Citizens' summary

The EU helps venture capitals funds to invest in small companies

WHAT'S THE ISSUE?

- In Europe, small and medium size companies (SME's) are the main source of economic growth and new jobs. These firms, however, often face problems finding money to finance their research, develop new products or access new markets.
- Banks are a traditional provider of money. They have however been seriously hit by the financial crisis. They are now thinking twice before granting a loan to companies that have no guarantee of success, even when they have great potential.
- Venture capital funds, on the other hand, like to take on precisely these kinds of risk. They are specialised financial institutions that typically collect money from other financial bodies (such as pension funds) or rich individuals, in order to re-invest it in firms with a high growth potential.
- So far, these venture capital funds have been active only in a few European countries (UK, France, Denmark, Germany Sweden, Finland, Netherlands, France and Spain). Different legal rules and red-tape have prevented them from seeking money from investors beyond their national borders. The result is that these funds are still very small (5 times smaller than in the US) and are not helping to finance the economy as much as they could.

WHAT EXACTLY WOULD CHANGE?

- The EU proposes new legislation that will simplify the laws and reduce the red tape faced by managers of venture capital funds so they can easily raise capital across the whole of Europe and so better invest in European SMEs. Instead of having to comply with 27 national laws, they will be subject to a single and simplified regime. This will greatly facilitate their daily business while still ensuring that they are properly supervised.
- To get this right, managers of venture capital funds will need to register in the country where they are established. They will have to comply with some key requirements on how to organise and conduct themselves and on how to inform their investors about their activities and investment policies. The country where they are located will be responsible for making sure these rules are respected.
- Because investing in venture capital funds can be risky, the option of investing in EU venture capital funds will be restricted to professional investors. At this stage it is not envisaged that this option should be made available to retail investors.

WHO WOULD BENEFIT AND HOW?

- EU venture capital funds will be able to collect more capital, grow in size and hence invest more in innovative and creative EU SMEs.
- Professional investors will have access to more diversified and attractive investment propositions.
- The EU economy as a whole will benefit from this. SMEs with high growth potential will get the money they need. The EU will bridge an existing gap with its main competitors and so turn its proven capacity for innovation into more and more commercially successful products and services.

Why does action have to be taken by the EU?

- Adopting new rules allowing venture capital funds managers to be active all-across Europe is something only the EU can do. It will be key for deepening the finance market for innovative and creative SMEs.
- EU action is necessary to ensure funds can access investors across all markets.
- EU action is more effective than national steps for spurring greater consistency and clarity in the information made available for investors across all different national markets.

When is the proposal likely to come into effect?

- The new rules could be in place by the end of 2012.

The Commission proposal has to now be examined and decided on by the EU Council and the European Parliament before becoming law, so the precise timing might change.