Submission

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28 June 2013

To **European Commission - Directorate-General for Competition, Unit A.3 State aid policy and scrutiny**

Re **HT.3365 – SAM – GBER review**

Response to the Consultation on a draft General Block Exemption Regulation (the GBER) on state aid measures

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The European Private Equity and Venture Capital Association (EVCA) is a member-based, non-profit trade association that was established in 1983 in Brussels. EVCA is a member of the Transparency register (ID: 60975211600-74).

General remarks

The EVCA welcomes the publication by the Commission of the draft General Block Exemption Regulation (GBER) and the opportunity it is given to provide comments. The EVCA supports the greater flexibility reflected overall in the draft text of the GBER and the efforts made to simplify the Regulation. We hope these improvements may result in fewer formalities and pave the way for the future GBER to be more effective than the current regime.

In particular, the EVCA welcomes and supports:

- The fact that risk finance aid for SMEs better reflects actual market failures and the funding gap faced by small and medium enterprises (SMEs);
- The shift away from the previous threshold (an annual tranche of EUR 1.5 million per SME) which is an important step towards the recognition that funding gaps are in fact significantly higher and reach up to EUR 10-15 million. However, we still have some concerns regarding the absence of any time factor in assessing compliance with the notification threshold;
- The wider scope for the GBER, and the greater diversity of risk finance measures which may be exempted from the notification requirement. We understand that this does not exclude the possibility for *additional* types of risk finance measures to still be authorized after notification to the Commission, provided the conditions and requirements of the (future) Guidelines are met;
- The inclusion of specific provisions for aid to start-ups and scouting costs. Aid to start-ups is also important for SMEs which face significant struggles in terms of access to finance;
- The rules on cumulation of aid. Our understanding is that aid under Article 19, Article 20 and Article 21 GBER may be cumulated with one another, provided the relevant requirements are met, and that it may also be cumulated with other State aid measures granted (including Article 22 GBER).

Specific comments are provided below regarding the scope of the GBER, the reporting and monitoring requirements, the definition of eligible SMEs, the notification thresholds, the minimum private sector participation, the general conditions and the definitions used in the GBER. An Annex is included which provides suggestions for amendment of the draft GBER.

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Specific comments

1) Scope

The EVCA welcomes the willingness of the Commission to provide for a wider scope for the GBER, and to allow for a greater diversity of risk finance measures to be exempted from the notification requirement. We hope to see national authorities make use of this exemption which would result in fewer formalities and therefore a greater use of the possibilities that exist under the GBER. We understand that this does not exclude the possibility for additional types of risk finance measures to still be authorized after notification to the Commission, provided the conditions and requirements of the (future) Guidelines are met.

Under the draft GBER, the risk finance measure may take the form of equity or quasi-equity investments made in funds; guarantees for investors or financial intermediaries to cover losses from risk finance provided to eligible SMEs; loans to financial intermediaries providing risk finance to eligible SMEs; or fiscal incentives to independent private investors that are natural persons providing risk finance to eligible SMEs.

This is a significant broadening from the current regime, which only allows for direct participation into a fund to potentially benefit from the exemption.

We also understand that the risk finance may be used to support follow-on investments, which is an additional and useful clarification.

The private equity industry welcomes these changes, as well as the inclusion of scouting costs, which may also benefit from the exemption of the notification requirement within the limit of 50% of eligible costs, i.e. the same aid intensity as applied currently under the Guidelines. We suggest that this intensity be raised to 75%, and for the definition of scouting costs to be amended (see below).

We believe there is still room for improvement, in particular regarding fiscal incentives. In the draft only fiscal incentives to independent private investors are covered. This should be **extended so as to include fiscal incentives to financial intermediaries** (funds and managers). Investors that choose to pool their investments and to benefit from the expertise and experience of professional fund managers should enjoy the same treatment as those private investors investing directly.[1]

We suggest amending the GBER accordingly, and have made specific drafting suggestions in the Annex.

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[1] As the European Commission Green Paper on Long Term Financing of the European Economy makes clear, for some investors, investing via a fund can have significant benefits compared to direct investment (e.g. access to a wider range of asset classes; diversification benefits). Such investment choices should be made by the market and not distorted by the application of different regulatory (including state aid) regimes.

