authorisation of UCITS;
- Conduct of business (fair treatment of investors, conflicts of interest, remuneration, risk management, valuation, disclosure to investors and regulators);
- Regulatory capital, namely initial capital, 'own funds';
- European passport for managers and cross-border marketing of UCITS;
- Notification procedures;
- Investment policies;
- Key Investor Information Document (KIID);
- Mergers and master-feeder structures;
- Mandatory appointment of depositaries; or
- Controls over delegation of certain tasks.

13.1.2. The AIFMD framework

The AIFMD Directive 2011/61/EU establishes a uniform framework that comprises managers of a variety of alternative investment funds, ranging from hedge funds, private equity operators, real estate funds, venture capital funds and those that specialise in commodities. While the AIFMD comprises a large variety of alternative asset classes, it essentially limits itself to regulating fund managers and not funds. Managers whose aggregate assets under management are above €500 million are subject to authorisation and compliance with the reporting and operational requirements set out in the AIFMD. In exchange for compliance, these managers benefit from a European passport that ensures they can manage and market alternative investment funds to professional investors on cross-border basis. Managers below this threshold are only subject to a set of minimum rules but also do not benefit from the passport, unless they opt-in.

The AIFMD includes rules on, in particular:

- The authorisation or, alternatively, registration of the AIF manager;
- Conduct of business (fair treatment of investors, conflicts of interest, remuneration, risk management, valuation, disclosure to investors and regulators);
- Regulatory capital, namely initial capital, 'own funds' and professional indemnity insurance requirements;
- Mandatory appointment of depositaries;
- Controls over delegation of certain tasks, including portfolio management and risk management;

- The marketing of AIFs to professional investors; or
- The use of leverage by AIFMs for all AIFs under management. Supervisors are empowered to intervene, place restrictions on leverage and pursue other supervisory restrictions where needed to avoid the build-up of systemic risk.

13.1.3. The European long-term investment fund framework

The ELTIF Regulation created a voluntary marketing passport for managers to market funds under a European long-term investment fund (ELTIF) label across the EU.

An ELTIF may specialise in variety of investments, such as unlisted companies, listed companies up to infrastructure investment, investments in or in airplane or marine financing. Only managers authorised under the AIFMD can design and manage an ELTIF. As an ELTIF is not a UCITS fund but an AIF within the meaning of the AIFMD, its manager must fulfil the requirements set out by the AIFMD. ELTIFs may be marketed to both professional and retail investors across the EU. Authorised AIF managers are able to make use of an EU-wide passport, subject to a notification procedure established under the AIFMD. An ELTIF must among other things invest at least 70% of its capital in eligible investment assets, not engage in short selling and observe strict limitations on its use of leverage and derivatives.

ELTIFs do not offer redemption rights before the end of the fund's life. An ELTIF may be marketed to retail investors. In this context, an ELTIF manager has to undertake a suitability test to confirm that investment is suitable for the retail investor and to provide that investor with "appropriate investment advice." The manager must ensure that a retail investor with a portfolio of up to €500,000 does not invest more than 10% of their portfolio in ELTIFs, provided that the initial amount invested in one or more ELTIFs is not less than €10,000.

The ELTIF Regulation includes rules on, in particular:

- The authorization (only an EU AIF may be authorised as an ELTIF and only an authorised ELTIF may be marketed as an ELTIF in the EU);
- Investment policies (eligible investment assets, qualifying portfolio undertaking, diversification and concentration, investment and borrowing restrictions);
- Redemption, disposal and distribution (the life of an ELTIF must be consistent with its long-term nature and must be sufficiently long to cover the life-cycle of each of the fund's individual assets; redemption to investors must commence on the day following the end of the ELTIF's life and investors must always have the option to be repaid in cash);
- Transparency, marketing and depositaries when an ELTIF is marketed to retail investors (costs disclosures, ELTIF's prospectus, its KID (where it is marketing to retail investors), information on the facilities).

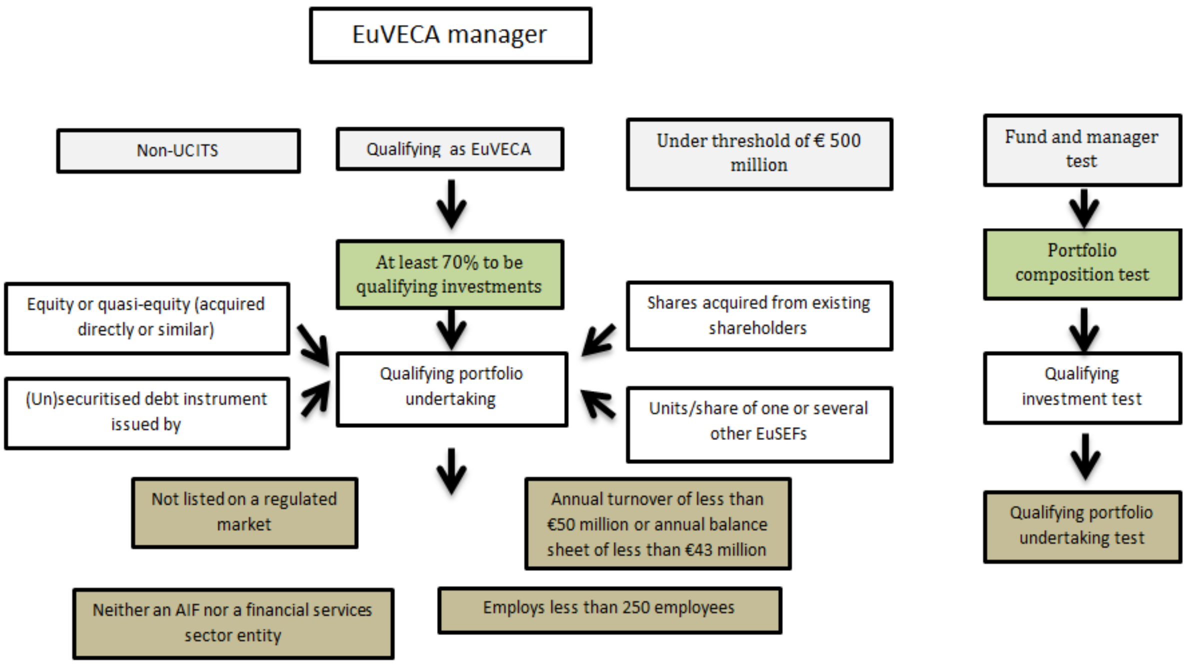
13.1.4. The European venture capital fund (EuVECA) and social entrepreneurship fund (EuSEF) frameworks

The EuVECA and EuSEF Regulations created voluntary marketing passports for managers to market funds under the EuVECA and EuSEF labels across the EU. EuVECA and EuSEF funds offer entrepreneurs wider fund raising options by bringing together investors and unlisted SMEs (as well as other mid-range, small or start-up companies) and by increasing non-bank finance. The main purpose of the EuVECA Regulation is stimulate economic growth, contribute to the creation of jobs and capital mobilisation, foster the establishment and expansion of innovative undertakings, increase undertakings investment in research and development and to foster entrepreneurship, innovation and competitiveness. The EuSEF

Regulation provides a common framework for providing funding to social enterprises that are acting as drivers of social change by offering solutions to social problems.

EuVECA and EuSEF funds can only be designed and managed by sub-threshold managers of alternative investment funds, i.e. managers who manage an overall portfolio of assets of below €500 million. Investors must invest at least €100,000. Importantly, every fund using the EuVECA and EuSEF labels has to invest a high percentage of investments (at least 70% of the capital commitments) in supporting so-called qualifying portfolio undertakings, i.e. young and innovative companies or social enterprises respectively.

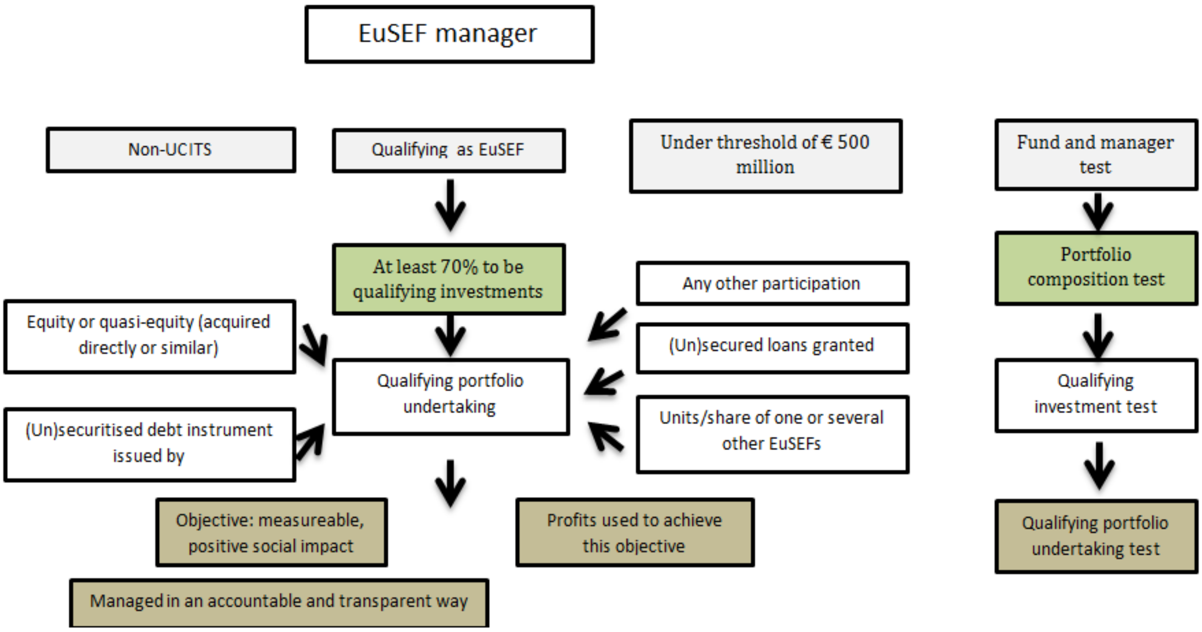
Scope of the EuVECA Regulation



The EuVECA Regulation builds the definition of the qualifying portfolio undertakings on a widely spread SME definition (and is aligned with the definition of an SME under the AIFMD), namely the undertaking is not listed on a regulated market, as defined by the MiFID Directive 2004/39/EC, employs less than 250 persons and has either an annual turnover of less than €50 million or a an annual balance sheet of less than €43 million, is neither a collective investment undertaking itself nor a credit institution, insurance undertaking etc. The regulation prohibits, for the fund managers, the use of any method that would increase the exposure of the fund whether through borrowing of cash or securities, engagement into derivatives positions or any other mean with an exception of short-term borrowing to provide liquidity to cover the gap between call and reception of commitments.

The EuVECA Regulation further stipulates obligations towards good conduct of business on managers such as due skill, care and diligence in conducting their activities, appropriate policies and procedures for preventing malpractices, the best interest. The manager is also obliged to identify, avoid and, when necessary, disclose the conflict of interests. The manager shall have sufficient own funds and shall use adequate and appropriate human and technical resources. The valuation is to be made according to the rules stated in the statutory documents. The EuVECA Regulation also introduces specific disclosure requirements to the competent authorities and investors.

Scope of the EuSEF Regulation



The EuSEF Regulation follows the EuVECA Regulation model with the difference in relation to the tailored definition of the qualifying portfolio undertaking. The definition is built on two main features, namely the undertaking has to have the achievement of measureable positive social impact as primary objective and uses profits to achieve this primary objective. The undertaking must be managed in an accountable and transparent way.

14. Annex 7 (Results of the consultations)

1. Consultation on the review of the EuVECA and EuSEF Regulations

Below are the results of the public consultation on the review of the EuVECA and EuSEF Regulations which ran from 30 September 2015 to 6 January 2016.

This feedback statement presents a summary of responses to each of the eighteen questions raised in the consultation paper. The tables provide a quick overview of the respondents' opinions. These opinions have been categorized wherever possible. Some respondents have also provided qualitative commentary to supplement or nuance their 'yes/no' answers.

The responses received are from private individuals, organisations/companies and public authorities/public organisations. Most of the replies have been drafted by industry associations and private companies.

		Answers	Ratio
a private individual		3	6.52%
an organisation or a company		30	65.22%
a public authority or an international organisation		13	28.26%
No answer		0	0%

Type of organisation:

		Answers	Ratio
Academic institution		0	0%
Company, SME, micro-enterprise, sole trader		7	15.22%
Consultancy, law firm		1	2.17%
Consumer organisation		1	2.17%
Industry association		15	32.61%
Media		0	0%
Non-governmental organisation		1	2.17%
Think tank		0	0%
Trade union		0	0%
Other		5	10.87%
No Answer		16	34.78%

Type of public authority

		Answers	Ratio
International or European organisation		1	2.17%
Regional or local authority		0	0%
Government or Ministry		4	8.7%
Regulatory authority, Supervisory authority or Central bank		5	10.87%
Other public authority		3	6.52%
No answer		33	71.74%

Where are you based and/or where do you carry out your activity?

		Answers	Ratio
Austria		1	2.17%
Belgium		9	19.57%
Bulgaria		0	0%
Croatia		0	0%
Cyprus		0	0%
Czech Republic		1	2.17%
Denmark		1	2.17%
Estonia		0	0%
Finland		2	4.35%
France		4	8.7%
Germany		2	4.35%
Greece		0	0%
Hungary		0	0%
Iceland		0	0%

Ireland		2	4.35%
Italy		3	6.52%
Latvia		0	0%
Liechtenstein		0	0%
Lithuania		0	0%
Luxembourg		3	6.52%
Malta		0	0%
Norway		0	0%
Poland		0	0%
Portugal		0	0%
Romania		0	0%
Slovakia		0	0%
Slovenia		1	2.17%
Spain		1	2.17%
Sweden		0	0%
Switzerland		1	2.17%
The Netherlands		3	6.52%
United Kingdom		10	21.74%
Other country		2	4.35%
No answer		0	0%

Field of activity or sector (if applicable):

		Answers	**Ratio**
Accounting		2	4.35%
Auditing		2	4.35%
Banking		14	30.43%
Credit rating agency		2	4.35%

Insurance		6	13.04%
Pension provision		5	10.87%
Investment management (e.g. hedge funds, private equity funds, venture capital funds, money market funds, securities)		23	50%
Market infrastructure operation (e.g. CCPs, CSDs, Stock exchanges)		6	13.04%
Social entrepreneurship		8	17.39%
Other		13	28.26%
Not applicable		4	8.7%
No answer		0	0%

QUESTION 1

Should managers authorised under the AIFMD be able to offer EuVECA to their clients?

Opinions expressed		**Answers**	**Ratio**	**Public authority**	**Citizens**	**Organisations**			
						Industry	Consumer	Other	Total
Yes		36	78.3%	10	2	22	2		24
No		0	0%						
Don't know / no opinion / not relevant		6	13.%		1	4	1		5
No answer		4	8.7%	2		2			2

There is widespread support across industry and public authorities for broadening the range of managers able to market EuVECA to include managers fully authorised under AIFMD. No respondent opposed this.

Many respondents point out that authorised AIFMs are already compliant with requirements that are more onerous and stringent than those set out in the EuVECA and EuSEF Regulations, so could easily comply with the obligations. They noted that authorised managers would often have the resources required to develop the necessary expertise to invest in venture capital and social enterprises – in doing so they would add their own brand reputation, may be able to raise larger amounts of funds and could target a wider investor base due to the scale of their existing business.

Most respondents agree that the full set of AIFMD requirements should continue to apply to authorised AIFMs where they market and / or manage EuVECAs.

The large majority of respondents agree that the main advantage for authorised AIFM will be the ability to manage and market EuVECAs to high net worth individuals on a cross-border based. This will improve the cross-border distribution of AIFs and will allow investors to reap the benefits of competition (i.e. lower prices, more choice and higher quality products).

QUESTION 2

Should managers authorised under the AIFMD be able to offer EuSEF to their clients?

Opinions expressed		**Answers**	**Ratio**	**Public authority**	**Citizens**	**Organisations**			
						Industry	Consumer	Other	Total
Yes		31	67.4%	4		25	2		27
No		1	2.17%			1			1
Don't know / no opinion / not relevant		8	17.4%	1		6	1		7
No Answer		6	13%			6			6

While one respondent does not support the view that AIFMs authorised under the AIFMD should be allowed to manage and markets EuSEFs, there is otherwise widespread support for this, with the same arguments made in favour as for EuVECA.

Moreover, one reply notes that the average size of European social investment funds is €13.8 million. This figure, which is based on the data collected from 24 social investment fund managers representing 37 investment funds, shows that the existing social investment funds are still rather small and the eligible EuSEF fund managers, who currently typically manage only one social entrepreneurship fund, are far from reaching the 500 MEUR thresholds of aggregate assets under management. However, this respondent observes that a number of bigger players are creating investment vehicles dedicated to the financing of social enterprises. This movement could, over time, further help to develop the market for private social investment in the EU as the social objective requirement remains safeguarded.

QUESTION 3

Do you favour a reduction in the minimum €100,000 investment have on the take-up of EuVECA?

Opinions expressed		Answers	Ratio	Public authority	Citizens	Organisations			
						Industry	Consumer	Other	Total
Yes		21	45.7%	6		13	2		15
No		10	21.7%	3		7			7
Don't know / no opinion / not relevant		9	19.6%			8	1		9
No Answer		6	13%	2	1	3			3

45.7% of respondents are in favour of reducing the minimum €100,000 threshold required to invest in EuVECA in order to broaden the range of potential investors and increase choice for this group, with 21.7% against such a proposal. A significant proportion of respondents (32.6%) either have no opinion or have not answered this question.

Other respondents from both industry and public authorities express scepticism over lowering the investment threshold, arguing that the risk profile, contractual obligations and illiquid nature of investing in venture capital and social enterprises are not necessarily suitable for private investors with less capital. Moreover, investors in venture capital funds are typically investing well above the €100, 000 threshold so a surge in subscriptions would not be anticipated. One sceptical respondent also notes that the administrative overhead from having large numbers of smaller investors may lead to an increase in fund costs, unless the manager could offset this through a technology

Suggestions for a new threshold range between €0 and €50,000. Several respondents argue that a reduction in the investment threshold would need to be accompanied by other measures in order to protect retail investors at the European or domestic level. A number of respondents propose taking a similar approach to that of the ELTIF regulation, for example limiting the proportion of a retail investor's portfolio that may be invested in a EuVECA (10% or 20%) and requiring an appropriateness test.

The addition of investor protection methods would be acceptable to some respondents but not others, who argue that these requiremnts would detract from the ultimate benefit of a lower compliance regime combined with an EU passport that EuVECA provides. These respondents argue that the associated burden on managers would probably not be mitigated by increased take-up by private individuals.

No reply has quantified the potential impact in term of business development.

QUESTION 4

Do you favour a reduction in the minimum €100,000 investment have on the take-up of EuSEF?

Opinions expressed		**Answers**	**Ratio**	**Public authority**	**Citizens**	**Organisations**			
						Industry	Consumer	Other	Total
Yes		21	45.7%	6	2	12	1		13
No		4	8.7%	1		3			3
Don't know / no opinion / not relevant		13	28.3%	3		8	2		10
No Answer		8	17.4%	3	1	4			4

As with responses for EuVECA in question 3, views are divided over reducing the investment threshold for EuSEF funds, with 45.7% of respondents in favour. Only 8.7.% oppose this, although nearly half of respondents (45.7%) either have no opinion or have not answered this question.

Similar arguments to those in question 3 are made in favour and against reducing the threshold, with the impact on retail investors of investing a significant proportion of their savings in funds where they may not properly estimate the financial risk highlighted. Many respondents underline that the lack of tax incentives for EuSEF is a major issue limiting the willingness of retail investors or high net worth individuals to invest.

QUESTION 5

Are the costs relating to fund registration proportionate to the potential benefits for funds from having the passport?

Opinions expressed		**Answers**	**Ratio**	**Public authority**	**Citizens**	**Organisations**			
						Industry	Consumer	Other	Total
Yes		9	19.6%	2		7			7

No		9	19.6%	1	1	7			7
Don't know / no opinion / not relevant		18	39.1%	5	1	8	3		11
No Answer		10	21.7%	4	1	5	0		5

Views are split evenly across replies from industry. Seven industry organisations consider the costs relating to fund registration as being proportionate to the potential benefits for funds from having the passport. Seven other industry organisations take the opposite view. Initial registration costs and marketing fees vary considerably across Member States.

