FRANCE INVEST
Investors for growth

A stronger, greener and more innovative, more equitable and inclusive Europe:

FRANCE INVEST
16 RECOMMENDATIONS
TO THE NEW EU LEGISLATURE
IN ORDER TO UNLEASH THE POTENTIAL OF PRIVATE CAPITAL MARKETS ACTORS ACROSS EUROPE

2024

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Editorial

As the European elections approach, it is imperative to envision a more resilient, competitive, innovative, and inclusive Europe to confront the unprecedented geopolitical, economic and demographic challenges which Europe faces.

In particular, the European Union (EU) must address the very substantial funding needs arising from the green and digital transitions, as well as cater to the growing financial needs of an aging population.

With EU governments still highly indebted and EU funding programmes at near maximum capacity, a large part of this funding needs, can, and will have to come from the private sector. The French private capital market (including private equity, venture capital, private debt, and infrastructure), as a leading force in the EU private capital market, can be a true catalyst for economic growth by building greater funding and investment capacity in Europe. It can further propel innovation, foster further job creation, and further contribute to overall prosperity by providing funding and expertise to French and European businesses to help them navigate transformations at every stage of their development.

At France Invest, we are convinced that now is the right moment to chart a clear and positive course that positions European private capital markets as a force for economic resilience, sustainable growth, and positive societal impact in Europe. This year of institutional renewal, which will also mark France Invest's 40th anniversary, provides an opportunity for EU politicians and policymakers to play a decisive role in shaping a regulatory environment that creates the right conditions for private capital to be more fully deployed and better targeted at responding to the significant funding gaps that have been identified.

Our manifesto presents 16 recommendations that would equip our industry to support them on that journey, proposing policy actions that encourage long-term investment, supporting European businesses that contribute not only to shareholder value but also to the broader economic well-being of our continent. We are committed to strengthen the economy and the wealth of the French people in a sustainable manner and eager to constructively engage to further elaborate on such recommendations.

Bertrand Rambaud
Chairman of France Invest

Foreword

In a context of severe constraints on public spending, resulting in particular from the sanitary and energy crises, and on bank lending, as well as a challenging macro-economic and geopolitical outlook, **unlocking the full potential of the EU venture capital, private equity, infrastructure and private debt (VC/PE) sector is essential** for the mobilization of much-needed private and patient capital into our economy as it can contribute to build:

- **a stronger Europe in the world**, by fostering Europe's economic growth, competitiveness and and industrial sovereignty;
- **a greener and more innovative Europe**, environmentally sustainable and fit for the digital age, by supporting businesses to complete their twin green and digital transition;
- **a more equitable and inclusive Europe,** where people can benefit more in the value that VC/PE generates and where diversity, equity and inclusion are more widely adopted.

Some initiatives undertaken under the current mandate, such as the review of the AIFMD and the ELTIF Regulation, have been helpful, but **much more can and should be done to further incentivise and remove barriers to European VC/PE deploying its full capacity**.

Initiatives are needed **at all levels of the VC/PE value chain** to improve the environment and make the EU more attractive and competitive for businesses, investors and employees. Supported by a legislative and regulatory framework that is clear, harmonized, and provides the appropriate incentives towards the green and digital transitions and complemented by proposals to encourage value sharing.

As a leader in Europe in terms of fund raised and invested and number of companies and projects funded which positively impact growth and jobs, French VC/PE actors are particularly well placed to make the following **16 recommendations** to unleash the potential of VC/PE actors across Europe.

France Invest's 16 recommendations to the new EU legislature – at a glance

A STRONGER EUROPE IN THE WORLD

1	Review the **definition of SMEs** so that SMEs backed by VC/PE can benefit from the same public support as other SMEs.	High priority
2	Make business founders better aware of the role **VC/PE as a transmission tool** and encourage the reinvestment of business sale proceeds into fund financing business transfers in order to facilitate business transfers to the next generation.	High priority
3	**Harmonise insolvency laws** to foster cross border investment and provide better support to companies in complex situations.	Medium priority
4	Develop a balanced and secure regulatory framework **fostering the participation of retail investors in capital markets** and European VC/PE funds.	High priority
5	Alleviate the **prudential requirements attached to long term investment** for banks, insurers and pension funds to facilitate their investment in VC/PE funds and take the specificities of VC/PE into account when reflecting on any macroprudential framework for non-banks.	Medium priority
6	Enhance the FDI and Foreign Subsides frameworks to create a more **favorable environment for international capital raising** by VC/PE funds.	High priority
7	Enhance the law-making process, rationalise the regulatory framework for EU VC/PE and ensure its harmonised implementation and supervision as well as its competitiveness.	Medium priority
8	Make the **fiscal framework applicable** to VC/PE fit for purpose.	Medium priority