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2) Reporting and monitoring

We have some concerns with the reporting and monitoring requirements under Articles 12 and 13.

Although the required information is to be provided to the Commission by the national authorities, they are likely to rely on the beneficiaries (funds/managers) of the measure to provide the information.

Information regarding the investment at portfolio level may be provided by the relevant persons, but the 20-day time limit seems problematic (request from the Commission to the national authorities, request from the national authorities to the fund manager, who will then ask for the piece of information needed, and send it to the national authorities, who will then share it with the Commission; in some cases, an intermediate regional level may be present and add to the delay).

We therefore believe that **at least 40 days** should be allowed for this, at least where the national authority does not have the information and is required to approach beneficiaries. Further, fund managers may not always be fully aware of the way the GBER and State aid is to be applied and of the information which must be provided/may be requested. In any case, we consider that these provisions should not turn into an additional and burdensome requirement for fund managers.

3) Eligible SMEs

As a preliminary remark, we would like to comment on Article X GBER. The private equity industry **does not agree with the inclusion of this Article**, which we consider as counterproductive. Including would have a direct and detrimental impact on the scope of the Regulation, and introduce much legal uncertainty. We understand from this suggested provision that in cases where the SME becomes either a partner or a linked enterprise with a large enterprise, it would lose its SME status. The fact is that the exit course of an SME and the path it will take after receiving risk finance is not predictable; in some cases, successful rounds of financing (including risk finance) may lead to an SME being a linked or partner enterprise with a large enterprise. The threat of the loss of the SME status would reduce growth and development opportunities for some SMEs. The Commission must neither prevent nor punish the successful financing of SMEs. **Therefore, we strongly ask the Commission to remove this provision from the final text of the GBER.**

We welcome the efforts made by the Commission to refine the definition of eligible SMEs under Article 19(4) GBER. In particular, we welcome the fact that the GBER provides for three alternatives, rather than only one definition. Nevertheless, our main concern here is that an SME in need of financing may find itself falling outside the scope of Article 19 GBER; because its first commercial sale was more than five years ago, because it has a relatively high turnover due to secondary activities used to finance its main product/service, and/or because it does not wish to discontinue its previous commercial activities.

Sub-paragraph (a)

As discussed in previous submissions, the industry finds the 5-year figure under Article 19(4)(a) GBER to be an artificial and arbitrary limitation, irrelevant from a commercial perspective. We fear that, as a consequence, many undertakings with issues in access to finance may end up being deprived of support.

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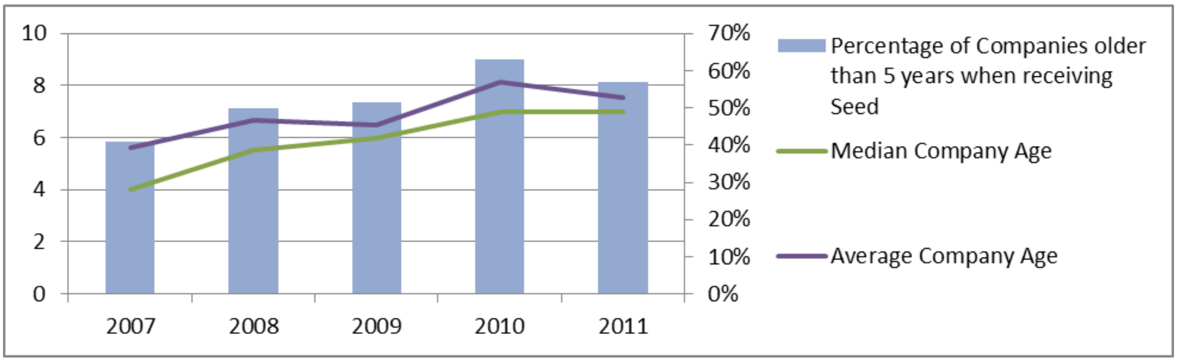
Venture capital funds do not invest solely to start a new company: the needs of SMEs are far more diverse than obtaining seed or start-up money. It is critical for all SMEs to have access to VC funding at all stages (of their life cycle) and at all times, and not to discriminate against medium-sized enterprises, so as to allow them to grow and be able to attract investors directly. Venture financing is needed throughout the whole lifecycle of a company, helping to start a business, allowing it to grow and then sustaining its growth. Such financing supports the transition of companies as they progress through this lifecycle.

