



Capital for Scale: Reforming Europe's Venture and Growth Funds

European venture and growth capital funds reform: Call for Evidence

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European startups continue to struggle to raise large rounds domestically, face incentives to relocate for financing, and experience slower fundraising timelines than their global competitors. This reform, aimed at addressing the obstacles faced by EU venture and growth capital funds, including under specific frameworks such as EuVECA and related AIFMD/AIFMR rules, as well as prudential regimes affecting institutional investors, should therefore be judged against three concrete outcomes:

1. Does it increase the availability of large growth rounds within the EU?
2. Does it allow startups to scale from Europe without relocating?
3. Does it shorten fundraising timelines and reduce structural barriers to growth?

If these outcomes do not improve materially, the reform risks being administratively useful but economically marginal. Venture and growth capital policy should therefore be treated as a competitiveness instrument within the Union's broader capital markets agenda.

Two safeguards should guide the process. First, venture-specific frameworks must be preserved and strengthened. Second, harmonisation must genuinely simplify rules across the Single Market. The reform should therefore address the functioning of EuVECA, the interaction with AIFMD thresholds and requirements, and the fragmentation created by divergent national fund regimes.

1. Increasing the availability of large growth rounds

The problem

European scale-ups often struggle to secure very large rounds from domestic investors. One structural reason is that regulatory design can discourage venture funds from growing in size or building pan-European vehicles. Where compliance burdens rise sharply once funds pass certain thresholds, for instance, when managers cross the full-scope AIFMD authorisation threshold or face more stringent reporting and capital requirements under sectoral rules, managers may limit expansion or avoid raising larger successor funds.

This contributes to smaller follow-on reserves, fragmented syndicates, and stronger reliance on non-European investors for later rounds.

Policy implications

Regulation should distinguish more clearly between long-term venture and growth funds and more complex investment strategies. Size thresholds alone do not capture this distinction and can unintentionally penalise equity vehicles investing in unlisted companies over long horizons.

For venture and growth funds, the regulatory framework should rely more on strategy-based criteria, such as a closed-end structure, limited or no leverage, and investment in illiquid equity or equity-like instruments of unlisted companies. Where these characteristics are met, reporting obligations, own funds requirements and organisational rules should be calibrated accordingly rather than determined primarily by assets under management.

In this context, the current AIFMD thresholds, particularly the EUR 500 million level, merit reconsideration for venture and growth strategies. The framework can bring relatively modest managers into a regime not designed for their business model.

A dedicated growth corridor for venture and growth funds between EUR 500 million and EUR 5 billion would allow managers to raise larger vehicles without facing a sudden increase in regulatory burden. Managers should also be able to continue managing existing investments when thresholds are crossed, rather than being forced into immediate full-scope AIFMD authorisation during a fund's lifecycle.

Institutional investors such as pension funds and insurers are essential to this process. Large growth rounds require deep pools of capital, which depend on frameworks that allow these investors to participate in venture and growth funds through simple structures, predictable reporting and workable cross-border access while maintaining strong investor protection.

Together, these adjustments would support the formation of larger European vehicles capable of leading EUR 50 to 200 million rounds and remaining long-term partners as companies scale.

2. Allowing startups to scale from Europe without relocating

The problem

A persistent share of high-growth European startups still relocate holding structures or headquarters outside the Union at later growth stages. This shift is rarely driven by talent or market access. More often, it reflects investor preference for familiar legal systems, uneven shareholder practices across Member States, and the practical difficulty of structuring large rounds in a fragmented environment.

Differences in company law, shareholder rights and fund passporting arrangements for cross-border capital raising can complicate transactions that would otherwise be routine in more integrated markets.

When relocation becomes part of the financing strategy rather than a business decision, Europe risks losing not only corporate headquarters but also long-term innovation capacity, investment ecosystems and broader economic spillovers.

Policy implications

If the Union wants startups to scale from Europe, financing them here must be as straightforward as elsewhere. Today, relocation often simplifies investor engagement rather than improving access to talent or markets.

The reform should therefore prioritise legal certainty, predictability and efficient deal execution across Member States. Raising large rounds within the Union should become the natural first option.

This reinforces the importance of EU-level fund labels and passports, particularly EuVECA and related frameworks, being operationally attractive for both managers and investors. When these tools function effectively, they allow large pan-European vehicles to become the default mechanism for financing scale-ups.

Strengthening confidence in Europe's scaling environment would support the Union's broader competitiveness objectives and help ensure that growth occurs within, rather than outside, the Single Market. The Commission may therefore wish to consider how company law tools, fund passports and capital markets rules can jointly support scaling paths that allow high-growth companies to remain headquartered in Europe.

Success should ultimately be reflected in fewer European scale-ups relocating their holding structures primarily for financing reasons.

