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EU Commission

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Response to the public consultation on the EU venture and growth capital funds reform

CFA Institute welcomes the opportunity to contribute to this consultation.¹ Drawing on the input of over 14,000 CFA charter holders active in our 23 EU-based CFA societies, the Institute mobilizes unique and impartial cross-industry expertise in investment management.² National societies outside the EU, importantly in Switzerland and the UK, are also closely engaged in our EU policy work and contribute a valuable perspective on the integration of European financial markets.

Please also refer to recent publication on the Institute's Research and Policy Center in the area of private market investing and venture capital ([Private Market Investing | CFA Institute Research & Policy Center](#)), specifically our recent publications on governance in private markets as well as on ethics.

In sum: our broad recommendations for the reform of the AIFMD and EuVECA regime

Overall, we believe that the present framework of the AIFMD and of EuVECA contains a number of barriers and disincentives that explain the fragmented and narrow funding environment for innovative firms. A reform is key for the continued growth in the EU of innovative firms beyond the start-up phase and is already envisaged under the market integration and supervision package which we hope will progress quickly. This will need to be complemented by the various initiatives to lighten the regulatory burden on start-up firms and leverage public sector capital.

A reform of the fund management regime should first and foremost address the root causes of fragmentation and lack of integration in the alternative investment funds industry. This explains why contractual practices and investor protection provisions are inordinately more burdensome for funds with younger and innovative companies in their portfolios.

¹ With offices in Charlottesville, VA; New York; Washington, DC; Hong Kong SAR; Mumbai; Beijing; Abu Dhabi; and London, CFA Institute is a global, not-for-profit professional association of more than 190,000 members, as well as 160 member societies around the world. Members include investment analysts, advisers, portfolio managers, and other investment professionals. CFA Institute administers the Chartered Financial Analyst® (CFA®) Program.

² Our contribution benefitted from input from CFA Society Italy and Luca Grassadonia, CFA.

We also encourage the Commission to revisit the application of proportionality in the AIFMD. Thresholds by fund manager size have created ‘regulatory cliffs’ and may discourage growth.

As the reform revisits investor protection there should also be an acknowledgment that venture capital and growth funds have two distinct investment propositions. Venture capital finances often loss-making companies with no past record of profits and a very uncertain future. These companies need multiple rounds of equity financing before reaching profitability, if they reach that stage at all. By contrast, growth funds target established companies with some history of profitability. These companies need investment to unlock economies of scale and scope. Growth capital funds are typically minority investors that have limited use for the regulatory exemptions designed for venture capital. Putting the different investment philosophies in venture capital and growth funds under the same regulatory roof therefore risks muting beneficial effects in either category.

We therefore propose that the EU designated vehicle for venture capital (EuVECA) should be more clearly differentiated relative to all other investment products. EuVECA funds should have a more explicit provision in their documentation stating the high risks of the asset class. In this way, venture capital funds could be free to finance innovation without the fear to incur a breach of fiduciary duty caused by the failure of one or more of their invested companies.

Collecting input from our member societies we respond to the key questions in the public consultation.

Simplification and burden reduction in the EU framework for venture and growth capital managers (Q2)

Our members underline that EU asset management industry, and by implication financing capacity for growth companies, could benefit significantly from the simplification of both rules and supervisory processes without compromising investor protection. This echoes the findings of several recent studies that have documented the excessive complexity in the single rulebook, including in the area of fund management.³ In particular, CFA Institute supported a major study on ‘gold-plating’ which documented the numerous complications arising in the national implementation of AIFMD.⁴ Stricter scope, deeper supervision and heavier operational and reporting requirements have been imposed in several key member states.

We therefore strongly support the objective of the Commission’s market integration package of December 2025 to streamline the AIFMD implementation, making passporting near-automatic and centralizing supervisory powers in the interest of a level playing field.

³ See in particular the forthcoming task force report by ECMI, in which CFA Institute participated.

