European venture capital funds and European social entrepreneurship funds

2016/0221(COD) - 14/07/2016 - Legislative proposal

PURPOSE: to strengthen the internal market for venture capital and social entrepreneurship funds by developing the use of EuVECA and EuSEF labels.

PROPOSED ACT: Regulation of the European Parliament and of the Council.

ROLE OF THE EUROPEAN PARLIAMENT: the European Parliament decides following the ordinary legislative procedure on an equal footing with Council.

BACKGROUND: the proposal is part of the work undertaken to stimulate investments in growing and innovative firms. The Investment Plan for Europe presents a global strategy to increase competitiveness and stimulate investments for the purpose of job creation. It aims to further mobilise additional private investment using public funds through the European Fund for Strategic Investment ("EFSI").

A key strand of the Investment Plan is the Capital Markets Union ("CMU") action plan, which contains a range of measures to remove capital market barriers and facilitate the financing of SMEs.

Regulation (EU) No 345/2013 of the European Parliament and of the Council and Regulation (EU) 346/2013 of the European Parliament and of the Council lay down uniform requirements and conditions for managers of collective investment undertakings that wish to use in the Union the EuVECA or EuSEF designations for the marketing of qualifying venture capital funds and qualifying social entrepreneurship funds. While EuVECA funds support young and innovative companies, EuSEF funds focus on enterprises whose aim is to achieve positive social impact.

The Commission is seeking to ensure that the EuVECA and EuSEF frameworks work as well as possible in supporting venture capital and social investment. However, the review of the two Regulations under the REFIT initiative (Regulatory Fitness and Performance programme) identified a number of factors holding back the development of these funds, in particular:

- limitations on large managers whose portfolios exceed EUR 500 million, who may not use the "EuVECA" and "EuSEF" labels, a EUR 100,000 minimum entry ticket for non-professional investors and specific limitations on eligible investments (i.e. the definition of qualifying portfolio undertakings);
- differing requirements in different jurisdictions, in particular set-up fees, additional costs charged by host Member States and the required levels of sufficient own funds.

IMPACT ASSESSMENT: the options retained by the impact assessment are as follows :

- allow managers authorized under Directive 2011/61/EU of the European Parliament and of the Council on Alternative Investment Fund Managers ("AIFMD") to use the "EuVECA" and "EuSEF" labels;
- expand the definition of qualifying portfolio undertakings in Regulation (EU) 345/2013;
- maintain the EUR 100,000 minimum investment;
- include explicit provisions in the two 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.

CONTENT: the proposal aims to amend Regulation (EU) No 345/2013 on European venture capital funds and Regulation (EU) 346/2013 on European social entrepreneurship funds. The amendments aim to:

- allow managers authorised under Directive 2011/61/EU that manage portfolios above EUR 500 to use the EuVECA and EuSEF designations respectively in relation to the marketing of those funds in the Union;
- amend the definition of qualifying portfolio undertaking in Regulation (EU) No 345/2013 and include unlisted undertakings which employ up to 499 persons and small and medium-sized enterprises listed on a SME growth market;
- entrust ESMA with the development of draft regulatory technical standards specifying the methodologies for the determination of sufficient own funds;
- reduce costs by explicitly providing that fees and other charges may not be imposed by competent authorities of host Member States in relation to cross-border marketing of EuVECA and EuSEF funds, by simplifying registration procedures and determining minimum capital requirements to be a manager.