FINANCING INNOVATIVE VENTURES IN EUROPE

Recommendations to close the scaleup financing gap, deepen the Savings and Investments Union and strengthen Europe's competitiveness

January 2026

Preface

As part of the broader agenda to advance the European Savings and Investment Union (SIU), we have been entrusted by the French Minister of Finance, Éric Lombard, and the German Minister of Finance, Lars Klingbeil, on 16 July 2025 with the mandate to propose concrete and actionable measures to improve access to capital for high-growth companies across Europe, particularly in later development stages. The mandate included a request to prepare a report outlining proposals to address Europe's scaleup financing gap.

To that end, we have established FIVE (Financing Innovative Ventures in Europe) as a joint Franco-German initiative. A team of experts from the German Federal Ministry of Finance, the French Ministry of Economics and Finance and the German Ministry for Economic Affairs and Energy has supported us in our endeavour to propose this report.

This report includes concrete recommendations on improving access to late-stage financing for innovative European companies, which often face constraints in scaling within Europe. In our view, this question is inextricably linked with the goal of strengthening the EU's competitiveness and creating a more effective and integrated European capital market.

Our work was informed by an extensive stakeholder consultation process across Europe with more than 50 interview partners, including investors, entrepreneurs, policymakers, regulators, and industry experts, who provided us with their valuable insight, assessment and ideas. We express our outmost gratitude to them for their valuable insights.

The findings of these consultations as well as our expert assessment were consolidated into this final report, which presents implementable recommendations in FIVE focus areas.

We extend our sincere gratitude to our team of French and German experts for their support in organising the entire Five initiative: Jasper Anger, Dr. Hendrik Brinckmann, Andreas Hamann, Dr. Kasper Krolop, Jean de Livonnière, Mathieu Marceau, Victor Maujean, Samuel Rogers, Grégoire Seguin, Florian Surre, Henrik Voigt, and Evgeniya Yushkova.

Dr. Jörg Kukies

Former German Minister of Finance

Christian Noyer

Honorary Governor of the Bank of France

January 2026

Table of contents

1. Executive summary

1.1. The capacity to scale startups into global technology leaders is a key condition for Europe's prosperity and sovereignty

Europe struggles to generate global technology champions: over the past 50 years, it has produced only a handful of firms with a market capitalisation above EUR 10 billion and none above EUR 100 billion, compared with hundreds of deca-billion-euro and all existing six trillion-euro companies in the U.S.

Without the creation of new large-scale technology champions, the continent may fall short of its productivity growth and investment potential. At the end of the 20th century, labour productivity in the euro area was broadly on par with the U.S., while now it is approximately 20% lower, with this growing productivity gap almost entirely attributable to the tech sector[1]. Europe faces a growing risk of structural imbalance as winner-takes-all dynamics in the tech sector concentrate value creation in a small number of mostly non-European firms. As a result, European digital demand is largely financing profits, investment and high-skilled jobs outside the EU.

Europe's challenges in developing global tech champions also carry significant risks for the continent's strategic autonomy. The continent remains highly reliant on a small number of non-European providers across critical digital infrastructures, from data hosting and cloud services to artificial intelligence, leaving it with only a limited role in the development, control and scaling of strategic technologies: AWS, Microsoft Azure and Google Cloud together account for 70% of the European cloud market, while the largest European provider holds less than 2%[2]. This dependence creates regulatory, commercial and geopolitical vulnerabilities and ultimately weakens Europe's strategic autonomy in a world in which technological leadership increasingly underpins power and influence.

Europe's shortage of technology champions is striking given the strength of its early-stage startup ecosystem and its structural advantages in innovation. While Europe is underrepresented among global technology leaders, the continent has a dynamic startup ecosystem and has seen the number of early-stage companies quadruple over the past decade.[3] This has been facilitated by Europe's structural advantages in innovation, notably its world-class scientific research and higher education institutions. This strong educational and research ecosystem translates into a high research output and a vibrant pipeline of entrepreneurial talent. However, this strength in the early stages has yet to translate into the emergence of large-scale global technology champions.

This paradox reflects Europe's lack of financial capacity for late-stage scaleups – the so-called scaleup gap. As has been widely documented, European companies struggle to

---

1 European Central Bank – The Past, Present and Future of European Productivity – June 2024 (link).

2 European Parliament – European Software and Cyber Dependencies – December 2025 (link).

3 Atomico – State of European tech – November 2024 (link).

navigate through the scaleup phase – the critical stage in their development when they must transition from proven innovation to large-scale production and global distribution. At that juncture, they require access to a large, sufficiently integrated and innovation-friendly market to support their expansion as well as substantial capital to sustain a phase of accelerated cash-burn. In this regard, Europe critically lacks domestic late-stage venture capital (VC), with venture investment in the EU remaining markedly lower than in the U.S. (only 0.2% of GDP vs. 0.7%), particularly at the growth and pre-IPO stages. European VC funds are significantly smaller on average, limiting their ability to support successive large funding rounds or underwrite tickets exceeding EUR 100 million.[4]

This shortage of late-stage VC funding contributes to the decision of many European scaleups to seek financing and listing opportunities and, in some instances, to relocate abroad. While international expansion and improved market access can legitimately drive overseas moves, firms backed by non-European capital have frequently shifted significant parts of their operations abroad in the search for deeper capital markets, higher valuations and more liquid IPO venues.[5]

The scaleup gap is also rooted in the lack of a large, sufficiently integrated and innovation-friendly European single market. As laid out in the Draghi report,[6] the EU's regulatory stance towards tech can be seen as creating challenges for innovation. Among other aspects, several EU laws and regulations, including the AI Act, the EU Chemicals regulation REACH, biotech regulations or the EU's data protection regulations prefer a precautionary approach, dictating specific business practices ex ante to avert potential risks ex post.

This scaleup gap calls for bold and immediate action, as laid out in this report, at a moment when Europe faces a critical turning point: financing needs for innovation are rising sharply with the growth of AI and deeptech, the VC ecosystem is under strain following the rise in interest rates, and recent geopolitical developments have made the pursuit of genuine technological sovereignty more essential than ever.

1.2. Europe's scaleup gap stems from a lack of deep capital pools, due in particular to Europe's pension architecture, institutional investors' risk aversion, regulatory constraints and internal market fragmentation

The persistence of Europe's scaleup gap is rooted in structural factors, the most important of which is the absence of deep and patient capital pools willing to support innovative firms over the long term. In this context, public financing mechanisms have played a critical and effective role in nurturing Europe's startup ecosystem in recent

4 International Monetary Fund Working Papers – Stepping Up Venture Capital to Finance Innovation in Europe – July 2024 (link).

5 JRC – European Commission – In search of EU unicorns - What do we know about them? (link).

6 Mario Draghi – The future of European Competitiveness – September 2024 (link).

years. However, they cannot entirely make up for (a) the absence of large-scale, long-term institutional investors capable of committing substantial capital across multiple funding rounds and (b) persistent regulatory constraints and fragmentation, which hampers capital market integration and EU-wide growth strategies.

1.2.1. Europe's absence of a deep pool of pension assets limits its ability to finance innovation at scale

Europe's pension landscape remains largely dominated by pay-as-you-go (PAYG) systems, limiting the accumulation of large pools of investable assets. Indeed, pension assets in the EU represent just 25% of GDP, compared with 150% in the U.S. Only three EU countries – Denmark, Sweden, and the Netherlands – benefit from a developed funded pension system, as they combine a universal public pension, partly funded in the case of Sweden and Denmark, with large and well-established funded occupational and private pension schemes.

However, pension assets are, in theory, the most suitable source of funding for innovation financing, notably through VC, due to their long investment horizon and predictable liability structure, which aligns well with the illiquid and long-term nature of startup financing. In this context, the presence of supplementary, funded pension schemes in a given country is statistically associated with a higher share of VC investments.

Retirement savings can also contribute substantially to innovation financing through listed equity, as a strong correlation has also been observed between the size of pension assets and the listed equity market depth in most developed economies. This contribution largely extends beyond pillar II schemes, as countries with developed, funded second pillars also tend to exhibit a stronger contribution by households to capital markets through individual savings accounts. This is associated with higher levels of financial education in countries with hybrid pensions systems.

1.2.2. The continent's current limited pool of institutional assets remains underinvested in VC and growth

Despite their substantial financial capacity and long-term horizons, Europe's institutional investors – especially insurers and pension funds – remain significantly under-allocated to VC and growth equity. European savers' preference for guaranteed products, combined with a historically very conservative prudential framework, have structurally tilted portfolios towards low-risk, mainly fixed-income assets, to the detriment of equity investment in general, and risk capital in particular.

The 2024 Solvency II review broadened access to the long-term equity (LTEI) category, which benefits from lower capital charges for insurers. This regulatory leeway should be used to increase the proportion of insurers' investment in VC and growth without

undermining solvency ratios, even though the impact remains uncertain and might only materialise gradually.

1.2.3. Europe's fragmented and insufficiently deep public equity markets constitute another drag on innovation financing on the continent

An economy's ability to scale its innovative companies also depends on its public equity markets, since IPOs remain an important channel for large-scale fundraising, continued growth financing and VC exits.