Once the growth stage is reached, success is not automatic; growth takes time. An SME may very well have a growth opportunity or an acceleration of its business activity which requires significant financing after 6 or 7 years of relatively slow development after following their first commercial sale. Depending on its track record and its sector of activity, the undertaking may face the same constraints -in terms of market failure, funding issue, lack of collateral- as an SME which just entered a market and made its first sale. For some sectors (biotech, medtech), this may be all the more problematic, since it always takes many years (and several rounds of financing) for a product to reach maturity.

Taking the example of seed financing, it is very common to see investments made in companies that are older than five years (cf. chart and table below, regarding companies receiving a first round of seed investment). The five-year restriction would automatically “disqualify” the majority of companies at seed stage, which may further not be able to qualify under sub-paragraph (b). It is important to keep in mind that this stage marks one of the most difficult times for a company in terms of development – and the moment when state aid can be highly beneficial.

<u>CHART AND TABLE: Age of VC-backed Portfolio Companies receiving a first round of Seed Investment</u>

Company age



	2007	2008	2009	2010	2011
Median Company Age	4	5.5	6	7	7
Average Company Age	5.61	6.68	6.47	8.11	7.52
Number of Companies older than 5 years when receiving Seed	93	114	70	102	114
Number of Companies included for analysis*	228	229	136	162	200

*Companies that received Seed investment after 20 of more years since their foundation were excluded.

Ultimately, fundraising would also be at stake: the 5-year figure will act as an additional constraint on the strategy of the fund manager (which may be forced to forfeit interesting

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opportunities to invest), restrict diversification, and potentially disincentivise investors from investing in VC funds focused on early stages.

Sub-paragraph (b)

The second alternative provides for a mechanistic calculation with a percentage of the average annual turnover in proportion to the total financing provided under the risk finance measure.

First, this may give rise to some issues due to the starting point for this calculation (the registration of the SME). An SME may register and remain inactive or dormant for some time, even years, which will obviously impact the calculation of the average annual turnover. Second, this would mean that the higher the amount of funding provided, the higher the "eligible" turnover. This could then result in a bias in favour of larger funds. In any case, we do not consider that this criterion is the most appropriate to reflect the stage of development of an SME or its financing needs.

Sub-paragraph (c)

The third category offers an interesting alternative since it does not rely on a purely quantitative approach. Seeking support under the risk finance measure with a view to entering a new product market is a reasonable way to identify SMEs which need financing. However, the additional requirement of discontinuing their previous commercial activities would disqualify a number of SMEs which intend to diversify or expand and face a financing issue similar to those faced by a start-up.

We would therefore recommend **adding a fourth category** under Article 19(4) GBER, for SMEs which intend to enter a new product market and which have attempted to obtain funding but have been unsuccessful.

4) Notification thresholds

The EVCA welcomes and supports the fact that risk finance aid for SMEs better reflects actual market failures and the funding gaps. The shift away from the previous threshold (annual tranche of EUR 1.5 million) is an important step towards recognizing that funding gaps are significantly higher and reach up to EUR 10-15 million. However, we have some concerns regarding **the absence of any time factor in assessing compliance with the notification threshold**. In our opinion, this provision is also important because of its interaction with the Guidelines and the tendency to tailor schemes to fit within the general framework so as to avoid a detailed assessment (cf. the current Guidelines).

Under the current regime, annual investment limits provide a greater certainty in the calculation of the threshold. It means that there was a possibility for a "reset".

But under the new proposals, once the EUR 10 million cap is reached, there is no alternative or possibility to extend it. Even though the draft GBER allows some flexibility for follow-on investments, it may not be sufficient.