3. Does it shorten fundraising timelines and reduce structural barriers to growth?

The problem

Fundraising timelines in Europe remain longer and less predictable than in competing ecosystems. This is often the result of operational and regulatory complexity rather than limited investor appetite.

Managers raising capital across several Member States frequently encounter divergent procedures, repeated onboarding requirements and inconsistent supervisory expectations. Examples include differences in marketing notifications, investor categorisation tests and anti-money laundering or know-your-customer requirements applied throughout the fundraising chain.

These frictions slow capital formation and increase structuring costs. For startups, the effects are tangible, including delayed hiring, smaller funding rounds and weaker competitive positioning.

Policy implications

The reform should focus on making fundraising across the EU simpler in practice, not only in legal design. Several frictions that slow fundraising are linked to EU-level rules, particularly in relation to fund marketing, investor categorisation and the interaction between distribution frameworks. Others arise primarily from national supervisory practice.

The reform can still address both dimensions. At the EU level, a more consistent interpretation of marketing passports and notification procedures would already reduce delays. Common guidance on investor categorisation and clearer interaction between product labels and distribution rules could further improve predictability for cross-border fundraising.

Where operational complexity stems largely from national implementation, the Union can encourage convergence and interoperability. Repeated onboarding procedures illustrate this problem: limited partners investing in several jurisdictions often undergo identical identity and compliance checks multiple times through different intermediaries.

Promoting interoperable digital onboarding systems, allowing verified identity and KYC information to be reused where appropriate, would significantly reduce duplication. A practical pan-European marketing passport with simple procedures, predictable timelines and limited additional host state requirements would further help managers raise capital efficiently across several Member States within a single fund.

4. Protecting the specific nature of EuVECA

The EuVECA regime remains one of the few EU instruments designed specifically for venture capital investment in innovative and smaller enterprises. Its value lies in this focus, and it should remain centred on early and growth stage equity investment.

Preserving this orientation is essential if EuVECA is to continue supporting investment in Europe's fast-growing companies.

Despite this potential, EuVECA adoption has remained limited. The priority should therefore be to strengthen the framework and make it operationally attractive while maintaining its venture-specific purpose.

Where the Union has clear competence, particularly regarding the EU passport, investor categories and core label conditions, EuVECA could function more effectively as a European wrapper around national fund structures. Such an approach would allow managers to raise capital and invest across borders while relying on existing domestic vehicles.

Several targeted adjustments could increase the framework's usefulness. The current assets under management threshold could be raised so successful managers are not forced out of the regime prematurely as they grow. Expanding eligible investments to include small mid-caps and companies listed on SME growth markets would also support follow-on financing for scaling firms.

Simplifying access for institutional investors would further strengthen the regime. Clarifying prudential treatment and reducing operational barriers such as host state registration requirements would make participation easier for pension funds and insurers.

Clearer alignment between EuVECA and the broader AIFMD framework is also important. Managers operating funds under both regimes should not face conflicting obligations when scaling their activities.

Finally, avoiding national gold-plating remains critical. If Member States add additional conditions beyond the core framework, EuVECA risks losing its value as a genuine European passport and becoming merely another layer on top of national regimes.

5. Harmonisation must mean simplification

Harmonisation should reduce the overall compliance burden across the Union. If EU-level rules lead primarily to upward convergence towards the most restrictive national regimes, the result may be slower capital formation rather than greater integration.

A more effective approach would draw on the most efficient existing practices within the Single Market. Integration should simplify the regulatory environment rather than create additional layers of requirements.

In practice, this means that EU rules governing venture and growth funds should avoid duplicating obligations already present under AIFMD, MiFID or anti-money laundering frameworks. Proportionality is particularly important so that smaller and mid-sized venture managers are not disproportionately affected by rules designed for larger or more complex market participants.

The reform should also maintain a clear discipline against national gold-plating. Harmonised rules should be benchmarked against efficient existing practices and introduced only where they demonstrably reduce cross-border friction.

The effectiveness of the Single Market ultimately depends on reducing operational barriers rather than standardising complexity.

6. Conclusion

From a startup perspective, the value of this reform will be judged in practical terms. It should make it easier to raise large rounds within Europe, allow companies to scale without relocating, and enable capital to move more quickly and predictably across borders.

Achieving these outcomes requires regulatory design that reflects the specific nature of venture investment, supports the emergence of larger pan European funds, and ensures that cross border fundraising works smoothly in practice.

By strengthening venture specific tools such as EuVECA, ensuring proportionate treatment for long term venture and growth funds, and making harmonisation deliver genuine simplification, the Union can significantly improve its capacity to finance innovation at scale within its own market.

If Europe wants its most ambitious companies to grow at home, the financing environment must allow capital to scale alongside them.