Those respondents accepting the costs as proportionate take the view that they are worth the benefits, with the EuVECA label and EuSEF labels set to become a "stamp of quality" that will become the norm internationally for the venture capital industry and social entrepreneurship. There is an inherent cost attached to this comfort. However each manager would need to carry out a cost benefit analysis in relation to the timing of compliance with EuVECA and EuSEF. The cost of compliance relative to being a MiFID regulated manager or an authorised AIFM is considerably lower and the EuVECA/EuSEF route will therefore be attractive to certain managers which otherwise may have needed to use these regimes to establish and market their funds.

One other respondent considers that registration fee should not present an obstacle to new EuSEF manager registrations, particular if the manager is looking to take advantage of the passport regime. If there were additional benefits to becoming a EuSEF or EuVECA manager, such as tax incentives, then these benefits would further outweigh the registration fees. In addition, this respondent notes that once an EuSEF or EuVECA manager is registered under the applicable Regulation, it simply needs to complete a form and to notify its supervisor of a new EuVECA or EuSEF under management in order to manage and market that fund.

Other respondents argue that for smaller AIFMs these costs (regulatory fees, legal and other professional advisory fees) are more significant to bear. For many sub-threshold AIFMs seeking to market in only one or a few Member States, the costs of compliance may outweigh the benefits of the passport. Given the higher costs of running socially driven funds, where staff are usually highly engaged and spends a lot of "hands on" time on non-financial support to social enterprises (providing coaching, consulting, access to networks, fundraising capability, being part of their board, etc.), high registration costs are a considerable extra burden.

One asset manager argues that the Commission should not focus on costs when analysing why the uptake of EuSEF and EuVECA isn't higher. This respondent considers the reasons to be:

- The restriction to a category of asset managers, very small firms, that are not the best equipped to handle a large number of investors;
- The EuSEF framework is not appealing as an investment on financial grounds;
- EuVECA is not the only type of AIF that is able to invest in venture capital and small firms, but is more constrained than other venture capital AIFs;
- Crowdfunding is more attractive for investors accepting risk as they get to choose their investments.

Another respondent argued that the cost of setting up a EuSEF remains prohibitive for the following reasons:

1) pre- and post-registration obligations generate costs which are challenging and in some cases even prohibitive for socially driven funds ; the average size of a European social investment fund is 13.8M EUR and as a consequence, such funds only have limited human and financial resources at their disposal.
2) Compared to more traditional passive funds investing in listed companies, the staff of socially driven funds is usually highly engaged and spends a lot of “hands on” time supporting social enterprises non financially (providing coaching, consulting, access to networks, fundraising capability, being part of their board, etc.).
3) Additional and sometimes inappropriate fees are sometimes being charged by both home and host National Competent Authorities (NCAs) for registering a fund as a EuSEF,.

This respondent illustrated such costs for a typical EuSEF registration[64]:

- 40 kEUR (external costs),
- 25 kEUR (legal advice),
- 14 kEUR (costs related to the NCA and ESMA),
- 50 kEUR (estimation of costs supported by the fund management internally).
- 130 kEUR, (internal and external arising from post-registration obligations (e.g. ESMA reporting via special interface)).

Another respondent underlines that the proportionality question arises not only in terms of cost but also in terms of timing as registration can be more time consuming in some countries than others.

A number of respondents consider it difficult to give a general answer to this question. Each manager needs to understand the respective fees charged by NCAs in Member States where

[64] These figures have been provided by one member of an industry association.

marketing is proposed, and compare these to the costs of complying with national private placement regimes the amounts that are expected to be raised.

QUESTION 6

Are the registration requirements for EuVECA a hindrance to the setting up of such funds in your Member State?

Opinions expressed		**Answers**	**Ratio**	**Public authority**	**Citizens**	**Organisations**			
						Industry	Consumer	Other	Total
Yes		8	17.4%	2		6			6
No		10	21.7%	5	1	4			4
Don't know / no opinion / not relevant		18	39.1%	4	1	10	3		13
No Answer		10	21.7%	3	1	6	0		6

Most replies do not have a clear opinion on whether registration requirements are a hindrance for EuVECA funds. Concerns were expressed by a few respondents around reporting requirements being burdensome and the time taken by national authorities to register the funds. Article 8 of the AIFMD stipulates that the national competent authority has to inform the manager of an AIF within three months of the submission of a complete application whether authorisation has been granted or not. However, there is no similar rule in the EuVECA Regulation that stipulates a maximum time the national competent authority may take to process a EuVECA fund's registration. That registration may take longer for smaller AIF than for large ones seems disproportionate to some respondents.

One respondent considers a possible cause for this to be overstretched national authorities focusing more on AIFMD than EuVECA and EuSEF – where regulatory knowledge and experiences is also thin. This situation makes the registration process, where at all possible, more complicated and burdensome – with difficulty in determining what the requirements are.

Another respondent notes that the divergence of interpretation in the registration process across NCAs is costly and suggests having clear guidelines in order to improve standardisation (e.g. definition of own funds, number of employees in the management company, etc.).

QUESTION 7

Are the registration requirements for EuSEF a hindrance to the setting up of such funds in your Member State?

Opinions expressed		**Answers**	**Ratio**	**Public authority**	**Citizens**	**Organisations**			
						Industry	Consumer	Other	Total
Yes		6	13%	1		5			5
No		9	19.6%	5	1	3			3
Don't know / no opinion / not relevant		20	43.5%	5	1	14	0		14
No Answer		11	24%	3	1	4	3		7

The views set out in question 6 are mirrored in the registration requirement for EuSEF.

‚Some respondents note that while some NCAs may have had some knowledge and/or previous regulatory experience from the private equity and venture capital sectors, hardly any of them had any previous experience from the more recent field of investing in social enterprises. They note that this lack of knowhow around the EuSEF Regulation and general framework in the public sector is currently visible in several Member States, where it is still difficult to identify, within the NCA, the right counterpart in charge of the implementation of the EuSEF Regulation. This situation makes the registration process, where at all possible, more complicated and burdensome. In consequence, these respondents argue that it is not the registration requirements for EuSEF as such that make it difficult, but the lake of transparency of the requirements themselves.

Many respondents mention that the interpretation of the EuSEF Regulation by NCAs can differ. For example, it remains confusing for eligible EuSEF fund managers to know whether they have the obligation to register their fund with their NCA under the AIFMD and whether such registration can be done in combination with applying for the EuSEF marketing label.

These respondents express a strong need to increase and harmonise the understanding of the EuSEF Regulation among national regulators across the EU. In consequence, they suggest further guidance from the Commission and or ESMA on the applicability of the national's existing venture capital regimes (including fiscal regime) also to EuSEF funds. There is a role for ESMA to ensure a better coordination and exchange of best practices between the different NCAs in each Member State, enhancing their knowhow and motivation to quickly adopt and implement the EuSEF regulation.

One respondent considers the ESMA's XML interface for the reporting requirements to be more difficult than necessary to use, with a proportionate approach not taken.

However, other industry organisations consider the registration process to be relatively straightforward, with the requirements probablly necessary to ensure the NCAs collect all the information needed to ensure compliance with the requirements of the EuSEF Regulation.

QUESTION 8

Are the requirements for minimum own funds imposed on the managers relating to fund registration proportionate to the potential benefits for funds from having the passport?

Opinions expressed		Answers	Ratio	Public authority	Citizens	Organisations			
						Industry	Consumer	Other	Total
Yes		9	19.6%	2		7			7
No		8	17.4%	2	1	5			5
Don't know / no opinion / not relevant		21	45.7%	6	1	11	3		14
No Answer		8	17.4%	3	1	4	0		4

The table above does not reflect the comments made by the respondents, which provide further insight. The vast majority of respondents agree that the approach to own funds set out in the EuVECA and EuSEF Regulations is proportionate and reasonable. However, respondents note that Competent Authorities have different interpretations of "sufficient own funds" – with some interpreting this requirement as being similar to the AIFMD requirements – and others applying a proportionate approach.

While respondents agree that a flexible approach should be maintained, respondents argued that it would be helpful to undertake a comprehensive assessment of any additional obligation not foreseen in the EuVECA/EuSEF Regulations that are being introduced by NCAs. This is an area where ESMA's supervisory convergence function could be used, helping NCAs to reach a common understanding of 'sufficient own funds".

QUESTION 9

Should the use of the EuVECA Regulation be extended to third country managers and if so, under what conditions?

Opinions expressed		Answers	Ratio	Public authority	Citizens	Organisations			
						Industry	Consumer	Other	Total
Yes		14	30.4%	4	1	8	1		9

No		11	23.9%	3	2	6			6
Don't know / no opinion / not relevant		13	28.3%	3		8	2		10
No Answer		8	17.4%	3		5			5

A number of respondents are in favour of extending EuVECA and EuSEF to third country managers in order to foster the market in Europe, where they argue there is a lack of sufficiently experienced venture capitalists and social entrepreneurs. Extending the framework to third country managers may help foster venture capital market development by attracting experienced third country fund managers (e. g., from the U.S.) to (co-)invest in the European market and thereby improve the overall quality and quantity of venture capital supply.

These respondents also note that by also providing access to assets outside the EU, this could also help meet European investors' needs for geographical diversification. They argue that the market should therefore be extended to those countries to which ESMA has determined there are no obstacles to the extension of the AIFMD passport.

Respondents in favour consider that conditions for third country managers to use the EuVECA Regulation should be similar to the conditions for third country managers to use the AIFMD. They believe that the rights to manage and market EuVECA and EuSEF funds should be extended to AIFMs in third countries which demonstrably operate equivalent proportionate supervisory standards – specifically those third countries to which ESMA has determined there are no obstacles to the extension of the AIFMD passport.

However, other respondents do not believe that extension to third country managers should be a priority. They argue that a general principle of reciprocity should apply to third country managers in order to be admitted to the EuVECA and EuSEF regimes. Moreover, they consider that third country managers should not be allowed to benefit without bearing all the administrative burdens of being EU registered (not only regulatory - but reporting, taxation, etc.). They also argue that there is a need to ensure a level playing field, meaning that third country managers should in no event have easier access to the EuVECA Regulation than EEA-based managers.

Lastly, several respondents note that extension to third country managers could be regarded as premature, given that it is not yet functionally successfully within the EU, and recognition of the label has yet to be established.

QUESTION 10

Should the use of the EuSEF Regulation be extended to third country managers and if so, under what conditions?

Opinions expressed		**Answers**	**Ratio**	**Public authority**	**Citizens**	**Organisations**			
						Industry	Consumer	Other	Total
Yes		10	21.7%	3	1	5	1		6
No		13	28.3%	3	2	8			8
Don't know / no opinion / not relevant		14	30.4%	4		8	2		10
No Answer		9	19.6%	3		6			6

The same views were expressed over extension of the EuSEF Regulation as were set out

in response to question 9.

QUESTION 11

Is the current profile of eligible portfolio assets conducive to setting up EuVECA funds? In particular, does the delineation of a "qualifying portfolio undertaking" (unlisted, fewer than 250 employees, annual turnover of less than €50 million and balance sheet of less than €43 million) hinder the ability to invest in suitable companies?

Opinions expressed		**Answers**	**Ratio**	**Public authority**	**Citizens**	**Organisations**			
						Industry	Consumer	Other	Total
Yes		13	28%	3	1	9			9
No		12	26.1%	3	2	7			7
Don't know / no opinion / not		10	21.7%	2		6	2		8

relevant									
No Answer		11	24%	6		4	1		5

Many respondents consider the current restriction of eligible assets to investment in SMEs (defined as unlisted, fewer than 250 employees, annual turnover of less than €50 million and balance sheet of less than €43 million) to be too restrictive and inflexible. They argue that this limits take-up of EuVECA funds and reduces their ability to support their ventures as they continue to grow. This is particularly problematic for high-growth digital companies as well as those in labour intensive companies such as those in the services sector which can have a very high employee count while remaining very small businesses in the early stage of development.

Responses also stressed a potential concern that when a EuVECA manager is considering an application to establish a EuVECA, they may not be confident that they can guarantee finding the number of attractive qualifying investments that are necessary to stay within this limit during the life of the fund and also achieve a balanced portfolio.

Responses proposed included modifying the requirement that 70% of funds be committed to qualifying investments, widening the definition of SMEs (for example doubling the 250 employee threshold), applying a "2 out of 3" rule to the asset criteria, or permitting investment in funds of funds and in SMEs listed on growth markets. A further suggestion was to allow EuVECA funds to be able to continue to use their EuVECA status as their target investments grew beyond the initial SME criteria.

Some other respondents viewed the current eligible assets criteria as appropriate, noting that the role of venture capital is particularly to invest in new but uncertain technologies or business ideas. These kinds of investments are typically related to small and medium sized enterprises. Broadening the range of eligible assets could dilute the focus on smaller companies and open the framework to wider private equity activity.

QUESTION 12

Does a EuVECA's inability to originate loans to a qualifying portfolio undertaking in which the EuVECA is not already invested hinder the attractiveness of the scheme for potential managers of such funds?

Opinions expressed		**Answers**	**Ratio**	**Public authority**	**Citizens**	**Organisations**			
						Industry	Consumer	Other	Total
Yes		15	32.6%	4	1	10			10
No		5	10.9%	3	1	1			1
Don't know /		13	28.3%	2	1	8	2		10

no opinion / not relevant									
No Answer		13	28.3%	5		7	1		8

30% of respondents agreed that the restriction on originating loans where the EuVECA is not already invested hinders the attractiveness to potential managers, 10% did not agree, and the remaining respondents either did not know or did not answer this question. Respondents in favour of removing this restriction argued that loan origination could be an alternative to equity investment – either where traditional equity investment is not available - or as an advantageous exit mechanism.

However, other respondents note that is no evidence that the loan origination restriction has reduced the attractiveness of the scheme for potential managers of such funds. In addition, one respondent notes that the current drafting facilitates the alignment of interest which is an important aspect in the venture capital model.

QUESTION 13

In this context, does the rule that a EuVECA can only use 30% of the aggregate capital contributions and uncalled committed capital for loan origination reduce the attractiveness of the scheme?

Opinions expressed		**Answers**	**Ratio**	**Public authority**	**Citizens**	**Organisations**			
						Industry	Consumer	Other	Total
Yes		13	28.3%	4	1	8			8
No		9	19.6%	3	1	5			5
Don't know / no opinion / not relevant		13	28.3%	3	1	6	3		9
No Answer		11	23.9%	4		7			7

30% of respondents are in favour of greater flexibility over the 30% cap of the aggregate capital contributions and uncalled committed capital for loan origination. 20% of respondents think the cap should remain, with the remaining respondents either not sure or not answering this question.

Respondents calling for greater flexibility suggest that this limitation on financing is contrary to the considerable need for investment flexibility on the part of SMEs. In particular, many small funds (and private equity funds in general) provide mezzanine capital to fund their portfolio companies. Moreover, several respondents believe that the 30% limitation discourages those managers that are unwilling to lose the flexibility to find the right mix of debt and equity as determined by market conditions and the circumstances of each portfolio company. While equity is at the heart of venture capital, they argue that companies also need access to debt and their venture capital investors should also be seen as potential debt providers They also note that loans are in many cases are used when the company needs funds quickly but the valuations that are essential for determining an equity investment may not be ready or may still be very uncertain given the profile and potential of such companies or when co-investors have not yet been able to decide whether they can or want to inject additional equity but the company needs urgent financing.

The respondents argue that loan notes, convertibles and warrants help to mitigate down-side risk and offer some protection for the fund should the portfolio company become insolvent or where there is a need to urgently provide additional funding while accurate valuations necessary for an equity investment are being worked out.

Other respondents view investment in the form of equity as providing a stable source of start-up financing as it creates long term commitment to the company. The ability for 30% of the aggregate capital contributions and uncalled committed capital can be used for loan origination creates flexibility for the fund. They argue that loan origination is as an ancillary activity for a venture capital fund and strictly connected to the equity investment that has to remain the prevalent activity in order to avoid misuse and abuse of the EuVECA scheme. In consequence, if loan origination is the main activity of the fund, this fund should be regulated as a loan fund rather than as a EuVECA. Thus, limiting the share of aggregate capital contributions a EuVECA fund may use for debt financing seems prudent.

QUESTION 14

What are the key issues or obstacles when setting up and marketing EuVECA or other types of venture capital funds across Europe?

Among the replies received to this open question, the main key issues or obstacles that have been mentioned by respondents are:

- Discriminatory tax treatment.
- Cross-border distribution barriers, in particular fees paid to host Member States in addition to the fees paid to the home Member State.
- Gold plating measures introduced by some Member States. For example, some Member States require fulfilment of CRR capital adequacy requirements or compliance with domestic regimes.
- Lack of communication regarding the benefits of the EuVECA label.

QUESTION 15

What are the key issues or obstacles when setting up and marketing EuSEF or other types of venture capital funds across Europe?

In addition to the arguments made in response to question 14, one respondent notes the need to crystallise how an investor can expect to make a financial return from an investment in EuSEF, particularly through changes to the definition of a “qualifying portfolio undertaking”.. Evidence from sources such as the Social Impact Investment Taskforce set up by the G8 suggests that more entrepreneurs are seeking to set themselves up as businesses where they “lock in” their social mission, without using a lock on profit or asset distribution. These businesses are not currently covered by EuSEF and their exclusion could limit the effectiveness of this passport.

QUESTION 16

What other measures could be put in place to encourage both fund managers and investors to make greater use of the EuVECA or EuSEF fundraising frameworks?

A number of potential measures have been proposed by respondents. These cover a wide range of activity and are sometimes in contradiction with each other.

The most commonly made suggestions are:

- Apply tax incentives to create investor appetite
- Foster investment in EuVECA/EuVECA by injecting public money in particular via European Investment Bank
- Avoid the requirement for double registration as both AIFM and EuVECA/EuSEF manager
- Prohibit gold plating measures
- Remove cross-border barriers

Other suggestions have been been made by a few respondents:

- EuVECA and EuSEF Regulations should be "decoupled" and not be considered alongside each other. It is argued that there are significant differences between models for social investment and venture capital investment. Most notably, social investment, also known as ‘impact investment’, does not necessarily follow the venture capital model of investing in a range of undertakings over a fixed period with a view to disinvestment at a fixed point. It would be worth considering adapting the EuSEF model to incorporate open ended funds and funds that are not of a fixed lifecycle – this would be more aligned to the structures traditionally adopted by funds investing in social enterprises.

- EuVECA/EuSEFs that reaches the 500 M EUR threshold should not be required to apply the full AIFMD requirements.

- EuSEF/EuVECA funds should be UCITS eligible assets.

- EuVECA should apply to all registered AIFMs whatever their investment strategy is.

- EuVECA should more focus on technology, economic and social innovation.

QUESTION 17

What other barriers exist to the growth of EuVECA and EuSEF? Please specify. Are there other changes that could be made to the EuVECA and EuSEF regulations that would increase their up-take?

Views were the same as set out in question 16..

QUESTION 18

What changes to the regulatory framework that govern EuVECA or EuSEF investments (tax incentives, fiscal treatment of cross-border investments) would make EuVECA or EuSEF investments more attractive?

Most of the respondents reply that:

- Allow EuSEF funds to benefit from the tax incentives available in many Member States for investing into venture capital or early stage companies. These incentives should be at two levels - for investors to invest in EuSEF and for EuSEF to invest in social enterprises. Other helpful incentives for impact investors could be the ability to benefit directly from the same tax and fiscal benefits as mainstream investments or receiving complementary tax treatments (e.g. the Social Investment Tax Relief scheme introduced in the UK).

- Ensure tax neutrality for EuSEF funds. In most Member States, interest expenses are tax-deductible but equity disbursements are not. Re-moving the resulting debt bias in national taxation laws could, therefore, strengthen the demand for equity finance and thus the demand for investments through EuVECA funds. In Belgium, for example, the introduction of an "allowance for equity" resulted in a reduction of leverage in domestic companies (Pricen 2012). A similar measure has been proposed by the "German Council of Economic Experts" for Germany (Sachverständigenrat 2013).

