



# **Draft Risk Finance Guidelines**

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# Outline of this presentation

1. Notifiable risk finance measures
2. Eligibility conditions
3. Switch from annual tranches to overall investment cap
4. Common principles for the compatibility assessment
5. Ex-ante assessment
6. Compatibility conditions for financial instruments
7. Compatibility conditions for fiscal instruments
8. Compatibility conditions for alternative trading platforms
9. Important horizontal issues



# Notifiable risk finance schemes

## **A. Measures targeting categories of undertakings outside the GBER**

1. Undertakings becoming small mid-caps following the first investment round
2. Innovative mid-caps
3. Undertakings receiving first aided investment after [5] years following first commercial sale
4. Undertakings requiring more than €[10]M overall investment
5. Alternative trading platforms not fulfilling the conditions of the GBER

## **B. Measures with financial design parameters not complying with the GBER**

1. Private investor participation below the GBER ratios
2. More preferential risk-reward profile to private investors
3. Preference to downside protection over asymmetric profit-sharing in the selection
4. Fiscal incentives to corporate investors

## **C. Large schemes falling outside the GBER**



# Eligible undertakings

**GBER:** only SMEs: employees below 250, turnover €50 M, balance sheet €43 M

**Guidelines:** SMEs, small midcaps and innovative midcaps

## Small midcaps

- Employees below 499, turnover €100 M, balance sheet €86 M

- Rationale:

1. Support successful endogenous growth
2. Maximise return for private investors by allowing them to exit at a later stage. This should also encourage early stage private investments
3. Counter-balance the effects of the notion of 'linked enterprise' in the EU SME definition

## Innovative midcaps

- Employees below 1500 and criteria of 'innovative'
- Rationale: Innovative companies face specific market failure even at later stages of their growth



# Switch from annual tranches to overall investment cap

## Current rules:

- **GBER:** maximum annual tranches of €1.5 M
- **Risk Capital Guidelines:** maximum annual tranches of €2.5 M
- no ceiling

## Future rules:

- **GBER:** overall investment of maximum €[10] M per company
- **Risk Finance Guidelines:** overall investment above €[10] M per company

## Rationale:

- More flexibility to MSs and intermediaries
- Reflect commercial reality and real needs of the final beneficiaries



# Revision of compatibility rules in line with the common principles

- |  |  |
|--|--|
| <b>1. Objective of common interest</b> | Provision of risk finance to viable SMEs & development of competitive SME finance markets  |
| <b>2. Market failure</b>               | Establishing the funding gap in the <i>ex ante</i> assessment  |
| <b>3. Appropriateness</b>              | <i>Ex ante</i> assessment to demonstrate that design of the measure is appropriate to address the identified market failure compared to alternative non-aid and aid measures |
| <b>4. Incentive effect</b>             | Presumed if the measure is appropriate   |
| <b>5. Proportionality</b>              | Specific criteria for financial and fiscal schemes   |
| <b>6. Negative effects</b>             | Assessing negative effects at 3 levels & exhaustive black list   |
| <b>7. Transparency</b>                 |  |



# *Ex ante* assessment

- 1. Identifying specific policy targets and performance indicators, e.g.:**
  - Required private investment
  - Expected number of undertakings invested in
  - Estimated number of new undertakings created
  - Estimated number of new jobs created
  - Expected return
- 2. Identifying specific market failure: funding gap affecting eligible undertakings in target area**
- 3. Justifying choice of the specific measure compared to other policy & State aid instruments:**
  - Why the identified market failures cannot be adequately addressed by other policy tools
  - Consistency with national SME access to finance policy and complementarity to other measures
  - Justifying the form and design of the State aid measure
- 4. Avoiding duplication:**
  - Assessment carried out by internal or external expert
  - Accepting the ex ante assessment for the Structural Funds
  - Accepting the ex ante assessment carried out by the EIF



# Compatibility conditions for financial instruments

- Lower levels of private participation than in GBER
- Ex ante assessment must estimate the private leverage sought
- 100% public financing outside the scope → instead, start-up aid (Article 20 GBER)
- Specific compatibility conditions for investments via equity, loans and guarantees
- Balance of risks and rewards between public and private finance providers: more preferential conditions to private investors or financial intermediaries as investors
- Ensuring Fair Rate of Return (FRR):
  - Selection of investors, or
  - Independent expert establishing the FRR
- Remuneration of financial intermediaries and managers: rewarding financial performance and attainment of policy targets





# Compatibility conditions for fiscal instruments

- **GBER:** private investors as natural persons
- **Guidelines:** corporate investors, including financial intermediaries or their managers acting as co-investors
- Well-defined category of eligible undertakings affected by market failure
- Total investment in any eligible undertaking up to €10 M
- Investment requirements made public
- Fiscal advantage open to all investors fulfilling the predefined criteria
- Specific limits defining the maximum advantages
- Shares must be full-risk and held for at least [3-5] years
- Scheme limited to 10 years



# Compatibility conditions for alternative trading platforms

- Rationale of support: measure addressing supply-side market failures
- **GBER:**
  - Fiscal incentives to investors investing via an alternative platform trading only in SME shares
  - Start-up aid to the platform operator
- **Guidelines:**
  - Platforms trading not only in SME shares
  - Platform operator requiring higher amounts of aid than start-up aid ceilings



# Horizontal issues

## 1. Entry into force

- **Risk Capital Guidelines extended until 30 June 2014**

## 2. Appropriate measures

- **Clearer and simpler rules providing legal certainty**
- **Continuity of funds set up under the previous legislative regime**
- **Date of grant: commitment of public funding to the financial intermediary**

## 3. Cumulation

- **Clearer and more flexible rules**
- **Cumulation allowed for measures with identifiable eligible costs with measures without identifiable eligible costs**
- **More clarity on EU resources**



**Thank you!**