A GREENER AND MORE INNOVATIVE EUROPE

9	Establish a simple and consistent regulatory framework for sustainable finance and focus on **encouraging commitment and transition**.	High priority
10	Increase the **digital resilience** of European companies and make them embrace AI.	High priority
11	Take the opportunity of the review of the EuVECA Regulation to incentivise **investment in innovative European businesses**.	Medium priority

A MORE EQUITABLE AND INCLUSIVE EUROPE

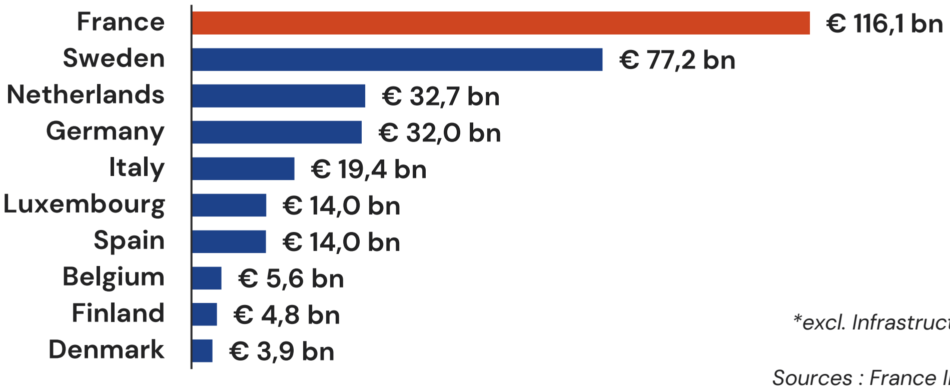
12	Improve the **financial education** of retail investors and ensure the adequate training of distributors to allow the former to benefit from more diversified and attractive investment solutions.	High priority
13	Make the framework on due diligence duty proportionate and adapted to financial players in order to encourage the **just transition** of European companies.	Medium priority
14	Further reflect on the possible development of a social Taxonomy.	Medium priority
15	vFoster the deployment of value-sharing mechanisms, for example through the introduction of a charter at EU level, in order to encourage **sharing the value** created with employees.	High priority
16	Foster diversity (gender parity, age, disabled people...) in unlisted management and portfolio companies by setting ambitious targets.	Medium priority

France is a leader in the EU for venture capital, private equity, infrastructure and private debt financing (VC/PE)

- French venture capital and private equity is a leader in the EU in terms of funds raised and funds invested*.

Funds raised in Europe (2018-H1 2023)**

France, the leading venture capital & private equity market in the European Union

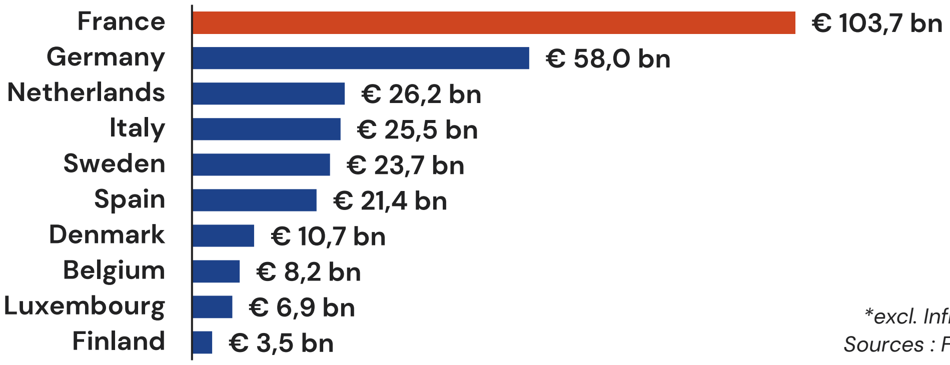


*excl. Infrastructure and private debt
**European Union
Sources : France Invest / Invest Europe

- French venture capital and private equity* is a leader in the EU in terms of number of companies and projects funded.