Nonetheless, listings in Europe have steadily declined, delistings have accelerated, and the continent's share of global IPO volume has dropped sharply in recent years. At the same time, U.S. markets continue to attract a growing share of European high-growth companies, many of which eventually relocate strategic functions or their headquarters, contributing to talent and capital outflows.

While the absence of a significant pool of domestic retirement savings is one of the main reasons for European equity markets' insufficient depth, the fragmentation of its trade and post-trade infrastructure is another well-known obstacle, with over 30 listing venues and hundreds of trading venues diluting liquidity and investor attention. In addition, Europe's 17 CCPs and 28 CSDs create more complexity and costs than in the U.S., which operates with a single CCP and CSD for equities.

In this context, recent regulatory reforms, such as the EU Listing Act, and national initiatives have improved access to listing but have not dramatically changed the equation.

1.2.4. The fragmentation of the single market, arising from regulatory barriers and divergences in national corporate and labour law-regimes creates another barrier to the scaling-up of European companies

As highlighted by the Draghi report, the fragmentation and burdensome regulation of the Single Market remains a major obstacle for European firms seeking to scale across borders. Indeed, as they attempt to expand across EU borders, they face a patchwork of regulatory requirements, administrative procedures, and compliance standards that differ from one Member State to another. In addition, among other aspects, the EU's regulatory stance towards technology can be seen as creating challenges for innovation.

The regulatory barriers and persistent divergences in national regimes within the single market continue to represent a major structural obstacle to the scaling-up of European companies. Despite the progress achieved through EU-level harmonisation, businesses expanding across borders still face a complex patchwork of national rules in various domains such as company law, employee participation and public procurement procedures. For scaleups, this fragmentation translates into higher compliance costs, delayed expansion and lower funding prospects. These frictions reduce growth prospects

and weigh on valuations, particularly when compared to more integrated markets such as the U.S.

Company law is critical in this respect, as it underpins core elements of investor confidence, including governance structures and shareholder rights. In the absence of a sufficiently harmonised EU company law framework, scaleups face structural disadvantages when seeking cross-border financing, as both investors and financial intermediaries tend to favour familiar legal forms and jurisdictions, reinforcing market fragmentation and home bias.

In addition, the fragmentation of tax regimes applicable to employee and management stock-option schemes across the EU acts as a further constraint on the growth of scaleups. Divergent, country-specific requirements force scaleups to structure multiple equity incentive plans, significantly increasing complexity. Unlike the U.S., where stock options have been pivotal in attracting and retaining talent, this fragmentation results in uneven net outcomes and risk profiles for employees across Member States, weakening the ability of European scaleups to offer a competitive employee value proposition at EU level.

1.3. FIVE key policy responses should be prioritised in order to bridge the European innovation financing gap

To activate key financing levers, this report proposes a comprehensive reform strategy anchored around FIVE major structural recommendations:

(i) Launching ambitious reforms of supplementary pension systems in Europe

To broaden substantially Europe's narrow pool of pensions assets and channel it actively towards innovation financing, corporate and private pension schemes should be strengthened by:

- Broadening the contributions under occupational pension schemes (pillar II), through mandatory or opt-out mechanisms, and expanding private schemes (pillar III)
- Adapting occupational pension schemes to incorporate a collective dimension, notably through the establishment of pension funds when possible.
- Favouring "defined-contribution" rather than "defined-benefit" approaches in order to avoid the classic hurdles associated with guaranteed products
- Encouraging a larger allocation of pillar II and pillar III schemes to publicly listed equity and VC

Implemented together, at the national level, these reforms could help Europe reach the scale of pension assets necessary to sustain a globally competitive venture and growth industry, while alleviating the pressure on public finances associated with the continent's over-reliance on pay-as-you-go schemes.

(ii) Deploying public initiatives inspired by Tibi and WIN across the EU to mobilise institutional capital and encourage retail involvement

Successful national models, such as France's Tibi and Germany's WIN, have demonstrated their effectiveness in mobilising institutional capital towards VC and growth funds. Drawing on these experiences, strong political sponsorship, clearly defined investment targets and initial implementation at the national level emerge as key factors to secure LP mobilisation and to crowd in the large institutional tickets required to build strong late-stage domestic VC ecosystems.

Similar initiatives should be replicated across the EU at the national level, allowing for domestic specificities and political ownership, while remaining open to investors and funds from other Member States seeking to develop a pan-European footprint. Over time, these domestic initiatives should be interconnected through a pan-European VC initiative open to large continental funds and institutional investors, facilitating Europe-wide fundraising, cross-border fund pitches and knowledge exchange.

While structurally retail capital cannot replace institutional capital in the financing of high-risk assets like VC, its gradual mobilisation, against the backdrop of the ongoing retailisation of private assets, could pave the way to a more market-oriented investment culture and, over the longer term, help diversify funding sources for the sector.

To responsibly expand retail access to VC, several initiatives should be undertaken:

- Review suitability rules for sophisticated retail investors
- Develop flagship vehicles, such as retail tranches within diversified fund-of-funds
- Enable managed lifecycle options with allocations to private assets

(iii) Maintaining public support for the scaling-up of innovative companies through ETCI 2.0 and reviewing domestic investment policies

National promotional institutions (NPIs) like bpifrance and KfW and, at the European level, the European Investment Fund (EIF) have largely contributed to the emergence and scaling of early-stage VC ecosystems across the EU, through anchor investments in startups, VC funds and VC funds-of-funds. As these ecosystems mature, their core objective should still be to maximise the catalytic effect of public interventions, by operating strictly on market-based terms, primarily through fund-of-funds initiatives.

Given the success of the first phase of the European Tech Champions Initiative (ETCI) in anchoring large European venture and growth funds, a second phase – ETCI 2.0 – should be launched. Combining public and private contributions and using asymmetric risk-sharing structures to attract private LPs could help unlock a new generation of multi-billion-euro European funds able to back late-stage scaleups.

In addition, national promotional institutions should progressively shift from predominantly national return logics toward more coordinated cross-border investment frameworks. By capping domestic return requirements at a minimum safeguard level and jointly deploying additional capital on a cross-border basis, public investors could help scale European startups into global champions.

(iv) Creating a 28th company-law regime to facilitate better financing and cross-border business opportunities for scaleups

A key recommendation is the adoption of an optional, fully harmonised EU-wide corporate legal form. Unlike the SE, which remains entangled in 27 national regimes, the 28th regime must provide the following:

- A single corporate regime valid across all Member States
- Uniform rules on governance, capital and shareholder rights
- Avoidance of burdensome national formal requirements such as notarization
- A flexible corporate structure, with only key principles enshrined in law, leaving ample room for contractual freedom
- Strong legal certainty for investors
- Simplified access to funding

The 28th regime would remove major barriers to scaling by allowing startups and scaleups to operate across Europe without having to set up subsidiaries that comply with 27 legal systems. Investors could apply standardised investment terms throughout the EU, reducing transaction costs and legal risks. A modern capital regime would increase flexibility and efficiency.

In addition to the fragmentation of corporate law regimes, other legal obstacles to the cross-border development and financing of scaleups should be tackled. When it comes to tax law in particular, a further alignment between Member States should be achieved in order to allow European scaleups to offer a consistent incentives package to their entire workforce across the continent. Targeted tax measures, such as deferring taxation until a liquidity event or simplifying social contributions, could significantly ease barriers and help EU scaleups compete globally for talent while enabling them to offer a consistent incentives package to their entire workforce. Rather than full tax harmonisation, a focused agenda to align key aspects of employee equity taxation could boost talent

retention and provide European companies with a more predictable and attractive framework. Franco-German convergence on this issue could set a precedent for broader EU coordination, benefiting scaleups without triggering debates on general income tax harmonisation.

(v) Fostering the development of truly integrated and internationally competitive public equity markets and increasing the attractiveness for listings

To improve access to public markets, unjustified regulatory gaps between listed and non-listed companies should be eliminated and an IPO on-ramp providing temporary relief from regulatory burdens for newly listed scaleups could be introduced. Possible measures associated with such an on-ramp should include the possibility of prospectus-free secondary issuances of up to 50% of pre-issued capital, limiting ad hoc disclosure requirements to a positive list of major events, and reducing insider-list obligations to permanent insiders only. Mirroring measures introduced in the U.S. JOBS Act, the companies benefitting from the on-ramp would be required to gradually adopt full disclosure rules in the years following their IPO.

Finally, the report highlights the structural lack of SME and scaleup investment research, exacerbated by MiFID II unbundling. To revitalise research coverage, it proposes creating a pan-European investment research platform, potentially linked to ESAP (the Euroepan Single Access Point), offering centralised access to issuer information and research.

To address some of the issues associated with listing in Europe, a pan-European listing segment labelled as European Innovation Market could also be developed, potentially through a joint-venture of European exchanges, under a selection and approval mechanism organised by ESMA. This a segment would offer uniform rules, helping firms consolidate liquidity and increase investor visibility, based on the model of a single, European listing venue for innovative companies, which could constitute the equivalent of a European NASDAQ.

