

Banking Competitiveness Package: improving bank's ability to support EU competitiveness

A targeted revision of the prudential treatment of long-term, diversified equity fund investments.

Executive summary

- In the context of the Savings and Investment Union, EU credit institutions can - and should - play a **stronger role as indirect investors in start-ups and scale-ups**. Currently, banks account for less than 6% of total venture capital fundraising and allocate less than 0.1% of their capital to long-term equity.
- By limiting banks' ability to act as indirect investors in start-ups and scale-ups, the EU framework not only **weakens competitiveness** but also **forces innovative companies to rely more heavily on foreign capital** due to the insufficient depth of EU capital markets.
- Even from a prudential perspective the current rules are also problematic. The CRR framework indeed makes it **comparatively more attractive for EU banks to invest in riskier direct assets** rather than in diversified long-term equity fund portfolios.
- Invest Europe proposes a targeted 190% risk weight for qualifying productive diversified fund assets under Article 132, subject to clear eligibility and long-term holding safeguards.

Context

Long-term equity investments are essential to Europe's competitiveness. They support innovation, digitalisation, strategic technologies and industrial transformation. Venture capital and private equity provide patient capital, operational expertise and scale-up financing that debt alone cannot deliver.

Banks can support this ecosystem indirectly by allocating a (very) limited share of their balance sheets to diversified portfolios of professionally managed funds. This helps channel capital to European companies while preserving the diversification, governance and risk-management benefits of a fund structure.

The prudential framework should recognise this distinction. A bank investment in a diversified long-term fund is not economically equivalent to a concentrated direct equity position in a single private undertaking. Adapting CRR to this logic would **align it to other EU prudential frameworks**, such as Solvency II, which gives a specific treatment to certain portfolios based on defined characteristics.

The current CRR makes banks uncompetitive also because it prevents banks to be investors in EU innovation

Under Article 132, a bank investment in a collective investment undertaking may be treated using:

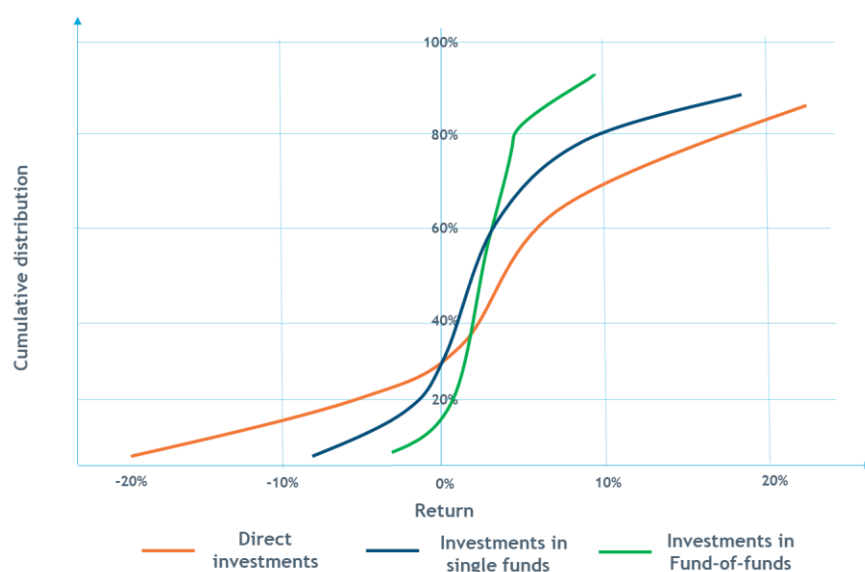
- **Look-through approach.** The institution applies the relevant CRR risk weights to the fund's actual underlying exposures when sufficient information is available.
- **Mandate-based approach.** The institution constructs a conservative hypothetical portfolio from the fund mandate and investment limits when actual holdings are not known.

- **Fallback approach.** Where the required information is not usable, the fund exposure can attract a 1,250% risk weight.

For private-market funds, the last two routes may not provide a workable or proportionate outcome. Daily or sufficiently granular holdings information will typically not be available to long-term funds, making the mandate-based approach irrelevant to those. The look-through approach is overly complex and incredibly confusing, with references (like the term “venture capital firms”) which do not correspond to the realities of investments.

Why changes will matter

From a risk-assessment perspective: The future framework should better recognise the risk-mitigating benefits of diversification. Research indicates that larger portfolios of underlying funds reduce return dispersion and the probability of capital loss, and that diversified fund structures can be materially less risky than direct investments.



Source: Historical performance analysis of private market investments (Golding Capital, Cambridge Associates, 2022)

From a sovereignty perspective: EU long-term equity managers do not, unlike their US counterparts, have the possibility to raise funds from wide EU capital markets, nor will they have that opportunity in the short-term, however successful the Savings & Investments Union agenda. Implementing Basel in the same way as the US, without considering the fundamental limitations to EU managers’ fundraising ability, deprives EU managers from one crucial source of financing. The consequence is twofold: either EU managers become dependent on foreign (US) capital markets to fundraise, or US managers will increase their competitive advantage against EU ones, with the consequence of accelerating the take-over of EU scale-ups by US entities.

A targeted solution: productive diversified fund assets

Create a dedicated treatment in Article 132 for qualifying long-term fund exposures. This would sit alongside the look-through and mandate approach and before the punitive fallback, allowing a 190% risk weight where the vehicle’s legal form or binding investment features provide robust evidence of diversification and long-term investment.