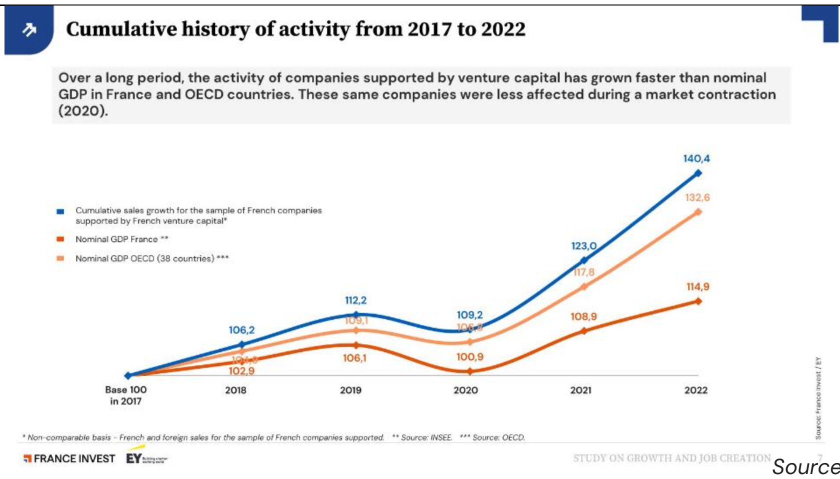
Investment in Europe (2018-H1 2023)

France, 1st market by invested amount and number of companies backed



*excl. Infrastructure and private debt
Sources : France Invest / Invest Europe

- French venture capital and private equity* represents a key driver of growth and a source of employment for the French and European economy.



*excl. Infrastructure and private debt
Sources : France Invest / EY

France Invest puts forward 16 key recommendations to future policy makers in order to unlock the full potential of the European VC/PE sector.

I. A stronger Europe in the world

VC/PE actors help small and medium-sized businesses grow, by providing them with patient investment and expertise that give them a long-term investment perspective and helps them through complex, sometimes life-threatening situations. It is a positive catalyst for improved competitiveness and for channelling investment into strategic sectors. The full potential of VC/PE should be unlocked in order to foster Europe's economic growth, enhance its competitiveness and achieve greater strategic autonomy and more robust industrial sovereignty. This requires policies that create a positive environment for both the companies that benefit from VC/PE support and the investors in VC/PE.

1. Create a positive environment for VC/PE actors to be able to more fully support European SMEs at each stage of their life-cycle

VC/PE represents a source of much needed financing for SMEs, in combination with other types of funding, including public subsidies. It supports non-listed businesses at the different stages of their life cycle, including in the context of their transmission to the next generation or in case of complex situations.

a. Put an end to the discriminatory treatment of start-up companies and SMEs backed by VC/PE so that they can benefit from public support

Conditions to access **State aid** are particularly important for EU start-ups and scale-ups. Attention should be paid to the discriminatory regulatory treatment of start-ups and scale-ups which are backed by venture capital in order to ensure that they can benefit from the same advantages as other SMEs with regards to public subsidies. The **definition of SMEs should be revised** on the occasion of the review of the general block exemption regulation (GBER), and a more flexible approach adopted for SMEs whose securities are held by a VC/PE vehicle. This is critical in the context of the green transition and of an unstable geopolitical environment, to ensure that all SMEs have access to green State aid and liquidity and private financing instruments to weather energy and other crises.

> **Recommendation 1**
> Review the definition of SMEs so that SMEs backed by VC/PE can benefit from the same public support as other SMEs.

b. Facilitate business transfers to the next generation

VC/PE can help business owners transfer their company to the next generation, by providing the capital needed to support the purchase of a business or the required expertise and management support. The experience of VC/PE players also allows them to advise companies on the most adequate deal structuring. In particular, VC/PE may present an alternative solution to selling businesses to third parties and their relocation abroad, by offering transmission solutions to employees[1].

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[1] *Over the next 10 years, 700,000 businesses will be up for sale in France. Today, 36 % of company managers are over 60 and 55 % of managers plan to sell their business within the next two year. The current dominant model of business transfers is a transfer to a third party (80 % of business transfers). Transfers to family members or employees represent 20 % only of all business transfers. Furthermore, 41 % of entrepreneurs over 50 have no knowledge of the business transfer process.*

To this end, **company founders should be made better aware**, at an early stage, of the different types of transmission options available to them and in particular of the role that VC/PE can play in supporting the transmission of their businesses. In addition, **the reinvestment of business sale proceeds received by founders, following the sale of their own business, into funds financing the transfer of other businesses, should be facilitated,** for instance through fiscal incentives.

> **Recommendation 2**
> Make company founders better aware of the role of VC/PE as a transmission tool and encourage the reinvestment of business sale proceeds into funds financing business transfers, in order to facilitate business transfers to the next generation.

c. Support companies in complex situations

When needed, VC/PE actors can also help businesses to survive and rebound. However, diverging national insolvency frameworks make it harder for them to assess the credit risk attached to companies when making cross border investments. The efficiency and attractiveness of EU capital markets would benefit from **increased convergence of EU insolvency laws**. Increased predictability will contribute to fostering investment in EU companies.

