

Unlocking European Venture Capital

European start-ups are created in strong numbers, but too few of them become large European companies. The weakness is most visible once firms move beyond the early stage and need larger financing rounds to expand production, hire internationally or enter new markets. Too often innovative firms fail to scale in Europe. Instead, they seek financing abroad, relocate their headquarters or are acquired by foreign competitors before reaching maturity. As a result, Europe loses not only jobs and tax revenues, but also strategic technologies, intellectual property and economic growth.

The Draghi report identified Europe's scale-up gap as one of the Union's most significant structural competitiveness challenges. According to the European Investment Bank¹, European scale-ups have raised around 50 per cent less capital than comparable companies in San Francisco by their tenth year, while the European Union accounts for only around five per cent of global venture capital fundraising. Without deeper venture capital markets, Europe will continue to develop start-ups and scale-ups only to see many of them grow elsewhere.

Closing this gap must be a core objective of the Savings and Investments Union. Europe has the research base, entrepreneurs and private savings. It now needs a venture capital ecosystem capable of turning them into global companies.

Against this backdrop, the European Commission ran a call for evidence and targeted and public consultations on the European Venture Capital Fund (EuVECA) framework and the wider venture and growth capital agenda between 15 January and 12 March 2026, and has signalled a legislative proposal for 2027.

This paper sets five priorities for the review:

1. Raise and index the AIFMD sub-threshold for EuVECA managers.
2. Make the EuVECA passport work in practice by removing national add-ons and unnecessary fees.
3. Broaden eligible investments to include SAFEs and comparable hybrid instruments.
4. Make it easier for experienced private investors to invest in EuVECA funds.
5. Mobilise institutional capital by reviewing prudential disincentives for diversified long-term equity investment.

¹ European Investment Bank (2024). The scale-up gap. Financial market constraints holding back innovative firms in the European Union

Alongside the review, the work on the broader Savings and Investments Union agenda should continue in order to create the right framework conditions for a modernised EuVECA to succeed.

Chapter 1: Enabling European Venture Capital Funds to Scale

A competitive venture capital ecosystem requires funds that can raise capital, grow across borders, diversify their investments and support companies throughout their development. While the EuVECA framework established a proportionate regime for smaller venture capital managers and introduced an EU-wide marketing passport, it has not delivered the scale the European market requires. Thresholds have remained unchanged for more than a decade, cross-border activity remains fragmented and unnecessary regulatory burdens continue to discourage fund growth and diversification.

The Commission's review should therefore focus on enabling successful venture capital managers to scale and diversify their funds rather than forcing them into a regulatory cliff edge as they grow. Europe should reward success, not penalise it.

Addressing the AIFMD Cliff Edge

The current EuVECA regime is available only to managers below the Alternative Investment Fund Managers Directive (AIFMD) sub-threshold of EUR 500 million in assets under management. Once that threshold is exceeded, managers must transition to the full AIFMD regime, triggering a significant increase in regulatory and compliance obligations. As a result, some successful managers limit fund growth to avoid crossing it. This cliff edge should be one of the central issues in the review.

The problem is especially acute for managers raising a second or third fund. At precisely the point where a European manager has built a track record and could attract larger investors, the regulatory regime becomes materially more expensive and operationally complex. In practice, the threshold punishes exactly the managers it should be rewarding.

The review needs to raise the threshold to at least EUR 1.5 billion, reflecting the 36 per cent cumulative inflation since 2013, the market evolution since the threshold was introduced and the scale genuinely required to compete with US fund sizes. The updated threshold should be indexed automatically in line with inflation thereafter. This would prevent it from becoming outdated over time.

For closed-ended venture and growth funds, the calculation of assets under management should avoid penalising successful investment performance. The framework should therefore consider methodologies that better reflect capital actually invested, rather than allowing temporary increases in fair-value NAV alone to push a manager above the threshold, or otherwise provide appropriate averaging mechanisms to smooth temporary valuation effects.

