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PROPOSAL

From:	Secretary-General of the European Commission, signed by Mr Jordi AYET PUIGARNAU, Director
date of receipt:	14 July 2016
To:	Mr Jeppe TRANHOLM-MIKKELSEN, Secretary-General of the Council of the European Union
No. Cion doc.:	SWD(2016) 229 final
Subject:	COMMISSION STAFF WORKING DOCUMENT EXECUTIVE SUMMARY OF THE 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

Delegations will find attached document SWD(2016) 229 final.

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COMMISSION STAFF WORKING DOCUMENT

EXECUTIVE SUMMARY OF THE 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}
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Executive Summary Sheet

Impact assessment on Proposal for a Regulation amending Regulation (EU) No 345/2013 on European venture capital funds (EuVECA) and Regulation 346/2013 on European social entrepreneurship funds (EuSEF).

A. Need for action

Why? What is the problem being addressed?

The EuVECA and EuSEF Regulations introduced a "European Venture Capital Fund" and a "European Social Entrepreneurship Fund" label respectively that EuVECA and EuSEF funds supporting young and innovative companies or enterprises with the intention of generating positive social impact are permitted to use. The Regulations enable these funds to be marketed cross-border without additional barriers in order to meet their investment needs. The review of the EuVECA and EuSEF Regulations is closely linked to the Capital Markets Union (CMU) objectives focusing on facilitating SME financing, diversifying sources of financing and strengthening cross-border capital flows. It is also linked to the first and second pillars of the Investment Plan which concentrate on ensuring additional EU funding to SMEs, equity financial instruments under the Programme for the Competitiveness of Enterprises and SMEs (COSME), as well as under Horizon 2020. The Regulations are consistent with other CMU actions, such as the Commission's plan, together with the European Investment Fund, to sponsor a pan-European venture capital fund of funds which would invest in a combination of early, later and expansion stage venture capital funds.

The IA Report builds on the findings of a review, the latter originally linked to the REFIT programme.

What is this initiative expected to achieve?

The proposed measures should increase investments into venture capital and social enterprises via EuVECA and EuSEF funds through (i) removing limitations on larger managers managing EuVECA and EuSEF funds and dual registration requirements, (ii) decreasing costs for EuVECA and EuSEF funds, (iii) broadening the range of eligible assets EuVECA funds may invest in.

What is the value added of action at the EU level?

The amended EuVECA and EuSEF Regulations will render the two specialised funds more attractive and, thus, eliminate the need to research 28 Member States' regimes, reduce costs, and realise economies of scale. The modified rules will further unblock the flow of capital, leading to increased confidence in cross-border investments and to better functioning of the internal market. The necessity of EU action is based on the fact that Member States have no means to individually overhaul weaknesses of the currently applicable EuVECA and EuSEF Regulations. Actions by Member States alone could only target rules outside both Regulations and would be limited to what would be allowed under the Alternative Investment Fund Managers Directive 2011/61/EU.

B. Solutions

What legislative and non-legislative policy options have been considered? Is there a preferred choice or not? Why?

In order to achieve the desired objectives, the following is proposed:

- to increase the number of EuVECA and EuSEF managers, funds, and assets under management through opening up the management of EuVECA and EuSEF funds to large asset managers, i.e. those authorised under the Alternative Investment Fund Managers Directive 2011/61/EU;
- to expand EuVECA eligible assets beyond the current SME definition (unlisted companies with less than 250 employees + annual turnover less than €50 million or annual balance sheet less than €43 million) by adding (a) small mid-caps (i.e. non-SMEs up to 499 employees), as targeted by EU programs managed by the European Investment Fund, (b) SMEs listed on SME growth markets, as defined in the Markets in Financial Instruments Directive II 2014/65/EU, and (c) to allow follow-on investment;
- to decrease costs in determining managers' own funds, explicitly prohibiting fees imposed by competent authorities of host Member States and simplifying registration processes.

Who supports which option?

In the consultation on the review of the EuVECA and EuSEF Regulations respondents, including Member States, very strongly supported allowing large managers authorised under the Alternative Investment Fund Managers Directive 2011/61/EU to manage and market EuVECA and EuSEF funds. The consultation also received criticism of the definition of EuVECA eligible assets which was deemed to be too restrictive. Respondents to the consultation noted out 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, in particular as they charge fees, impose additional requirements or impose the same level of requirements as foreseen for large managers authorised under the Alternative Investment Fund Managers Directive 2011/61/EU.

C. Impacts of the preferred option

What are the benefits of the preferred option (if any, otherwise main ones)?

The proposed modifications will strengthen a channel of financing through EuVECA and EuSEF funds for SMEs, including social businesses, so that they will be less dependent on banking sector constraints, and will thereby reduce the effect of banks declining credit applications. Large managers authorised under the Alternative Investment Fund Managers Directive 2011/61/EU will have the option to offer a full range of products to their clients and as they rely on more economy of scale this in turn will be beneficial for investors. Opening-up of the two labels to large managers that manage larger portfolios could further foster the take-up of the labels and thus increase their recognition among investors and lead to larger volumes of financing available to the economy. EuVECA funds may play a crucial role in the development of the SME growth market, will be able to finance more entities, especially those that are more labour-intensive. To some extent, risks for investors will be reduced as more diversified investment opportunities will be available. Companies at later stages of development will also benefit from follow-on investment.

What are the costs of the preferred option (if any, otherwise main ones)?

There should be no relevant social and economic cost, in fact, the preferred option will reduce the costs for stakeholders using these two fund frameworks. Nothing suggests that the proposed policy options will have any direct or indirect impacts on environmental issues.

How will businesses, SMEs and micro-enterprises be affected?

The modified Regulations will improve access for small companies, including social businesses, to capital for growth. These entities will have more alternative sources of capital to draw on. They will be able to select from a larger pool of competing and highly specialised EuVECA and EuSEF funds with economies of scale; funds which will therefore be more cost effective. Greater domestic and cross-border competition will result in more value-added support for the commercial development of the funded target companies and will increase the innovation capacity that these entities can build on.

Will there be significant impacts on national budgets and administrations?

No. The proposed improvements should not trigger relevant costs for national budgets and administrations. To the contrary, competent national authorities should benefit from the clarifications.

Will there be other significant impacts?

No.

D. Follow up

When will the policy be reviewed?

A review clause will be proposed to determine, four years after the revised rules enter into application, the extent to which the above objectives have been achieved.