⁴ CFA Society Poland and Matczuk Suchta (2024): [2024-gold-plating-in-eu-capital-markets.pdf](#)

Irrespective of the scope and stringency of prudential rules, reporting requirements should also be simplified and duplications eliminated. ESMA should deploy ‘reg-tech’ and ‘sup-tech’ tools and guide the asset management industry’s implementation of matching processes.

A future ‘28th regime’ will also be especially relevant for venture and growth capital fund managers, as costly processes under national business law could be eliminated. An example is the role of the notary system in place in the main EU jurisdictions. It is a business practice for any round of venture capital financing to rewrite ex-novo the articles of association of the company receiving the funds. As the investment rounds grow, the contractual agreements can also grow to hundreds of pages long. Every time the company bylaws change, most EU states require that they pass through a notary, who would often need to read aloud the entire document in person to all parties involved. This makes it almost impossible for a venture-financed company to proceed beyond a third or fourth round of financing.

Regulatory actions regarding small and mid-sized AIFMs to encourage scaling-up and competitiveness (Q10)

CFA Institute and its member societies in the EU have historically and consistently advocated in favour of a more integrated and efficient EU asset management sector on the basis of the measures initiated with the market integration package: greater cross-border competition and marketing options, more centralized supervision in the interest of a level playing field and ability of fund managers to operate as a group structure without duplicating operations in several member states.

At present, the EU industry suffers from excessive fragmentation, with roughly 4,500 managers offering 35,000 funds. In comparison to the US, where alternative fund managers are roughly three times larger, this results in a relatively low average fund size, high costs due to a failure to capture scale economies, and insufficient diversification benefits.

A future AIFMD reform should make operations simpler, though not target specific sub-sectors of the industry through a further extension of proportionality. In particular, the smallest funds below the EUR 500 million threshold account for 93 % of the industry by number of funds, though only roughly a third of assets. Consolidation, reduction in costs and phasing out protective national supervision should clearly be the priorities. Growth of smaller players should not face disincentives and an optional transition period for a more onerous regime applying to larger funds could be considered. Enabling managers from different member states to jointly manage a fund or for smaller players to leverage synergies with partners elsewhere in the EU would be beneficial.

Trade-offs, drawbacks and risks from simplifying or streamlining regulatory requirements for small and mid-sized AIFMs, with specific reference to market integrity and investor protection (Q11)

In principle, CFA Institute welcomes the expanding access for retail investors to non-traditional assets such as startups and unlisted growth companies, as this could provide diversification benefits and attract more specialist investors. However, it is clear that a riskier asset classes should be accessible only by experienced investors, based on investor suitability criteria.

EuVECA, while mostly catering to professional investors, can be marketed to individual investors that commit a minimum amount of EUR 100,000. Unlike the new ELTIF regime it retains a *sui generis* investment threshold. This may well be a reasonable proxy for the loss-absorbing capacity that investment strategies aimed at illiquid assets with a high failure rate demand. Yet, we suggest that investor suitability definitions should ultimately be in a single piece of legislation under MiFID, avoiding fund-specific variations and national interpretation. The notion of a professional investor should be adapted to allow individuals with experience in the field of innovative and venture companies access to such investment, even though their track record in liquid and regulated markets may be more limited. In the context of the EU, high-net worth individuals concentrate significant wealth and are often experienced in the area of growth companies.

Differentiation by investment styles (Q 16)

We suggest that to the largest extent possible simplification and streamlining under this initiative be aimed at all AIF managers, irrespective of the investment style. The EU's AIFMD regime has created many artificial distinctions: by fund manager size, in an effort to impose 'proportional' requirements, but also due to diverging supervisory practices. Regulation should aim for a further consolidation and an asset management market that is 'contestable', i.e. which allows frequent and easier market entry and exit, which would encourage competition on product innovation and costs. A broad-based AIFMD simplification should support simplification and remove distinctions that create regulatory cliffs, or niche asset types. Reducing the administrative burden for smaller funds does not meaningfully increase their risk in the industry, as deal sizes are in any case very small.

