

The background of the entire page is a close-up, high-angle view of a green banknote, showing the intricate security patterns and the texture of the paper. A white rectangular text box is positioned in the upper left quadrant, outlined with a thin blue border.

European Venture and Growth Capital Funds Reform

Position Paper

At a glance

European venture and growth capital funds reform

Bitkom rating

In January 2026, the European Commission launched a Call for Evidence on reforming its framework for venture and growth capital funds, reviewing EuVECA and AIFMD. The measure aims to address persistent barriers to scale, including market fragmentation, disproportionate regulatory burdens, and complex rules for cross-border activity. Bitkom welcomes this initiative as a necessary step to strengthen Europe's Venture Capital and startup ecosystem. The current framework constrains the ability of European funds to grow, operate across the Single Market, and provide sufficient financing to the EU's most promising ventures. A well-executed reform can significantly improve access to capital for European founders and reduce reliance on non-EU financing as companies scale.

Key Takeaways

▪ Defuse the AIFMD cliff edge problem so that funds can scale

Today, successful European venture and growth funds are pushed into a full regulatory regime too early. Thresholds are inflexible and can be breached due to valuation effects rather than deliberate growth decisions, causing abrupt compliance spikes. This cliff edge discourages fund growth, limits follow-on capacity, and shrinks options for founders. Reforms must introduce a more graduated regime to improve incentives without undermining investor protection.

▪ Develop EuVECA into a scalable deep tech growth engine

While EuVECA supports early-stage venture financing, it provides limited additional benefits for funds operating at scale. This is particularly visible in capital-intensive sectors, where companies require larger and repeated follow-on rounds. In practice, many managers transition away from EuVECA once their funds grow, as the regime does not sufficiently reduce regulatory friction. Better accommodating growth-stage venture strategies would allow EuVECA to evolve from an early-stage label into a scalable European venture regime.

▪ Unlock institutional capital by creating investable venture and growth funds

The current regulatory architecture produces a fragmented landscape of small, operationally opaque funds that fail to meet the minimum ticket sizes and cross-border diversification required by large insurers and pension funds. The reform should support fund growth, and regulatory interoperability, transforming the VC market into an institutionally viable asset class that can absorb the billions in domestic capital currently flowing to non-EU competitors.

47%

of Venture Capital raised by European startups stems from non-European funds. ([Atomico](#))

1 Why Europe's VC ecosystem struggles to scale

The regulatory architecture governing European venture funds is structurally misaligned with venture capital growth logics. Drafted in the immediate aftermath of the 2008 global financial crisis, the AIFMD was meant to be a shield against financial instability. Venture funds, however, do not pose the risks that originally motivated the AIFMD framework as they primarily invest long-term equity, typically without leverage and without redemption rights. Current EU regulation effectively treats funds backing software startups the same way as leveraged funds betting on complex interest-rate derivatives.

At the center of this misalignment lies the AIFMD's threshold design. The €100 million threshold for leveraged (debt-financed) funds and the €500 million threshold for unleveraged (equity-only, no debt) closed-ended funds (no investor redemptions) with a five-year lock-up were introduced in 2013 and have remained unchanged despite market growth and inflation. A fund may cross the threshold because portfolio companies perform well, not because the manager has fundamentally altered their risk profile. Once the €500 million threshold is exceeded, funds move abruptly from a light-touch registration into the full AIFMD framework. It entails a sudden expansion of governance requirements, risk management systems, capital buffers, depositary arrangements, and reporting complexity. Consequently, many managers intentionally cap fund sizes or avoid consolidating strategies under a single platform. The current structure effectively rewards remaining small and nationally contained while penalizing expansion.