In addition to these FIVE key proposals, a strong focus should be put on improving the EU's competitiveness framework, particularly for technology-oriented innovative companies, by implementing the other measures listed in the Draghi Report

While this report focuses on financing constraints and market fragmentation issues, several other areas clearly warrant priority action by EU Member States – whether at national level, through intergovernmental initiatives involving coalitions of willing countries, or at the EU-27 level.

These include the reduction of regulatory and administrative burdens that, sometimes, disproportionately affect startups and scaleups, the wider use of regulatory sandboxes to

enable experimentation in emerging technologies, and measures to strengthen the innovation pipeline by improving technology transfer from research to market and reinforcing collaboration between universities, research centres and industry.

European scaleups are also hindered by the EU's stringent regulatory framework, which, as noted in the Draghi report, creates challenges for innovation. Several EU regulations, including the AI Act, the EU chemicals regulation REACH, biotech regulations or the EU's data protection framework adopt a precautionary approach that imposes specific business practices to prevent potential risks. For example, the AI Act imposes additional requirements on general-purpose AI models exceeding a certain computational power threshold, which many state-of-the-art models already surpass. Industry stakeholders argue that the compliance costs of such regulations are driving startups to avoid Europe due to the administrative burden and competitive disadvantages.

Further actions are also needed to enhance access to skilled talent, facilitate cross-border mobility, and align education and reskilling programs with the needs of high-growth technology sectors. Finally, accelerating digital adoption and embedding the green transition into the competitiveness agenda will ensure that climate and digital policies act as enablers of innovation and growth rather than as additional sources of complexity for young companies.

Implementing the Draghi report's proposals to enhance European competitiveness would expand the Single Market, deepen integration between Member States and strengthen the focus on innovation, boosting growth dynamics and helping high-growth companies scale more effectively in the EU. The EU Commission's proposal to cut red tape in the context of the Competitiveness Compass is a step in the right direction, and the Omnibus legislation approach further supports this approach by simplifying procedures across sectors. In this regard, the Digital omnibus, which was presented by the European Commission in November 2025 to streamline rules on AI, cybersecurity and data protection, would go in the right direction and alleviate some of the obstacles to the competitiveness of European innovative firms, therefore warranting a strong support from Member States and Members of the European Parliament.

2. The capacity to scale startups into global technology leaders is a key condition for Europe's prosperity and sovereignty

2.1. Europe has so far been largely unable to develop global champions in innovative sectors

As outlined in the Draghi report, Europe functions to a large extent as a legacy economy: its economic weight mostly rests on long-established champions operating in mature sectors rather than on a continuous emergence of high-growth firms. The structure of the EU's corporate landscape reveals an economy in which incumbents dominate and renewal is limited, especially in comparison with other major economies whose growth is increasingly driven by sectors that have emerged in the past few decades.

Recent analyses echo this diagnosis: over the past 50 years, only 14 companies with a market capitalisation above USD 10 billion have been founded in the EU, compared to more than 240 in the U.S. (Figure 2.1). If we move up the threshold to companies worth more than EUR 100 billion, this number is zero in the EU, while all six companies with a valuation above EUR 1 trillion have emerged in the U.S., highlighting Europe's incapacity to generate global champions in innovative sectors.[7]

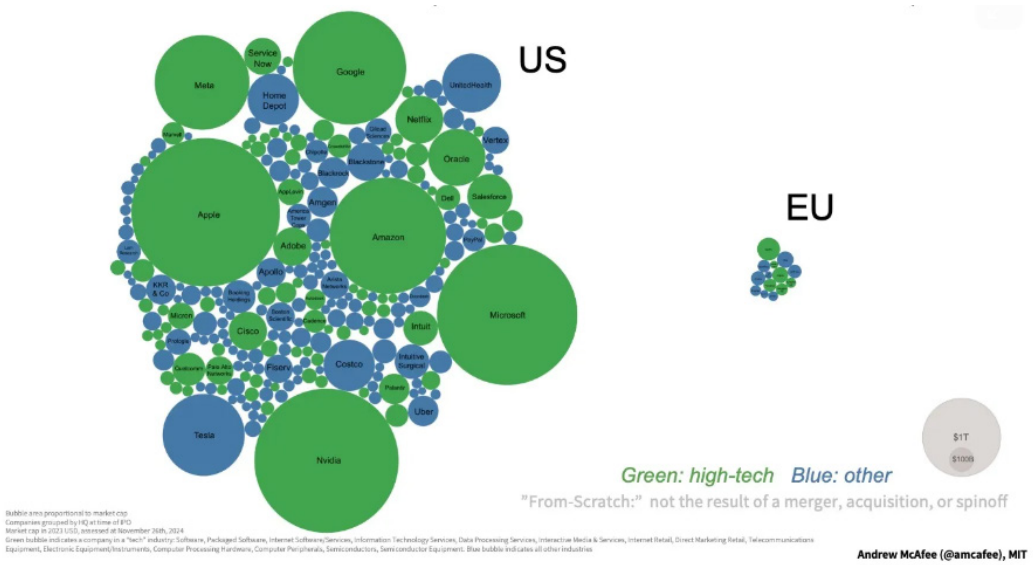


Figure 2.1: Public "from scratch" (less than 50 years old) US and EU companies less than 50 years old with USD 10 billion or more market capitalisation[8]

[7] Andrew McAfee – A Visualization of Europe's Non-Bubbly Economy – December 2024 (link). Data as of Q3-2024.

[8] Andrew McAfee – A Visualization of Europe's Non-Bubbly Economy – December 2024 (link). Data as of Q3-2024.

Even though companies' market capitalisation is not the sole indicator of a country's economic performance, valuations remain a critical signal of where investors expect value creation, and therefore future economic growth to emerge. In this sense, the large concentration of deca-billion-euro companies in the U.S. reflects investors' assessment of where the next waves of innovation and productivity growth are likely to be generated.

Importantly, the transatlantic gap cannot be solely attributed to differences in valuation levels. Even when focusing on operational metrics such as revenue and profitability, the divergence remains substantial within the technology sector. Europe's largest tech company by revenues, SAP, reported revenues of USD 65 billion in 2024, barely one-tenth of Amazon's USD 637 billion and significantly below those of Apple (USD 391 billion) and Alphabet (USD 350 billion). This reinforces the diagnosis that Europe's challenge lies not merely in market perception, but in the underlying scale and economic footprint of its leading tech firms.

This pattern is visible not only in the relative size or the valuation metrics of European capital markets, but also in their composition. The median founding year of the ten largest listed European companies is 1911, compared with 1985 for their U.S. counterparts.[9] This underlines a long-standing and persistent gap in Europe's capacity to bring new high-growth firms to global leadership positions.

2.2. Without the creation of new large-scale technology champions, Europe may fall short of its productivity growth and investment potential

At the end of the 20th century, labour productivity in the Euro area was broadly on par with the U.S. Today, it is approximately 20% lower, in terms of USD per working hour[10]. As highlighted in the Draghi report, this growing productivity gap is almost entirely attributable to the tech sector: if the main information and communication technology sectors (manufacturing of computers and electronics and information and communication activities) are excluded from the analysis, EU productivity would have been broadly on par with the U.S. during the 2000–2019 period.

The outsized impact of the technology sector in the widening U.S.-EU labour productivity gap exposes several key underlying mechanisms including: the smaller footprint of young, high-growth firms in the European economy and lower productivity and innovation levels in Europe's large leading firms compared to their U.S. peers.[11]

---

9 International Monetary Fund Working Papers – Europe's Productivity Weakness – Firm-Level Roots and Remedies – February 2025 (link).

10 European Central Bank – The Past, Present and Future of European Productivity – June 2024 (link).

11 International Monetary Fund Working Papers – Europe's Productivity Weakness – Firm-Level Roots and Remedies – February 2025 (link).

In France, nearly 70% of the productivity growth gap with the U.S. between 2000 and 2019 can be explained by differences in three tech-intensive industries alone, according to a study by the Banque de France.[12]

Besides their higher productivity, large-scale technology champions in the U.S. also invest massively in research and development and VC, extending their overall contribution to the domestic innovation ecosystem. The "Magnificent Seven"[13] collectively invested approximately USD 239 billion in R&D in 2024, while the entire business sector in the EU invested roughly USD 290 billion in the same timeframe. Consequently, Europe lags behind the U.S. in R&D. R&D intensity[14] currently stands at 2.2% in the EU, compared to 3.5% in the U.S., mostly due to a gap in private R&D investments[15] caused by the substantially higher R&D investments by U.S. tech companies, as illustrated below.

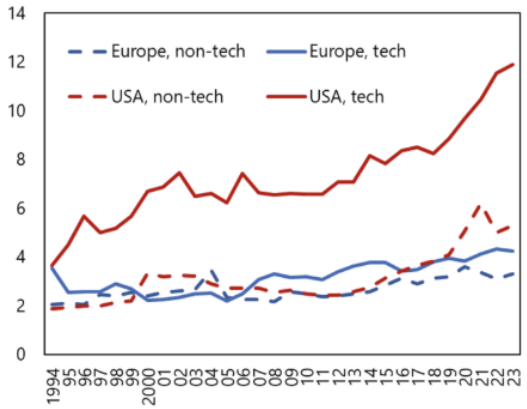


Figure 2.2: Research and development intensity over sales, percent[16]

Large U.S. technology firms are also massively investing in VC: in 2024, the "Magnificent Seven" are estimated to have invested USD 25 billion in VC deals,[17] while the total deal volume in the EU amounted to approximately USD 31 billion.[18] These numbers illustrate the great impact of large-scale technology champions when it comes to supporting innovation – and how Europe is missing out on new investment due to a lack of such technology champions.