- Exempt EuVECA/EuSEF funds from the Prospectus Directive. These respondents suggest that EuVECA funds should be exempted from the Prospectus Directive requirements where these funds are marketed only to professional and "semi-professional" investors, i.e. those who invest a minimum of €100,000 and understand the nature/risk of the investment, as defined in the EuVECA Regulation.

- Review the calibration of the prudential legislation such as Solvency II, CRD IV / CRR or IORPD in order to facilitate investment in particular by pension funds, insurance companies and other institutional investors

- Simplify the EU framework by creating a unique AIFMD regime which applies to all managers, with several "product labels" grafted to it.

2. Technical workshop on EuVECA and EuSEF, 27 January 2016

On 27 January 2016, the Directorate-General for Financial Stability, Financial Services and Capital Markets Union organised a targeted technical workshop aimed at managers of existing EuVECA and EuSEF, together with practitioners, supervisors and other stakeholders interested in offering these funds. The purpose of the workshop was to analyse the practical challenges posed in offering and running these funds. It also considered what practical challenges exist to successful cross-border marketing.

The Chair opened the workshop by recalling the context of the EuVECA and EuSEF Regulations and explained that the two fund schemes have had a slow take-up up to now; which is why the review of both Regulations is taking place. Moreover, the review is part of the CMU Action Plan with a package of measures to support venture capital and equity financing in the EU, including catalysing private investment using EU resources through pan-European funds-of-funds, and the promotion of best practice on tax incentives.

The Chair gave the floor to the key note speaker Sir Ronald Cohen. Mr Cohen explained that the EU venture capital's ecosystem is weaker than in the US and there is a need to find a way around that challenge. Mr Cohen made an example with Israel, which uses the NASDAQ instead of trying to set-up its own capital market for venture capital (VC) companies. The speaker highlighted that there is still fragmentation in the EU VC regulatory frameworks and the harmonisation will take some time. In the meantime there are three proposals: (i) a single legal structure for companies below € 500 million; (ii) a single passport for fundraising across the EU; and (iii) extend incentives to VC funds, including for their IPOs.

Mr Cohen explained that VC should focus on young companies, no matter what the size and the number of employees is. Also, that there should be a unique structure for social and non-social companies. The main problem for EU investors is the returns, for example the first fund in 1981 invested only in US firms. To be successful, the funds should be able to invest globally and be tax-transparent. Ability to raise money across the EU is also a very important factor.

Workshop 1. EuVECA and the AIFMD. Interactions and the implications of reform

A participant stressed that ESMA interpretation of the Regulation is not sufficient to give legal certainty to larger manager. Moreover, the label only for small managers, may be seen as a "bad label", given it has lower governance and criteria. EuVECA has to become a positive label, thus fully comply with the AIFMD.

Another participant explained that funds investing in social enterprises currently are (i) regulated under the AIFMD, (ii) regulated under EuSEF, or (iii) not regulated at all. The participant explained that EuSEF is good to push small social asset managers into the regulated framework. However, the social investors are not familiar with the asset management framework. Moreover, there are differences in national regulations and in tax treatment for the different investee companies.

Another participant agreed that already authorised AIFM should be allowed to manage EuVECA and EuSEF. For smaller managers that grow beyond the AIFMD threshold, there could be a "test" before the AIFMD authorisation become compulsory, for instance a longer time extension.

A participant explained that the AIFMD threshold is one issue, but also the difference between the AIFMD, being a Directive, and EuVECA and EuSEF being Regulations is an issue.

Several participants confirmed that the possibility to market to some retail investors (i.e. the retail marketing passport) is an incentive of the two Regulations compared to the AIFMD. Lowering the threshold would be a further incentive to help increase the recognition of the brands. A participant mentioned that the difference between UCITS and AIFs is clear, while now some products which are not complex (e.g. some social funds) are still AIFs. The participant asked for a review of the UCITS, to include EuSEF as eligible assets.

Another participant summarised the three main incentives: (i) access to a broader investor base, including some retailers; (ii) lower administrative costs and regulatory burdens; and, (iii) the value of the brand.

A participant highlighted the main problems which would arise if EuVECA had to comply with the full AIFMD requirements: (i) the minimum own funds, which differe considerably between Member States; (ii) the depositary; (iii) the valuation process; and (iv) the control. Another participant mentioned that a more harmonised and lighter process for registration would be better to avoid goldplating.

There was a general consensus that given the small size of the venture capital market and of the social investment market, they do not pose financial stability issues.

A couple of participants mentioned the example of ELTIF, where the AIFMD rules apply to the mangers, but there are specific rules on the funds.

It was concluded that there is general consensus that AIFMD-authorised mangers should be allowed to set-up and manage EuVECA and EuSEF funds. If the managers grows beyond the AIFMD threshold, the full AIFMD requirements should apply, to avoid regulatory arbitrage.

<u>Workshop 2. Who are the investors? Does the €100,000 minimum work and what are the consumer protection implications of the alternatives</u>

A participant mentioned that in some Member States, notably France, there are unregulated entities with lower minimum investment requirements, but overall the participant judges this a "little price to pay" for the EuSEF label.

Another participant argued that EuVECA take-up would be easier with a lower minimum investment, but the reduction would not be worth if more restrictions are imposed on the managers. For instance the 70% requirement for unlisted SMEs is a bigger constraint.

Another participant mentioned there is growing interest for smaller retail investors in social investments. Some Member States allow some AIF to be marketed also to retail investors with lower minimum requirements. If EuSEF is open to AIFM, there is the need to consider this aspect to avoid regulatory arbitrage.

Another participant suggested that some employee pension scheme should be allowed to invest in EuSEF, and that would considerably increase the take-up.

Another participant presented some results of a survey of the social investment industry where out the 24 mangers, the average fund size is below € 14 million. The minimum investment is not a limitation today, but it may become one day if the sector grows.

Another made the examples of 90/10 social funds in France, which invest ten per cent of their capital in social non-listed organisations. These funds are not UCITS, but they are more than € 500 million invested in France alone. The participant argued that allowing UCITS to invest in these funds would be a stronger incentive than reducing the minimum investment for smaller retailers.

Participants agreed that if the minimum investments have to be reduce, other requirements would need to be put in place. For instance, minimum diversification requirements, like the one in ELTIF. Other participant asked to make it voluntary for the managers who do not want to offer to smaller retails, so that they can avoid the extra rules.

It was concluded that the minimum investment requirement is appropriate, as it is also consistent with the MIFID definition of professional investors. A lower minimum investment would possibly increase the investor base, but the new requirements to ensure adequate investors protection would introduce costs which will be higher than the benefits.

<u>Workshop 3. Eligible assets. Are the current definitions too restrictive. What are the consequences of widening them and possible overlaps with ELTIF?</u>

A participant asked to open EuSEF eligible undertakings, not only having a social objective, but also a social impact. Another participant asked to remove the "exclusivity" requirement to provide financial support to social undertakings. Having a lower requirement (e.g. minimum 70%) would allow more banks to become eligible to EuSEF funds.

Another participant focused on EuVECA, where the limit of 250 employees is too restrictive. The limitation does not allow the fund to follow-on on growing investments once the companies increase above the SME definition. Also, the fund should be able to invest in projects or products, not only in undertakings. The participant mentioned the example of a VC fund in Finland which invested in a computer game, not in the company.

Another participant confirmed that the 70% minimum for eligible assets is not a problem for EuSEF. The SME definition in EuVECA is instead a limit: imagining a funds with an average size of € 40 million, doing 10 investments, the average investment size is € 4 million. This amount could be enough to target companies above the SME definition. However, is difficult to open the definition, as the sectorial (e.g. R&D focused, technology focused etc.) or stage limitations (e.g. pre-profit companies) are also too restrictive not a workable alternative.

Other participants asked for more access to debt investing for EuVECA, i.e. increasing the maximum 30% debt investment. A participant claimed that this could induce more wrappers and saving schemes to invest in EuVECA.

It was concluded that more rules are added, more complexity is added and less attractive is the framework. The EuSEF definition has little restrictions. The EuVECA definition has more issues. In particular the SME definition seems too restrictive.

<u>Workshop 4. Other issues: cross border distribution, notifications, possible incentives</u>

It was asked if EuSEF can be a compartment of an umbrella funds. Also, the leverage, which is allowed only for short term, was mentioned by a participant as a limitations for EuSEF.

Another participant mentioned the different fees imposed by regulators, where some guidelines could be helpful for national competent authorities. The same comment was made in respect to the requirement of own funds to set-up the funds, which varies considerably across the Member States. Also, the distributors face different treatment among different Member States.

Another participant mentioned that in the case of social investments outside the EU, the managers have to make sure that tax regimes - for instance of 5 Africa countries where they want to invest- are compliant with all the EU Member States where they want to market the EuSEF.

A participant underlined that the EIF never required social funds to be EuSEF and venture capital funds to be EuVECA. Another participant mentioned that investor protection is one aspect, however it is more important the investor education.

On allowing third countries manager to manage EuVECA and EuSEF there was consensus that it is too early to open the frameworks to foreign managers.

Finally, tax incentives would be a great incentive, but this would require a pan-European approach.

15. Annex 8 (The SME life cycle and financing need)

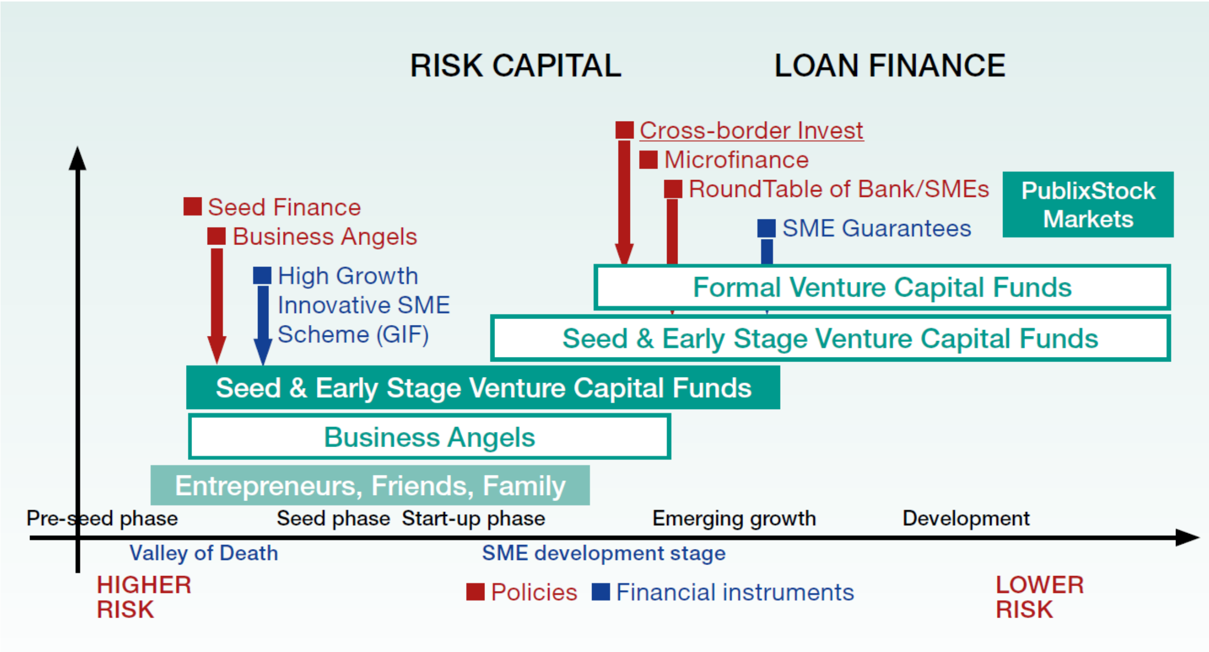
Table 5 - SME finance. intermediation through financial institutions and financial markets as % of GDP (2013, 2014 or 2015)

	Via institutions					Via markets				
% of GDP	Banks	Investment funds	Insurance companies	Pension funds	IC&PF	Listed shares of NFC	Bonds of NFC	Securitisation	Private equity	Venture capital
	(assets)	(assets)	(assets)	(assets)	(assets)	(capitalisation)	(outstanding)	(outstanding)	(investment)	(investment)
BE	254,7	26,5	77,8	5,0	82,8	58,1	9,9	17,0	0,239	0,028
BG	108,6	3,4	:	:	10,5	7,1	3,1	-	0,006	0,006
CZ	120,3	2,7	:	:	18,2	10,4	7,9	-	0,194	0,006
DK	291,3	101,6	108,8	75,1	183,9	82,7	9,6	0,1	0,486	0,026
DE	242,7	53,4	60,0	16,3	76,1	43,8	4,4	2,3	0,247	0,023
EE	108,8	13,9	:	:	15,4	8,6	7,0	-	-	-
IE	519,5	642,4	:	:	174,2	186,4	1,0	18,2	0,274	0,049
EL	199,2	2,3	7,9	0,2	8,1	13,3	0,9	13,6	0,000	0,000
ES	246,0	20,5	:	:	38,0	36,5	2,0	15,6	0,151	0,009
FR	273,6	41,6	97,1	:	0,0	65,2	24,2	3,2	0,395	0,030
HR	129,9	1,6	8,8	18,7	27,5	30,4	4,8	-	-	-
IT	184,6	11,1	:	:	41,1	18,8	8,1	9,4	0,113	0,002
CY	461,9	14,0	:	:	37,7	7,4	5,5	-	-	-
LV	123,3	1,5	4,5	8,3	12,8	3,6	0,7	0,0	-	-
LT	70,2	0,7	2,7	4,6	7,3	9,4	0,0	-	-	-
LU	1865,7	5287,3	300,3	2,5	302,8	110,5	42,0	-	0,057	0,009
HU	97,2	11,8	8,3	4,3	12,6	8,3	2,0	-	0,165	0,031
MT	669,1	82,4	132,5	0,0	132,5	10,9	4,3	-	-	-
NL	307,3	89,0	62,1	154,3	213,9	47,7	11,7	36,8	0,472	0,026
AT	213,1	48,9	32,5	5,8	38,3	18,8	11,6	0,6	0,088	0,019
PL	82,1	12,5	:	:	27,8	17,3	4,8	0,1	0,061	0,005
PT	233,8	8,5	:	:	45,1	22,6	19,8	20,0	0,153	0,029
RO	60,4	5,6	2,4	3,8	6,2	9,3	0,1	-	0,052	0,004
SI	107,5	5,9	:	:	24,0	14,2	2,9	-	-	-
SK	78,1	5,2	8,4	9,7	18,1	2,7	4,3	-	-	-
FI	265,3	38,4	32,2	1,8	34,0	68,2	15,6	0,5	0,348	0,060
SE	256,3	70,0	97,3	24,9	122,1	88,1	20,2	-	0,330	0,066
UK	571,1	:	:	:	214,3	74,4	22,7	14,3	0,424	0,038

Source: EC (2015), European Semester Thematic Fiche. SME's Access to Finance.

The financial needs and the financing options open to SMEs vary depending on the stage in a firm's lifecycle. The types of financing sources that are used on average by SMEs during their life cycle include internal equity finance, represented by owner-manager personal savings, internally generated profits; venture capital; external equity, i.e. business angels; debt financing, e.g. mezzanine; trade credit; bank funding; and securities market or governmental and international funds.

Chart 6 - SME life cycle

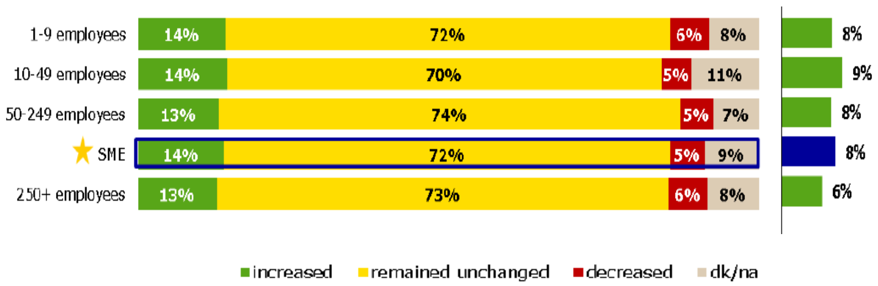


Source: http://ec.europa.eu/research/innovation-union/pdf/competitiveness-report/2011/data-and-statistics/analysis/part-iii/analysis_-_figure_iii.2.3.pdf, access on 10-02-2016.

At the initial stages, promoters of SMEs often rely on their own resources, loans or equity provided by family and friends. Loans from banks and other financial institutions can be tapped into.

At the second phase of survival during the start-up stage, external sources of funding become necessary. At this stage, the investment in SMEs is still regarded as high risk and the business is not large enough to attract the attention of venture capitalists. Wealthy individuals like business angels can step in.

Chart 7 - Changes in the need for equity capital (April to September 2015) for SMEs in the EU.



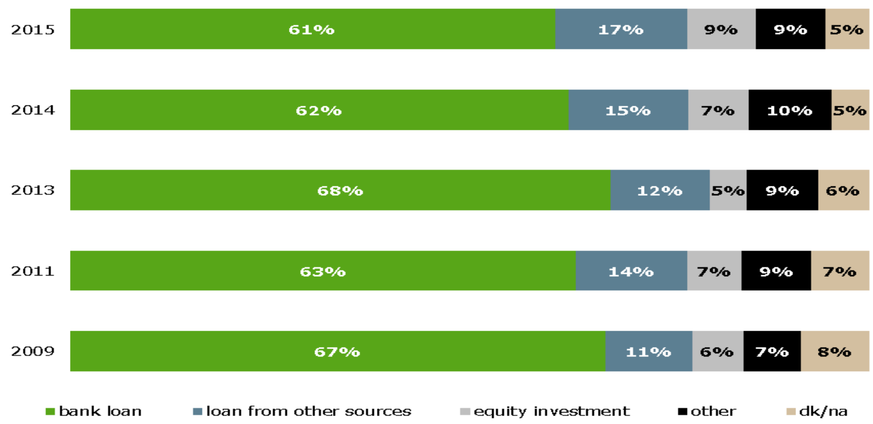
Source: DG GROW, Survey on the access to finance of enterprises (SAFE), 2015.

At the later stage, venture capitalists play a role in alleviating financing obstacles. Venture capitalists scrutinize such firms intensively before providing capital and then monitor them closely afterwards. At this stage the SME does not qualify for debt financing due to its reliance on intangible assets, inability for investors to assess its future growth prospects, low profitability and short track record.

15.1.1. *Structural issues behind the lack of equity financing*

The primary reason for SMEs lack of access to finance, and in particular its lack of equity capital, is the lack of information pertaining to innovative start-up SMEs as an asset class. Therefore, in addition to the tightening of credit standards in general, another problem is the discrepancy between borrowing costs of SMEs *vis-à-vis* those of large enterprises which has recently widened significantly.[65] As knowledge about these companies, their strategies and their prospects is more difficult to research, potential investors face higher transaction costs when investing in SMEs as compared to more mature assets. Transaction costs are indeed mostly due to difficulties in gathering reliable information on the business prospects of a particular SME and the absence of financial intermediaries that can perform a valuable screening function. This leads to a wide spread risk aversion among potential venture capital investors.

Chart 8 - Types of external financing preferred to realise growth ambitions for SMEs in the EU-28, for the period 2009-2015.



Source: DG GROWTH, Survey on the access to finance of enterprises (SAFE), 2015.

The existence of a general financing gap creates an environment in which innovative undertakings are also prone to having a less than optimal financing structure. This, in turn, will make it difficult for undertakings to create and capture the value of their new and/or innovative idea. A theory put forward in late 1980s'[66] predicted that firms with highly specific assets and low amounts of equity relative to debt will suffer from poor performance. A more recent study builds on this concept[67] and empirically confirms its thesis. The study provides evidence which shows a correlation between firms' lack of equity capital and its poor, sub-optimal performance or even failure. Concretely, it finds that as the misalignment between a start-up firm's capital structure and its asset specificity increases, the firm is more likely to exit/fail to capture its idea or to experience lower profitability.

To remedy this information and equity gap, venture capital operators can act as intermediaries between the supply and demand of capital resources and, through specialisation, facilitate the

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[65] Orçun Kaya (2014), SME financing in the euro area. New solutions to an old problem, Deutsche Bank Research.