> **Recommendation 3**
> Harmonise insolvency laws to foster cross-border investment and provide better support to companies in complex situations.

2. Make the framework more favourable for VC/PE to raise more capital from retail, institutional and international investors

In order to provide funding to European companies, VC/PE actors need first to raise capital from investors. In the current context, VC/PE, as a form of investment that is more meaningful, can prove particularly attractive to retail, institutional and international investors.

Our data shows that the investor base of VC/PE is evolving, with a greater share of both retail and international investors – whilst large institutional investors remain its largest investor group. That said, the investment potential of institutional investors remains constrained. Moreover, international investment opportunities are not being fully exploited[2].

a. Raise more capital from retail investors across the EU

In spite of its benefits for companies, for the economy and for investors, VC/PE still represents a very limited share of households' savings in France and in Europe, whether they are invested in this asset class directly or through intermediaries (such as employee saving schemes, life insurance contracts or pension schemes). However, VC/PE has attracted interest from individual investors and family offices for many years. In this context, access to VC/PE should be promoted to a wider investor base, not limited to institutional investors and affluent individuals, in a context of diversification of their investments.

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[2] *In 2022, our members raised €41.5 billion from investors, for an average investment term of 5 years. As in 2021, individuals and family offices, with 19 % of direct subscriptions and via life insurance, confirm their interest in private equity (excluding infrastructure). The attractiveness to international investors is confirmed, who represent 55 % of the funds raised (compared to an annual average of 49 % over the last 10 years).*

The recently agreed update to the **European Long-Term Investment Funds (ELTIF) Regulation** should, in theory, alleviate constraints on the demand side and ease retail investor access to long term funds such as VC/PE vehicles. It is crucial that it is implemented so that the benefits of this label can indeed be reaped by both managers and investors.

In addition, the European Commission's **retail investment strategy** has the potential to further empower consumers and attract their greater participation in EU capital markets. We, however, believe that the Commission's legislative proposals will need significant improvements if this is to be the case. In particular, in addition to maintaining a fee-based model (i.e. withdrawing any ban on inducements) and adapting the value for money concept (including removing any cap on fees and expenses and reconsidering the development of benchmarks for VC/PE at this early stage), we call for a review of the definition of professional investors in order to make more clients eligible to that status. We also call for a streamlined key information document, concise in length and adapted to the specificities of the VC/PE asset class.

Last, the review of the **Pan European Pension Product** (PEPP) should be an opportunity to encourage future pensioners to increasingly invest in VC/PE.

Recommendation 4
Develop a balanced and secure regulatory framework fostering the greater participation of retail investors to capital markets and European VC/PE funds.

b. Raise more capital from institutional clients across the EU

VC/PE offers institutional investors, such as insurance groups, credit institutions and pension funds, solutions to invest in long-term, sustainable investments that benefit the small and medium-size companies that VC/PE actors support. Indeed, VC/PE closed-ended, long term structures are particularly well suited to the needs of long-term institutional investors.

The insurance sector is a major source of institutional investment potential for SMEs and innovative companies, yet there are still significant regulatory constraints that limit investments by these institutional investors into VC/PE funds. It is important that the ongoing **Solvency II** review leads to better calibration of the criteria allowing insurers to set up "long-term equity portfolios" subject to a preferential capital charge.

In the same way, the prudential regime applying to **banking institutions (CRD/CRR)** should be revised and the risk weightings that apply to banks' investments in VC/PE funds under the standard model reconsidered.

Furthermore, the upcoming review of the **Institutions for Occupational Retirement Provision (IORP) Directive** should be an opportunity to increase the limit of investments in alternative asset classes applicable to pension funds. Also, work on any future guidance on the inclusion of different asset classes to newly developed defined contribution schemes should take into account the advantages offered by the VC/PE asset class.

It will also be important to ensure that any potential future review of the EU **macroprudential regime for non-banks** does not seek to replicate the prudential framework applicable to banks to asset managers and takes account of the specificities of VC/PE – so as not to further restrict the source of institutional investment into Europe's economy.

Recommendation 5
Alleviate the prudential requirements attached to long term for banks, insurers and pension funds to facilitate their investment in VC/PE funds and take the specificities of VC/PE into account when reflecting on any macroprudential framework for non-banks.

c. Raise more capital at international level

VC/PE players can raise capital not only from European retail and professional investors but also from international clients. Therefore, it is important that the flow of international investments into European funds is not unduly impeded.