In addition, managers exceeding the threshold should benefit from a transitional period of at least twelve months before full AIFMD authorisation becomes mandatory. Such a transition period would provide sufficient time to build the operational and governance structures required under the full regime without discouraging growth.

Completing the Single Market for Venture Capital

EuVECA provides an EU-wide marketing passport, but it falls short of creating a fully integrated European market for venture capital. Sub-threshold managers continue to face diverging national administrative procedures and supervisory requirements when managing funds across borders, limiting their ability to operate efficiently throughout the Union.

National gold-plating further fragments the market. Managers still face different notification practices, national forms, fee structures, processing timelines and informal supervisory expectations. These differences may look minor individually, but they matter for smaller managers that do not have large compliance teams or local counsel in every Member State.

The passport needs to be made operational in practice by moving towards a true Single Market regime for venture capital funds. National gold-plating should be explicitly prohibited, including at the registration stage, while the Commission should make full use of infringement procedures where Member States fail to comply with harmonised EU rules. The use of common templates and procedures for EuVECA registration and notification should be extended.

Widening the Investment Universe

The EuVECA framework should reflect how portfolio companies are financed in practice. Current eligibility rules remain too narrow and do not sufficiently accommodate the financing instruments commonly used by modern venture and growth capital funds.

Modern venture financing rarely relies on straight equity alone. SAFEs² and other hybrid instruments are standard tools, especially where valuation is difficult or where companies need bridge financing between equity rounds. These instruments allow companies to raise capital more flexibly and give investors the ability to support firms at different stages of development. Excluding or limiting these instruments reduces the usefulness of the EuVECA label and weakens the financing continuum for European scale-ups.

The review should widen the definition of qualifying investments by broadening what counts as equity, e.g. SAFEs and comparable hybrid instruments. This would allow EuVECA funds to support companies from early-stage financing through later growth rounds without forcing them into less suitable structures.

The definition of qualifying portfolio undertakings should also be updated. The current exclusion of financial undertakings was designed to keep EuVECA funds out of banking and insurance. In practice, however, it can unintentionally exclude fintech companies, one of Europe's most dynamic innovation sectors. The review should narrow the exclusion to regulated financial institutions such as credit institutions, investment firms and insurance undertakings, while allowing non-regulated fintech companies to remain eligible for EuVECA investment.

At the same time, expanding investment eligibility must be matched by stronger exit options, as investing in VC is only as attractive as the potential to exit. As it currently stands, investments in companies that qualify for the EuVECA framework cannot be sold off to another EuVECA fund if the company has outgrown the criteria. That is why EuVECA fund managers should be allowed to invest in companies that have outgrown the initial eligibility criteria, provided those companies met the criteria some time ago. This would enable EuVECA funds to support both start-ups and scale-ups across successive funding rounds, while avoiding financing of large, established businesses outside the VC ecosystem. Without these changes, the EU will continue to export its most promising companies across the Atlantic at exactly the moment they begin to scale.

Reducing Unnecessary Administrative Burdens

Smaller venture capital managers should not face reporting, governance and organisational requirements calibrated for larger financial institutions. The Commission should review reporting frequency, duplicative information requests, depositary-related obligations, registration updates and other fixed-cost requirements that do not materially improve investor protection or risk-based supervision.

² Simple Agreement for Future Equity

Chapter 2: Mobilising Capital for European Growth

A stronger venture capital framework will only succeed if European funds can attract a broader and deeper investor base and channel funds into the European economy. Europe does not lack savings. It lacks the channels to turn those savings into productive investment.

Mobilising European and global capital for European growth requires action on both sides of the investor base. Experienced private investors should have better opportunities to participate in venture capital markets under appropriate safeguards. At the same time, institutional investors such as pension funds and insurers must be better enabled to allocate their capital to European venture and growth funds.