[66] Williamson, Oliver E. (1988) "Corporate Finance and Corporate Governance," Journal of Finance 43(3): 567-591. Williamson argues that firms engaged in projects requiring highly specific assets are more likely to be financed with equity. He suggests that a firm's financial structure is akin to a governance structure and predicts that a firm's equity ratio will be positively correlated with asset specificity.

[67] A. Robb and R. Seamans, 2011. Entrepreneurial Finance and Performance: A Transaction Cost Economics

flow of appropriate capital to SMEs.[68] Indeed, the classical 'venture capitalist' business model aims to decrease the information gap between investors and entrepreneurs and/or SMEs and can play a crucial role in reducing the equity financing gap that currently plagues young, innovative and high-growth start-up firms.[69]

[68] See also EVCA Survey (2002) on the function and value of VC investments in early stage and expansion stage companies, where some 95% of the companies replying to the survey stated that, without venture capital investment, they could not have existed or would have developed more slowly and where almost 60% of respondents said that the company would not exist today without the contribution of venture capital.

[69] Chan, Y.S., 1983., On the Positive Role of Financial Intermediation in Allocation of Venture Capital in a Market with Imperfect Information. Journal of Finance 38, 5, 1543-1568

16. Annex 9 (Key characteristics of venture capital and social venture market)

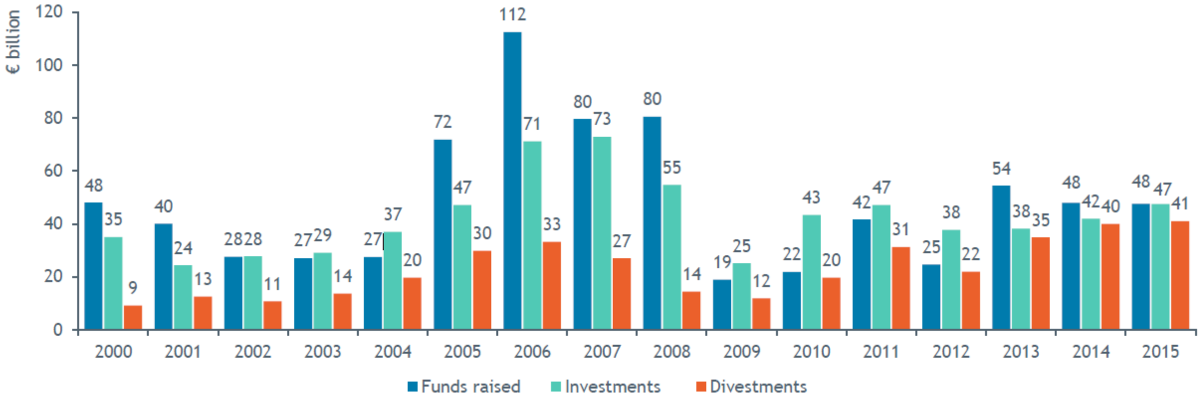
Venture capital funds remain a niche player in the fund industry largely on account of their focus on SMEs at the very riskiest stage of their development. Due to their focus on small and innovative SMEs, it is often challenging for venture capital funds to create returns that would mobilise average investors' interest.

Table 9 – Venture Capital – Fundraising geographic breakdown

Countries	% of total amount (2014)	% of total amount (2013)
European Countries		
France, Belgium, Luxembourg, Netherlands	46.1%	43.6%
United Kingdom, Ireland	10.2%	19.5%
Sweden, Finland, Norway	8.4%	7.9%
Germany, Switzerland, Austria	8.4%	9.6%
Spain, Portugal	6.8%	3.5%
East European Countries	0.9%	1%
Non-European Countries		
North America	12.6%	11.8%
Austria, Asia	0.2%	2.4%
Rest of world	0.3%	0.1%

Source: EVCA, 2014 European Private Equity Activity

Chart 10 - All Private equity fundraising, investments and divestments (2000-2015)



Source: Invest Europe

Venture capital funds invest in order to provide equity start-up capital for a new but uncertain technology or business idea. A typical private equity fund, on the other hand, is much more diversified and consists in investments in more established and commercially successful companies. Private equity focuses on companies in a later stage of their development, in restructuring and in buyouts of established suppliers. A private equity investment thus entails a lower risk than an investment in venture capital. The steep rise and success of certain private equity fund strategies, such as leveraged buy-outs, during last decade did not help to boost the attractiveness of venture capital funds' attractiveness (see Private equity and venture capital fundraising and investments (2003-2010)). In addition, European venture capital funds consistently generate lower returns than European or US buy-out funds (see Performance of venture capital vs. private equity).

Table 11 – Performance of venture capital vs. private equity

INVESTMENT HORIZON RETURNS FOR PERIOD ENDING 31ST DECEMBER 2010						
		1 YR	3 YR	5 YR	10 YR	20 YR
ALL VENTURE	EUROPE	17.36	-4.26	-1.57	-3.78	0.29
	USA*	17.94	0.62	1.16	-6.59	21.08
ALL BUYOUTS	EUROPE	20.87	-4.48	6.02	8.39	11.91
	USA*	26.26	1.16	2.35	-0.25	7.49
ALL PE	EUROPE	20.66	-4.34	4.33	4.59	9.32
	USA*	23.83	1.82	2.67	-1.68	10.63

* Data for US is up to 30th Sept 2010

Source: Thomson Reuters

As a result, the past decade has seen less investment flow towards European venture capital funds. In consequence, venture capital fund managers are experiencing difficulties in attracting investors' interest in new venture capital funds. While this trend will have certainly produced negative effects on already underperforming venture capital funds, it also represents a serious challenge to the prospects of newly launched venture capital funds. Furthermore, existing venture capital funds, on account of the lower returns associated with venture capital, may be tempted to shift their investment focus toward investments in more developed undertakings at a much later stage in their business cycles.

Venture capital funds remain a niche player in the fund industry largely on account of their focus on SMEs at the very riskiest stage of their development.

In 2015 the total fundraising reached €47.6bn, nearly matching the level of 2014. The number of funds raised (274) reduced by 15% compared to 2014, but is still above the level of 2012 and 2013. European private equity and venture capital raised in the past three years (2013-2015) was 70% more than in the years 2010-2012.

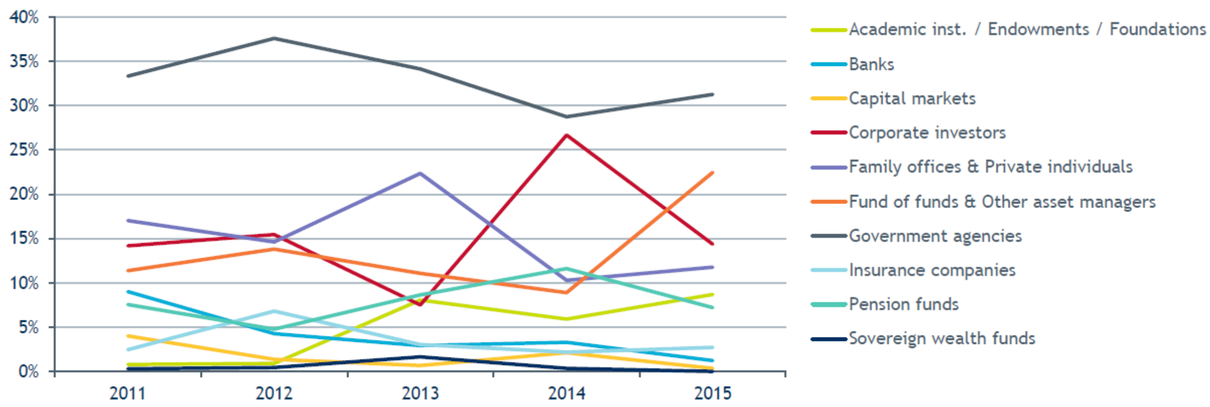
Table 12 – 2015 Investments – Market statistics – Amount and number of funds

2015	All Private Equity	Venture Capital(1)	Buyout(1)	Growth(1)
Incremental - Amounts raised	€47.6bn	€5.3bn	€33.6bn	€2.9bn
Incremental - No. of funds	274	98	90	38
Final closings - Cumulative amount since inception	€50.4bn	€4.3bn	€40.5bn	€1.0bn
Final closings - No. of funds	129	40	50	13

Source: Invest Europe / PEREP_Analytics
Note: (1) relates to fund focus

Institutional investors, led by governement agencies (30%) represent the vast majority of the funds raising in 201. Private indivudals and family office represent less than 15%.

Chart 13 – Funds raised by types of investors 2007-2014



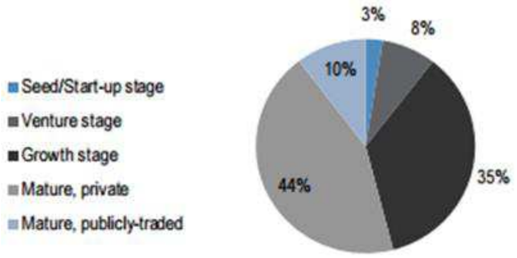
Source Invest Europe

Social venture funds

The number of social investment funds is increasing. Some of these funds are independent while others are affiliated with large banks or development institutions. Funds might focus on certain sectors, geographies or investment stages. They typically target market returns, investing through a mix of grants, subsidized loans and equity investments.[70]

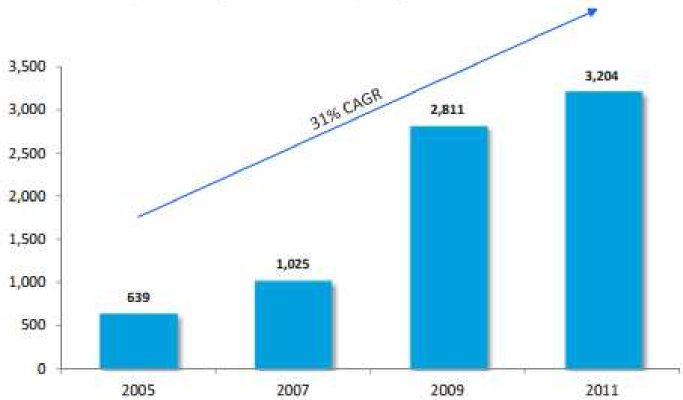
Chart 14 - Total assets under management by stage of business

[70] OECD (2015), "Social Impact Investment. Building the Evidence Base. ", World Economic Forum (2013), "From the Margins to the Mainstream: Assessment of the Impact Investment Sector and Opportunities to Engage Mainstream Investors".



Source: Saltuk, Y., A. Idrissi, A. Bouri, A. Mudaliar, and H. Schiff (2014), "Spotlight on the Market: The Impact Investor Survey", Global Social Finance, J.P. Morgan

Chart 15 - Growth of European managed funds incorporating environmental, social and governance factors (€ billion)



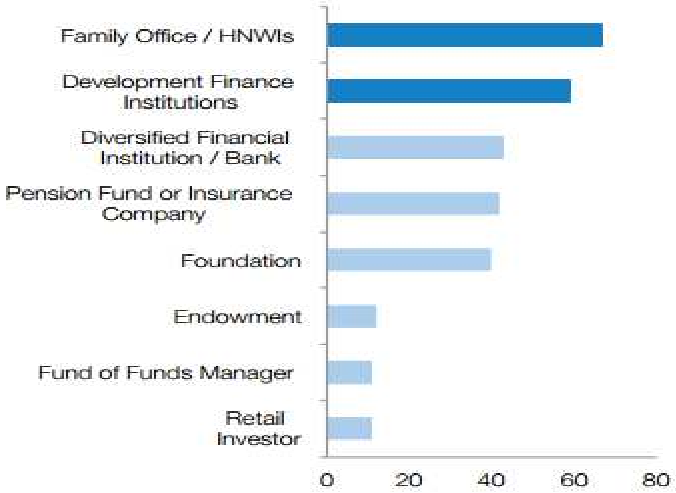
Source: World Economic Forum (2014), "Charting the Course: How Mainstream Investors can Design Visionary and Practical Impact Investing Strategies", GACR = compound annual growth rate.

Social venture funds also act as key intermediaries - they minimise the information asymmetry. The problem of social businesses is that it does not speak the language of traditional investors. Investors are increasingly seeking to achieve positive social or environmental or other goals with their investments. As the Global Impact Investing Network (GIIN) puts it, social investments "aim to solve social or environmental challenges while generating financial profit". The focus on 'social returns' by some investors makes the funds a natural target for these investors.

Investments in social business aim to generate positive social or environmental consequences. These externalities can be characterised in a variety of ways – environmental, social, or ethical impacts, such as reduced use of pollutants, jobs for excluded sections of society.[71] While all business activity produces a range of impacts on society, social businesses specifically target positive social or environmental outcomes. These 'social businesses' offer a focal point for investors seeking social returns.

Chart 16 – Source of Funds for Impact Investment Fund Managers

[71] For more externalities and their importance in relation to conceptualising social entrepreneurship, see http://www.socialenterpriseportal.org/files/Library/Social-Entrepreneurship-Felipe-Santos.pdf, p.17-20.



Source: World Economic Forum (2013), “From the Margins to the Mainstream: Assessment of the Impact Investment Sector and Opportunities to Engage Mainstream Investors”.

While investors in social businesses are seeking social returns, this is not to the exclusion of financial returns. For instance, while social businesses will typically not offer dividends to investors, but will re-invest any financial surpluses in the business, this does not mean that there will be no financial return for investors over and above the return of capital. Social impact investors invest in various stages of the social enterprise life cycle. Investors in social businesses are happy to make a 'trade-off' between expected financial returns and 'social returns' (which can be characterised as taking on more risk for the same returns or lower returns for the same risk).

By way of comparison, VC assets under management were around €50 billion and private equity (PE) assets under management were around €500 billion at the end of 2010 (social ventrue funds are mostly a subset of these figures). Even the most aggressive assessment of the size of the social investment market puts it at less than 10% of the size of the ventrure capital market, and less than 1% of the size of the PE market; a more realistic assessment would be around 2% and 0.2% respectively.

It is also important to note that social venture funds have a more targeted focus on investing in a select group of social enterprises which makes them different from the more general set of funds that claim to be supporting 'socially responsible investment' (SRI). Average sizes of social venture funds are small. The largest funds are clustered in either France or the United Kingdom. For example, BridgesVentures (€115 million) is located in the UK, Alter Equity, Citizen Capital, NEF Capital éthique (€30-50 million) are all located in France, and BAC Partenaires, Catalyst, and the Social Enterprise Investment Fund (€15-25 million) are located in France (BAC) or the UK. The only substantial social investment fund domiciled outside these two countries that Commission research indicates as exceeding the €25 million threshold is Karmijn Capital in the Netherlands (€50 million). It appears that the largest Italian venture capital fund is Oltre Capital with only €10 million in assets under management while all the examples for Germany (BonVenture, Social Venture Fund) do not exceed €10 million. Member States with a smaller investor base generally have no social investment funds of any notable size domiciled in their territories (there are exceptions, such as a fund operating in Hungary).

The following table shows some of the most important EU social venture funds and the range of their investment activities:

Table 16 – some of the most important EU Social venture funds

Fund Manager	Country	Investment Strategy	Instruments	(Target) size
Alter Equity	France	* Focus on early stage companies engaged in a sustainable development (environmental or social purpose)	Equity	EUR 50m
BAC Partenaires	France	* Achieve financial returns for its investors, in addition to serving a social purpose * Fostering employment and supporting role models in the most deprived urban areas of France	Equity	EUR 15m
BonVenture	Germany	* Investment in social and ecological projects aiming at reaching long-term sustainability * Early-stage focus.	Equity	EUR 10m
Bridges Ventures	UK	* Growth capital fund focused on UK SMEs * Target companies generating positive social and environmental impacts * Underserved areas, energy and envrionment, education, health.	Equity, quasi-equity	GBP 100m
Catalyst	UK	* Geographical focus on the UK * Invest in businesses generating revenues and already profitable	Equity	GBP 20m
Citizen Capital	France	* Achieve a social purpose as well as earn financial returns * Invest in companies located in underinvested communities or with a clear sustainable development purpose	Equity	EUR 30m
Financités (Planet Finance)	France	* An entity of Planet Finance, European leader in micro-finance * Micro-equity operations in French regions * Invest in companies located in underserved areas	Micro-equity, quasi-equity	EUR 3m
Karmijn Capital	Netherlands	* Invest in gender diverse Dutch companies led by women or with women accounting for more than 30% of the decision making positions	Equity	EUR 50m
NEF Capital Éthique	France	* Focus on SMEs engaged in energy efficiency, environmental technologies, ethical consumerism (bio products and fair trade) * Aim to participate in financing rounds in early to expansion stage companies	Equity	EUR 50m
NESsT Venture	Hungary	* Philanthropic investment fund providing financial and capacity-building support to social enterprises in Central Europe and Latin America * Companies generate revenues to help diversify the financing base and further the mission of the parent non-profit organization	Quasi-equity, Loans, Grants	n.a.
Oltre Capital	Italy	* Invest in and develop companies that produce/supply goods or services designated to satisfy the ongoing needs in the field of service and social relations * Companies will have a social purpose	Equity	EUR 10m
Social Enterprise Investment Fund	UK	* Provide loans, grants and professional support to social enterprises involved in the delivery of health and social care services	Loans, Grants	GBP 25m
Social Venture Fund	Germany	* Invest in social businesses, which have innovative and entrepreneurial driven solutions for urgent social and environmental challenges * Aim to maximise the social return on investment, thus realising a high societal value	Equity, Loans	EUR 10m

Source: EIF

The investor base is currently largely professional rather than retail, though retail funds that in part target social businesses are sold, for instance, in the French, Luxembourg, Dutch and Belgian markets. The French retail market is large; while the funds are not limited to targeting social businesses, in practice *fond solidaire* often act as conduits for social businesses.

Stakeholders and consultation respondents suggest that existing inflows are mostly derived from high net worth individuals (HNWI), who traditionally have been a mainstay of the philanthropic sector. The social business' need for 'patient capital' sits at the core of its demand on capital markets, yet such capital exhibits low degrees of liquidity and long time periods before returns are likely.

17. ANNEX 10 (Venture capital business model)

The term "venture capital" does not always have the same meaning. Differences are observed in the main venture capital markets: the US and EU.72 The US has a more distinctive approach to venture capital funds as comprising nearly exclusively investments in seed, start-up and expansion stage of a company. US understanding of venture capital does not include any form of buy-out activity, this is a preserve of private equity investment strategies. This has just been confirmed by the US Securities and Exchange Commission adopting rules that define venture capital.73 In Europe, due to its development, venture capital is understood as more of a subset of private equity and as a concept it includes commitments to unquoted companies, with financing focus on their early stages of development. However, other forms of investments and other stages of companies are not excluded.74 It is thus not an exception to find a European venture capital fund investing portion of funds' capital in buy-out transactions75.

The remainder of this chapter though tries to identify the key aspects and characteristics of the funding activities that, in the EU, are generally grouped under the heading of venture capital and how these activities differ from other types of financing, mainly those of private equity – especially buy-outs.

A venture capital fund's engagement follows several financing rounds. Each financing round is conditional upon the target or "portfolio" company achieving certain milestones. Usually these financing rounds correspond to the evolution of the portfolio company:

- the very first round of financing is supplied to a company that aims to prove the value of a new idea (also known as seed financing);
- the next round of financing is linked to marketing and product development (usually referred to as start-up financing);
- a subsequent round of financing aims to provide working capital is to companies who start selling product but are not yet turning a profit.

Up until this stage of financing, the capital provided to companies in these early stages is usually equity capital. Venture capital funds are also active providers of mezzanine financing, which is used predominantly in the expansion stage of SMEs but also in start-ups and is a helpful financing structure for innovation. Mezzanine finance is a collective term for hybrid forms of finance: it has features of both debt and equity. There are various types of mezzanine finance, each having its own unique characteristics. On the positive side, choosing the appropriate form of mezzanine financing SMEs can retain control over the company without surrendering ownership rights and the cost of it for SMEs compared to pure equity is usually

[72] M. Bender, Spatial Proximity in Venture Capital Financing, 2010, chapter 2.1.1.