Due to its lengthy and burdensome checks, the **EU's foreign direct investment (FDI) screening mechanism** may make some cross-border investments harder to make. We call for a uniform EU approach to FDI screening, which would be a most welcomed substitute to the existing patchwork of national schemes.

The **Regulation on foreign subsidies** should be clarified so as to provide more visibility and not impede/slow down investments by sovereign funds or public pension funds into EU VC/PE vehicles.

Recommendation 6
Enhance the FDI and Foreign Subsides frameworks to create a more favorable environment for international capital raising by VC/PE funds.

3. Adopt a regulatory approach which enhances Europe's competitiveness and contributes to its autonomy by channelling EU financing towards key strategic sectors

VC/PE funds invest into businesses and bring them their expertise with a view to re-sell them. As a consequence, they aim to turn their investee companies into more competitive and resilient businesses, thus participating to making Europe's more competitive and reinforcing its strategic autonomy.

VC/PE funds are a great support for companies in strategic or innovative sectors, such as industrial, digital and healthcare sectors, and contribute to the development of the green tech sectors, leading on today's and tomorrow's critical industries.

a. Make the regulatory framework applicable to VC/PE adequate and competitive

It is key that EU savings are used to finance the EU economy and that they are not for the largest part exported. The EU regulatory framework applicable to VC/PE should be further streamlined and harmonised in order to be more competitive – ensuring that EU savings find attractive investment solutions in the EU first. Also, players should be provided with increased visibility and sufficient time to adapt to any regulatory changes. In the same way, consistency should be ensured, and similar obligations should not be replicated in different pieces of legislation; in particular, reporting obligations should be rationalised.

In this context, the preparation of any new piece of legislation should undergo a "competitiveness check", comprising a check that the **competitiveness of European VC/PE players and vehicles** is not undermined. In addition, the ESAs' mandate should be updated to explicitly take into account the competitiveness of **the EU supervisory and regulatory framework**, including avoiding any duplication, inconsistencies and unnecessary compliance burden for financial institutions. This would send a strong signal to reinforce the attractiveness of the EU vis-à-vis international investors and enhance the legibility of European rules.

Recommendation 7
Enhance the law-making process, rationalise the regulatory framework for EU VC/PE and ensure its harmonised implementation and supervision as well as its competitiveness.

b. Make the fiscal framework applicable to VC/PE fit for purpose

Ensuring that European tax rules are fit for purpose in light of an increasingly globalised economy is key for VC/PE funds, which have highly varied investment value-chains and diverse investments in companies in all parts of the EU and beyond. VC/PE deals often involve companies and assets in multiple countries, leading to complex cross-border tax issues. For instance, withholding taxes and differing tax laws among countries can create challenges in optimising tax structures.

In addition, the digital transformation of the global economy comes with significant challenges for the existing international tax system. The digital taxation debate is likely to reshape the tax policy landscape as we know it. This is important for VC/PE funds as any rules are likely to have a bearing on the companies they invest in.

Generally speaking, European standards must take into account the specific features of VC/PE funds. **VC/PE funds should not be treated by European regulations as entities comparable to commercial companies**, and regulations should take account of the fact that they are vehicles managed by their managers on behalf of investors.

The Business in Europe Framework for Income Taxation (**BEFIT**) is going to create a single corporate tax rulebook for the EU. Such corporate tax reform will undoubtedly affect the companies that VC/PE funds invest in. However, funds should not be treated as companies, and should not be included in the scope of consolidation of fund managers, which do not own the fund assets but manage them on behalf of their investors. In addition, we propose considering **tax deductions for the companies that can contribute to the green and digital transition**. Last, we believe that the right tax framework for **stock options** would contribute to start-ups and scale-ups' attracting and retaining talent and promote venture capital funding.

Recommendation 8
Make the fiscal framework applicable to VC/PE fit for purpose.

II. A GREENER AND MORE INNOVATIVE EUROPE

Committed to innovation and operational improvement, VC/PE allows companies to unlock their potential. It can provide businesses with strategic guidance, expertise, and resources, and help them navigate the environmental, digital and competitiveness transitions more smoothly and rapidly. As investor and shareholder, VC/PE is a catalyst for business transformation.

1. Further incentivise the full deployment of the EU VC/PE potential to contribute to building a more environmentally sustainable Europe

Over the past five years, there has been a considerable increase in legal and regulatory initiatives put forward by the EU to connect finance with sustainability and to tackle the climate crisis.