12 Banque de France – Revisiting the European performance gap vis-à-vis the United States – February 2025 (link).

13 The "Magnificent 7" are a group of seven dominant, high-growth technology companies: Apple, Microsoft, Amazon, Alphabet, Meta, Nvidia, and Tesla.

14 R&D expenditures in relation to GDP.

15 European Commission – A competitive Europe for a sustainable future – June 2024 (link).

16 International Monetary Fund Working Papers – Europe's Productivity Weakness – Firm-Level Roots and Remedies – February 2025 (link).

17 Dealroom – The Magnificent Seven – The Venture Capital frontier & the new AI Wild West – May 2024 (link).

18 KfW Research – Venture Capital-Dashboard Q4 2024 – January 2025 (link).

As the global technology sector is increasingly shaped by winner-takes-all dynamics, Europe's innovation gap continues to widen. The previous innovation cycle, built around software, cloud computing and digital platforms, has allowed American technology companies to capture a growing share of global value creation, while mid-sized competitors have struggled to keep pace with global leaders. Between 2020 and 2024, the "Magnificent Seven" alone generated around USD 245 billion in annual economic profit, nearly a quarter of total global economic profit during this period.[19]

European consumers and firms are significant users and beneficiaries of these services, meaning that a substantial portion of Europe's digital spending ultimately finances the expansion, profitability and technological leadership of U.S. tech giants. The associated returns, reinvestment capacity and high-skill jobs are therefore largely generated outside Europe, while the continent captures only a limited share of the value created by its own digital demand.

The rise of artificial intelligence (AI) is amplifying this imbalance, as frontier AI development requires unprecedented levels of capital expenditure in semiconductors, data centres and advanced research capabilities, which only a handful of large firms can mobilise. This environment overwhelmingly favours U.S. and, increasingly, Chinese players that operate on a global scale and benefit from deep domestic financial markets.

2.3. Europe's challenges in developing global tech champions also carry significant risks for the continent's strategic autonomy

Europe increasingly relies on a small number of foreign providers for critical digital infrastructures. AWS, Microsoft Azure and Google Cloud together account for 70% of the European cloud market, while the largest European provider holds less than 2%.[20]

In AI, Europe still plays only a marginal role in global model development, infrastructure provision and ecosystem leadership. As of 2025, the largest European AI company, Mistral AI, was valued at around USD 13.5 billion, while OpenAI is reportedly contemplating an initial public offering (IPO) valuing the company at USD 1 trillion.[21]

Europe's high degree of external technological dependence generates multiple vulnerabilities and exposes its firms and public institutions to regulatory, commercial and geopolitical constraints beyond the EU's control. It undermines the continent's ability to safeguard sensitive data and secure critical digital infrastructures, including through frameworks such as the U.S. CLOUD Act.

---

19 Mckinsey – Global economic profit bounces back to an all-time high – September 2025 (link). Economic profit is defined as profit that companies generate above their total cost of capital.

20 European Parliament – European Software and Cyber Dependencies – December 2025 (link).

21 Reuters – Exclusive: OpenAI lays groundwork for juggernaut IPO at up to $1 trillion valuation – October 2025 (link).

This dependence also limits Europe's capacity to develop domestic industrial capabilities in areas such as defence technologies, cybersecurity and advanced manufacturing, sectors in which digital sovereignty is becoming increasingly important. The war in Ukraine has further underscored how central advanced technologies have become to the conduct of modern conflict: satellite connectivity services such as *Starlink*, AI-driven battlefield analysis and drone technologies now shape operational effectiveness as much as traditional military assets. In this context, Europe's reliance on foreign providers weakens its strategic autonomy and its position in a world where technological leadership increasingly determines geopolitical influence and economic power.

2.4. Europe's lack of global leaders in the tech sector is a paradox, given the continent's strong early-stage startup ecosystem and key structural advantages in innovation

Although there are relatively few European players among global technology leaders, Europe benefits from a dynamic startup ecosystem.

Over the past decade, Europe's innovation landscape has grown rapidly, with the number of early-stage companies quadrupling during this period.[22] This acceleration has been accompanied by a growing VC ecosystem, particularly at the early stage, with tech investments increasing tenfold between 2005 and 2024 (see Figure 2.3).

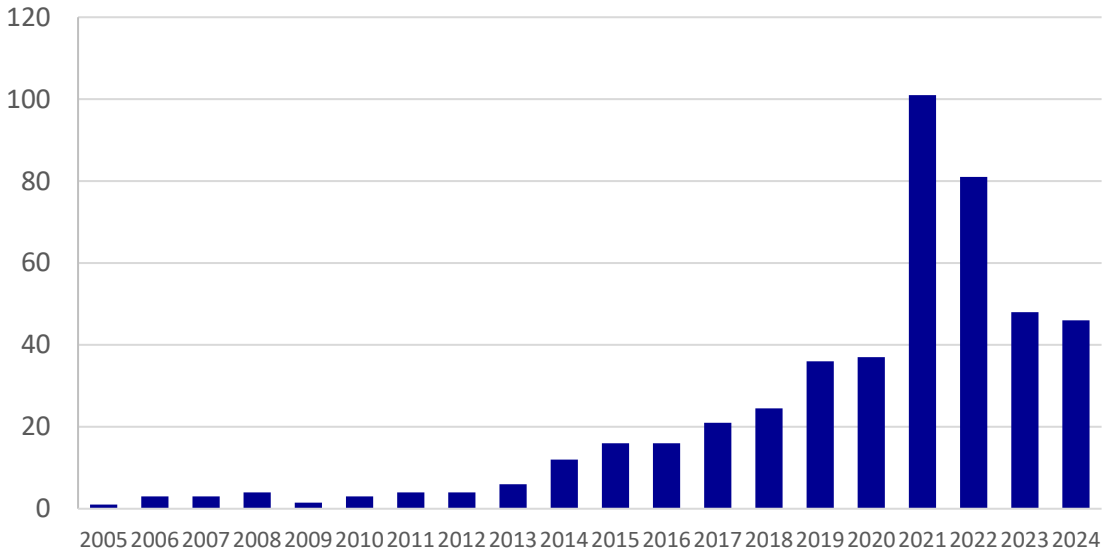


Figure 2.3: Tech investments in Europe, 2005–2024, in billion USD[23]

During this period, numerous incubators and accelerators have emerged across Europe, including flagship initiatives such as Station F in Paris, UnternehmerTUM in Munich or the SSE Business Lab in Stockholm. This ecosystem triggers a powerful flywheel effect across

[22] Atomico – State of European tech – November 2024 (link).
[23] Atomico – State of European tech – November 2024 (link).

the continent: as successful companies exit, they release capital, talent and expertise that fuel the creation of new startups, thus generating a self-reinforcing cycle.[24]

The emergence of Europe's early-stage ecosystem has been facilitated by Europe's structural advantages in innovation, notably its world-class scientific research and strong educational base.

First, the continent hosts one of the world's largest communities of researchers, with more than 2.15 million full-time-equivalent R&D staff. In 2021, researchers and R&D staff accounted for 2.4% of total employment in the EU.[25]

Second, its higher education landscape is exceptionally broad and diverse, encompassing nearly 5,000 higher education institutions, including research universities, institutes of technology and schools of arts, many of which rank among the global leaders in their fields.

Third, Europe is close to meeting, and in some countries exceeding, its 2030 tertiary education targets: in 2024, 44% of Europeans aged 25–34 held a tertiary qualification, almost matching U.S. levels. [26] This broad educational base sustains a deep pool of scientific and engineering talent that fuels research excellence and innovation capacity.

In addition, Europe is able to translate this strong scientific and educational base into a high level of scientific output. The EU accounts for around 18% of global scientific publications, second only to China in volume (Figure 2.4), and has some of the highest rates of international co-authorship in the world, with 56% of its publications produced across borders. The continent has also been a pioneer in open science: nearly 80% of EU peer-reviewed publications in 2020 were accessible through an open-access channel, supporting rapid knowledge diffusion.[27]

[24] Repeat founders and those with experience in top tech companies are several times more likely to reach billion-dollar valuations, see Atomico – State of European tech – November 2024 (link).

[25] Eurostat – R&D Personnel – November 2024 (link).

[26] Eurostat – Educational attainment statistics – May 2025 (link).

[27] European Commission – Science, Research and Innovation Performance of the EU 2024 – June 2024 (link).