We acknowledge that this EUR 10 million figure would allow for a number of larger initial investments to be made and for the aid measure to be exempt from notification. This is especially important for sectors that are capital-intensive, and we look forward to seeing this being confirmed in the draft Guidelines. But the lack of time reference would be very unpractical, and make things very difficult for companies looking to attract funding over a longer

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period of time. This would affect those companies that are developing more capital intensive, longer duration technologies – biotech, renewable energy (e.g. marine turbines), materials technologies etc. In addition, it remains to be seen how this EUR 10 million notification threshold will interact with the Guidelines framework. Therefore, we would welcome the inclusion of a time reference: **EUR 10 million per SME over a two-year period under the GBER, and EUR 15 million per SME over a two-year period under the Guidelines**.

5) Minimum private sector participation

Our understanding is that Article 19(10) GBER sets out the minimum requirements in terms of private sector participation. We welcome the efforts made by the Commission to have a nuanced approach to the minimum private sector participation. The requirements vary from one stage to another (from 10% up to 60% depending on the characteristics of the SME which receives the financing). We welcome the low figure of 10% for seed capital and eligible SMEs prior to their first commercial sale on any market. However, we have some concerns regarding the practicality of the calculation (and the monitoring) of the 40% for risk finance provided to other eligible SMEs and the 60% for qualifying follow-on investments.

We feel that **further clarification** is required on how the criteria for these two thresholds should be applied in practice. If this clarification cannot be achieved then we would support, as an alternative, replacing these two thresholds with a single - and lower (50% might be an appropriate level) - requirement for the minimum private sector participation.

We also welcome the possibility to calculate and demonstrate the minimum private sector participation at the level of the SME and not only at the level of the fund. However, it is not entirely clear how this should be calculated. On an *ex ante* basis, requiring a certain percentage of private sector participation at SME level would be very difficult. In addition, it is not entirely clear what the "private independent investors" category covers (see below).

6) General conditions

The draft GBER includes a number of general requirements which must be met by the risk finance measure, the financial intermediary, the fund, the manager, etc. We would like to take this opportunity to remind the Commission of the fact that as of July 2013, the Alternative Investment Funds Managers Directive (AIFMD) will apply, which imposes a number of requirements on funds, in terms of reporting to investors, management and corporate governance, remuneration, etc. Therefore, it seems that parts of the new draft provisions result in redundant wording, or worse, may create contradictions. We call for simpler rules, coherent with the regulatory framework.

It is not clear how the selection of financial intermediaries, investors and managers may take place under the open, transparent and non-discriminatory call pursuant to Article 19(11)(a) GBER. First, we consider this requirement should not apply to all risk finance measures, and it should not apply to all participants in the risk capital measure: financial intermediaries and managers and investors should not be subject to such a requirement.

In addition, there seems to be a lack of coherence and an overlap between the categories identified under Article 19(11)(a) GBER, and the entities that may participate to the risk finance measure (cf. Article 19(2) (a) to (d) GBER). **We consider that sub-paragraph (a) of Article 19(11) GBER should be removed altogether**.

Regarding the management on a commercial basis (Article 19(13) GBER), we believe that paragraphs (b) and (c) are in contradiction. Paragraph (c) requires the manager to share "*part of*

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the investment risks by co-investing own resources on the same risk conditions as the public investor". We would like to recall here, in line with our previous submissions, that according to market practices, fund managers when co-investing will in fact be subject to a higher risk than the investors, since a hurdle rate applies before any benefit may be returned to the fund managers. Therefore, by requiring an alignment of the risk conditions under paragraph (c), the draft text goes counter the market practices referred to under paragraph (b). We ask therefore for the superfluous and contradictory part of paragraph (c) to be removed (cf. Annex).

Last, we find that sub-paragraph (e) is **too prescriptive and does not take into account the diversity of practices** which may exist amongst investment funds. In addition, the reference to financial intermediary creates some confusion whether the criterion is to be assessed in respect to the fund or to the management company. We have therefore made a suggestion for an amendment that provides clarity and greater flexibility in the way this criterion is assessed (cf. Annex).

7) Definitions

The comments provided here are made taking into account the content of the draft GBER. However, we assume that these definitions will also (at least partly) apply in the context of the future Risk Capital Guidelines. Therefore, the remarks below do not preclude additional comments on Annex I of the draft GBER once the draft Guidelines are published, in particular if the content of Annex I were to give rise to some issues regarding the interpretation and implementation of the (future) Guidelines.

