

# BETTER FINANCE responds to Commission's Call for Evidence on European venture and growth capital funds reform

18 March 2026

## Executive Summary

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BETTER FINANCE welcomes the Commission's continued efforts towards deeper, better integrated financial markets, where individual investors can find a greater diversity of cost-efficient investment opportunities.

The Commission's intention to review the regulatory framework for venture and growth capital funds—small AIFs and EuVECA funds—is much welcome, as the scaling up of these funds is an essential part of the emergence of truly vibrant pan-European capital markets. Ensuring that the managers of these funds face no undue barriers to their development is, then, essential.

But regulatory requirements that ensure a high-degree of protection to individual investors are never an undue barrier. To the contrary, they are an asset for the EU inasmuch as they create a legal environment that fosters trust.

It is individual investors' money that is invested in venture and growth capital funds, even though indirectly: institutional investors channel EU citizens' savings. Whatever "simplification" is implemented to ease fund managers' operations, it must maintain a high degree of investor protection.

*Keywords : EuVECA, AIFMD, venture capital, growth funds, alternative investment funds, private equity*

## About BETTER FINANCE

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BETTER FINANCE — the European Federation of Investors and Financial Services Users — is the voice of European citizens as savers, investors, and financial users at the EU level. Working independently from the industry, BETTER FINANCE serves as an independent hub of financial expertise for the direct benefit of individual shareholders, investors, savers, life insurance policyholders, pension fund participants, and mortgage borrowers across Europe. Their work aims to promote research, information, and training on investments, savings, and personal finances to lawmakers and the public. BETTER FINANCE counts 40 independent, national, and international member organisations, sharing similar objectives from the EU Member States as well as Iceland, Norway, Turkey, Lebanon, and Cameroon.

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## BETTER FINANCE comments

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BETTER FINANCE, as the leading representative of individual investors' interests to European Union (EU) institutions, wishes to share some comments on the Commission's intention to review the framework applicable to venture and growth capital funds.

To start with, BETTER FINANCE reiterates its support for the development of deeper, more integrated capital markets in the EU, which, we believe, holds the key to more efficient financial intermediation, an efficiency that we hope will benefit EU citizens generally, especially in their quality of investors. Enabling the development of a sizeable venture and growth capital fund sector, active on a pan-EU scale is key to this development; we then welcome the Commission's review and its intention to make scaling up easier for these funds.

Even though venture and growth capital funds are usually marketed to institutional and not retail investors, we must remind that the latter are the clients of the former, which means that, at the end of the day, it still is retail investors' money that is invested into venture and growth capital funds. It is then paramount for regulation and supervision of these funds ensure a high degree of investor protection. News about the troubles of private asset funds in recent weeks, which comes after months of financial intermediaries promoting retail investments in this fund universe, makes us doubt that lowering safeguards is a good idea.

Harmonising requirements across Member States, but also, to the extent possible, across legal instruments on fund management—AIFMD, EuVECA, ELTIF, etc. would greatly contribute to facilitating scale ups. Before even speaking of any “simplification”, aligning requirements on fund registration, reporting and governance, for instance, would simplify fund managers' operations.

A proportionate approach to regulation and supervision is necessary. But proportionality must be a function of the level of risk and complexity of a fund manager's business, not its size. Considering the risk profile of venture capital funds, alleviating requirements that are intended to protect the interests of investors seems misguided. The requirement to use the services of a depository is a requirement that we consider essential for the protection of investors and which should be considered as a default setting for fund management.

Therefore, rather than bluntly and increasing the applicability threshold of the AIFMD framework—which would shift the problem of cliff effects without solving it—, we invite the Commission to examine possible ways to spread the application of requirements over a series of thresholds so that a fund manager does not have to “swallow the lot” of AIFMD when crossing the EUR 500 million threshold. We also invite the Commission to examine the opportunity to differentiate thresholds based on the risk-profile of funds, taking into account that funds of a same size may have very different risk profiles depending on the types of assets they hold.

To conclude, we remind the Commission that the expansion of capital markets it seeks rely, fundamentally, on individual investors' participation. Trust is essential for

that; the “simplification” efforts of the Commission should foster, not harm, trust, otherwise there is little chance of the SIU becoming a success story.