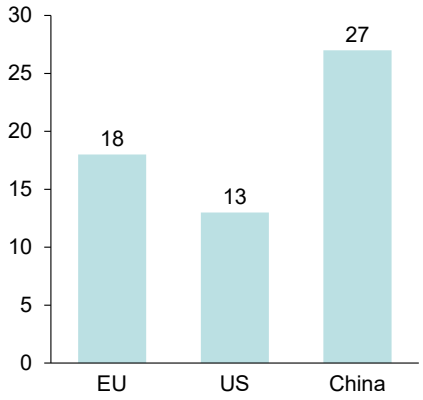


Figure 2.4: Scientific performance (publications as a percentage of the total world share in 2022)[28]

2.5. This paradox is primarily a consequence of the continent's scaleup gap, caused by a shortage of domestic late stage VC

Europe's strong performance in innovation and early-stage commercialization stands in sharp contrast to its difficulty in enabling firms to grow into large, global champions. As is widely documented, this paradox is largely rooted in European companies' struggle to progress through the scaleup phase (Figure 2.5), a critical stage of a company's development when it must transition from proven innovation to large-scale production and distribution.

Although there is no standardised definition, scaleups are typically defined, e.g. by the EIB,[29] as firms valued between USD 500 million and USD 10 billion.

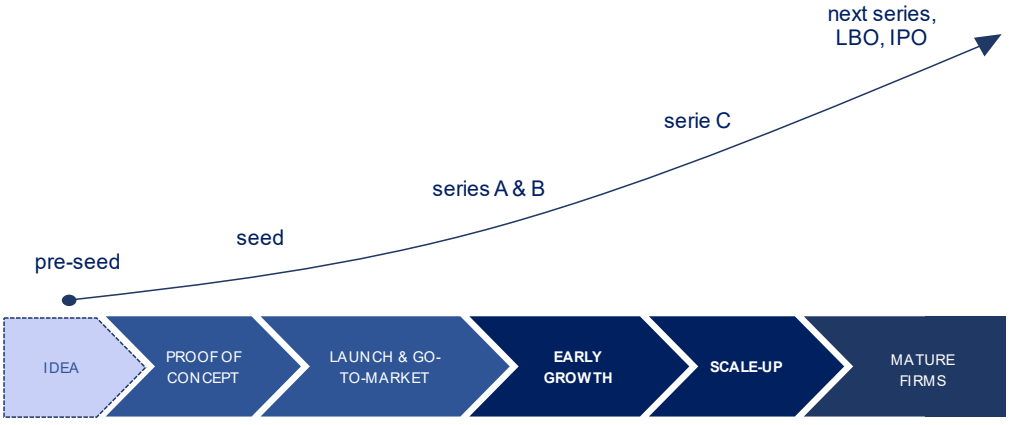


Figure 2.5: From the idea to a mature firm: Typical growth phases of young companies

It is indeed at this stage of innovative companies' development that the gap between Europe and the U.S. widens sharply, as illustrated in Figure 2.6: while there are almost two companies in the U.S. for every company in the EU valued below USD 50 million, this

[28] European Commission – Science, Research and Innovation Performance of the EU 2024 – June 2024 (link).
[29] European Investment Bank – The Scale-up Gap – June 2024 (link).

difference surges to almost 9 companies in the U.S. for every company in the EU valued above USD 500 million. [30]

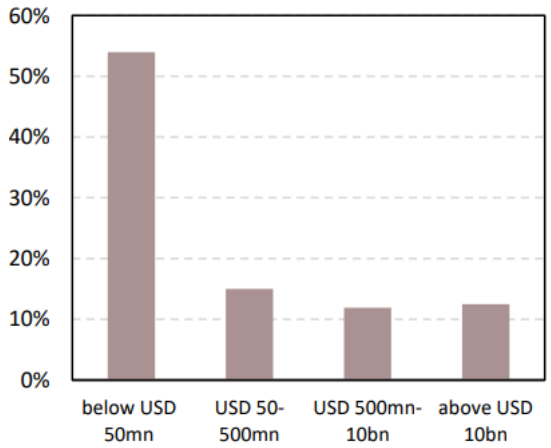


Figure 2.6: EU companies as a share of U.S. companies at each valuation range (percentage)[31]

At this stage of their development, innovative companies typically require two key ingredients: substantial financial resources to sustain a phase of accelerated cash-burn, and, critically, access to a large, sufficiently integrated and innovation-friendly market to support their expansion.

With regards to the first ingredient, Europe's scaleup challenge is rooted in a chronic shortage of domestic late-stage VC.

Venture investment in the EU remains relatively limited, amounting to just 0.2% of the continent's GDP, compared with 0.7% in the U.S, as illustrated below.

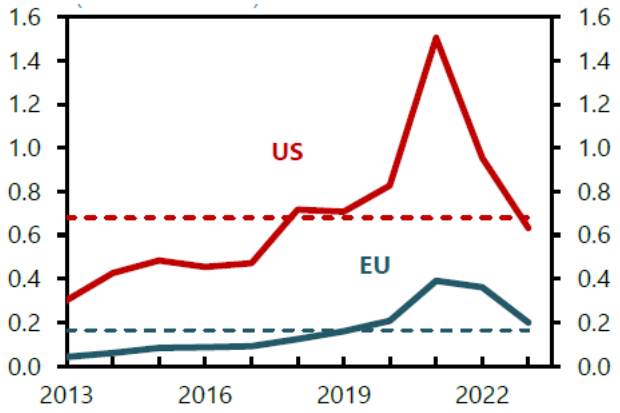


Figure 2.7: VC Investments 2013-2023 (percentage of GDP)[32]

[30] European Investment Bank – The Scale-up Gap – June 2024 (link).

[31] European Investment Bank – The Scale-up Gap – June 2024 (link).

[32] International Monetary Fund Working Papers – Stepping Up Venture Capital to Finance Innovation in Europe – July 2024 (link).

This limited size of the overall VC market, in turn, constrains the average size of European VC funds: only 35 "megafunds" exceeding EUR 500 million have been raised in the EU over the past decade, and funds exceeding USD 1 billion represent below 20% of VC funding raised between 2020 and 2023 in Europe, compared to around 40% in the U.S., as illustrated below.[33]

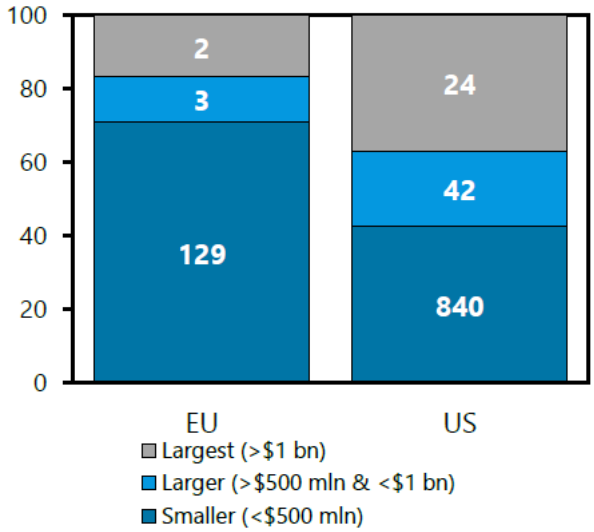


Figure 2.8: VC raised by fund size between 2020 and 2023[34]

As the average size of European VC funds remains far smaller than that of their U.S. counterparts, it becomes increasingly challenging for them to support innovative companies through successive and progressively larger funding rounds as the companies grow and their capital needs increase. While European investors represent 78% of capital provided in seed funding round, their share drops to 50% in scaleup funding rounds (from Series C rounds onwards).[35]

Europe's shortage of late-stage VC funding contributes to the decision of many European scaleups to list and relocate abroad.

Reasons for scaleups to relocate overseas can be manifold, including improved market access during international expansion. Nonetheless, larger firms backed by non-European capital and seeking financing abroad (including higher valuations and deeper capital markets for IPOs) have often moved significant parts of their operations abroad as well.[36] This pattern is reflected in high-profile cases such as Just Eat, Skype, TransferWise or

[33] International Monetary Fund Working Papers – Stepping Up Venture Capital to Finance Innovation in Europe – July 2024 (link).

[34] International Monetary Fund Working Papers – Stepping Up Venture Capital to Finance Innovation in Europe – July 2024 (link).

[35] KfW Research – Trends in cross-border venture capital investments in Germany and Europe – July 2025 (link).

[36] JRC – European Commission – In search of EU unicorns - What do we know about them? February 2022 (link).

UiPath, and in the decisions of European champions such as BioNTech, Klarna or Spotify to pursue U.S. listings.

Non-European lead or sole investors are involved in four out of five deals on EU companies valued between EUR 500 million and EUR 10 billion.[37] While cross-border investments and capital inflows remain essential for the growth and integration of the innovation ecosystem, disproportionate reliance on foreign capital can contribute to Europe losing not only high-value firms but also the economic spillovers associated with hosting them: skilled employment, tax revenue, reinvestment capacity and the strengthening of local innovation clusters.

2.6. The scaleup gap is also rooted in the lack of a large, sufficiently integrated and innovation-friendly European single market

With regards to the second ingredient, as highlighted by the Draghi report, the fragmentation and burdensome regulation of the single market remains a major obstacle for European firms seeking to scale across borders. As they attempt to expand across EU borders, they face a patchwork of regulatory requirements, administrative procedures and compliance standards that differ from one Member State to another.