Given its business model focused on long-term and active ownership, VC/PE is particularly well suited to integrating and managing ESG matters. It brings businesses financing and expertise with a view to re-sell them. As a consequence, it has a natural incentive to accompany them on their transition journey towards becoming more environmentally sustainable, as the value of companies which do not meet sustainability criteria at the time of resale will be reduced. In other words, VC/PE can play a crucial role in helping the EU achieve its sustainability goals.

However, there is a risk that some EU measures have a very broad impact and end up disincentivising firms from pursuing a responsible investment strategy. In any case, it is of utmost importance to ensure a **smooth articulation of the different sets of rules** so that all actors involved understand how they interact. In addition, measures aimed at channelling retail investments should be simplified and better explained.

Achieving the Net Zero objective will require colossal investments in sobriety, energy efficiency and the massive deployment of low-carbon energies. VC/PE is a key player in achieving these objectives and providing financing, particularly in the form of equity capital, especially to SMEs and midcaps. Indeed, it plays a key role in helping companies make the transition. We need to focus on encouraging commitment and transition. To this end, several actions should be taken:

- Any changes to the EU's demanding and robust framework for sustainable finance must be designed with the end goal in mind and ensuring capital flows are directed toward helping companies transition to Net Zero, i.e. the information needed to enable savers to make an informed choice.

- Some EU measures risk having a very broad (and sometimes disproportionate) impact, and ultimately deterring companies from pursuing a responsible investment strategy. It is therefore of the utmost importance to ensure a **harmonious articulation of the different sets of rules**. In particular, definitions, concepts and obligations should be harmonized. In addition, measures aimed at channelling retail investments need to be simplified and better explained.

- The concept of **transition, of investing in transition, of supporting companies in their transition, must be as much a priority** as investment in "green" activities. Companies need capital to decarbonize.

- Start-ups, SMEs and midcaps form the economic backbone of the European Union. These **unlisted companies cannot be expected to meet the same obligations as larger companies**. Company transition plans should be robust and adapted to the size of the companies. The regulatory framework should enable innovation and flexibility in the use of tools and methodologies for defining greenhouse gas reduction trajectories, as long as they are scientifically robust, to ensure that every company can find a path towards Net Zero.

- Lastly, the Commission should capitalise on the upcoming revision of the **SFDR Regulation** to create a framework that is clearer for investors, in particular retail ones, that enables a better recognition of the value of providing capital to companies in hard-to-decarbonise sector to help their transition to net-zero, while also providing a degree of regulatory stability and, where appropriate, grandfathering clauses, especially for funds closed to marketing, as well as a transition period to comply with any new rules, to ensure a smooth transition to the new regime.

Recommendation 9

Establish a simple and consistent regulatory framework for sustainable finance and focus on encouraging commitment and transition.

2. Further incentivise the full deployment of the EU VC/PE potential to contribute to accelerating the digital transformation of the EU

Achieving the digital transformation of businesses, in particular SMEs, is one of the key pillars underpinning Europe's digital strategy and targets for 2030[3]. VC/PE will play a crucial role in mobilising private finance that can support this transition.

While making a positive impact on the digital transformation of businesses, VC/PE can also play a key role in helping bridge the sustainability and digital gap, for example by investing in clean techs, which in turn helps achieve climate targets.

a. VC/PE can help businesses enhance their digital resilience and embrace Artificial Intelligence (AI)

VC/PE provides companies not only with financing but also with valuable expertise and, in particular, fosters the development of innovative businesses, increases R&D and fosters entrepreneurship, innovation and competitiveness.

For instance, the funding infused by VC/PE can be allocated for technology upgrades, implementation of digital systems, and hiring specialised talent to drive the digital strategy forward. VC/PE can also bring businesses access to experts in technology and digital trends. It can offer them strategic guidance, help them identify the most impactful digital initiatives and navigate technological challenges, and adopt best practices. Moreover, VC/PE can assist companies in identifying potential acquisition targets or strategic partnerships in the digital space, helping them to access to new technologies, customer bases, or complementary services that expedite their digital transition.

Focusing on improving operational efficiency, VC/PE can help companies streamline their processes by implementing digital tools and automation, leading to cost savings and increased productivity. Further, as the transition to a digital-centric environment often requires new skill sets, VC/PE can support businesses in recruiting top digital talent or providing training programs to upskill existing employees, ensuring they are equipped to handle digital technologies effectively.

Coupled with State aid, VC/PE can finance innovative SMEs, increase their digital resilience and make them embrace AI.