A fund exposure would qualify for the 190% risk weight where either:

- the fund is marketed as a European Long-Term Investment Fund (ELTIF) or a European Venture Capital Fund (EuVECA); OR
- the fund's binding rules provide that it:
 - invests in at least a certain number of issuers or non-listed companies with the objective of potentially acquiring control over those companies. (a **diversification** criteria); and
 - does not grant redemption rights exercisable during the five-year period following the date of the bank's initial investment; (a **long-term** criteria)

The two routes are designed to be alternative gateways. Regulated labels provide one natural, objective basis for eligibility. Where no such label is used, the vehicle must satisfy the cumulative diversification, illiquidity and investment-strategy safeguards.

A simple approach with clear safeguards

No broad equity subsidy. The 190% treatment would be limited to vehicles with objective features demonstrating diversification and long-term investment. Ordinary equity and higher-risk direct equity would remain subject to their applicable Article 133 treatment.

Fallback retained. The 1,250% fallback would remain available where the institution cannot use look-through and the vehicle does not meet the qualifying criteria.

Supervisory verifiability. Eligibility should be evidenced through the fund rules, instruments of incorporation, marketing status and investor documentation, giving supervisors a clear basis for review.

Simplicity. Compared to the current over-complex framework, banks would immediately be able to assign a risk weight to certain funds. This could make these investments less costly to make, irrespective of the actual risk weight, as it would require less computation from the bank's perspective.

Why 190%? The calibration is grounded in an established CRR precedent. The former Article 155 assigned a 190% risk weight to private equity exposures in sufficiently diversified portfolios under the internal **ratings-based** framework. Reusing that calibration for a narrowly defined category of qualifying diversified fund assets would recognise diversification without creating a general preferential treatment for equity.

Suggested legislative approach

The precise numbering should be aligned with the structure of the forthcoming banking package. The following drafting illustrates the intended policy outcome.

Proposed new Article 132 paragraph

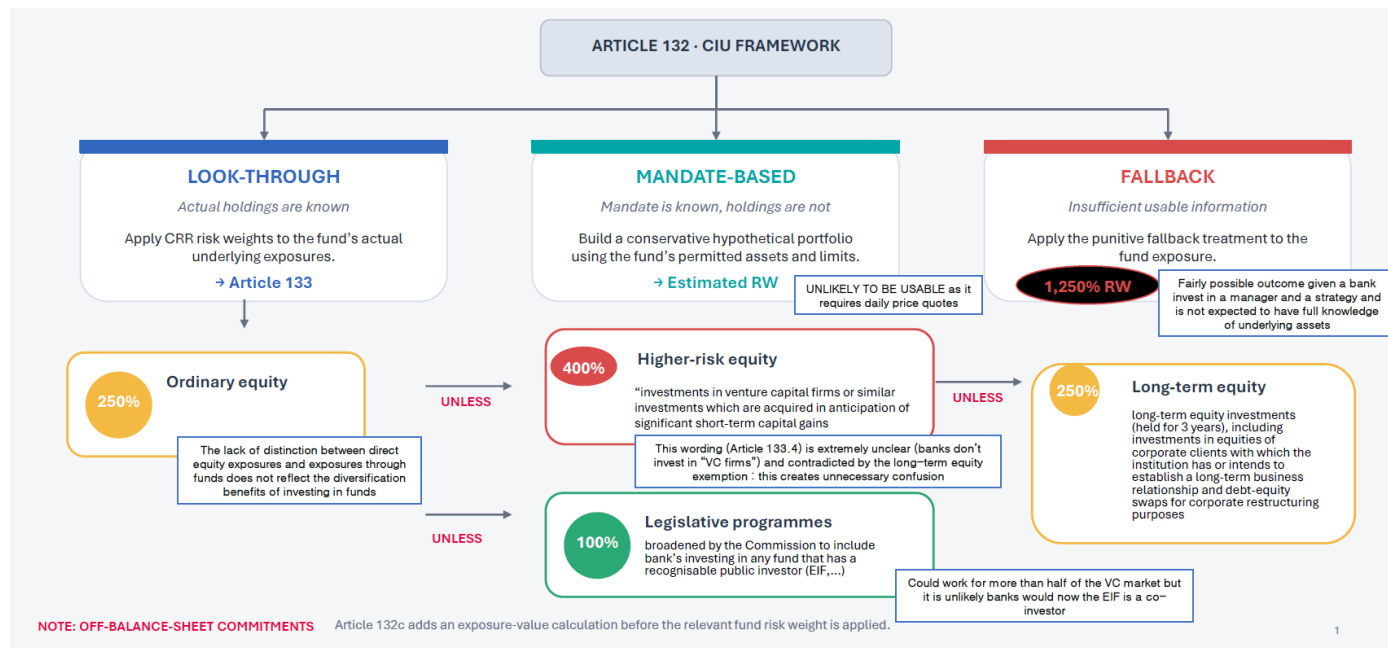
1. By way of derogation from the mandate-based approach and the fallback treatment, an institution may assign a risk weight of 190% to an exposure in a productive diversified fund asset where the conditions set out in paragraph 2 are met.
2. For the purposes of paragraph 1, a productive diversified fund asset shall mean an exposure to a collective investment undertaking that:
 - (a) is marketed as a European long-term investment fund in accordance with Regulation (EU) 2015/760 or as a qualifying venture capital fund in accordance with Regulation (EU) No 345/2013; or
 - (b) the collective investment undertaking meets the following characteristics:

(i) it is non substantially unleveraged and the credit institution has no redemption rights exercisable during a period of 5 years following the date of initial investment

(ii) it invests in more than 10 issuers or non-listed companies in order to potentially acquire control over such companies

3. The institution shall verify compliance with paragraph 2 at the time the exposure is originated and on the basis of the information available to it thereafter. Where the conditions cease to be met, the institution shall apply the otherwise applicable treatment under this Article.

Current situation



Potential future

