



European Venture Capital Fund

Investing in the SME sector

The European venture capital industry is fragmented and dispersed and has been hampered from growing by the lack of a common EU regulatory framework. With SMEs finding it difficult to access bank credit following the financial crisis, the EU has sought ways to open up non-bank lending to the SME sector.

AIFMD creates a new EU distribution passport for AIFMs marketing to professional investors. However, the smaller scale of the venture capital industry means that many of these managers would fall below the de minimis thresholds and would have to opt in to the full compliance regime to avail of an EU passport, placing greater cost on these below threshold firms.

To promote the development of a cross-border venture capital industry and boost investment in SMEs, a regulation on European Venture Capital Funds (EuVECA) was adopted (EuVECA regulation) and took effect on 22 July 2013 to coincide with the implementation of AIFMD.

Qualifying managers

Use of the EuVECA label and associated EU passport is open to managers who:

- Have total AuM of less than €500 million comprising unleveraged, closed-ended funds with a lock-up period of five years
- Are established in the EU
- Have registered with their local regulator under AIFMD
- Manage portfolios of qualifying venture capital funds

EuVECA definition

An EuVECA is a fund that:

- Meets the definition of an AIF
- Intends to invest at least 70% of its aggregate capital contributions and uncalled committed capital in assets that are qualifying investments
- Does not use more than 30% of its aggregate capital contributions and uncalled committed capital to acquire non-qualifying investments
- Is established in the EU

Draft paper	Commission proposal	Parliament & Council	EU trilogues	Adopted	Technical measures	Implemented
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Qualifying investments

- "Qualifying investments" are equity, or quasi-equity instruments, secured or unsecured loans granted to a "qualifying portfolio undertaking", shares of a qualifying portfolio undertaking and units or shares in other EuVECAs.
- A "qualifying portfolio undertaking includes a company that is:
 - Not admitted to trading on a regulated market
 - Employs less than 250 people
 - Has an annual turnover not exceeding €50 million or an annual balance sheet total not exceeding €43 million
 - Is not a collective investment undertaking, a credit institution, an investment firm or an insurer
 - Is established in the EU or a country with a cooperation arrangement

Additional requirements

- In addition to compliance with the "Registered AIFM" regime, managers must adhere to certain lighter requirements based on AIFMD, including:
 - Conduct of business
 - Conflict of interests
 - Certain organisational requirements
 - Valuations
 - Annual report and annual audit
 - Investor disclosures
- The EuVECA is open to professional investors with a minimum investment of €100,000

European Social Entrepreneurship Fund (EuSEF)

Supporting social entrepreneurs

The European Social Entrepreneurship Funds (EuSEF) Regulation applies from 22 July 2013 and introduces a marketing passport to allow fund managers to market qualifying social entrepreneurship funds to EU investors

It aims to make it easier for social enterprises to raise funds across Europe by:

Creating a designation (that is, a brand) of "European Social Entrepreneurship Fund" or "EuSEF", which can be used by funds that meet prescribed conditions

Setting out a framework for a marketing passport, which allows funds with EuSEF status to be sold to a wide range of European investors.

Qualifying managers

Use of the EuSEF label and associated EU passport is open to managers who:

- Have total AuM of less than €500 million comprising unleveraged, closed-ended funds with a lock-up period of five years
- Are established in the EU
- Have registered with their local regulator under AIFMD
- Manage portfolios of qualifying social entrepreneurship funds

Additional requirements

- In addition to compliance with the "Registered AIFM" regime, managers must adhere to certain lighter requirements based on AIFMD, including:
 - Conduct of business
 - Conflict of interests
 - Certain organisational requirements
 - Valuations
 - Annual report and annual audit
 - Investor disclosures
- The EuSEF is open to professional investors with a minimum investment of €100,000

Draft paper	Commission proposal	Parliament & Council	EU trilogues	Adopted	Technical measures	Implemented
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Qualifying investments

- "Qualifying investments" are equity, or quasi-equity instruments, secured or unsecured loans granted to a "qualifying portfolio undertaking", shares of a qualifying portfolio undertaking and units or shares in other EuSEFs.
- A "qualifying portfolio undertaking" includes a company that is:
 - Not admitted to trading on a regulated market
 - Is managed in an accountable and transparent way, in particular by involving workers, customers and stakeholders affected by its business activities
 - Is established in the EU or a country with a cooperation arrangement
 - Has the achievement of measurable, positive social impacts as its primary objective where the undertaking:
 - ✓ provides services or goods to vulnerable or marginalised, disadvantaged or excluded persons;
 - ✓ employs a method of production of goods or services that embodies its social objective; or
 - ✓ provides financial support exclusively to social undertakings as defined in the two bullet points above.

EuSEF definition

An EuSEF is a fund that:

- Meets the definition of an AIF
- Intends to invest at least 70% of its aggregate capital contributions and uncalled committed capital in assets that are qualifying investments
- Does not use more than 30% of its aggregate capital contributions and uncalled committed capital to acquire non-qualifying investments
- Is established in the EU