



Capital Markets Union: new rules to boost funding for venture capital and social enterprises - Questions & Answers

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1. What is venture capital?

Venture capital investment provides early finance to start-ups and early stage companies, forming an important source of long-term financing to young and innovative companies. 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 and innovative SMEs. Since banks are typically in a less strong position to provide this type of financing, requiring as they do highly capital-intensive and specialised ongoing analysis and support, access to venture capital is key to financing the growth of this segment of the EU economy.

With an ongoing gap in funding to such entities, the Commission has now identified a number of steps that can be taken to encourage greater investment through the use of EuVECA funds.

2. What is social entrepreneurship?

Social enterprises are companies that have a positive social impact and address social objectives as their corporate aim, rather than only maximising profit. While these enterprises often receive public support, private investment via funds still remains vital to their growth. However, such specialised social investment funds are rare or are not large enough, making cross-border investments unnecessarily complicated and expensive.

The EuSEF fund structure was created to offer new opportunities for market participants to raise and invest capital in social enterprises throughout Europe in a simplified way. EuSEF funds will benefit from the same steps taken for EuVECA funds in broadening the range of eligible managers and lowering the costs of managing the funds.

3. Why were these funds created in the first place?

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 qualifying funds to be marketed cross-border without additional barriers in order to meet their investment needs.

Social impact capital is generally linked with investments made into companies or organisations with the intention of generating a positive social impact alongside a financial return. The EuSEF Regulation introduced a "European Social Entrepreneurship Fund" label similar 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.

The EuVECA and EuSEF regulations came into force in July 2013. They establish a framework for investment funds which invest in unlisted SMEs. They are both part of the Europe 2020 Strategy set out by the Commission on 3 March 2010, and EuSEF are also part of the Social Business Initiative launched on 25 October 2011. Both funds are designed to channel money from private investors into SMEs and so boost jobs and growth. They have therefore been recognised as integral to the work on Capital Markets Union (CMU). They are also linked to the Investment Plan as well as the plan to sponsor a pan-European venture capital fund-of-funds.

4. What has been the take-up until now?

EuVECA and EuSEF are voluntary fund frameworks so their take-up depends on stakeholder interest in setting up such fund vehicles. Funds complying with these regulations receive a marketing passport which allows them to collect capital from investors across the EU, who are able to commit at least €100,000. EuVECA and EuSEF managers do not need to be authorised under the Alternative Investment Fund Managers Directive (AIFMD).

So far, 70 EuVECA and 4 EuSEF had been notified to ESMA (European Securities and Markets Authority). These figures show that, while take-up of the opportunities presented by the EuVECA regulation is satisfactory, it could still be improved further particularly in light of the funding needs of the EU economy.

5. Why are these changes ahead of schedule?

These regulations were not due for general reviews until July 2017 but, given the importance of making progress towards a Capital Markets Union, the Commission decided to bring the review forward.

The gap in funding for small and growing businesses has been cited repeatedly as an obstacle that needs to be addressed in order to promote EU economic growth. The Commission therefore decided to undertake a legislative review which 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, how both Regulations interact with other existing investment fund laws and the requirements funds comply with the passport across borders.

This proposal addresses these weaknesses and aims to give further incentive for cross-border investment in small and growing companies and social enterprises.

6. What will today's proposals change?

The Commission proposes to:

- extend the range of managers eligible to market and manage EuVECA and EuSEF funds to include larger fund managers, i.e. those with assets under management of more than €500 million. Large managers can provide economies of scale and trusted brands, offering benefits for investors who in turn can invest more for the ultimate benefit of venture capital and social enterprises;
- expand EuVECA eligible assets, to allow investment in small mid-caps, and SMEs listed on SME growth markets. This is expected to allow more companies to benefit from EuVECA investments and make investments more attractive through greater diversification of risk;
- decrease the costs by explicitly prohibiting fees imposed by competent authorities of host Member States, simplifying registration processes and determining the minimum capital to become manager.

7. How does this tie into other legislation on fund management, such as AIFMD (The Alternative Investment Fund Managers Directive)?

Under AIFMD large managers of alternative investment funds with aggregate assets of more than €500 million have to be authorised. Such managers can then market their funds across the EU to professional investors. The passporting right is not, however, available to fund managers below this threshold. Currently it is only small managers, not authorised under AIFMD, who can manage and market EuVECA and EuSEF funds to non-professional investors across the EU. Today's proposal also allows AIFMD authorised managers to establish EuVECA and EuSEF funds and market them to non-professional investors across EU.

8. Is the minimum investment threshold of €100,000 for non-professional investors too high?

The minimum investment of €100,000 was introduced to ensure adequate consumer protection. Lowering the investment threshold would inevitably need to be coupled to additional 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 proportionate regime before introducing additional layers of investor protection requirements.

9. Will these measures alone be enough to stimulate further venture capital and social investing?

These measures are part of a comprehensive package of actions to support venture capital financing in the EU:

1. The Commission is considering how it can use EU budgetary support to attract capital from major institutional investors through a pan-European venture capital fund-of-funds. The Commission plans to publish soon a call for expression of interest from private sector asset managers interested in managing the fund-of-funds.
2. The Commission is also studying how national tax incentives for venture capital and business angels can foster investment in SMEs and start-ups, and will promote best practice across Member States.
3. The Commission is developing a strategy for providing technical assistance to Member States to develop and improve market-based finance, including venture capital.

For more information, see here: http://ec.europa.eu/finance/investment/venture_capital/index_en.htm

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