These discrepancies force firms to adapt products, processes and legal frameworks repeatedly, raising expansion costs and slowing their ability to swiftly build a broad customer base. In contrast, competitors in more integrated markets can reach scale faster and spread fixed costs more efficiently, giving them a decisive advantage in sectors where rapid growth is critical.

This structural friction makes it harder for innovative businesses to generate the network effects, access to large datasets and economies of scale that are essential in data-driven and deeptech fields such as AI, quantum technologies, advanced computing and biotech. Regulatory unpredictability stemming from diverging national rules or different domestic interpretations of common rules further complicates long-term strategic planning. Young and fast-growing firms often lack the resources to manage these burdens simultaneously across multiple jurisdictions, which diminishes their ability to invest confidently and to attract substantial private financing.

As a result, many high-potential European companies scale more slowly than international competitors or pursue growth abroad, in markets with clearer and more homogeneous regulatory environments. This not only reduces their chances of achieving global leadership positions but also weakens the overall innovation ecosystem, as slower-growing firms generate less demand for capital, talent and complementary technologies. Over time, the cumulative effect is a persistent scaleup gap: companies remain smaller

[37] EIB – The scale-up gap: Financial market constraints holding back innovative firms in the European Union – June 2024 (link).

and the adoption of advanced technologies across the wider economy proceeds at a slower pace.

In addition to the lack of a sufficiently developed domestic VC ecosystem, and integrated internal markets, European scaleups are also affected by the EU's stringent regulatory framework.

One of the aspects highlighted in the Draghi report is the fact that the EU's regulatory stance towards tech can be seen as creating challenges for innovation. Several EU laws and regulations, including the AI Act, the EU chemicals regulation REACH, biotech regulations or the EU's data protection framework favour a precautionary approach, dictating specific business practices ex ante to avert potential risks ex post. For example, some industry stakeholders argue that the AI Act, while intending to create a safe regulatory environment, hampers innovation through increased costs, administrative complexity and competitive disadvantages. More specifically, among others, the AI Act imposes additional regulatory requirements on general purpose AI models that exceed a pre-defined threshold of computational power. This defined threshold, however, is already exceeded by many state-of-the-art models. As a result, several industry stakeholders argue that the cost of compliance with the AI Act is motivating founders of new startups to avoid Europe and its regulatory burdens.

In addition, as the Draghi report found, the EU now has around 100 tech-focused laws[38] and over 270 regulators active in digital networks across all Member States, thus hampering innovation and slowing scaling across Europe.

Another factor that can limit the growth of innovative young companies in Europe is the complexity of administrative procedures encountered when accessing government contracts. Public procurement processes are often designed with large, established firms in mind, which can make participation more challenging for smaller, fast-growing innovators, due to demanding eligibility and compliance requirements and a generally cautious approach within public procurement bodies. Addressing these structural issues could help make public procurement more accessible to a broader range of innovative firms.

An additional important obstacle to the successful development of innovative companies in Europe is the prohibitively high cost of failure associated with rigid labour market regulations. This can make the high-risk, high-reward nature of disruptive innovation in sectors such as AI and biotech essentially unprofitable for large-scale investment, as analysed by Yann Coatanlem and Oliver Coste.

Through an analysis of restructuring costs in large enterprises, the authors estimate that these expenses can be up to ten times higher in Western Europe compared to the U.S. The solution is "targeted flexicurity" based on the models applied in Denmark and Sweden. This includes targeted reforms to employment protection legislation focused on

[38] Bruegel – EU Digital Policy Overview, Bruegel Factsheet – June 2024 (link).

high earners only, which can preserve social protection while restoring the agility that is crucial for disruptive innovation, productivity and growth.[39]

Implementing the proposals of the Draghi report to boost European competitiveness, thereby addressing the size, integration and innovation-orientation of the European single market, would certainly increase the growth dynamics and directly benefit scaling up the business models of high-growth companies in the EU.

2.7. We are at a critical turning point, requiring bold and immediate action

Three developments justify bold and immediate actions to improve access to financing for European scaleups.

First, capital requirements in AI and deeptech are rising at an unprecedented pace. The global technological frontier is becoming extraordinarily capital-intensive, especially in AI, advanced semiconductors, quantum technologies and space systems. Developing and training frontier AI models increasingly requires multi-billion-dollar investments in specialised chips, hyperscale data centres and research talent. In 2024, deeptech fundraising reached more than EUR 70 billion in the United States and EUR 14 billion in China. [40]

Large-ticket financings are dominating the market, with rounds above USD 100 million accounting for roughly half of total VC investment over the last ten years (Figure 2.9). VC rounds are becoming larger even as their number declines.[41] Early data suggests that this share could rise to 70% in the U.S. in 2025 and investments in AI companies can be expected to drive this development. In 2024, AI accounted for roughly one-third of global VC investment, with an even higher concentration in the U.S., where it represented 42% of total VC funding, compared to 25% in Europe[42]. Virtually all of the largest VC rounds in recent months have involved AI companies, with several surpassing the USD 10 billion mark, including Databricks' USD 10 billion raise in December 2024 and OpenAI's record-breaking USD 40 billion round in March 2025.

[39] IEP Bocconi – Cost of Failure, Disruptive Innovation and Targeted Flexicurity – November 2025 (link).

[40] Direction générale des entreprises – L'innovation de rupture au défi du passage à l'échelle – March 2025 (link).

[41] Total VC investment rose from USD 350 billion in 2023, across roughly 43,000 deals, to nearly USD 370 billion in 2024, over only 36,000 deals (link). Source: KPMG

[42] Dealrooom – AI Summit 2025 report – February 2025 (link).

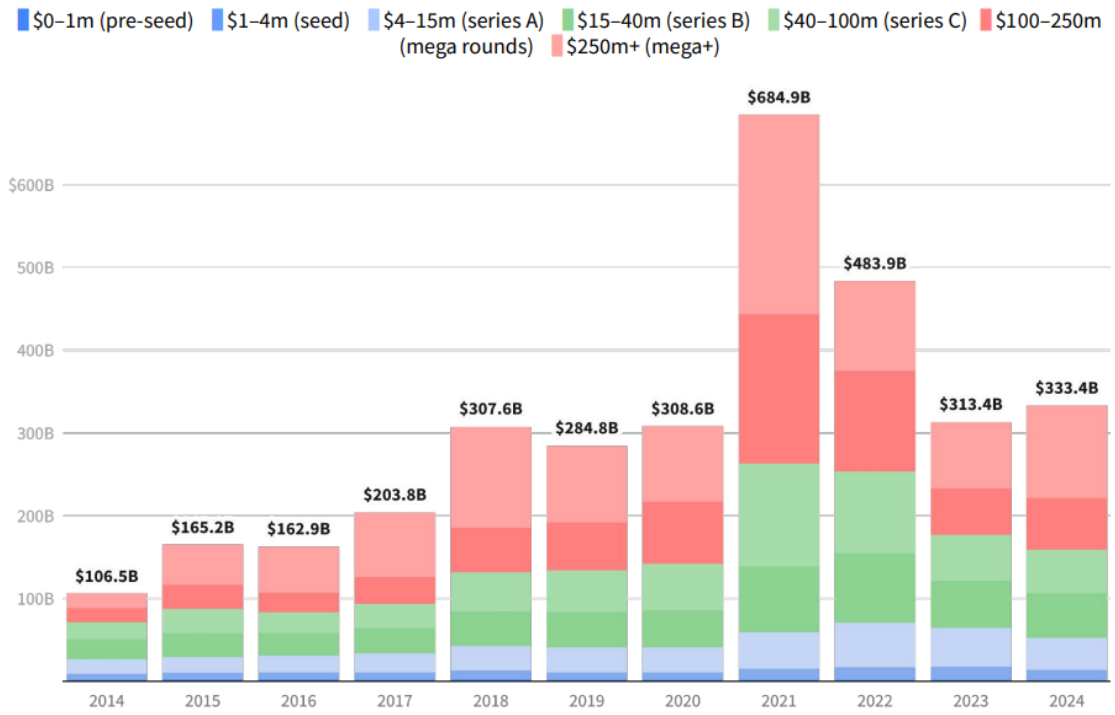


Figure 2.9: Global VC by stage[43]

The shortage of sufficiently large funding tickets for European companies risks further exacerbating financing bottlenecks at earlier stages, in particular given the increasingly capital-intensive nature of AI and deeptech fundraising. Recent developments illustrate the scale of this shift: Thinking Machines Lab, a company founded by former OpenAI CTO Mira Murati, raised an unprecedented USD 2 billion in seed funding (implying a USD 12 billion valuation, with backing from leading investors such as Andreessen Horowitz, Nvidia and AMD). Such multi-hundred-million- and even multi-billion-dollar rounds are now becoming the norm among front-runner AI companies, even at the seed or early-stage levels.

This situation threatens to undermine the very foundation of Europe's innovative strength, namely its gradually constructed early-stage ecosystem. The sheer magnitude of the funding now required by leading AI and deeptech companies makes it impossible for public instruments to close the gap through direct investment. Addressing this challenge will make it necessary to mobilise and attract significantly more private capital and to develop larger, better-capitalised funds capable of competing in funding rounds on this scale.