Definition of "unlisted SME"

We would like to ask for a clarification regarding the "unlisted SME" requirement under Article 19(4) GBER. As per paragraph 70 of Annex I, "unlisted SME" means "an SME which is not listed on the official list of a stock exchange and for the purposes of this Regulation, an SME listed on an alternative trading platform specialized in SMEs is considered unlisted".

It is not entirely clear how an "alternative trading platform", which means "a stock market or investment vehicle specialised in the exchange of SME shares by facilitating the matching between investors and target SMEs", should be interpreted, for instance in regards to the MiFID Directive, and whether this is meant to be an all-encompassing provisions including all and any form of trading platform. Adding a cross-reference to the MiFID framework may prove useful, and help determine whether certain investments from venture capital funds benefitting from an aid fall within Article 19(4)(a) GBER or rather would count towards the 30% limit of Article 19(7) GBER.

Definition of "equity investment"

We take note of the fact that the definition of equity has been substantially amended. The new definition (of "equity investment") appears problematic from both a conceptual perspective and from a practical perspective. As a concept, we note that the reference to equity, which is mainly used under the current GBER to designate investments by funds into portfolio companies, is now also used to designate the capital contribution from investors (public, private) to the financial intermediaries (funds). A single concept is used to refer to two different movements of capital, which forms may significantly differ.

Further, and it is even more important, by using this new definition, according to which equity investments mean "*the provision of capital to an undertaking, invested directly or indirectly in*

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return for total or partial ownership of that undertaking and where the equity investor may assume some management control of the undertaking and may share the undertaking's profits" (our emphasis), there is a significant risk of seeing some funds falling outside this definition. In particular, the reference to management control may not always be relevant, especially for minority participations. There is no similar element in the current definition; we do not see the added value of this element. Rather, **we believe this wording to be potentially problematic and would like to see it removed from the definition** (cf. Annex).

Definition of independent private investor

According to the draft Guidelines, "independent private investor" means "*a private investor who is independent from the SME in which it invests, including financial institutions, irrespectively of their ownership, to the extent that they bear the full risk in respect of their investment*". This definition is not entirely clear, in particular regarding the way it may be interpreted in the context of Article 19(10) GBER, and the calculation of the private investor participation at the level of the SME. We also note that there is no clear definition of "financial institution" in this context. **We would therefore welcome a clarification of the definition, in a way that takes into account the application of Article 19(10) GBER**.

Definition of scouting costs

Regarding the definition of "scouting costs", we note that the new definition is more restrictive than that currently applied under the Guidelines. In the new definition, scouting costs mean "costs related to the scouting of SMEs prior to their first commercial sale or which have been operating for less than five years following their first commercial sale on a market, where such costs do not lead to an investment". We find that the restriction to SMEs prior to their first commercial sale or operating for less than five years acceptable. However, scouting costs exclude the legal and administrative costs of both the investment fund and the managers. We do not agree with the exclusion of the managers' costs, and consider that the fact that these costs are pre-due diligence costs which do not lead to an investment. **Therefore we ask for the removal of this reference to managers**.

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Annex - Suggestions for amendments[2]

Article 19 - SMEs' access to finance: risk finance aid

1. Risk finance aid shall be compatible with the internal market within the meaning of Article 107(3) of the Treaty and shall be exempt from the notification requirement of Article 108(3) of the Treaty, provided the conditions laid down in this Article and in Chapter I are fulfilled.

2. The risk finance measure may take the form of:

   (a) equity or quasi-equity investments made in financial intermediaries providing risk finance directly or indirectly to eligible SMEs; or

   (b) guarantees for investors or financial intermediaries to cover losses from risk finance provided to eligible SMEs; or

   (c) loans to financial intermediaries providing risk finance to eligible SMEs; or

   (d) fiscal incentives to independent private investors that are natural persons providing risk finance to eligible SMEs, or to investment funds and/or their managers providing risk finance to eligible SMEs.

3. The risk finance measure shall be open to all types of financial intermediaries fulfilling predefined criteria objectively justified by the nature of the investment and shall not discriminate between financial intermediaries on the basis of their place of establishment or incorporation in any Member State. This condition shall not apply to entities entrusted by a Member State with implementing the risk finance measure.

