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LONG TERM INVESTORS

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

29 January 2021

AIFMD consultation

Accompanying paper on the importance of maintaining the *de minimis* threshold in the AIFMD, coupled with an appropriately tailored and proportionate treatment of sub-threshold fund managers

Note: *This paper aims to supplement the industry's official response to the European Commission consultation on the AIFMD review, in particular Questions 16 to 18.1, and intends to highlight the importance of maintaining (i) the de minimis threshold in the AIFMD at its current level, and (ii) an appropriately tailored and proportionate treatment of sub-threshold fund managers.*

KEY MESSAGES

- Invest Europe strongly supports the distinction between above and sub-threshold funds as it recognises that for fund managers with assets below €500 million the costs associated with application of the AIFMD would simply not be sustainable.

- Private equity and venture capital firms which manage AIFs with AuM below €500 million (the *de minimis* threshold applicable to closed-end, unleveraged AIFs) generally do not have the organizational size and sophistication to take on the requirements attached to being a full-scope licensed AIFM.

- Sub-threshold fund managers, including venture capital firms, should continue to be protected from unjustified and excessive regulatory burdens, and rules intended for very different entities, posing very different risks.

- Lowering (or removing) the *de minimis* threshold risks driving small managers out of business, as such putting in grave jeopardy their ability to continue to support the creation, growth and development of entrepreneurial and innovative companies (in particular SMEs) in order to create long-term value.

- Similarly to private equity funds, smaller managers do not pose a systemic risk. Each of the investments undertaken by a manager is shielded from impacts from other investments, i.e. there is no cross-collateralisation, and in a customary fund set-up the assets of the AIFM and

Place du Champ de Mars 5
B-1050 Brussels, Belgium
T +32 2 715 00 20
F +32 2 725 07 04
www.investeurope.eu
info@investeurope.eu
European Transparency
Register: 60975211600-74

the AIF are separated in different entities. Please also see our responses to Questions 72 and 83.

- Investors in private equity and venture capital funds have an extraordinarily strong position towards the AIFM. The fund documentation is negotiated in depth and contains many protections for investors (including cause and no-fault removal, key person provisions, as well as GP oversight by a limited partners advisory committee).

- Imposing the full AIFMD on the venture and growth capital industries would effectively negate all the past support the EU has given to this important ecosystem. Smaller managers pursuing a venture capital, growth or similar strategy provide essential funding for developing European businesses and help to fill the funding and development gap for SMEs. By making a valuable contribution to the funding of SMEs that are looking to expand and develop, they play an important role in the long-term success of European SMEs.

- The threshold has been established for many years and market participants have adjusted their behaviour accordingly. The EuVECA and EuSEF Regulations prove that there is room for risk- and size-adjusted regulation for smaller managers.

- Large public investors, such as the EIF, recognize the suitability of the framework and invest in funds managed by sub-threshold managers.