Second, this new paradigm is unfolding within a weakened European venture ecosystem in the context of tighter financial conditions. Fundraising levels in Europe declined markedly in 2023–2024 (Figure 2.10) following the monetary tightening cycle, mirroring global trends, with the value of VC transactions in Europe' contracting by 45.7% between 2022 and 2023.[44] This downturn came after an exceptional boom in 2021–2022,

[43] Dealroom – Venture Wrapped 2024 – January 2024 (link).

[44] Pitchbook – Developing European Capital Markets to Finance the Future – January 2024 (link).

fuelled by abundant liquidity and accommodative monetary conditions during the Covid period. However, the correction had a disproportionately severe impact on the European VC landscape, and deteriorated financial conditions specifically affected larger-size deals, with potentially lasting consequences for the availability of growth capital and for the overall resilience of European venture financing.

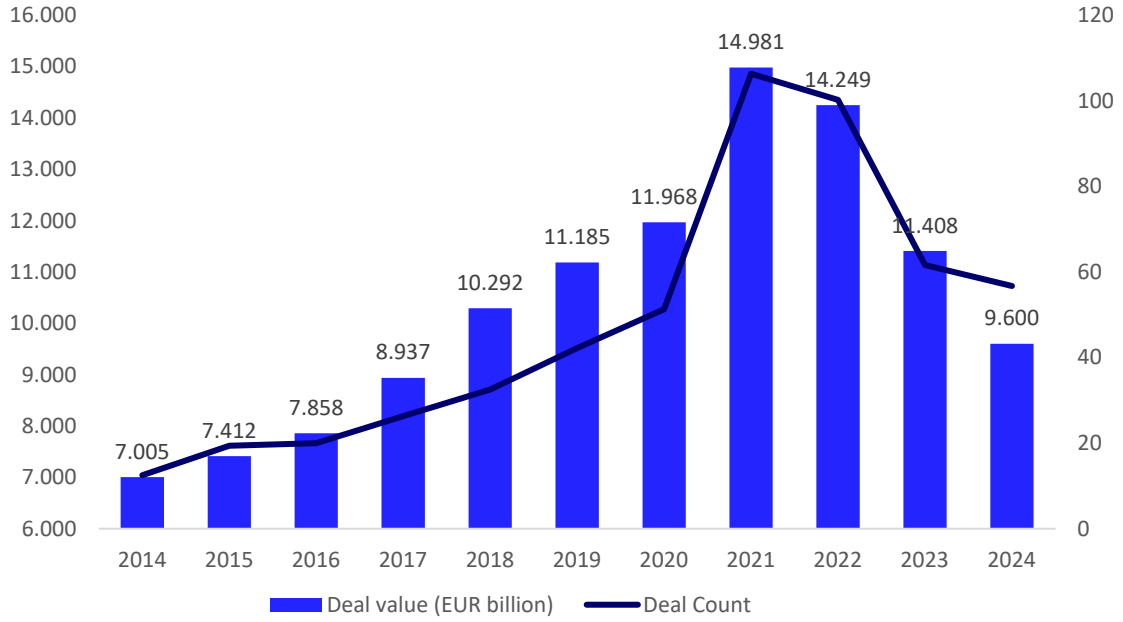


Figure 2.10: Value and number of transactions on the European VC market[45]

Deteriorating liquidity conditions have, in turn, weighed heavily on already limited exit options for European scaleups, thereby constraining VC funds' ability to recycle capital and raise new vehicles. Several unicorns that rose to prominence during the 2010s have come under financial pressure as exit routes have tightened further, illustrating the broader slowdown in capital market activity. Institutional investors remain cautious about committing additional resources to the asset class until distributions from previous vintages materialise. Early data points to a weaker rebound in European IPO activity compared to other regions of the world. The EMEA region recorded only 50 IPOs in the first half of 2025, a 15% decline year-on-year, whereas the United States alone counted 109 IPOs over the same period. [46] These subdued market conditions risk delaying the recovery of fundraising capacity and further weakening the fundraising pipeline in Europe.

Finally, recent geopolitical developments have dramatically underscored that technological sovereignty and innovation capacity are increasingly important for both security and long-term prosperity. The acceleration of geopolitical fragmentation and the weaponisation of supply chains have exposed European vulnerabilities in critical areas, from semi-conductors and energy technologies to space systems. In an environment in

45 Pitchbook – Developing European Capital Markets to Finance the Future – January 2024 (link).

46 EY – EY Global IPO Trends Q2 2025 – July 2025 (link).

which technological leadership translates directly into military resilience and industrial competitiveness, the ability to nurture and retain cutting-edge innovation companies has become a matter of national and European sovereignty, rather than a purely economic ambition.

These developments call for a far stronger and more deliberate political commitment to supporting innovation financing. Europe cannot afford to let limited availability of VC, overregulation and market fragmentation constrain the emergence of its future technological champions. To safeguard the continent's sovereignty and long-term prosperity, Europe's innovators need to be able to scale their companies in a way that is comparable to their global competitors. Sufficient access to funding is the necessary prerequisite.

3. To finance innovation, EU Member States will need to develop funded supplementary pension schemes to complement their pay-as-you-go pension systems

3.1. In the absence of a deep pool of retirement savings, Europe will remain unable to finance innovation at scale.

3.1.1. A dynamic innovation financing ecosystem requires a strong base of long-term investors

In the recent years, the public debate has been focused in recent years on the sustainability of historic pay-as-you-go pension systems. Meanwhile, the contribution of funded pension schemes to financing the economy has often been overlooked.

It is often stated that, among others advantages, countries with a substantial retirement savings base tend to benefit from a higher level of capital market development. However, it is rarely noted that, very few countries have been able to build a sizeable ecosystem for innovation financing, especially at later stages, in the absence of a significant pension assets pool.

This strong reliance on pension assets is due to the fact that VC funds, which play a crucial role in financing the development of young innovative companies, rely primarily on institutional investors to raise the capital they deploy, as illustrated in the second part of the report.

Indeed, these investors typically hold large pools of capital, have a high appetite for diversification, are professionally managed, which are three key conditions for investing in VC, given the illiquid nature of these investments, the high minimum investment amounts and the degree of expertise required for a rigorous fund selection. In the U.S., which is considered to be the most developed innovation financing ecosystem globally, institutional investors account for 72% of VC investment assets, far ahead of family offices and public entities. investment assets, far exceeding family offices and public entities.

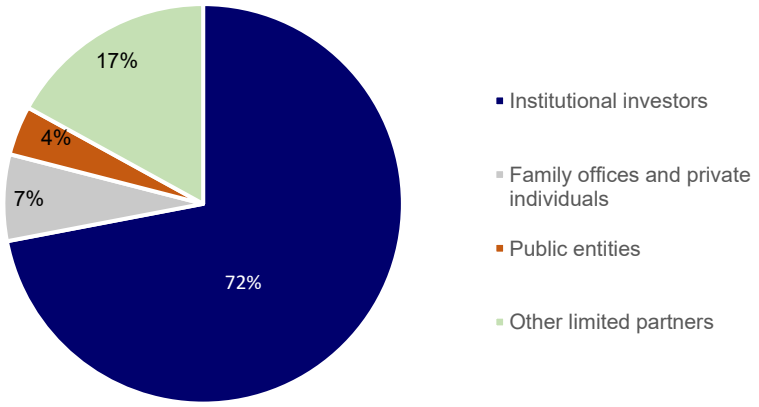


Figure 3.1: Contribution of the different investor types to VC investments in the U.S.[47]

Among institutional investors, pension funds are well positioned to commit substantial capital to VC funds, due to their long-term and predictable liabilities. Their investment horizon aligns well with the illiquid and long-term nature of startup financing, allowing VC funds to deploy patient capital and to support early-stage companies through extended development cycles. Consequently, supplementary asset-backed pension schemes are associated with a higher share of VC investments for a given country.

Example in focus: pension funds in the U.S. and the development of a VC ecosystem

It should be noted that the emergence and rapid development of VC in the United States, has been closely linked to the pivotal change observed in U.S. pension funds involvement in VC following the reform of the "prudent man rule" in 1979.

This rule restricted private pension funds from investing in riskier assets deemed "imprudent". As a result, many pension funds avoided any exposure to VC, fearing that investing in startups would be considered reckless. In early 1979, the U.S. Department of Labor which oversees private retirement plans, provided a more flexible definition to the "prudent man rule", specifying that it should apply to the managed portfolio as a whole rather than to individual investments.

This made it clear that allocating a small share of a portfolio to VC would not be considered imprudent, thereby opening the door to such investments. Public pension funds relaxed investment constraints in a similar way in the 1980s.

This led to a steep increase in the amounts entrusted to VC, which reached USD 4.5 billion annually from 1982 to 1987, up from USD 100 million 10 years earlier.

[47] IMF – Stepping Up Venture Capital to Finance Innovation in Europe – July 2024 (link).

Therefore, as illustrated by the Banque de France in its September 2025 bulletin "U.S. regulatory incentives for equity financing? The essential role of public pension plans", Pension Funds play an essential role in providing equity funding to the country's firms, especially at the early stage of their development through VC.