[73] See Annex VII: The US Securities and Exchange Commission adopted in July 2011 final rules that implement the Dodd-Frank act, among others on definition of venture capital fund; http://www.sec.gov/rules/final/2011/ia-3222fr.pdf

[74] A. Rigaut: The development of venture Capital fundraising in Europe; 2001; page 10 http://aloys.rigaut.free.fr/pdf/Thesis_Coleurop.PDF or G. Baygan and M. Freudenberg, DSTI/DOC(2000)70: The Internationalisation of Venture Capital Activity in OECD Countries: Implications for Measurement and Policy, page 11 http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=DSTI/DOC%282000%297&docLanguage=En

[75] See Annex VIII: Examples of selected venture capital firms and their strategic focus

lower. The most common form of mezzanine finance76 is the subordinated loan, which is an unsecured loan with a lower ranking in case of bankruptcy compared to senior debt. Participating loans are normal loans, but rather than there being a fixed return, their remuneration is contingent upon the results of the business. Silent participation is closer to a stockholding than a subordinated or participating loan. There are also equity related mezzanine finance instruments. These instruments present a greater risk profile to the lender and, in turn offer a higher rate of return. Mezzanine products with profit participation rights are more related to equity and under company law the holder is entitled to rights over the company's profits. A further equity mezzanine financing instrument is the convertible bond. In addition to the usual right to fixed interest payments and repayment of principal, holders of convertible bonds or bonds with warrants have the right to acquire shares in the company instead of accepting repayment of the bond. Another equity mezzanine financing instrument is the bond with warrants, which in principal is similar to the convertible bond. The main difference is that the warrants (subscription rights) are separate from the bond and thus can be traded independently. Finally, venture capital funds can also provide bridge financing. It is a short term loan that usually facilitates portfolio company transition to an IPO or another stage of financing. A bridge loan can also be is assorted with an option to convert the loan into equity.

The business objective of venture capital fund as an investor is to steer its portfolio companies towards a profitable sale and thereby realise a profit that should considerably exceed the investments made to the company throughout fund's time of engagement in it. There are number of possible exit routes, including, for example, a sale to management, repayment of principal. The two most common exits are the portfolio company's listing on a stock exchange (the so called initial public offering – IPO) or the sale of the portfolio company to a strategic buyer - either a private equity firm or a corporation (the so called trade sale).

Venture capital, being a very risky type of asset class, is a preserve of institutional and qualified investors. According to the latest industry data, the share of such these investors (e.g., banks, capital market experts, endowments and foundations, government agencies, corporations, fund of funds, insurance companies, asset managers, pension funds or sovereign wealth funds) in European venture capital comprises nearly 50% of assets collected by venture capital funds. The investments by private individuals and family offices account for roughly 15% of assets managed by European venture capital funds. This percentage is double the percentage that private investors contribute to financing of private equity.[77] Most Member States allow for certain private individuals (e.g. high net worth individuals) to invest in venture capital, as long as certain conditions are met. These conditions may involve a minimum investment limit or some form of appropriateness test to ensure that such investors are aware of and accept the inherent risks associated with investments in venture capital operations.

Data shows that venture capital funds make limited use of leverage. Leverage can occur at two levels, at the level of the fund and the portfolio company. (i) At fund level, neither venture capital nor private equity funds use extensively leverage or in other terms borrow,

[76] See Annex IX: Overview of different forms of SMEs mezzanine financing from Roundtable between bankers and SMEs, Mezzanine finance, http://ec.europa.eu/enterprise/newsroom/cf/_getdocument.cfm?doc_id=1065

[77] The remaining 30% is unknown – data assembled by the industry EVCA.

unless for a very short period of time, and for practical purposes – usually to cover their liquidity needs between committed capital from investors that has been called but takes usually couple of weeks before the fund receives it on its accounts. (i) At portfolio company level, debt can be used for different purposes. Usually venture capital equity investment in early stages of company's life is not accompanied by debt financing from other sources as no other viable financing alternative exists at that stage. However, European venture capital funds do engage in buy-out transactions where the venture fund provides only a part of the total acquisition with the remainder being matched by borrowing from a bank whereby the assets of the portfolio company serve as the collateral to the lender. Lastly, unrelated to the venture capital investment activity, portfolio companies borrow money in the ordinary course of their business.

Based on these key characteristics of venture capital funds, multitude of fund types emerge. Some venture capital funds may be focused on investing in new ideas – in new and early stages of companies, some may prefer to invest in already more established firms that need support in order to expand or become publically traded firms. Other funds may on the other hand focus solely in certain industries and as such their financing would cut across all the stages of portfolio companies' life-cycle before their successful exit is realised. Additional dimension is funds' geographical focus, some are local/regional others national or operating world-wide. The situation in Europe is now characterised by the move from locally focused ventures towards more sector specific venture capital firms looking out for opportunities globally.

How do we define Venture Capital?

Invest Europe statistics define whether a GP (fund manager) is a venture capitalist on a firm or a fund level, and not by specific reference to the size of the portfolio companies it is investing in.

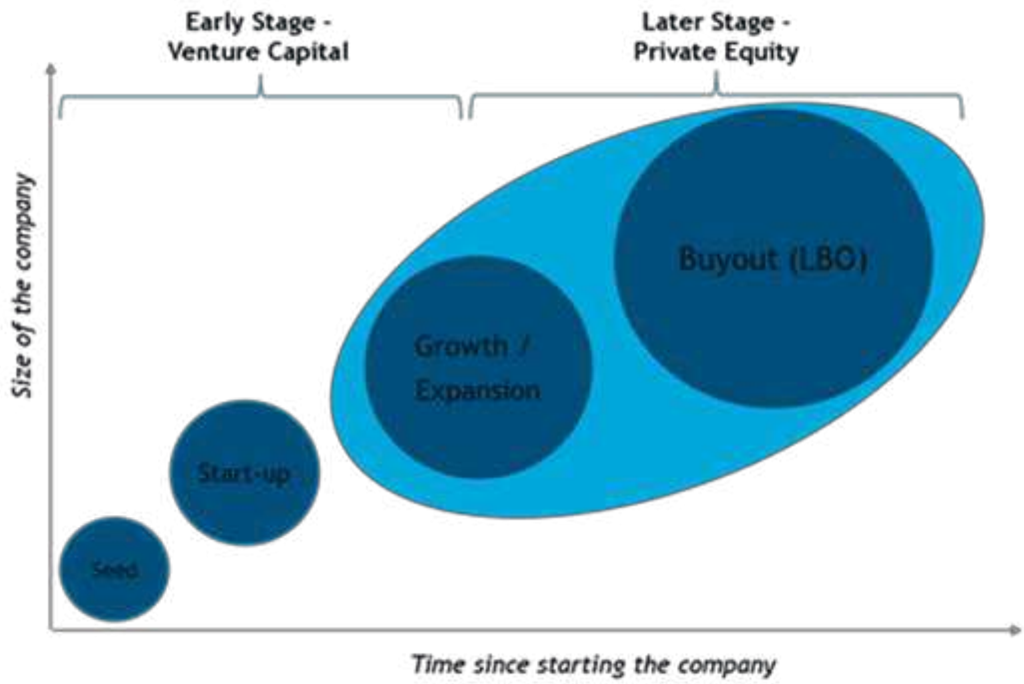
The definitions used in the statistics below (and also in the Invest Europe Yearbook) are:

- Early-stage funds: Venture capital funds focused on investing in companies in their primary development stage.

- Later-stage funds: Venture capital funds focused on investing in later-stage companies in need of expansion capital.

- Balanced funds: Venture capital funds focused on both early-stage and development, with no particular concentration on either.

Figure 17



Private equity and venture capital fund *managers* (or 'firms' as they are called in our statistics) will very often have multiple *funds* pursuing multiple investment strategies. A firm that declares itself as being a venture capital firm may also manage funds pursuing more of a growth strategy; on the other hand, a buyout firm may also manage funds pursuing a venture capital strategy.
Table 2 below shows that it is not only venture capital *firms* that raise venture capital *funds*. Buyout and generalist firms can and do raise funds with a venture capital investment strategy. In fact, a quarter of the funds with a venture stage focus are managed by generalist fund managers. In terms of amount, this represents a fifth of the total capital raised by venture capital funds.

Table 18: Incremental funds raised (2011-Q3 2015 preliminary), by number of funds and by amount

Firm type	Buyout		Generalist		Venture		Total	
Fund stage focus	EUR million	Number of funds	EUR million	Number of funds	EUR million	Number of funds	EUR million	Number of funds
Early Stage Fund	9	1	661	38	8,609	194	9,279	233
Later Stage Venture Fund			247	13	2,474	29	2,720	42
Balanced Fund	399	5	3,154	60	4,889	93	8,442	158
Total VC	**409**	**6**	**4,062**	**111**	**15,971**	**316**	**20,442**	**433**
Growth Fund	7,525	47	2,521	32	482	18	10,527	97
Buyout Fund	132,094	245	14,531	49	50	1	146,675	295
Mezzanine Fund	9,867	22	2,305	14	11	1	12,182	37
Generalist Fund	881	13	6,911	152	441	11	8,234	176
Grand Total	**150,776**	**332**	**30,329**	**355**	**16,956**	**346**	**198,061**	**1,033**

Source: Invest Europe/PEREP_Analytics

Note: This covers all Europe, including Norway and Switzerland.

18. Annex 11 (Invest Europe statistics)

Note: Unless stated otherwise, all data below are from Invest Europe/PEREP_Analytics.

1. What is the size of the venture capital industry (in terms of Assets under Management, AuM) in the EU?

Table 18 shows the size and spread of the EU venture capital industry by region, both in terms of number of headquarters and assets under management.

Almost 75% of the venture capital industry in the EU, in terms of assets under management, is based in Western Europe, with an almost even split between the three main regions: Germany and Austria; France and Benelux; and the UK and Ireland. The Nordics (Denmark, Finland and Sweden) are also well represented.

While Southern Europe and the CEE region are also home to many venture capital firms, these usually have smaller amounts of assets under management.

Table 18: Overview of the venture capital industry across EU regions, by number of headquarters (HQ) and assets under management

Distribution of HQs of venture capital firms by region	Number of Headquarters	% of total EU	Assets under Management (EUR million as of 31.12.2014)	% of AuM
CEE	54	7%	1,436	3%
Germany and Austria	154	20%	10,173	21%
France &Benelux	164	22%	12,364	25%
Nordics	116	15%	7,128	14%
Southern Europe	108	14%	4,565	9%
UK&Ireland	156	21%	13,520	27%

2. What is the evolution of the venture capital market in Europe over the last 10 years?

Graph 19 shows the amount of venture capital investments in European companies from the beginning of the crisis in 2007 to Q3 2015 (preliminary only).

In this context, venture capital investments (at the level of the portfolio company) are defined as:

- Seed: Financing provided to research, assess and develop an initial concept before a business has reached the start-up phase.

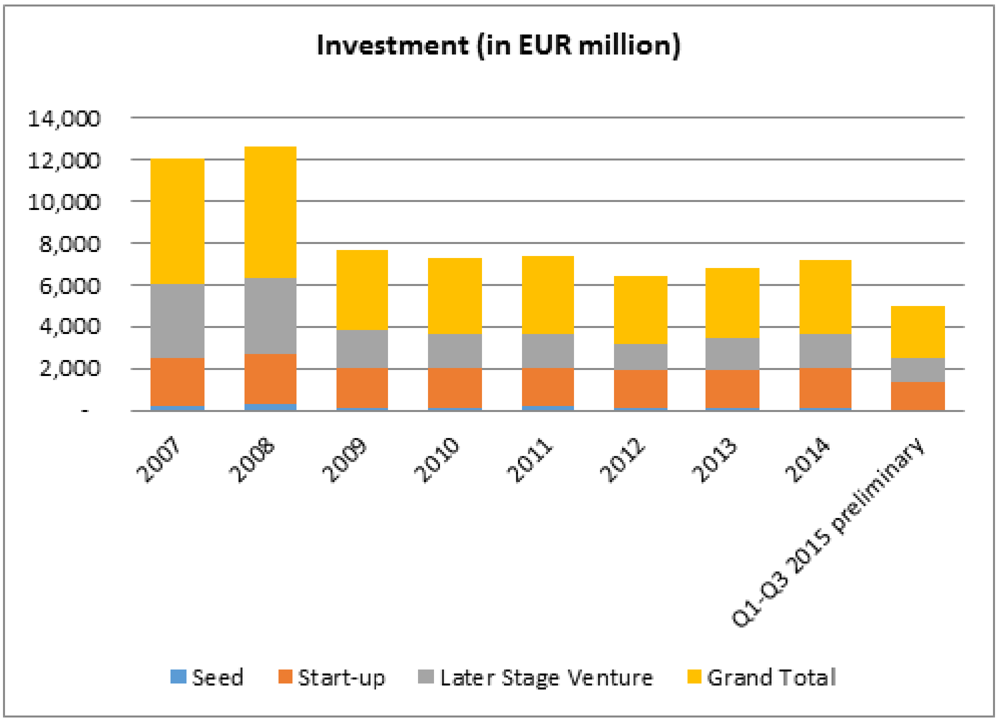
- Start-up: Financing for product development and initial marketing. Companies have not sold their product commercially and are in the process of being set up.

- Later-stage venture: Financing for the expansion of an operating company. Later-stage venture tends to finance companies already backed by venture capital firms.

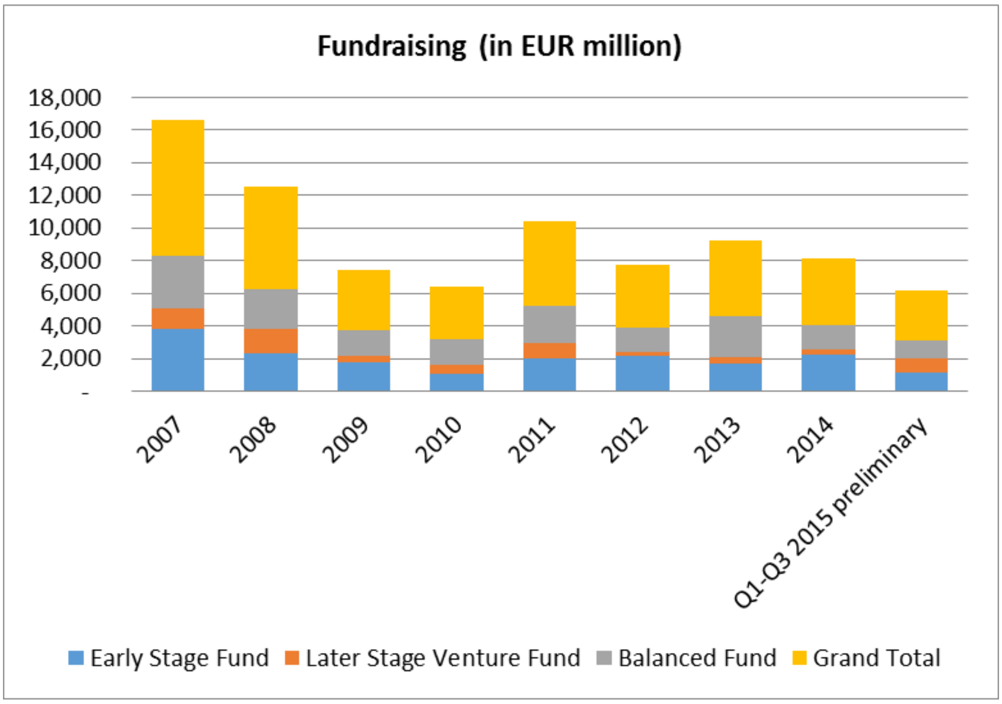
Although it is to be expected that most venture investments into portfolio companies are conducted by funds with a venture capital focus, funds with a broader strategy such as growth or generalist funds also make venture capital investments from time to time.

The amount of venture capital invested into companies has been relatively stable over the last couple of years while fundraising has differed from year to year (Graph 20), a not so surprising trend for a long-term industry where fundraising and investment cycles follow each other.

Graph 19: Venture capital investments in European companies (all Europe) - EUR million



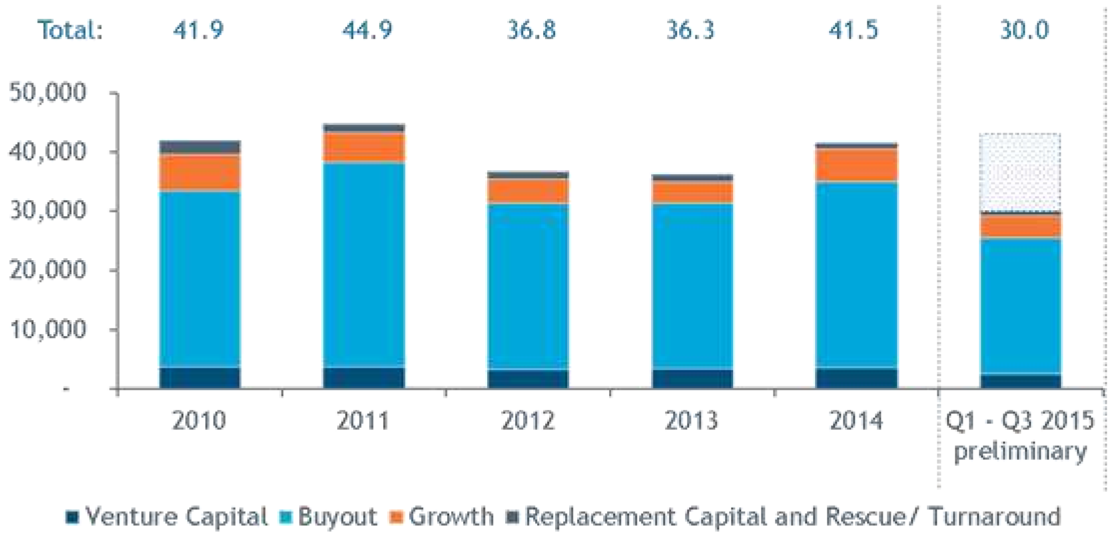
Graph 20: Venture capital fundraising (all Europe) - EUR million



Source: Invest Europe/PEREP_Analytics

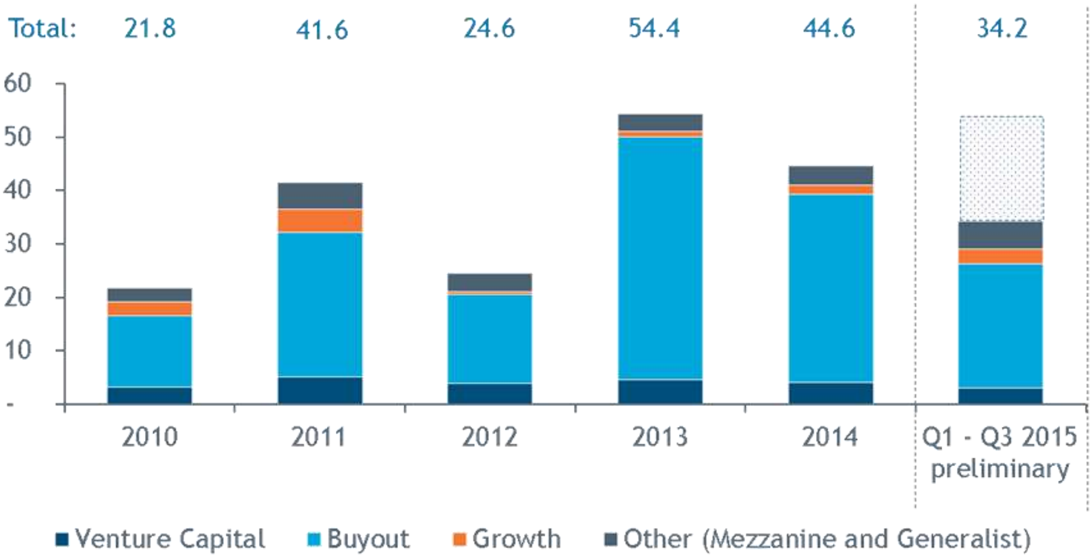
By comparison:

Graph 21: All types of private equity and venture capital investments in Europe (EUR billion)



Source: Invest Europe/PEREP_Analytics

Graph 22: All types of private equity and venture capital fundraising in Europe (EUR billion)



Source: Invest Europe/PEREP_Analytics

3. What is the number and size of managers in terms of AuM?

Table 23: Private equity and venture capital firms by location and number of headquarters, and assets under management

PE/VC firms	Number of Headquarters			Assets under Management (EUR million as of 31.12.2014)		
HQ Location	**Buyout**	**Generalist**	**Venture**	**Buyout**	**Generalist**	**Venture**
Austria	19	12	17	1,151	639	470
Belgium	20	18	28	3,753	3,646	1,563
Bulgaria			2			45
Croatia	1	3	1	34	249	21
Czech Republic	3	2	2	119	196	28
Denmark	16	5	22	4,580	1,331	2,732
Estonia	3	5	4	67	213	89
Finland	14	12	27	2,117	2,392	1,343
France	89	119	**72**	43,630	39,619	**7,771**
Germany	75	47	**137**	17,677	6,002	**9,703**
Greece	2	3	7	329	131	171
Hungary	3	8	11	80	405	348
Ireland	4	8	18	457	558	1,075
Italy	50	25	16	9,728	3,833	994
Latvia	1	2	2	48	18	18
Lithuania	2		3	73		40
Luxembourg	7	7	4	2,175	503	706
Netherlands	45	33	60	11,565	4,166	2,324
Poland	14	4	21	3,416	282	617
Portugal	2	14	9	119	4,230	313
Romania	1	1	1	-	179	11
Slovakia	2		3	86		88
Slovenia	1	2	4	-	26	131
Spain	31	30	**76**	7,173	4,035	**3,086**
Sweden	38	29	**67**	42,776	2,075	**3,053**
United Kingdom	198	63	**138**	223,547	24,123	**12,444**
Grand Total	**641**	**452**	**752**	**374,704**	**98,852**	**49,186**

Source: Invest Europe/PEREP_Analytics

Note: This excludes HQs outside the EU.