Recommendation 10

Use VC/PE coupled with State aid as a catalyst for financing innovative SMEs in order to increase the digital resilience of European companies and make them embrace AI.

b. VC/PE can support innovative businesses which display a strong potential for growth and expansion

The capacity of VC/PE to support innovative businesses should be enhanced, in particular by easing cross border fund raising and facilitating investment in companies which display a strong potential for growth and expansion. The upcoming review of the **EuVECA Regulation** will certainly be an opportunity not to be missed.

In France, most VC/PE managers are authorised as "full AIFMs" and, as such, currently make a limited use of the EuVECA label. The Regulation will have to be overhauled in order to provide them with real incentives to adopt it more widely. For instance, broadening the scope of funds that qualify as

[3] See "2030 Digital Compass: the European way for the Digital Decade"

EuVECA could attract more investors and fund managers. This might include considering adjustments to fund size limits, allowing more types of funds to qualify, or relaxing certain restrictions to accommodate various investment strategies. A standardised approach to registration, reporting, and compliance requirements, making it easier for fund managers to operate across borders, would also be helpful. In addition, investor education initiatives to empower investors to make informed decisions should be considered.

Recommendation 11
Take the opportunity of the review of the EuVECA Regulation to incentivise investment in innovative European businesses.

III A MORE EQUITABLE AND INCLUSIVE EUROPE

In addition to delivering competitive returns for savers and pensioners, VC/PE is a cornerstone of the European economy, active in every region and every major business sector across the EU. By backing local companies, it supports and protects jobs and creates value for both investors and society as a whole.

1. Enhance the ability of VC/PE to offer individuals more diversified and more attractive investment solutions

VC/PE offers attractive solutions and returns[4], in a context of an ageing population, where opportunities to invest in a diversified range of asset classes should be encouraged to achieve returns that ensure sufficient pensions. It often has longer term horizons compared to more traditional investments and provides diversification benefits. VC/PE offers citizens with solutions to their needs, which can in turn help address social challenges.

As explained previously, the capacity of life insurers and pension funds to invest in VC/PE should be unlocked and the participation of retail investors to capital markets facilitated. Such an increased participation of retail investors to capital markets should take place together with an improvement of their financial education as well as an enhancement of the training of distributors.

Recommendation 12
Improve the financial education of individuals and ensure the adequate training of distributors to allow retail investors to benefit from more diversified and attractive investment solutions.

2. Enhance the ability of the EU VC/PE sector to encourage the just transition of European companies

a. Create long-term sustainable value

French VC/PE shares the goal of fostering growth based on a just transition. The criteria defining a sustainable economic activity should ultimately, in addition to environmental considerations, **include social and governance issues**. VC/PE funds typically invest in companies over a 5-7 year horizon and can therefore contribute to transforming the economic activity of their portfolio companies into a sustainable economic activity.

[4] www.franceinvest.eu/en/net-performance-of-french-private-quity-players-in-2022/

We fully support the objective to enhance the focus of companies on long-term sustainable value creation and help them to better manage sustainability-related matters in their own operations and value chains as regards social and human rights, climate change and environment. In this context, we welcome the work completed by both the Commission and the Parliament with regards **sustainable corporate governance** and support the introduction of an EU legal framework on due diligence duty. However, it is crucial that its introduction is timely, proportionate and takes into account existing EU and national regulations as well as self-regulation and best practices.

Recommendation 13
Make the European framework on due diligence duty proportionate and adapted to financial players in order to encourage the just transition of European companies.

b. Consider developing a common classification for social and governance objectives

VC/PE integrates Environmental, Social and Governance (ESG) factors into its investment decisions. In particular, it considers the social impact of its investments by evaluating a company's practices regarding labour standards, community engagement, diversity and inclusion, and ethical governance. Also, it can invest in and support social enterprises, which are businesses created to solve social or environmental problems.

In addition, VC/PE increasingly engage in impact investing, directing funds toward companies or projects with the intention of generating positive social or environmental impact alongside financial returns. This might involve investing in businesses focused on renewable energy, healthcare, education, affordable housing, or other areas that address societal needs.

We look forward to a timely and carefully designed **extension of the Taxonomy Regulation to social objectives**. It is crucial that the financing of economic activities that do not make a substantial contribution to any of the six environmental objectives nor cause them material prejudice is maintained. Our aim is to contribute to the debate on the possible elaboration of a social taxonomy, taking into account the lessons learned from the development of environmental taxonomy and integrating the necessary evolutionary character of these nomenclatures.

Recommendation 14
Further reflect on the possible development of a social Taxonomy.