This cliff-edge problem is further compounded by a structural misalignment that hampers capital deployment into deeptech. Capital-intensive companies require larger and repeated follow-on rounds that are difficult to support within current AIFMD and EuVECA constraints. Specifically, EuVECA's rigid investment restrictions reduce the flexibility to use debt and quasi-equity instruments that are often required in the capital-intensive deeptech scaleup phase. These regulatory hurdles weaken the ability of European funds to remain long-term owners in later-stage rounds, effectively handing strategic influence to foreign investors. This is exacerbated by persistent cross-border friction: marketing and national private-placement overlays remain fragmented despite EU-level frameworks. Diverging supervisory practices continue to undermine the effectiveness of the marketing passport, increasing legal costs and time-to-market.

Taken together, the current framework creates structural disincentives to growth. It produces artificially small funds, discourages platform formation, and limits cross-border expansion. As long as regulatory escalation remains abrupt and poorly aligned with economic realities, Europe's VC managers will continue to operate below their potential scale.

2 Implication for EU startups

The structural under-scaling of European venture and growth capital funds directly shapes the growth trajectories of European startups and determines where economic value is ultimately anchored. When domestic funds are structurally incentivized to remain small, they lack the capacity to anchor large financing rounds or provide follow-on capital across the entire scaleup lifecycle. This creates a structural inevitability: a startup's success increases its capital needs precisely as the capacity of its domestic investors becomes constrained. Consequently, later-stage rounds are increasingly led by non-European investors. This shift is not just financial. Lead investors dominate governance, board composition, and strategic direction. When European funds lose their ability to maintain meaningful ownership, their strategic influence evaporates. Over time, this shifts decision-making centers, holding structures, and, critically, intellectual property to jurisdictions where larger pools of capital reside.

The implications extend to the broader ecosystem. A fragmented landscape of small, operationally complex funds fails to meet the allocation criteria of large institutional investors. Pension funds and insurance companies require scale, diversification, stability, and cross-border operability. As long as these conditions are not met, significant pools of domestic long-term capital will remain on the sidelines, reinforcing Europe's reliance on external funding and limiting the depth of capital markets. For founders, this translates into weaker bargaining positions. The absence of sufficiently large European lead investors reduces competitive tension in financing processes, leading to investor-friendly terms and structural concessions. In globally contested markets where speed is decisive, predictable access to follow-on capital is a prerequisite for leadership. Ultimately, venture capital has a governance and ecosystem function. Scalable funds build the specialized expertise and long-term support systems necessary for global competitiveness. If the European fund layer remains fragmented, the Union will continue to generate innovation but lose the strategic control and long-term value of its most successful firms. Fund scalability is, therefore, a cornerstone of European sovereignty.

To bridge the existing scaling gap, legislative thresholds should be redesigned to replace abrupt regime shifts with a fade-in model where regulatory obligations evolve gradually as operational complexity or leverage increases. For Closed-ended VC funds, the €500 million threshold should be increased and applied to the committed capital of the fund at final closing, with the regulatory status remaining fixed over the lifetime of the fund. For evergreen vehicles, the threshold should be reassessed periodically, approximately every 10 years (the typical lifecycle of venture capital and private equity funds). Additionally, the compliance architecture must be streamlined to eliminate redundant administrative layering, specifically targeting the overlapping AML/KYC requirements and the costly side-letter negotiations currently required because institutional LPs do not accept standardized reporting. Establishing a blueprint disclosure framework would ensure that compliance remains economically sustainable for managers of all sizes while improving the investibility for pension funds and insurers.

Bitkom represents more than 2,300 companies from the digital economy. They generate an annual turnover of 200 billion euros in Germany and employ more than 2 million people. Among the members are 1,000 small and medium-sized businesses, over 700 start-ups and almost all global players. These companies provide services in software, IT, telecommunications or the internet, produce hardware and consumer electronics, work in digital media, create content, operate platforms or are in other ways affiliated with the digital economy. 82 percent of the members' headquarters are in Germany, 8 percent in the rest of the EU and 7 percent in the US. 3 percent are from other regions of the world. Bitkom promotes and drives the digital transformation of the German economy and advocates for citizens to participate in and benefit from digitalisation. At the heart of Bitkom's concerns are ensuring a strong European digital policy and a fully integrated digital single market, as well as making Germany a key driver of digital change in Europe and the world.

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