4. The risk finance measure shall target SMEs that at the time of the initial risk finance provision are unlisted and fulfill one of the following eligibility criteria:

   (a) have been operating in any market for less than [5] years following their first commercial sale; or

   (b) have achieved, since their registration, an average annual turnover not exceeding 10% of the total funding provided under the risk finance measure; or

   (c) have sought support under the risk finance measure with a view to entering a new product market and discontinuing their previous commercial activities on the basis of a business plan setting the terms and conditions of such a transition~~.~~; or

   (d) have sought support under the risk finance measure with a view to entering a new product market without discontinuing their previous commercial activities following unsuccessful attempts to obtain funding.

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2 Words underlined/barred indicate amendments.

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5. The risk finance measure may also support follow-on investments made after the 5-year period mentioned in point (a) of paragraph 4.

6. The risk finance measure may provide support for replacement capital only if the latter is combined with new capital representing at least [50]% of each investment round into the eligible SMEs.

7. For equity instruments falling under paragraph **Erreur ! Source du renvoi introuvable.**(a) of this Article, no more than 30% of the fund's aggregate capital contributions and uncalled committed capital shall be used for purposes other than the provision of risk finance to the eligible SMEs.

8. The provision of risk finance to the eligible SMEs may take the form of equity, quasi-equity investments, risk finance loans, or a mix thereof.

9. The total amount of risk finance referred to in paragraph 8 of this Article shall not exceed EUR [10] million per eligible SME over a two-year period.

10. The risk finance measure shall leverage additional finance from private independent investors at the level of the financial intermediaries or the eligible SMEs, so as to achieve an aggregate amount reaching the following minimum thresholds:

    (a) [10%] of the risk finance provided to the eligible SMEs prior to their first commercial sale on any market;

    (b) [40%] of the risk finance provided to the eligible SMEs referred to in paragraph 4 of this Article;

    (c) [60%] of the risk finance for follow-on investment after the 5-year period mentioned in paragraph 4(a) of this Article.

11. The risk finance measure shall fulfill the following conditions:

    ~~(a) financial intermediaries, investors and managers shall be selected through an open, transparent and non-discriminatory call aimed at establishing appropriate risk-reward sharing arrangements whereby asymmetric profit sharing shall be given preference over downside protection.~~;

    ~~(b)~~ (a) in the case of asymmetrical loss-sharing between public and private investors, the first loss assumed by the public investor shall be capped at [20%] of its total investment;

    ~~(c)~~ (b) in the case of guarantees falling under point (b) paragraph **Erreur ! Source du renvoi introuvable.**, the guarantee rate shall be limited to [50]% and total losses assumed by a Member State shall be capped at [20]% of the underlying guaranteed portfolio.

    ~~Point (a) shall not apply to entities entrusted by a Member State with implementing the risk finance measure.~~

12. For risk finance measures involving financial intermediaries, the following conditions shall be fulfilled in order to ensure profit-driven financing decisions:

    (a) the financial intermediary shall be established according to the applicable laws and a due diligence process shall take place to ensure a commercially sound investment strategy, including an appropriate risk diversification policy aimed at

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achieving economic viability and efficient scale in terms of size and territorial scope of its portfolio of investments; and

(b) risk finance provision to the eligible SMEs shall be based on a viable business plan, containing details of product, sales and profitability development, establishing *ex-ante* financial viability; and

(c) a clear and realistic exit strategy shall exist for each investment.

13. Financial intermediaries shall be managed on a commercial basis. This is considered to be the case when the following conditions are fulfilled:

(a) the manager must be independent, professional and obliged by law or contract to act with the diligence of a professional manager and in good faith; and

(b) the manager's remuneration shall conform to market practices; and

(c) the manager shall receive a remuneration linked to performance, or shall share part of the investment risks by co-investing own resources ~~on the same risk conditions as the public investor~~;and

(d) there shall be an agreement between the manager and investors, setting out the investment strategy, criteria and the proposed timing of investments; and

(e) private investors shall be represented in the decision-making, such as through an investors' or advisory committee~~ governance bodies of the investment intermediary in proportion to their participation~~, but shall not be involved in the day-to-day financing decisions.