3. Unlock the potential of the EU VC/PE sector to create jobs and value and to promote diversity and inclusion

a. Create value at local level

VC/PE firms are active at international, European, national and local level. In particular, they are key players at local level, supporting local SMEs, providing them with capital and resources to expand their operations, innovate, and create jobs within the community. By doing so, VC/PE can facilitate job creation and retention locally. This helps reduce unemployment rates and contributes to the overall economic well-being of the area and to fostering a thriving entrepreneurial ecosystem locally. VC/PE can also contribute to the development of local infrastructure (housing, commercial spaces, or mixed-use developments…), thus contributing to urban renewal and community revitalisation.

For example, VC/PE creates value mainly through the earnings effect i.e. the development of the company's business (increase in EBITDA, Gross Operating Profit)[5].

In 2021, sales growth and job creation in companies backed by French VC/PE players once again outstripped trends in the rest of the economy. In 2021, these companies saw their sales grow by +12.6 %, compared with +8.2 % for French GDP. Over the same period, more than 83,000 net jobs were created within the sample of over 3,800 companies studied, and 280,000 jobs over the last five years, i.e. three times the rate of job creation in the French economy.

b. Share the value created

In the same way as for gender parity, French VC/PE actors have materialised their commitment to value sharing through the introduction of a Charter[6]. The first 100 signatories represent over 50 % of the companies supported by French VC/PE players. Convinced that sharing value with employees contributes to the success of their company, by reinforcing the alignment of interests between all, creating a virtuous circle of value creation, these players committed to make faster progress in deploying the various value-sharing mechanisms with the employees of their investee companies. Better sharing of the value created is a source of greater professional involvement, social dialogue and more attractive career paths.

This initiative could be a source of inspiration at EU level and a way to attract and retain talent in local companies.

Recommendation 15

Foster the deployment of value-sharing mechanisms, for example through the introduction of a charter at EU level, in order to encourage sharing the value created with employees.

c. Encourage diversity and inclusion in unlisted companies

France Invest encourages diversity at the level both of its members and of the companies they support, around different themes such as gender parity, social and cultural diversity, inclusion of disabled people and members of the LGBT+ community.

Many French VC/PE firms have formalised their commitment to encouraging gender parity through the signature of a Charter[7]. Our target is to have 40 % women on investment teams and 25 % on investment committees by 2030. VC/PE can give an impetus to foster diversity and make a more inclusive Europe.

Recommendation 16

Foster diversity (gender parity, age, inclusion of disabled people…) in unlisted management and portfolio companies by setting ambitious targets.

[5] www.franceinvest.eu/wp-content/uploads/2023/03/France-Invest-en-region_Toulouse.pdf
[6] www.franceinvest.eu/charte-dengagement-sur-le-partage-de-la-valeur/
[7] www.franceinvest.eu/boite-outils/parite/charte-parite/

About France Invest

Established nearly 40 years ago, France Invest brings together venture capital, private equity, infrastructure and private debt teams based in France, as well as the associated professions which support them. Its membership currently counts roughly 400 management firms and 180 associate members.

Private equity supports unlisted companies for a fixed period of time and provides them with the equity capital, through the acquisition of minority or majority stakes in their capital, needed to finance growth and transformation projects. It supports the creation of start-ups (venture capital), participates in the growth and transformation of many regional SMEs and mid-caps (growth capital) and contributes to the transfer of companies (replacement capital).

France Invest's members represent one of the main growth drivers for the French and European economy and support a significant portion of employment in France and Europe. In 2022, French private equity and infrastructure players invested €36 billion in 2,800 companies and infrastructure projects. They raised €42 billion from investors, half of which abroad (just under one third at EU level excluding France), which will be invested over the next 5 years[8]. In addition to that, in 2022, private debt players (structures financing companies and infrastructure projects) invested €19 billion in 449 transactions and raised €12 billion that will finance new transactions in the coming years[9]. European companies, in particular start-ups and SMEs, are the main recipients of our members' investments. Over the 2016-2021 period, over 280 000 jobs were created in companies backed by French venture capital and private equity[10].

In particular, during the pandemic, the venture capital and private equity industry has demonstrated its adaptability, supporting existing portfolio companies as and when needed, while continuing to invest in new businesses that require capital and operational expertise to grow.

[8] www.franceinvest.eu/wp-content/uploads/2023/03/Etude-dactivite-2022_France-Invest_VDEF.pdf
[9] www.franceinvest.eu/marche-de-la-dette-privee-en-2022/
[10] www.franceinvest.eu/wp-content/uploads/2022/12/CP_FranceInvest_Etudes_Impact_et_Creation_Valeur_14122022_DEF-1.pdf

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