Broadening Access for Experienced Private Investors

Article 6 of the EuVECA Regulation currently limits marketing to professional investors and to other investors committing at least EUR 100,000 while providing a written acknowledgement of the risks involved. While the threshold was originally designed to protect less experienced investors from inappropriate exposure to high-risk assets, it could have a restrictive effect.

The Commission should broaden the eligibility test under Article 6 instead of lowering the EUR 100,000 threshold itself. The figure should remain in place: it already reflects the prevailing standard across most Member States' own private-placement regimes. Investors should instead be able to qualify through a second route, based on demonstrated knowledge and experience in the relevant asset class rather than ticket size alone. Written risk acknowledgements should be maintained under either route, with suitability assessments applying where appropriate. This would widen the pool of investors able to access EuVECA funds without extending eligibility to retail investors, and without creating a new investor category alongside the ones MiFID II already defines.

The interaction with the PRIIPs Key Information Document should also be reviewed. In the EuVECA context, it adds cost and administrative complexity for managers while providing limited additional value to investors who are already subject to eligibility conditions and written risk acknowledgement. The framework should avoid duplicative disclosure requirements and rely instead on clear, targeted and meaningful risk information. In that spirit, EuVECA managers should not be required to produce a retail-style KID when marketing to professional or experienced investors.

Mobilising Institutional Investors

The largest untapped source of capital for European venture capital lies with institutional investors. Pension funds, insurers and other long-term asset owners manage significant pools of European savings, yet only a very small share is allocated to venture capital and other growth-oriented equity investments. This limits the scale of European funds and weakens the financing chain for companies moving from early-stage to expansion finance.

Low allocations to venture capital are not only a matter of investor preference. They are also shaped by capital charges, governance expectations, liquidity rules, internal risk models and, in some Member States, very conservative investment cultures. A serious EuVECA review should therefore look beyond the fund label itself and examine the wider regulatory framework that determines whether long-term capital can reach European venture and growth funds through diversified strategies.

For insurers, the Commission should assess whether the Solvency II treatment of diversified long-term equity investments, including indirect exposure through EuVECA and other venture or growth funds, properly reflects their economic risk where assets are held over a long investment horizon. Recent recalibrations for long-term equity are welcome, but they should be tested against whether insurers can in practice allocate to diversified European venture and growth capital funds.

The review should also consider diversified fund-of-funds structures, European anchor investment vehicles and public-private mandates that can aggregate institutional capital alongside public investments and allocate it across several venture and growth funds. Most pension funds and insurers cannot assess individual VC funds one by one. The use of specialised sub-structures, such as feeder funds, could also provide relief for the pooling of capital. A large venture capital fund-of-funds could allocate institutional wealth to smaller VC firms. Diversified vehicles with professional selection, governance and reporting solve that problem without asking institutional investors to become venture specialists.

The immediate priority should be insurance and pension capital, where long-term liabilities are better matched with long-term equity exposure. Bank prudential rules can play a complementary role, but banks are not the natural primary holders of venture capital risk. The objective should be to remove unnecessary regulatory disincentives that prevent long-term European capital from supporting long-term European growth — not by imposing investment caps or mandated allocations in either direction — while maintaining prudent diversification and proper risk management.

Chapter 3: Making Cross-Border Fundraising Work in Practice

Chapter 1 addresses the legal functioning of the EuVECA passport. This chapter focuses on making that passport commercially usable for managers and investors in practice.

For many smaller and emerging managers, cross-border fundraising remains costly, slow and uncertain. Even where EU rules formally allow marketing across the Union, managers still face different investor onboarding practices, documentation expectations, tax treatment, administrative requirements and national market conventions. These frictions do not always appear as formal regulatory barriers, but they still raise costs and discourage managers from building a genuinely European investor base.

The Commission should therefore use the EuVECA review not only to remove remaining legal obstacles to the passport, but also to map and reduce the practical barriers that make cross-border fundraising more expensive than domestic fundraising. This should include tax-related frictions, divergent subscription documentation, duplicative AML and KYC checks, inconsistent investor categorisation practices and unnecessary administrative requirements.