Table 23 shows the breakdown of private equity and venture capital firms by number of headquarters and AuM.

As a reminder, a generalist fund is a fund with either a stated focus of investing in all stages of venture capital and private equity, or with a broad area of investment activity.

A buyout fund is a fund whose strategy is predominantly to acquire controlling stakes in established companies.

The United Kingdom, Germany and France are the "largest" venture capital countries, in terms of both assets under management and number of headquartered firms, followed by Spain and Sweden.

Many CEE countries have practically no venture capital fund managers based within their borders.

4. How many funds that are actually managed by authorised AIFMs can have the EuVECA label as it is in the actual definition?

Table 24 shows the kinds of companies (by size) that above-AIFMD threshold fund managers invested in during the period 2011 - Q3 2015 (preliminary). 51% of the companies that received investment from above-threshold managers were SMEs (based solely on the employee criterion).

Table 24: Percentage of investments by EU above-AIFMD threshold fund managers, by equity amount and number of companies, broken down by portfolio company size

Assets under management / Number of employees in portfolio company at initial investment of the PE firm	Number of PE/VC Firms	Number funds	Total amount invested (Equity, EUR million)	Number of companies that received investments
500+ EUR million	**156**	**529**	**97,712**	**2,267**
0-19	6%	8%	1%	7%
20-99	14%	18%	3%	21%
100-199	15%	16%	7%	16%
200-249	9%	8%	4%	7%
250-499	17%	16%	13%	15%
500-999	16%	13%	20%	13%
1,000-4,999	16%	15%	36%	17%
5,000+	7%	6%	16%	4%
"SME" subtotal	**45%**	**50%**	**15%**	**51%**
"Non-SME" subtotal	**55%**	**50%**	**85%**	**49%**

Source: Invest Europe/PEREP_Analytics

5. Venture capital (cross-border) investor base: Where are the investors into European venture capital funds coming from?

There is great diversity in the base of investors (institutional and other) providing funding to venture capital funds. While most of them are based in Europe, a proportion (around 10%) of the investment into venture capital funds is coming from outside Europe.

Table 25: Fundraising (2011-Q3 2015 preliminary) for European venture capital funds: Geography of investors into venture capital (within and outside Europe)

	Geography of investor			
Institutional investor type:	Within Europe	Outside Europe	Unknown	Grand Total
Academic institutions	1%	0%	0%	1%
Banks	3%	0%	0%	4%
Capital markets	1%	0%	0%	1%
Corporate investors	9%	1%	0%	11%
Endowments and foundations	2%	1%	0%	3%
Family offices	4%	0%	0%	4%
Fund of funds	5%	2%	0%	7%
Government agencies	29%	0%	0%	29%
GP commitment	0%	0%	0%	0%
Insurance companies	2%	0%	1%	3%
Other	1%	0%	0%	1%
Other asset managers (including PE houses other than fund of funds)	2%	0%	0%	2%
Pension funds	6%	1%	0%	7%
Private individuals	8%	0%	2%	10%
Sovereign wealth funds	0%	1%	0%	1%
Unknown	0%	0%	17%	17%
Grand Total	**74%**	**7%**	**20%**	**100%**

Source: Invest Europe/PEREP_Analytics

Tables 26 and 27 below show the geographic origin and concentration of investors (described as LPs or limited partners) investing in European venture capital funds. The tables describe the same situation but from a different point of view:

- Table 26 gives an overview of the origin (geographic location) of the different types of funding sources (i.e. investors) into European venture capital funds.

- Table 27 provides an overview of the different types of investor into European venture capital on a country by country basis (i.e. broken down by origin).

There are a few conclusions that can be drawn from each table.

Table 26 gives valuable indications as to the importance of some national markets in providing specific types of funding for European venture capital funds. For example:

- 95% of capital markets funding into European venture capital came from the UK, with virtually no other venture capital funding from capital markets in the rest of Europe.
- 51% of corporate investors' money going into European venture capital funds came from France and Germany (25% and 26% respectively), with another 24% from the UK and the United States (13% and 11% respectively).
- The vast majority of funding from endowments and foundations came from the UK and the United States (54% and 33% respectively).
- Pension funds and funds of funds located in the United States are the main providers of this type of venture capital funding (18% and 25% respectively).
- The majority of funding provided by academic institutions (66%), private individuals (53%), insurance companies (36%) and government agencies (35%) came from France.
- All funding provided by sovereign wealth funds came from outside of Europe: 74% from Australasia and 26% from the United States.

Table 27 shows which types of investors were most important to fund managers in each Member State (i.e. what is the investor base on a country-by-country basis). Not surprisingly, the bigger the venture capital market, the more diverse is the funding base.
For example:

- While the investor base for European venture capital funds is very diverse, the sources of funding also differ significantly from one Member State to another.
- In most cases, and with the exception of larger markets, funding into venture capital funds is mostly coming from two or three types of investors, which – again - differ from country to country.
- While most capital market funding came from the UK (as shown in Table 7), only 14% of the funding coming from UK investors had its origin in capital markets.
- In line with Table 7, 47% of the funding coming from Australasia was provided by sovereign wealth funds.

Table 26: Geographic origin of investors investing in European venture capital funds, broken down by investor type (2011-Q3 2015 preliminary)

LP origin/LP type	Academic institutions	Banks	Capital markets	Corporate investors	Endowments and foundations	Family offices	Fund of funds	Government agencies	GP commitment	Insurance companies	Other asset managers	Pension funds	Private individuals	Sovereign wealth funds	Grand Total
Australasia	0%	1%	0%	2%	0%	1%	0%	1%	0%	0%	1%	0%	0%	74%	1%
Austria	0%	3%	0%	0%	0%	0%	1%	1%	0%	0%	0%	1%	1%	0%	1%
Baltics	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Belgium	1%	3%	0%	1%	0%	2%	2%	1%	0%	1%	9%	0%	2%	0%	1%
Bulgaria	0%	0%	0%	0%	0%	0%	0%	0%	2%	0%	0%	0%	0%	0%	0%
Canada	0%	0%	0%	1%	0%	0%	1%	0%	0%	0%	0%	1%	0%	0%	0%
Czech Republic	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	3%	0%	0%
Denmark	2%	0%	0%	0%	0%	2%	6%	0%	5%	2%	4%	12%	0%	0%	2%
Ex-Y&Slovakia	0%	7%	0%	1%	0%	0%	0%	0%	0%	1%	0%	2%	0%	0%	1%
Finland	0%	0%	0%	2%	4%	2%	3%	3%	7%	1%	2%	2%	3%	0%	2%
France	66%	17%	0%	25%	0%	10%	9%	35%	5%	36%	23%	5%	53%	0%	26%
Germany	0%	32%	1%	26%	0%	24%	8%	15%	2%	9%	8%	3%	15%	0%	15%
Greece	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Hungary	0%	0%	0%	0%	0%	0%	0%	1%	0%	0%	0%	0%	0%	0%	0%
Ireland	20%	3%	0%	0%	0%	0%	0%	1%	1%	0%	0%	1%	0%	0%	1%
Israel	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Italy	0%	2%	0%	2%	5%	1%	4%	0%	0%	0%	1%	13%	2%	0%	2%
Luxembourg	0%	5%	0%	1%	0%	1%	10%	23%	8%	1%	0%	1%	0%	0%	10%
Netherlands	1%	3%	0%	4%	1%	12%	5%	4%	10%	23%	6%	8%	3%	0%	5%
Norway	2%	3%	0%	1%	3%	5%	2%	6%	7%	5%	2%	4%	2%	0%	4%
Poland	0%	0%	4%	0%	0%	0%	1%	0%	0%	0%	0%	0%	1%	0%	0%
Portugal	0%	2%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Spain	1%	10%	0%	4%	0%	5%	0%	2%	2%	10%	7%	1%	0%	0%	3%
Sweden	0%	1%	0%	0%	0%	7%	1%	0%	9%	11%	0%	12%	0%	0%	2%
Switzerland	0%	4%	0%	7%	1%	14%	3%	0%	0%	0%	0%	5%	4%	0%	3%
United Kingdom	5%	5%	95%	13%	54%	11%	18%	7%	27%	0%	29%	12%	8%	0%	13%
USA	0%	0%	0%	11%	33%	4%	25%	0%	14%	0%	7%	18%	1%	26%	7%
Grand Total	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

Source: Invest Europe/PEREP_Analytics

Table 27: Type of investor investing in European VC funds, broken down by country of origin (2011-Q3 2015 preliminary)

LP origin/LP Type	Academic institutions	Banks	Capital markets	Corporate investors	Endowments and foundations	Family offices	Fund of funds	Government agencies	GP commitment	Insurance companies	Other asset managers	Pension funds	Private individuals	Sovereign wealth funds	Grand Total
Australasia	0%	6%	0%	21%	0%	3%	1%	17%	0%	0%	2%	2%	1%	47%	100%
Austria	0%	18%	0%	0%	0%	0%	7%	53%	0%	1%	0%	5%	17%	0%	100%
Baltics	0%	0%	0%	13%	0%	0%	0%	80%	0%	0%	0%	0%	7%	0%	100%
Belgium	1%	10%	0%	9%	0%	6%	14%	27%	0%	3%	15%	0%	16%	0%	100%
Bulgaria	0%	0%	0%	21%	0%	0%	0%	0%	28%	0%	0%	0%	51%	0%	100%
Canada	0%	0%	0%	46%	0%	0%	19%	0%	0%	0%	0%	35%	0%	0%	100%
CZ	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	100%	0%	100%
Denmark	1%	0%	0%	0%	0%	4%	31%	0%	1%	3%	5%	55%	0%	0%	100%
Ex-Y&SK	0%	51%	0%	11%	0%	0%	0%	9%	0%	6%	2%	22%	0%	0%	100%
Finland	0%	0%	0%	9%	5%	4%	11%	48%	1%	1%	2%	7%	12%	0%	100%
France	2%	3%	0%	13%	0%	2%	3%	50%	0%	4%	2%	1%	20%	0%	100%
Germany	0%	10%	0%	24%	0%	8%	5%	38%	0%	2%	1%	2%	10%	0%	100%
Greece	50%	0%	0%	0%	0%	50%	0%	0%	0%	0%	0%	0%	0%	0%	100%
Hungary	0%	0%	0%	0%	0%	0%	0%	100%	0%	0%	0%	0%	0%	0%	100%
Ireland	17%	15%	0%	6%	0%	2%	0%	42%	1%	0%	0%	12%	4%	0%	100%
Israel	0%	0%	0%	0%	0%	89%	0%	0%	0%	0%	0%	0%	11%	0%	100%
Italy	0%	5%	0%	9%	6%	2%	14%	6%	0%	0%	1%	47%	9%	0%	100%
Luxembourg	0%	2%	0%	2%	0%	1%	9%	85%	0%	0%	0%	1%	0%	0%	100%
Netherlands	0%	3%	0%	10%	1%	12%	9%	29%	1%	14%	3%	13%	6%	0%	100%
Norway	0%	4%	0%	3%	2%	7%	5%	60%	1%	4%	1%	8%	6%	0%	100%
Poland	0%	0%	19%	2%	0%	0%	17%	23%	0%	0%	1%	0%	36%	0%	100%
Portugal	1%	27%	0%	21%	0%	0%	0%	51%	0%	0%	0%	0%	0%	0%	100%
Spain	0%	18%	0%	20%	0%	9%	0%	30%	0%	12%	6%	3%	1%	0%	100%
Sweden	0%	3%	0%	2%	0%	17%	6%	4%	2%	16%	0%	48%	1%	0%	100%
Switzerland	0%	6%	0%	30%	1%	23%	11%	3%	0%	0%	0%	15%	12%	0%	100%
UK	0%	2%	14%	13%	13%	4%	13%	20%	1%	0%	5%	8%	6%	0%	100%
USA	0%	0%	0%	22%	15%	3%	33%	0%	1%	0%	2%	22%	1%	3%	100%
Grand Total	**1%**	**5%**	**2%**	**13%**	**3%**	**5%**	**9%**	**38%**	**0%**	**3%**	**2%**	**8%**	**10%**	**1%**	**100%**

Source: Invest Europe/PEREP_Analytic

6. Cross-border venture capital investments

Table 28 shows the total cross-regional venture capital investments in European portfolio companies (by amount and by percentage).

It should be noted that, as explained above, venture capital investments can also be made by non-venture capital funds.

Over the last five years, as demonstrated by Table 28, a large part of venture capital investments was regional, i.e. venture capitalists making an investment into a portfolio company located in the same region (from 66% for the UK and Ireland to 87% for France and Benelux).

Table 28: Venture capital investments in European companies (2011-Q3 2015 preliminary)

Region of the portfolio company that receives the investment→	CEE		DACH		France&Benelux		Nordics		Southern Europe		UK&Ireland		All Europe	
Region of office that makes the investment	EUR million	% total	EUR million	% total	EUR million	% total	EUR million	% total	EUR million	% total	EUR million	% total	EUR million	% total
CEE	338	80%	26	1%	0	0%	2	0%	0	0%	7	0%	372	2%
DACH	20	5%	3,135	69%	190	5%	88	4%	55	5%	214	6%	3,702	23%
France&Benelux	3	1%	424	9%	3,630	87%	87	4%	108	10%	335	9%	4,586	28%
Nordics	10	2%	139	3%	57	1%	1,928	79%	11	1%	167	4%	2,310	14%
Southern Europe	0	0%	18	0%	13	0%	5	0%	730	71%	24	1%	790	5%
UK&Ireland	40	9%	310	7%	148	4%	228	9%	82	8%	2526	66%	3,334	20%
Outside of Europe	10	2%	484	11%	159	4%	113	5%	43	4%	533	14%	1,342	8%
Grand Total	**420**	**100%**	**4,535**	**100%**	**4,196**	**100%**	**2,450**	**100%**	**1,028**	**100%**	**3,806**	**100%**	**16,436**	**100%**

Source: Invest Europe/PEREP_Analytics

Note that this table covers all of Europe, including Norway, Switzerland, Ukraine and some non-EU CEE countries like Serbia, Montenegro, Macedonia and Bosnia-Herzegovina.

7. What is the institutional investor base, in terms of size and average investment?

Table 29 below describes the sources of funding by region.

Please also refer to Question 10 for more detailed geographical information on the investor base of venture capital funds.

Table 29: Sources of funds (LP/Investor type) by region of European venture capital funds raised (percentage of incremental amounts raised between 2011-Q3 2015 preliminary)

LP type	CEE	DACH	France&Benelux	Nordics	Southern Europe	UK&Ireland	Grand Total
Academic institutions	0%	0%	1%	0%	0%	1%	1%
Banks	15%	8%	4%	3%	12%	1%	5%
Capital markets	4%	0%	0%	0%	0%	8%	2%
Corporate investors	8%	23%	13%	2%	15%	9%	13%
Endowments and foundations	0%	0%	0%	3%	3%	12%	3%
Family offices	0%	6%	4%	6%	7%	7%	5%
Fund of funds	3%	7%	6%	16%	3%	16%	9%
Government agencies	40%	33%	45%	40%	25%	22%	36%
GP commitment	0%	0%	0%	1%	0%	1%	0%
Insurance companies	2%	1%	7%	2%	6%	0%	4%
Other asset managers (including PE houses other than fund of funds)	1%	3%	2%	2%	3%	1%	2%
Pension funds	6%	3%	3%	19%	22%	15%	8%
Private individuals	20%	17%	14%	5%	5%	5%	11%
Sovereign wealth funds	0%	0%	0%	1%	0%	3%	1%
Grand Total	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

Source: Invest Europe/PEREP_Analytics

8. What is the retail investor base (family offices and HNWI), by size and average investment?

In 2014, family offices represented 5.9% of the incremental amount raised and private individuals 7.2%.

It is also important to remember that many academic institutions and foundations, as well as some corporate investors, will also be considered as retail investors under the MiFID II definition. While these investors are recognised as semi-professionals under the EuVECA Regulation, applying this definition to other pieces of legislation - and thereby allowing fundraising to sophisticated investors at European level - would make sense.

In the absence of a stronger EU framework for marketing to sophisticated investors, important differences between national regimes are the main reasons behind the fact that 80% of the overall amount is raised from private individuals and family offices in only 4 countries (France, Germany, the UK and the Netherlands) and 70% of the amount raised from private individuals in only two (France and Germany). Should marketing to these investors be allowed across Europe, there is no doubt that more capital would flow to venture capital funds.

As regards Table 30, it is important to note that we do not know *how many* private individuals and family offices are actually behind this. We are not therefore in a position to calculate how much a private individual/family office would normally invest on average.

We can only calculate the ‘average’ investment made by the category of investors labelled ‘private individuals’ and/or ‘family offices’. This does not tell us what a private individual/family office would invest on average.

Table 30: Commitments by family offices and private individuals to European venture capital funds raised between 2011 and Q3 2015 (preliminary)

Fund location	Family offices: Amount EUR million	Family offices: Number of VC funds	Private individuals: Amount EUR million	Private individuals: Number of VC funds	Total: Amount EUR million	Total: Number of VC funds
CEE			**65.21**	**6**	**65.21**	**6**
Bulgaria			4.370	1	4.37	1
Czech Republic			39.85	2	39.85	2
Lithuania			1.57	1	1.57	1
Poland			19.42	2	19.42	2
DACH	**195.51**	**7**	**587.77**	**26**	**783.28**	**27**
Austria			20.55	5	20.55	5
Germany	181.51	6	488	17	669.51	18
Switzerland	14	1	79.22	4	93.22	4
France&Benelux	**233.56**	**25**	**918.45**	**95**	**1,152.01**	**100**
Belgium			2	1	2	1
France	113.16	17	820.22	80	933.38	81
Luxembourg			20	3	20	3
Netherlands	120.4	8	76.23	11	196.63	15
Nordics	**101.42**	**16**	**81.18**	**15**	**182.6**	**25**
Denmark	11.95	1	14.12	1	26.07	2
Finland	11.76	4	41.11	8	52.87	9
Norway	67.21	10	21.06	3	88.27	11
Sweden	10.5	1	4.89	3	15.39	3
Southern Europe	**61.46**	**5**	**38.05**	**8**	**99.51**	**11**
Italy			27.5	3	27.5	3
Spain	61.46	5	10.55	5	72.01	8
UK&Ireland	**271.63**	**12**	**178.13**	**13**	**449.76**	**20**
Channel Islands			24.3	1	24.3	1
Ireland	8.5	1	13.75	3	22.25	3
United Kingdom	263.13	11	140.08	9	403.21	16
Grand Total	**863.58**	**65**	**1,868.79**	**162**	**2,732.37**	**188**

Source: Invest Europe/PEREP_Analytics

9. EuVECA - Implications of the SME Definition & 70/30 Rule

The data suggest that the use of the EU SME definition[78] to determine whether or not an individual company is a qualifying investment for an EuVECA fund could have a meaningful negative impact on the attractiveness of the regime to a fund manager.