That said, EuVECA itself is a niche product that warrants restrictive asset eligibility rules. There may be a case to differentiate the regime from that for growth capital funds. Venture capital funds invest in companies with little or no chance of profitability in the medium term. These companies need multiple rounds of equity financing and incur a serious risk of survival. Venture capital funds should be allowed to incur losses up to the total capital invested without the risk of incurring legal action from investors, because the risk profile of their investments is 'binary'. By contrast, growth capital funds are minority investors with a

standard risk/return framework who do not need special provisions. Putting these two groups together risks hindering the ability of venture capital funds to finance innovative but high-risk early-stage companies.

Differentiation by priority areas or on account of co-investment from a public body (Q17) and financing barriers in strategic sectors (Q19)

Our members broadly support the notion that innovation and growth finance will also need to be directed to public priorities. However, given the already high fragmentation of the asset management landscape, additional differentiation by sector or by virtue of co-investment by a public body such as the EIF or national development agency would only aggravate that problem.

Additional suggestions (Q22): the treatment of non-EU fund managers

We also encourage the Commission to revisit the treatment of investors and funds in third countries outside the EU. Regrettably, this aspect was not taken up in the December market integration package. There are important pools of long-term capital in other European markets, importantly, the UK and Switzerland. Linkages between non-EU markets on the one hand and the EU on the other are already extensive.⁵ Given the scarcity of long-term capital within the EU itself, more open capital markets are clearly in the mutual interest of the EU and third countries on its periphery. Facilitating inter-linkages would also utilize the scarce capacity and skills in the venture capital industry more efficiently.

As regards the UK, passporting for AIFs came to an end with the Brexit transition period. Complex national private placement regimes now determine cross-border marketing. The requirement to retain depositories and management companies in the other jurisdiction in addition makes cross-border marketing and integrated operations inefficient.

An EU-wide market access provision for non-EU managers, ideally in the form of a ‘third country passport’, would clearly be more efficient and predictable. Portfolios would become pan-European and greater cross-border access for fund managers would give the EU’s innovative and growth companies better access to institutional capital. The existing equivalence provisions within the revised AIFMD should be actioned by ESMA.

Additional suggestions (Q22): exit options

We also support future EU regulatory action to promote exit options for investors in private markets as these will be key for the further growth of venture and growth capital funds. As suggested in the Commission’s strategy for the Savings and Investments Union, a more

⁵ A recent study estimated that one quarter of VC investments into EU companies involved a UK-based investor with a similar share of investment in UK companies involving EU-based investors (New Financial, 2025: The interconnectedness of EU and UK financial markets).

innovative approach to equity exchanges may be needed to improve capital accessibility for smaller companies and offer private investors opportunities to engage with high-growth companies where public listings are not yet an option. An alternative exchange should extend to both exit options and raising of fresh capital for designated companies. Designing an additional venue for capital raising and secondary trading outside the public markets could build on the experience of the United Kingdom with its recently launched private capital exchange ('PISCES').

In sum, we believe the current approach of a light-touch EuVECA regime coupled with the tiered AIFMD regime still makes sense. But disclosure and investor protection provisions could be redesigned with a clearer recognition of the high-risk nature of venture capital companies. The broader flaws of the AIFMD regime, specifically the barriers to cross-border marketing, need to be addressed and regulatory thresholds as fund managers progress from the mid-sized to larger sized regime should not discourage growth. For young and innovative portfolio companies the easing of the national business and tax laws that facilitates scaling across the single market will be key.

Thank you for your consideration of our views and perspectives. We would welcome the opportunity to meet with you to provide more details. If you have any questions or seek further elaboration of our views, please contact Mr. Olivier Fines, Head of Advocacy and Policy Research at CFA Institute, at olivier.fines@cfainstitute.org.

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