The condition laid down in point (b) shall be presumed to be met when the manager is selected through an open, transparent and non-discriminatory competitive call, based on objective criteria linked to experience, expertise and operational and financial capacity.

14. A risk finance measure providing guarantee and loan instruments falling under paragraph 2(b) and (c) of this Article shall fulfill the following conditions:

(a) the financial intermediary shall be able to demonstrate on the basis of its previous 3-year financial statements that the loan portfolio supported under the risk finance measure includes a significant number of SMEs which, in the light of its internal rating criteria, would not have been financed without the measure;

(b) the nominal amount of the loan is taken into account in calculating the maximum investment amount for the purposes of paragraph 9.

Article 20 - SMEs' access to finance: aid for start-ups

1. Start-up aid schemes shall be compatible with the internal market within the meaning of Article 107(3) of the Treaty and shall be exempt from the notification requirement of Article 108(3) of the Treaty, provided the conditions laid down in this Article and in Chapter I are fulfilled.

2. Eligible undertakings shall be unlisted enterprises up to five years following their registration, which have not yet distributed profits and have not been formed through a merger and which are:

(a) small enterprises; or

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(b) small and innovative enterprises, within the meaning of this Regulation.

3. Start-up aid shall take the form of:

(a) loans with interest rates, which are not conform with market conditions, up to five years duration and up to a maximum nominal amount of EUR [2] million, or EUR [3] million for undertakings established in assisted areas fulfilling the conditions of Article 107(3)(c) of the Treaty, or EUR [4] million for undertakings established in assisted areas fulfilling the conditions of Article 107(3)(a) of the Treaty;

(b) guarantees with premiums which are not conform with market conditions, up to five years duration and up to maximum EUR [3] million nominal amount, or EUR [4.5] million for undertakings established in assisted areas fulfilling the conditions of Article 107(3)(c) of the Treaty, or EUR [6] million for undertakings established in assisted areas fulfilling the conditions of Article 107(3)(a) of the Treaty;

(c) grants, interests rate and guarantee fee reduction up to EUR [0.4] million gross grant equivalent or EUR [0.6] million for undertakings established in assisted areas fulfilling the conditions of Article 107(3)(c) of the Treaty, or EUR [0.8] million for undertakings established in assisted areas fulfilling the conditions of Article 107(3)(a) of the Treaty.

4. For small and innovative enterprises, the maximum amounts set out in paragraph 3 may be doubled.

5. A beneficiary may receive the aid only once during the period in which it qualifies as a start-up.

Article 22 - Aid for scouting costs

1. Aid covering part of scouting costs shall be compatible with the internal market within the meaning of Article 107(3) of the Treaty and shall be exempt from the notification requirement of Article 108(3) of the Treaty, provided the conditions laid down in this Article and in Chapter **Erreur ! Source du renvoi introuvable.** are fulfilled.

2. The eligible costs shall be the costs of scouting or initial screening prior to formal due diligence undertaken by professional private fund managers or investors to identify target undertakings prior to the due diligence phase

3. Aid may take the form of a grant.

4. The aid intensity shall not exceed ~~[50]~~75% of the eligible costs.

Submission

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CREATING LASTING VALUE

Definitions

55. 'equity investment' means the provision of capital to an undertaking, invested directly or indirectly in return for total or partial ownership of that undertaking ~~and where the equity investor may assume some management control of the undertaking~~ and may share the undertaking's profits;

66. 'scouting costs' mean costs related to the scouting of SMEs prior to their first commercial sale or which have been operating for less than five years following their first commercial sale on a market, where such costs do not lead to an investment. Scouting costs may not include the legal and administrative costs of the investment fund~~ or its managers~~;

68. 'quasi-equity investment' means a type of financing that ranks between equity and debt, having a higher risk than senior debt and a lower risk than common equity and whose return for the holder is predominantly based on the profits or losses of the underlying target undertaking and which are unsecured in the event of default. Quasi-equity investments can for instance be structured as debt, unsecured and subordinated and in some cases convertible into equity, or as preferred equity;