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LONG TERM INVESTORS

On behalf of the Public Affairs Executive (PAE) of the EUROPEAN PRIVATE EQUITY AND VENTURE CAPITAL INDUSTRY

6 July 2020

Feedback on the European Commission's Draft Delegated Regulation - Strengthening the consideration of sustainability risks and factors for financial products (Regulation (EU) 2017/565)

As a starting point, we would like to note that private equity fund managers are typically regulated under the Alternative Investment Fund Managers Directive (AIFMD). However, some private equity businesses or sub-businesses might also operate under a MiFID licence. Private equity firms holding a MiFID licence, in the vast majority of cases, provide only a few limited investment services, such as the reception and transmission of orders and investment advice. They cannot hold client money or securities, they do not generally need to deal or take portfolio management decisions and their clients' investments are not likely to be affected by short-term market movements. Such firms could include adviser/arranger firms that assist private equity funds and their managers to invest into companies and may assist third parties to invest in private equity funds.

Private equity firms that hold a MiFID licence are generally smaller firms when compared to other investment firms as they typically have a very small number of professional advisory clients (which could just be a fund manager in the same group as the adviser/arranger). This is in contrast to investment firms with a large number of retail clients.

Bearing the above in mind, Invest Europe welcomes the high-level, principles-based approach adopted by the European Commission. We prefer such an approach to one that is overly prescriptive. It provides a certain level of flexibility, which is key to enable financial market participants to implement the requirements in a way that is in line with their business needs and supports the needs of their individual portfolio companies.

As regards the specific provisions:

- **Definitions:** We welcome the recognition of materiality in the definition of sustainability risks. The determination of materiality is investment entity and situation-specific: materiality may vary considerably depending on the ESG issue in question, the timeframe, the investment practice and strategy, market/sector/industry, country/geography, supply chain, company and exposure to natural resources. Materiality should be considered in each specific case and each investment needs to be assessed qualitatively on its merits.
- **Organisational requirements:** We support the recognition that these requirements should be complied with bearing the proportionality principle in mind, i.e. taking into account the

nature, scale and complexity of the business of the firm, and the nature and range of investment services and activities undertaken in the course of that business.

- We have no particular concerns regarding the other proposed amendments.



Contact

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About the PAE

The Public Affairs Executive (PAE) consists of representatives from the venture capital, mid-market and large buyout parts of the private equity industry, as well as institutional investors and representatives of national private equity associations (NVCAs). The PAE represents the views of this industry in EU-level public affairs and aims to improve the understanding of its activities and its importance for the European economy.

About Invest Europe

Invest Europe is the association representing Europe's private equity, venture capital and infrastructure sectors, as well as their investors.

Our members take a long-term approach to investing in privately held companies, from start-ups to established firms. They inject not only capital but dynamism, innovation and expertise. This commitment helps deliver strong and sustainable growth, resulting in healthy returns for Europe's leading pension funds and insurers, to the benefit of the millions of European citizens who depend on them.

Invest Europe aims to make a constructive contribution to policy affecting private capital investment in Europe. We provide information to the public on our members' role in the economy. Our research provides the most authoritative source of data on trends and developments in our industry.

Invest Europe is the guardian of the industry's professional standards, demanding accountability, good governance and transparency from our members.

Invest Europe is a non-profit organisation with 25 employees in Brussels, Belgium.
For more information please visit www.investeurope.eu.

