AIFI

Associazione Italiana del Private Equity,
Venture Capital e Private Debt

Response to the EU Commission Call for Evidence on

"Towards an EU Startup and Scaleup Strategy"

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Favoring venture and growth capital funds' fundraising

One of the main problems at the European level relates to the difficulties of enterprises in obtaining financing for their growth process. Startups and scaleups need fast and increasing investment rounds, which are typically provided by venture and growth capital funds. However, these types of funds meet limitations in raising funds from institutional investors – pension funds, banks, insurance companies as well as high net worth individuals (HNWIs). It is therefore important to **reinforce the fundraising channels** of venture and growth capital funds. This objective can be achieved by working both on a moral suasion level, in particular through knowledge spread and training activities, and by developing initiatives that can lead to the adoption of specific measures focused on enhancing the participation of LPs (taking also into consideration positive initiatives taken in different jurisdictions). However, firstly, **legislative obstacles and limits should be removed**. Among others, it is necessary to (i) promote a uniform application of the new category of *Long-term equity* (LTE) linked to Solvency II, (ii) review capital requirements for banks investing though funds, (iii) introduce new criteria for the MiFID II investor categorization as to ease the capacity of HNWIs to be classified as professional investors.

Reducing costs and burdens for managing structures

The activity of the new EU Commission began with the publication of the "Compass" communication, which highlights the necessity to increase the competitiveness of the EU entrepreneurial system, focusing on innovation and simplification. These objectives need to pass through a **reduction on the administrative burden** borne by enterprises. At the same time, it is also important to consider the key role venture and growth capital funds play in financing innovation. In this regard, these actors need to operate within a **homogeneous legislative framework**, in terms of possibility to raise funds from LPs, authorization timelines and similar costs and burdens for the ongoing management of investment products. Therefore, **European rules need to be better coordinated** throughout EU member states in order to avoid gold plating and excessive rigidity, especially when it comes to less complex funds/managers. In order to finance innovation and increase the EU competitiveness, it is important to channel private savings towards investments structures which are adequately structured and supervised (coherently with their level of complexity) reducing, where possible, excessive requirements. In this sense, a wide simplification, accompanied by increased coordination, would ease fundraising activities and would allow funds to grow and create more ambitious products, which could satisfy the funding needs of companies in every development stage.

Harmonization of foreign direct investments (FDI) regimes

The development of the startup ecosystem in Europe passes through the possibility to carry out investment rounds with foreign based GPs (within and outside the EU). At the same time, it is important to have certainty in relation to the timeline for the deal closing. In this sense, the existence in the EU of different screening regimes on foreign direct investments (in Italy, the so called "Golden power") is likely to make more difficult to achieve this goal. The need for national authorities to carefully control market transactions in strategic sectors is rational and fundamental, especially in the current international context. However, **the present European framework is profoundly fragmented**, with the implementation of regimes that differ significantly. Therefore, it is necessary to guarantee more uniformity on the monitoring criteria, the sectors considered strategic and the applied deadlines. Another (connected) topic regards the so called "outbound investments", on which the EU Commission published, last January, a Recommendation that is currently under scrutiny and analysis by member states in order to assess the framework and decide on future steps. Also in this case, it will be important to evaluate and consider all the future activities by taking into account their overall effects on the market, specifically on innovation.

European definition of small and medium enterprise (SME)

The European definition of SME (Recommendation 2003/361/EC) raises a number of difficulties in relation to the possibility for private equity and venture capital portfolio companies to access specific incentive schemes. As a matter of fact, the application of the concept of "linked enterprises", which establishes a relation between the fund and the portfolio company, could lead to the loss of the SME status. The problem is particularly relevant and sharpened by the application of the notion of "single undertaking" as in Regulation (EU) 1407/2013, which refers to the definition of SME. These concepts are the consequence of a misconception of the relations between funds and portfolio companies that are not comparable to the relations taking place between enterprises. A resolution to this problem is necessary in order to build a system where startups and scaleups can participate to incentive schemes or dedicated programs without being penalized for the sole reason of being invested by private equity and venture capital funds.

Working for an ad hoc regime for EU startups and scaleups

In the EU there are 27 different regimes for enterprises, which constitute an important limit to the development of European startups and scaleups on a global scale. Such a fragmented tax and legal framework increases the difficulties and makes European enterprises disadvantaged in relation to foreign competitors which operate in more efficient contexts. For this reason, it is fundamental that the EU would start working on the progressive introduction of a common regime constituting a shared framework for new enterprises.