A more practical cross-border fundraising agenda should also support standardisation. The Commission, together with ESMA and market participants, should explore voluntary EU model documents for EuVECA fundraising, including standard risk acknowledgements, subscription documentation and investor disclosures. This would lower fixed costs for smaller managers, improve investor understanding and make it easier for funds to approach investors in several Member States.

The objective should be simple: a EuVECA manager registered in one Member State should be able to raise capital across the Single Market through a predictable, low-cost process. Cross-border fundraising should become a normal feature of the European venture capital market, not a privilege reserved for large managers with extensive legal and compliance resources.

Chapter 4: Connecting Venture Capital to the Wider Ecosystem

Reforming EuVECA alone will not close Europe's scale-up gap. The availability of venture capital depends on the wider financing chain, from bank lending to public co-investment, and on a functioning pipeline from research to commercial application. This chapter sets out what the wider Savings and Investments Union agenda needs to address alongside the EuVECA review itself.

Completing the Single Market for Portfolio Companies

Capital alone will not close the scale-up gap if the companies it finances still face twenty-seven different national legal and corporate frameworks once they try to expand. This fragmentation increases transaction costs, complicates cross-border expansion and can discourage investment in European companies in the first place. The EuVECA review should therefore be considered alongside the Commission's work on the proposed 28th Regime ("EU Inc.") and should seek to strengthen the link between cross-border capital and the ability of portfolio companies to scale across the Single Market.

Aligning the EuVECA framework with the future EU Inc. would reduce complexity and transaction costs for portfolio companies, and contribute to a genuine Single Market for capital and innovation.

Enabling Bank Financing for Innovative Companies

The EU economy remains heavily bank-driven, yet many European scale-ups struggle to obtain bank loans, leaving them overly dependent on dilutive equity financing or pushed towards foreign investors. The Commission, together with the EBA and the EIB, should develop a framework for banks to finance innovative and high-growth companies without compromising financial stability. This should include a targeted CRR amendment providing a 0% risk weight for the EIF- or NPB-guaranteed portion of venture debt, so that the protected portion requires no additional CET1 capital, alongside greater use of InvestEU and NPB first-loss layers compatible with state aid rules and the Market Economy Operator Principle. The Commission should ensure that the state aid framework for risk finance is applied clearly, consistently and efficiently, including where public support reaches innovative companies through European funds.

The EBA should also clarify under the Loan Origination and Monitoring framework how banks can take Annual Recurring Revenue and insured intellectual property into account when assessing repayment capacity, while preserving existing IFRS 9 provisioning requirements.

Commercialising Research and Anchoring Innovation in Europe

Europe's scale-up gap also reflects difficulties in commercialising research once it leaves the laboratory, particularly in strategic sectors such as artificial intelligence, semiconductors, quantum technologies, biotechnology and defence innovation. The Commission should assess where fragmented national rules on IP ownership, spin-out

equity retention and researcher mobility are slowing technology transfer from universities and public research institutions to venture-backed companies, and bring forward simplification proposals where a genuine EU-level barrier is identified.

Conclusion

The test for the EuVECA review is simple: can a successful European venture manager raise a larger fund, market it across borders, invest flexibly and attract long-term European capital without being pushed into unnecessary complexity? Today, the answer is too often no.

The EPP ECON Working Group's position is straightforward: reward growth rather than penalise it. That means raising outdated thresholds, removing the AIFMD cliff edge, completing the Single Market passport, cutting unnecessary reporting burdens, and connecting European savings with European companies.

Europe's competitiveness agenda will only succeed if European innovators can grow, raise capital and remain anchored in Europe. The Union has the research base, the entrepreneurs and the industrial capability. What it lacks is a venture capital ecosystem with the scale, depth and flexibility to turn promising start-ups into global leaders. The upcoming EuVECA review, as part of the wider Savings and Investments Union and competitiveness agenda, needs to deliver on that goal.