Across the full range of *potentially* eligible managers (i.e. those with total AuM below the 500m EUR threshold set out in the AIFMD) Invest Europe data show that only 55% of the capital they invested went into SMEs (as defined solely using the 250-employee criterion[79]). In other words, 45% of the total amount invested was dedicated to non-SMEs – far above the 30% threshold set in the EuVECA Regulation.

Table 31: Percentage of investments by EU sub-AIFMD threshold fund managers, by equity amount and number of companies, broken down by portfolio company size (2011-2015 YTD preliminary)

Assets under management / No. of employees in portfolio company at initial investment of the firm	Total amount invested (Equity, EUR million)	Number of companies that received investments
0-499 EUR million	**25,652**	**6,134**
0-19 employees	6%[1]	32%
20-99	22%	35%
100-199	20%	14%
200-249	7%	4%
250-499	16%	7%
500-999	11%	4%
1,000-4,999	16%	4%
5,000+	2%	0%
"SME" subtotal	**55%**	**85%**
"Non-SME" subtotal	**45%**	**15%**

As Table 31 demonstrates, a very large majority of the *companies* (85%) into which EuVECA-eligible managers invest are SMEs. But where they find an attractive investment opportunity these relatively small managers will also invest into companies that have more than 250 employees. Such investments are relatively few in number, but are likely to

[78] i.e. the company is unlisted; it has fewer than 250 employees; it has an annual balance sheet total of no more than EUR 43 million or an annual turnover of no more than EUR 50 million.

[79] Invest Europe data only captures the number of employees in portfolio companies and not the size of that company's balance sheet or its turnover. (Access to robust accounting figures for small and young companies is challenging to collect across Europe due to different standards and practices across Member States.) It is therefore possible that the number of SMEs being backed by eligible managers would be even *lower* once the full definition used in EuVECA was applied. Table 1 therefore represents a best case.

represent a larger proportion of the fund's capital (unsurprisingly, as a company with more than 250 employees is likely to be bigger and to need a correspondingly larger investment).

These data underscore how arbitrary the formal SME definition is likely to appear to a fund manager who will wish to retain the flexibility to invest in companies in their fund's target sector and/or geography without having to be bound by an SME definition that reflects regulatory rather than commercial imperatives.

With 45% of the capital being invested by eligible managers going to companies that do *not* meet the regulatory definition of an SME it becomes apparent that the requirement to invest 70% of an EuVECA's capital into qualifying portfolio undertakings could limit the attractiveness of the EuVECA regime. It seems to be too far removed from the actual practice of many smaller (i.e. sub-500m EUR AuM) fund managers and therefore to represent too much of a restriction on their freedom to invest. Even those managers with a clear focus on smaller companies (as demonstrated by the sheer number of such companies they back) risk failing to meet the 'capital invested' criterion.

10. Comparison with the US

By comparison, as demonstrated by Table 32, US firms with assets under management below EUR 500 million (i.e. below the EU AIFMD threshold and therefore of essentially the same size as those EU funds that are EuVECA eligible) dedicated *more than half* of the total equity that they invested in Europe to larger portfolio companies with between 1,000 and 5,000 employees.

This further suggests that the EU regulatory definition of an SME may not capture that segment of European companies that are looking to venture capitalists for backing.

Table 32: US firms and funds (less than EUR 500m AuM) investing in European companies (2011-Q3 2015 preliminary) by employment size of the company

Employment bracket	Number of US firms	Number of US funds	% equity invested	% number of companies financed
0-19	14%	12%	2%	16%
20-99	22%	25%	4%	32%
100-199	18%	21%	6%	17%
200-249	4%	4%	0%	3%
250-499	14%	12%	6%	12%
500-999	8%	7%	12%	5%

1,000-4,999	**16%**	**16%**	**51%**	**13%**
5,000+	4%	4%	19%	3%
SME share	58%	61%	12%	67%
Grand Total	**32**	**43**	**Amount of equity invested: 4,592 (EUR million)**	**122**

Source: Invest Europe/PEREP_Analytics

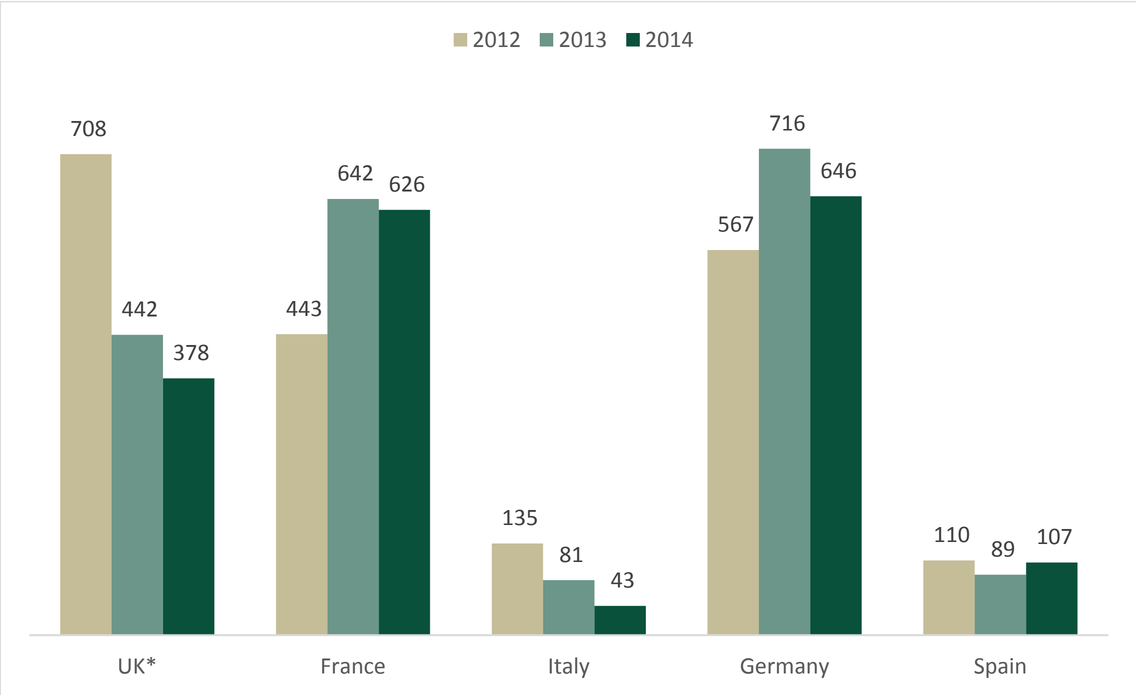
19. ANNEX 12 (Stakeholders' Contribution to the Public Consultation)

Appendix: statistical tables

Considering the period 2012-2014, data based on the National Venture Capital Associations statistics showed that the Italian venture capital market is the smallest (both in terms of amount invested and companies financed) among the main European ones: UK, France and Germany are the most developed countries in the venture capital activity.

In 2014, the amount invested in Italy was equal to 43 Euro Mln involving 84 companies (figure 32 and 33). In line with the above considerations, another noteworthy aspect is that, in the same year, the average invested amount in the most developed VC markets (UK, France and Germany) was double the Italian one (figure 34). Concerning the number of players, in 2014, 25 venture capitalists were active in our market, with respect to 151 in UK, 110 in France, 160 in Germany and 154 in Spain (figure 35).

Figure 32: Amount invested in venture capital (Euro Mln)

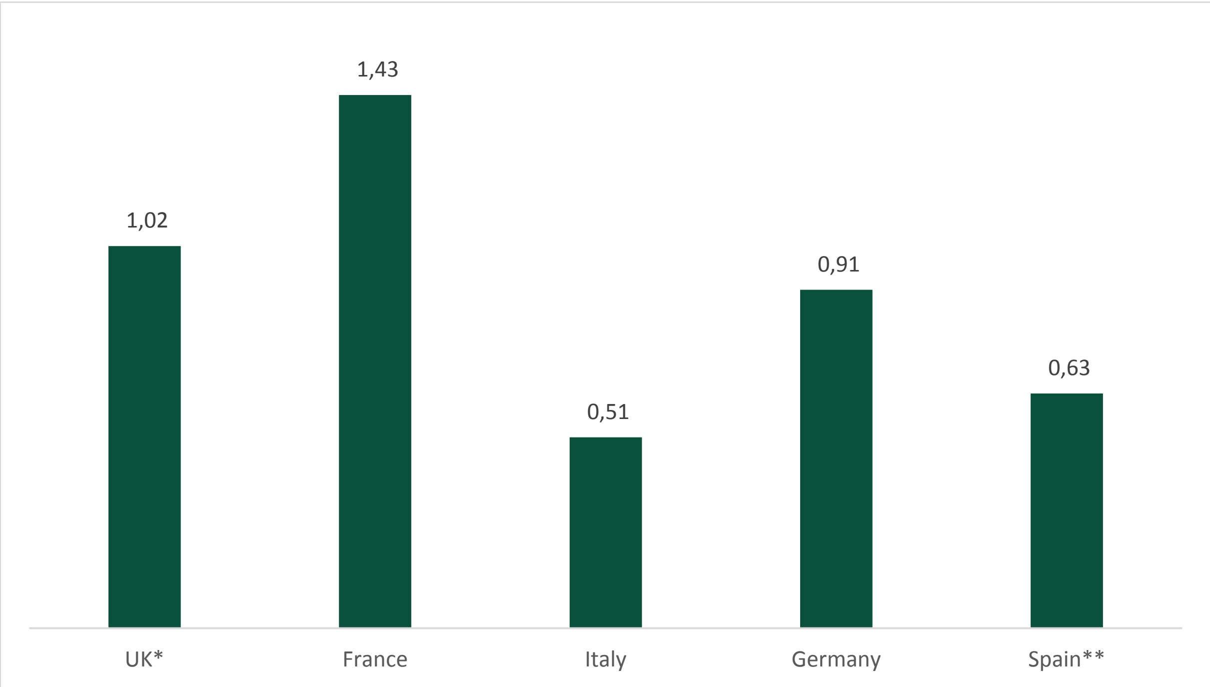


*£ Mln
Source: AFIC (France), AIFI-PwC (Italy), ASCRI (Spain), BVCA (UK), BVK-PEREP_Analytics (Germany)

Figure 33: Number of venture backed companies

**Number of investments
Source: AFIC (France), AIFI-PwC (Italy), ASCRI (Spain), BVCA (UK), BVK-PEREP_Analytics (Germany)

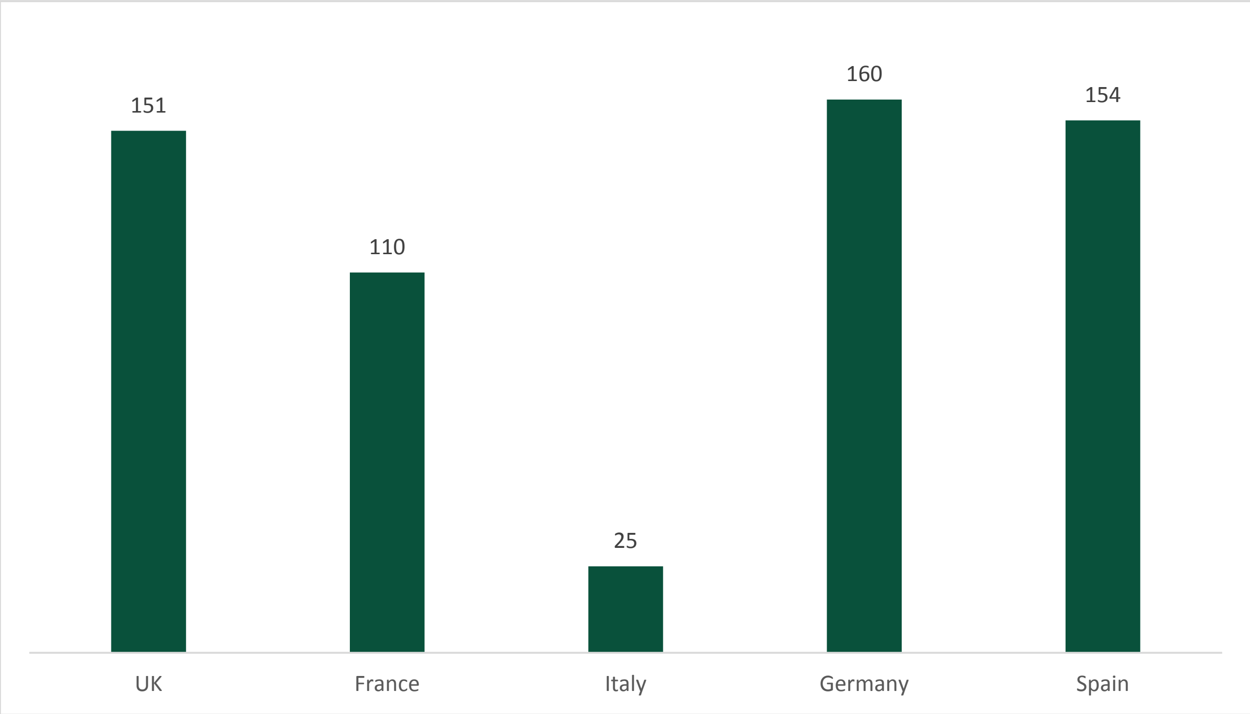
Figure 34: Average amount invested (Euro Mln, 2014)



*£ Mln
**related to investments and not to companies financed

Source: AFIC (France), AIFI-PwC (Italy), ASCRI (Spain), BVCA (UK), BVK-PEREP_Analytics (Germany)

Figure 35: Number of venture capitalists (2014)



Source: AFIC (France), AIFI-PwC (Italy), ASCRI (Spain), BVCA (UK), BVK-PEREP_Analytics (Germany)

20. Annex 13 (Anecdotal evidence on the EuVECA regime)

Stakeholders shared the following experiences as to the use of the EuVECA regime in different Member States as compare with the AIFMD regime. This is purely anecdotal and the views expressed below are not necessarily representative of the full venture capital industry. Rather, they are based on personal opinions and experiences of stakeholders.

Part 1 – Venture capital firms using the EuVECA passport

Case Study 1 from Continental Europe

Being a very small firm, the member conducted the talks with the national regulator about EuVECA registration himself. In all, he spent about a third of his time on this for about 9 months.

Previously, they had received a proposal from one of the very few lawyers who could understand the matter for EUR 50,000.

In theory, the total costs linked to EuVECA registration could therefore have easily amounted to EUR 55,000 including:

- EUR 50,000 legal costs (as per above)

- EUR 5,000 other costs (Consulting on Risk and Conflicts of Interest) – this amount was paid

In addition, the venture capital manager has been asked by a few host jurisdictions to pay for additional charges. [Cf. the Invest Europe response to the EuVECA consultation for a complete overview]

The management charges for this particular fund amounted to EUR 30,000 including:

- EUR 10,000 per annum - Independent Risk and Conflict of Interest Controller imposed by the national regulator (although not a requirement under the EuVECA Regulation)

- EUR 20,000 – Auditor

Finally, they have had to increase the capital of their manager to EUR 150,000.

Case Study 2 from the UK

The member estimates that they spent around £20,000-£30,000 in legal fees assessing the best options in terms of EuVECA, national placement rules or full AIFMD compliance.

The regulatory fees paid to the UK FCA amounted to £750 and, thus far, they have not paid anything to other country regulators.

They prepared the EuVECA application to the FCA in-house, rather than use lawyers or advisers. They estimate that they spent approximately 20 hours drafting the application form and preparing supporting material.

They will also have incurred additional legal fees in relation to updating the prior fund PPM (Private Placement Memorandum) and limited partnership agreement to ensure that it complies with the EuVECA investment and investor restrictions. However, they cannot yet estimate how much those incremental costs might be.

Part 2 – Why have our venture capital members not signed up for EuVECA?

One member confirmed not to have looked closely enough at EuVECA since it did not seem a roadblock during fundraising. Raising a first time fund is an uphill battle, and they concentrated their resources on other topics that were bigger priorities in that process.

Quite a few members manage corporate venture funds so they do not need a cross-border passport for fundraising. They have a single LP (investor), and therefore do not need to market their funds throughout Europe.

Other members mentioned that they have a national focus and have mostly targeted domestic investors so far. They were therefore not in need of a European passport and stuck to the notification as a sub-threshold AIF.

One member very honestly admitted that they did not apply for EuVECA as they had the perception that EuVECA would only bring extra compliance costs (e.g. related to the engagement of extra advisors, consultants and auditors, etc.) and paperwork (with no substantial added benefit).

One member said that their LPs paid more attention to specific geographies and strategies, rather than to the status of the fund.

Some members confirmed that they expect to apply for and to use the EuVECA label but have not had to market a fund since the Regulation came in.

Others indicated that the Regulation was too restrictive and that they would like to use it and are more likely to if its scope is widened.

Part 3 – VC firms operating under the AIFMD regime

We also received feedback from a venture capital firm functioning under the AIFMD regime. They have had to hire a third party consultant/service provider to help them prepare all the documents that had to be filed with the national regulator. The total cost was EUR 60,000* (EUR 72,000 with VAT) but they wouldn't have been able to go through this process on their own because of lack of resources.

Even with the support of the service provider, all back office team members had to be involved as the preparation of the documents had to do with all sides of the business (accounting, investment processes, legal matters, reporting to LPs, remuneration, etc.).

In terms of time commitment, this is their estimation:

- 3 weeks full time for the CFO of the firm;
- 3 weeks for the person responsible of reporting to LPs;
- 1 week for the financial controller;
- 2 weeks for the person in charge of the legal affairs related to the portfolio;
- 1 week for the director of legal operation; and
- 1 week for the person in charge of information systems.

In addition, they have to comply with annual reporting requirements to the national regulator, which is very time consuming and particularly challenging, especially as the deadline to provide the information is end of January of each year. In addition, they are very often being asked questions by the regulator that are in many cases not relevant for venture capital.

* It should be noted that this amount only relates to pursuing the actual authorisation and does not take into account the on-going compliance costs of operating under the AIFMD.

21. Annex 14 (Venture Capital in Europe)

What is Venture Capital?

Venture capital is funding typically invested in small entrepreneurial, innovative businesses to help them grow. Alongside their investment, providers of venture capital also provide direct support and expertise to the business. A business usually receives further investment through a number of funding rounds before venture capital investors realise their profit. The two most common exits for investors are the company's listing on a stock exchange (the so called initial public offering – IPO) or the sale of the company to a strategic buyer - either a private equity firm or a corporation (the so called trade sale).

Within Europe, venture capital is usually considered to be a subset of private equity – the much broader provision of funding to companies of any size, and which can include, for example buy-out activity.

Why is more Venture Capital needed in the EU?

Equity investment – including in the form of venture capital is, for small business, an alternative to traditional bank loans. Although equity only represents a small percentage of overall sources of finance to SMEs, it is important in facilitating the accelerated growth and development of high-growth innovative companies.

Following the global economic and financial crisis, banks are becoming more risk-averse, especially for start-ups investing in innovation. This trend has been exacerbated by regulation requiring banks to hold more capital for risk investments. This has made it more likely that innovative firms embrace alternative financing forms, including external equity. The long-term view required by investors in highly innovative firms, which often only realise full returns after several years, is conducive to equity financing.

Demand for Venture Capital fluctuates during the economic cycle, but has remained high during the economic and financial crisis. However, while demand has remained high, supply has been more erratic, with some investors leaving the market due to low returns. There is strong evidence that many private sector investors no longer invest in Venture Capital. This trend began with the "dot com crash" (early 2000s) and accelerated during the economic and financial crisis (2007-2009) and the sovereign debt crisis of 2011-2013. Fluctuations in the supply of risk capital have become more frequent and pronounced, although the industry has only really existed since the early 1980s and there were fluctuations then.

Many private investors remain wary of investing in European Venture Capital because of low profitability and historical under-performance. Private pension funds and institutional investors remain largely absent from the market. Venture Capital funds instead attract investment from private equity groups, high net worth individuals and from the EIF and other public investors at national and regional level.

There is evidence to suggest that since 2012, European fund-raising has plunged by 33 percent, while in comparison, U.S. investment has increased by 45 percent to approach a ten-year high. In consequence, the gap between U.S. and European investment widened to about €21 billion. US fund-rising in 2014 was c. €25bn.

Structural weaknesses in the European Venture Capital market explain some of this difference. They include:

- o Relatively small average fund sizes. For example the average size of EU based VC fund is estimated at c. €50 million. In comparison, the average US-based venture capital fund is estimated to around €120 million. This reduces the benefits of scale.
- o Fragmentation and geographic imbalances – the EU VC market is highly concentrated, with up to 90% of venture capital firms concentrated in eight member states.
- o A lack of cross-border investment. In the period 2007-2010, funds raised outside a venture capital fund's home jurisdiction only accounted for 12% of funds raised in the venture capital sector.

The EuVECA and EuSEF fund structures have been created to offer new opportunities for market participants to raise and invest capital in small companies throughout Europe in a simplified way.

22. Annex 15 (ESMA registered EuVECA and EuSEF as of April 2016)

EUVECA			
Management Company	**Fund Name**	**HOME MS**	**HOST MS**
Speed Invest GmbH	Speedinvest II EuVECA GmbH & Co KG	AUSTRIA	GERMANY
Venionaire Investment GmbH	To be defined (in the course of formation)	AUSTRIA	BELGIUM, DENMARK, GERMANY, ESTONIA, FINLAND, FRANCE, IRELAND, ITALY, CROATIA, LUXEMBOURG, MALTA, NETHERLANDS, POLAND, PORTUGAL, SWEDEN, SLOVENIA, SPAIN, CYPRUS, UNITED KINGDOM
VAVE EuVECA Invest GmbH	VAVE EuVECA Invest GmbH & Co KG	AUSTRIA	GERMANY, UNITED KINGDOM
i4g Alps Management GmbH	Alps 250 Industry Fund GmbH & Co KG	AUSTRIA	GERMANY, CZECH REPUBLIC, SLOVAK REPUBLIC, UNITED KINGDOM
New Energy Solutions Management ApS	P/S New Energy Solutions	DENMARK	DENMARK, UNITED KINGDOM
New Energy Solutions Management ApS	New Energy Solutions II K/S	DENMARK	DENMARK, UNITED KINGDOM
NCP-IVS III GP ApS	NCP-IVS Fund III K/S	DENMARK	DENMARK
Seed Capital Management III I/S	Seed Capital Denmark III K/S	DENMARK	DENMARK, SWEDEN, LUXEMBOURG
Sunstone TV Management A/S	Kommanditselskabet af 11. nocember 2015	DENMARK	DENMARK, SWEDEN, ENGLAND, FINDLAND, GERMANY, LUXEMBOURG, HOLLAND
Breega Capital	Breega Capital Venture One	FRANCE	AUSTRIA, BELGIUM, BULGARIA, CROATIA, CYPRUS, CZECH REPUBLIC, DENMARK, ESTONIA, FINLAND, GERMANY, GREECE, HUNGARY, IRELAND, ITALY, LATVIA, LITHUANIA, LUXEMBOURG, MALTA, NETHERLANDS, POLAND, PORTUGAL, ROMANIA, SLOVAKIA, SLOVENIA, SPAIN, SWEDEN, UNITED KINGDOM
Avala Trust GmbH	Avala III GmbH & Co. KG	GERMANY	GERMANY, UNITED KINGDOM
eCAPITAL Entrepreneurial Partners AG	eCapital IV Technologies Fonds Gmbh & Co. KG	GERMANY	AUSTRIA, FRANCE, NETHERLANDS

Motu Ventures Management GmbH	Motu Ventures Fund I GmbH & Co. KG	GERMANY	AUSTRIA, DENMARK, FRANCE, GERMANY, LUXEMBOURG, NETHERLANDS, SPAIN, SWEDEN, UNITED KINGDOM
PINOVA CAPITAL GMBH, MUENCHEN	Pinova GmbH & Co. Erste Beteiligungs Parallel KG	GERMANY	GERMANY
PINOVA CAPITAL GMBH, MUENCHEN	Pinova I Co-Invest GmbH & Co. KG	GERMANY	GERMANY
PINOVA CAPITAL GMBH, MUENCHEN	Pinova GmbH & Co. Beteiligungs II KG	GERMANY	AUSTRIA, BELGIUM, BULGARIA, CROATIA, CYPRUS, CZECH REPUBLIC, DENMARK, ESTONIA, FINLAND, FRANCE, GERMANY, GREECE, HUNGARY, IRELAND, LATVIA, LITHUANIA, LUXEMBOURG, NETHERLANDS, POLAND, PORTUGAL, ROMANIA, SLOVAKIA, SLOVENIA, SPAIN, SWEDEN, UNITED KINGDOM
PINOVA CAPITAL GMBH, MUENCHEN	Pinova GmbH & Co. Erste Beteiligungs KG	GERMANY	GERMANY
SHS Gesellschaft für Beteiligungsmanagement mbH	SHS IV Medtech Investments GmbH & Co. KG	GERMANY	AUSTRIA, BELGIUM, BULGARIA, CROATIA, CYPRUS, CZECH REPUBLIC, DENMARK, ESTONIA, FINLAND, FRANCE, GERMANY, GREECE, HUNGARY, IRELAND, ITALY, LATVIA, LITHUANIA, LUXEMBOURG, MALTA, NETHERLANDS, POLAND, PORTUGAL, ROMANIA, SLOVAKIA, SLOVENIA, SPAIN, SWEDEN, UNITED KINGDOM
Sirius Venture Partners GmbH	Sirius Seedfonds Düsseldorf Zwei GmbH & Co. KG	GERMANY	AUSTRIA, BELGIUM, FINLAND, FRANCE, GERMANY, LUXEMBOURG, NETHERLANDS, SPAIN, SWEDEN, UNITED KINGDOM
VCDE Venture Partners GmbH & Co. KG	venturecapital.de VC GmbH & Co. KGaA	GERMANY	AUSTRIA, BELGIUM, BULGARIA, CROATIA, CYPRUS, CZECH REPUBLIC, DENMARK, ESTONIA, FINLAND, FRANCE, GERMANY, GREECE, HUNGARY, IRELAND, ITALY, LATVIA, LITHUANIA, LUXEMBOURG, MALTA, NETHERLANDS, POLAND, PORTUGAL, ROMANIA, SLOVAKIA, SLOVENIA, SPAIN, SWEDEN, UNITED KINGDOM
ACT Venture Capital Limited	ACT V Venture Capital Limited Partnership	IRELAND	AUSTRIA, BELGIUM, BULGARIA, CROATIA, CYPRUS, CZECH REPUBLIC, DENMARK, ESTONIA, FINLAND, FRANCE, GERMANY, GREECE, HUNGARY, ICELAND, IRELAND, ITALY, LATVIA, LITHUANIA, LUXEMBOURG, NETHERLANDS, POLAND, PORTUGAL, ROMANIA, SLOVAKIA, SLOVENIA, SWEDEN, UNITED KINGDOM

Atlantic Bridge III GP Ltd	Atlantic Bridge III Ltd Partnership	IRELAND	BELGIUM, DENMARK, FINLAND, FRANCE, GERMANY, IRELAND, LUXEMBOURG, NETHERLANDS, SPAIN, SWEDEN, UNITED KINGDOM
Delta Partners Limited	Delta Equity Fund IV	IRELAND	IRELAND, LUXEMBOURG, UNITED KINGDOM
PANAKES PARTNERS SGR	PANAKES FUND	ITALY	ITALY
OLTRE II SICAF EUVECA SPA	OLTRE II SICAF EUVECA SPA	ITALY	AUSTRIA, BELGIUM, BULGARIA, CROATIA, CYPRUS, CZECH REPUBLIC, DENMARK, ESTONIA, FINLAND, FRANCE, GERMANY, GREECE, HUNGARY, IRELAND, ITALY, LATVIA, LITHUANIA, LUXEMBOURG, MALTA, NETHERLANDS, POLAND, PORTUGAL, ROMANIA, SLOVAKIA, SLOVENIA, SPAIN, SWEDEN, UNITED KINGDOM
AVM GESTIONI SGR	N.A.	ITALY	ITALY
P101 SGR	PROGRAMMA 101 SICAF	ITALY	ITALY
EuVECA Livonia Partners	KS EuVECA Livonia Partners Fund I	LATVIA	AUSTRIA, BELGIUM, BULGARIA, CROATIA, CYPRUS, CZECH REPUBLIC, DENMARK, ESTONIA, FINLAND, FRANCE, GERMANY, GREECE, HUNGARY, IRELAND, ITALY, LATVIA, LITHUANIA, LUXEMBOURG, NETHERLANDS, POLAND, PORTUGAL, ROMANIA, SLOVAKIA, SLOVENIA, SPAIN, SWEDEN, UNITED KINGDOM
MOJO.CAPITAL	MOJO DIGITAL ONE S.C.SP	LUXEMBOURG	AUSTRIA, BELGIUM, BULGARIA, CROATIA, CYPRUS, CZECH REPUBLIC, DENMARK, ESTONIA, FINLAND, FRANCE, GERMANY, GIBRALTAR, GREECE, HUNGARY, ICELAND, IRELAND, ITALY, LATVIA, LIECHTENSTEIN, LITHUANIA, MALTA, NETHERLANDS, POLAND, PORTUGAL, ROMANIA, SLOVAKIA, SLOVENIA, SPAIN, SWEDEN, UNITED KINGDOM
CRESTBRIDGE MANAGEMENT COMPANY S.A.	LEVEL-UP 15 (SCA)	LUXEMBOURG	BELGIUM, FRANCE, GERMANY, ITALY, NETHERLANDS, POLAND, SPAIN, UNITED KINGDOM
EXPON CAPITAL	EXPON I (S.C.A.) SICAR	LUXEMBOURG	BELGIUM, DENMARK, FRANCE, GERMANY, ITALY, NETHERLANDS, SPAIN, SWEDEN, UNITED KINGDOM
Cipio Partners S.à r.l.	Cipio Partners Fund VII SICAR	LUXEMBOURG	AUSTRIA, BELGIUM, DENMARK, FINLAND, FRANCE, GERMANY, IRELAND, ITALY, NETHERLANDS, SPAIN, SWEDEN, UNITED KINGDOM

LSP Management Group B.V.	Life Sciences Partners V C.V.	NETHERLANDS	AUSTRIA, BELGIUM, FINLAND, FRANCE, IRELAND, ITALY, LUXEMBOURG, NETHERLANDS, SWEDEN, UNITED KINGDOM
Chrysalix Set Management B.V.,	SET Fund II C.V.	NETHERLANDS	AUSTRIA, BELGIUM, CZECH REPUBLIC, FINLAND, FRANCE, GERMANY, IRELAND, LUXEMBURG, POLAND, PORTUGAL, SLOVAKIA, SLOVENIA, SPAIN, SWEDEN, UNITED KINGDOM
Holland Private Equity B.V. (trade name HPE Growth Capital)	HPE Institutional Fund II --- (comprising HPE Institutional Fund II C.V. (master), and HIF Feeder Fund II BV and HIF Feeder Lux SCF (each a feeder))	NETHERLANDS	AUSTRIA, BELGIUM, DENMARK, FINLAND, FRANCE, GERMANY, IRELAND, ITALY, LUXEMBOURG, SPAIN, SWEDEN, UNITED KINGDOM
ARX Equity Partners B.V.	Arx CEE IV Coöperatief U.A.	NETHERLANDS	AUSTRIA, BELGIUM, DENMARK, FINLAND, FRANCE, GERMANY, LUXEMBOURG, POLAND, CZECH REPUBLIC, SLOVAKIA, SWEDEN, UNITED KINGDOM
Gilde Healthcare Partners B.V.	"Gilde Healthcare IV" --- (officially Cooperatieve Gilde Healthcare IV U.A.)	NETHERLANDS	AUSTRIA, BELGIUM, DENMARK, GERMANY, FINLAND, FRANCE, IRELAND, ITALY, LUXEMBOURG, MALTA, SPAIN, SWEDEN, UNITED KINGDOM
FCPM III Services B.V.	Forbion Capital Fund III	NETHERLANDS	AUSTRIA, BELGIUM, DENMARK, FINLAND, FRANCE, GERMANY, IRELAND, ITALY, LUXEMBOURG, PORTUGAL, SPAIN, SWEDEN, UNITED KINGDOM
ALMA MUNDI VENTURES, SGEIC, S.A.,	ALMA MUNDI INNVIERTE FUND FCRE	SPAIN	FRANCE, GERMANY
Notion Capital Managers LLP	Notion Capital III LP	UNITED KINGDOM	AUSTRIA, BELGIUM, CYPRUS, DENMARK, FINLAND, FRANCE, GERMANY, IRELAND, LUXEMBOURG, NETHERLANDS, SWEDEN
Northedge Capital LLP	Northedge Capital I Fund LP	UNITED KINGDOM	AUSTRIA, BELGIUM, BULGARIA, CROATIA, CYPRUS, CZECH REPUBLIC, DENMARK, ESTONIA, FINLAND, FRANCE, GERMANY, GIBRALTAR, GREECE, HUNGARY, ICELAND, IRELAND, ITALY, LATVIA, LITHUANIA, LUXEMBOURG, MALTA, NETHERLANDS, POLAND, PORTUGAL, ROMANIA, SLOVAK REPUBLIC, SLOVENIA, SPAIN, SWEDEN
Draper Esprit LLP (formerly DFJ Esprit LLP)	DFJ Esprit Capital IV LP	UNITED KINGDOM	AUSTRIA, BELGIUM, DENMARK, FINLAND, FRANCE, GERMANY, IRELAND, ITALY, LUXEMBOURG, NETHERLANDS, SPAIN, SWEDEN
Panoramic Growth Equity (Fund Management) LLP	Panoramic Growth Fund 2 LP	UNITED KINGDOM	UNITED KINGDOM
Panoramic Growth Equity (Fund	Panoramic Enterprise Capital Fund 1 LP	UNITED KINGDOM	FRANCE, GERMANY, IRELAND, LUXEMBOURG, SWEDEN

Management) LLP			
Draper Esprit LLP	Draper Esprit PLC --- (formerly Ingleby (1994) PLC)	UNITED KINGDOM	BELGIUM, FINLAND, FRANCE, GERMANY, IRELAND, LUXEMBOURG, NETHERLANDS, SWEDEN
Draper Esprit LLP	DFJ Esprit Capital IV LP	UNITED KINGDOM	UNITED KINGDOM
Narec Capital Limited	Discovery Park Technology Investment LP	UNITED KINGDOM	FRANCE, GERMANY, HUNGARY, IRELAND, ITALY, LUXEMBOURG, MALTA, NETHERLANDS, SPAIN, SWEDEN
Keen Venture Partners LLP	Keen Venture Partners Fund L.P.	UNITED KINGDOM	LUXEMBOURG, NETHERLANDS
NBGI Private Equity Limited	NBG Technology Fund LP	UNITED KINGDOM	FRANCE, GERMANY, POLAND
ETF Manager LLP	Environmental Technologies Fund L.P.	UNITED KINGDOM	AUSTRIA, BELGIUM, DENMARK, FINLAND, FRANCE, GERMANY, IRELAND, ITALY, LUXEMBOURG, NETHERLANDS, PORTUGAL, SPAIN, SWEDEN
ETF Manager LLP	Environmental Technologies Associates Fund L.P.	UNITED KINGDOM	AUSTRIA, BELGIUM, DENMARK, FINLAND, FRANCE, GERMANY, IRELAND, ITALY, LUXEMBOURG, NETHERLANDS, PORTUGAL, SPAIN, SWEDEN
ETF Manager LLP	Environmental Technologies Fund 2 L.P.	UNITED KINGDOM	AUSTRIA, BELGIUM, DENMARK, FINLAND, FRANCE, GERMANY, IRELAND, ITALY, LUXEMBOURG, NETHERLANDS, PORTUGAL, SPAIN, SWEDEN
Meridian Venture Partners LLP	Capella Ventures LP	UNITED KINGDOM	UNITED KINGDOM
Azini Capital Partners LLP	Azini 3a LP	UNITED KINGDOM	GERMANY, UNITED KINGDOM
Frog Capital Ltd	Frog Capital Fund II LP	UNITED KINGDOM	AUSTRIA, BELGIUM, BULGARIA, CROATIA, CYPRUS, CZECH REPUBLIC, DENMARK, ESTONIA, FINLAND, FRANCE, GERMANY, GREECE, HUNGARY, IRELAND, LATVIA, LITHUANIA, LUXEMBOURG, NETHERLANDS, POLAND, PORTUGAL, ROMANIA, SLOVAKIA, SLOVENIA, SPAIN, SWEDEN, UNITED KINGDOM
Advent Life Sciences LLP	Advent Life Sciences Fund 1 LP	UNITED KINGDOM	AUSTRIA, BELGIUM, DENMARK, FINLAND, FRANCE, GERMANY, IRELAND, ITALY, LUXEMBOURG, NETHERLANDS, SPAIN, SWEDEN, UNITED KINGDOM
Advent Life Sciences LLP	Advent Life & Sciences Fund 11 LP	UNITED KINGDOM	AUSTRIA, BELGIUM, DENMARK, FINLAND, FRANCE, GERMANY, IRELAND, ITALY, LUXEMBOURG, NETHERLANDS, SPAIN, SWEDEN, UNITED KINGDOM
71 Amadeus Capital Partners Limited	Amadeus IV Growth Fund LP	UNITED KINGDOM	SWEDEN, FINLAND, ITALY, NETHERLANDS, POLAND, FRANCE, LUXEMBOURG, IRELAND, BELGIUM, GREECE, SPAIN, DENMARK, GERMANY, PORTUGAL
Venrex Investment Management	2014 EIS Fund	UNITED KINGDOM	UNITED KINGDOM

LLP			
Felix Capital Partners LLP	Felix Capital Fund I L.P.	UNITED KINGDOM	NETHERLANDS, GERMANY, LUXEMBOURG, SWEDEN, SPAIN, BELGIUM, AUSTRIA, FRANCE, IRELAND, DENMARK
Crane Venture Partners LLP	Crane I LP	UNITED KINGDOM	UNITED KINGDOM
Venrex Investment Management LLP	2014 LP Fund	UNITED KINGDOM	UNITED KINGDOM
Venrex Investment Management LLP	2012 EIS Fund	UNITED KINGDOM	UNITED KINGDOM
Venrex Investment Management LLP	Venrex VII	UNITED KINGDOM	UNITED KINGDOM
SDCL EE Co (UK) LLP	UK Energy Efficiency Investments 2 L.P.	UNITED KINGDOM	UNITED KINGDOM
Technology Venture Partners LLP	TVP Venture Fund II	UNITED KINGDOM	UNITED KINGDOM
Big Issue Invest Fund Management Ltd	Big Issue Invest Social Enterprise Investment Fund II LP	UNITED KINGDOM	UNITED KINGDOM
Hughes Armstrong Industries Limited	Hughes Armstrong Limited Partnership	UNITED KINGDOM	UNITED KINGDOM
DN Capital (UK) LLP	DN Capital - Global Ventures IV Limited Partnership	UNITED KINGDOM	UNITED KINGDOM
Angels Unleashed Limited	Angels Unleashed ULimited	UNITED KINGDOM	UNITED KINGDOM

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Management Company	**Fund Name**	**Home MS**	**Host MS**
BonVenture Management GmbH	BonVenture III GmbH & Co. KG	GERMANY	AUSTRIA, GERMANY
BonVenture Management GmbH	MRI-Pilotfonds GmbH & Co. KG	GERMANY	AUSTRIA, GERMANY
BonVenture Management GmbH	BonVenture II GmbH & Co. KG	GERMANY	GERMANY

Phitrust Partenaires	Phitrust Partenaires	FRANCE	BELGIUM, FRANCE, GERMANY, LUXEMBOURG, NETHERLANDS, UNITED KINGDOM