Today, pension funds in the U.S. account for around 50% of private equity (PE) investments (including VC), and US state and local government pension plans allocate 13.7% of their USD 6 trillion in PE, while another 42.4% is invested in stocks.[48]

In addition, retirement savings are not only suitable for VC investments, but also more broadly for investments in listed equity, which is equally crucial to the development of innovative companies.

Indeed, their long-term investment horizon, steady cash inflows and predictable outflows make retirement savings particularly well-suited to investment in equity markets.

A strong link is therefore observed between funded pension schemes and the development of domestic equity markets, as economic research has shown.[49]

This link is observed across most jurisdictions. It is both a consequence of the strong tendency of retirement savings to be directed towards equity, coupled with a domestic bias in geographical asset allocation.

It should also be noted that retirement savings can contribute substantially to innovation financing even when invested through individual accounts under pillar III schemes, in addition to their potential contribution through pension funds at the pillar II level.

In the U.S., for instance, individual retirement accounts (IRAs), which constitute the country's pillar III system account for USD 17 trillion, 58% of the country's GDP. This is in addition to the USD 21.7 trillion invested through 401(k) plans and annuities, out of a total of USD 44.1 trillion in pension assets.[50]

[48] Bulletin de la Banque de France – Quelles incitations réglementaires au financement par fonds propres aux États-Unis ? Le rôle essentiel des fonds de pension publics – October 2025 (link).

[49] IMF – Pension Reform and Stock Market Development – February 2025 (link).

[50] Investment Company Institute – Quarterly Retirement Market Data – Q2 2025 (link).

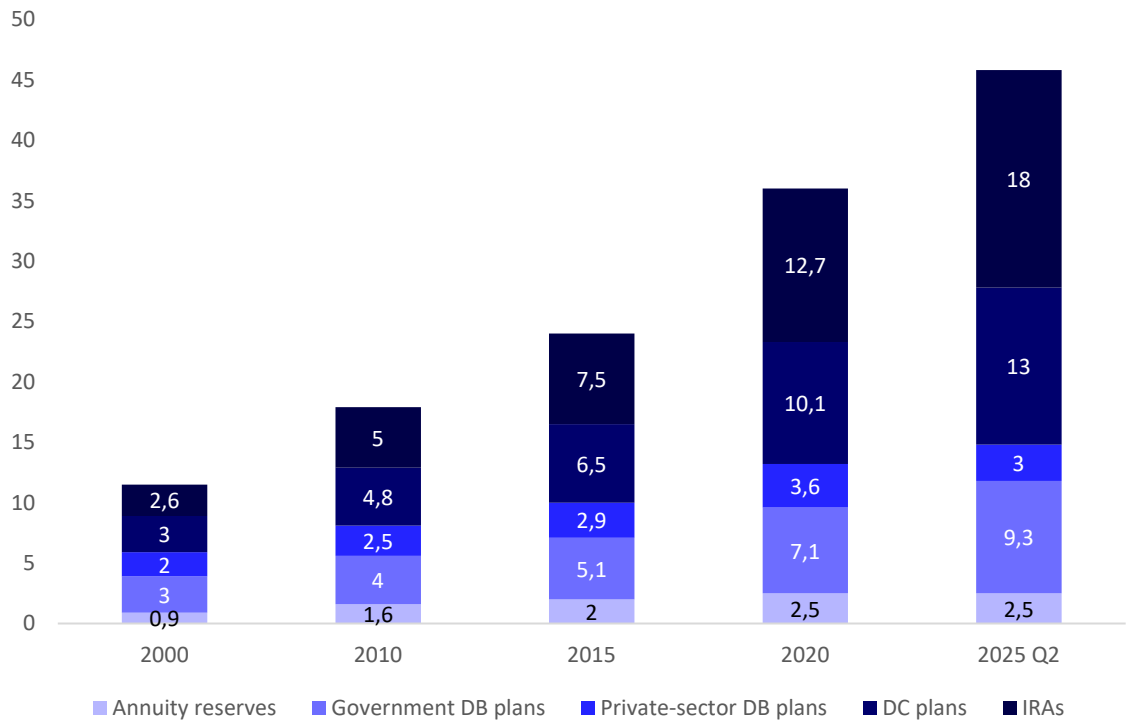


Figure 3.2: Retirement savings in the U.S. (in trillions of USD)[51]

A large share of these individual retirement accounts is invested in equities, which represent between 58.7% and 62.5% of U.S. IRA assets, depending on household age.[52]

3.1.2. The current pool of European institutional and public investors remains insufficient to support innovation at scale

First, it should be noted that the largest European institutional investors – insurers – face structural hinderances, given their prudential constraints and often guaranteed liability structures (see chapter 4), limiting their ability to make substantial commitments to VC and equity financing more broadly.

Given that insurers account for more than half of Europe's institutional assets, their constrained capacity for equity financing shrinks the total pool of institutional financing available. As a result, the European investor base capable of providing long-term risk capital is structurally narrow, which places disproportionate expectations on other existing pools, such as sovereign funds or corporates.

This situation is all the more challenging given that institutional investors are among the only actors capable of taking lead positions in large VC funding rounds and IPOs, through large individual commitments and are therefore key to securing sufficiently large tickets for late-stage funds and successful listings.

51 Investment Company Institute – Quarterly Retirement Market Data – Q2 2025 (link).

52 Investment Company Institute – US Retirement and Education Savings – 2025 (link).

As a result, although around two-thirds of venture and growth deals involve at least one EU investor, a significant share of Europe's larger late-stage rounds is still led by non-EU investors[53], particularly U.S. and global crossover funds, underscoring the potential of possible domestic institutional mobilisation (around 20% by value in 2024).

This grows into an ever more critical weakness over time, as the financing gap is increasingly concentrated in the later stages, and as orders of magnitude for financing rounds keep getting larger. Without large domestic institutional investors to anchor these financings, the ecosystem will, for the foreseeable future, lack the stable, long-term capital needed to support companies through successive growth stages.

Moreover, it should be clear that European public resources are structurally insufficient to meet the sizeable financing needs of scaleups. In the absence of abundant cheap public financing sources (natural resources, significant trade surpluses, strong demographic growth), Member States with relatively high levels of public debt face budgetary pressures and a renewed focus on fiscal consolidation. This, in turn, limits the scope for additional public support.

In Europe, public entities, including the EIB and national promotional banks, already represent 31% of the VC investor base[54], over the 2013-2023 period, far above the level in the U.S. (4%).[55]

This strong public commitment has successfully fostered early-stage ecosystems through public initiatives, as it will be described in more detail in chapter 5. However, such mechanisms remain inherently limited in size and continuity, as these public funding schemes cannot compensate for the massive capital pools brought by institutional investors. Current funding rounds trends routinely require lead investors to commit individual tickets approaching USD 50 million in order to meet diversification constraints. This, in turn, necessitates fund sizes in the range of USD 500 million to USD 1 billion, a scale that is difficult to achieve for public promotional banks in most jurisdictions, in Europe and beyond.

3.1.3. With its reliance on pay-as-you-go schemes and its underdeveloped supplementary pension schemes, Europe is largely depriving itself of the necessary resources to finance innovation

First, since these concepts are used repeatedly in this chapter and will underpin the key recommendations that follow, it is worth recalling that retirement planning is typically structured around three pillars:

---

53 European Commission – Study of barriers to, and drivers of, the scaling-up of funds investing in innovative and growth companies – September 2025 (link).

54 Invest Europe – Investing in Europe: Private Equity Activity 2024 – May 2025 (link).

55 International Monetary Fund Working Papers – Stepping Up Venture Capital to Finance Innovation in Europe – July 2024 (link).

- **Pillar I**: public pensions. These are usually not "funded" but rather financed on a pay-as-you-go basis (PAYG): pensions paid to retirees' are financed from contributions of current workers. When contributions from current workers are insufficient to cover the pensions of current retirees, the shortfall is usually covered by public budgets.
- **Pillar II**: cccupational pension plans (funded) jointly by employees and employers. Unlike pillar I pensions, pillar II schemes more often rely on funded mechanisms, although some can still operate on a PAYG basis, as illustrated in certain national contexts.
- **Pillar III**: individual and mostly voluntary retirement products as well as private investment funds and savings plans earmarked for old age. They are often supported by tax incentives or other regulatory benefits to encourage long-term savings.

It is also worth clarifying the difference between funded and pay-as-you-go pension schemes:

- Within pay-as-you-go (PAYG) systems, pensions paid to current retirees are financed directly from the contributions of today's workforce, rather than from accumulated savings or investment returns.
- Within funded pension systems, pensions are financed from contributions that are accumulated and invested over time. Each cohort of contributors essentially saves for its own future retirement, with contributions typically allocated to individual or collective accounts and invested in financial markets.

Within funded pension systems, a distinction is generally made between defined-contribution (DC) and defined-benefit (DB) schemes: Under defined-contribution schemes, contributions are fixed, while the pension depends on the investment performance of the accumulated savings. Conversely, defined-benefit schemes promise a predetermined pension benefit, usually based on factors such as salary level and years of service, regardless of the fund's investment performance.

Lastly, funded pension systems whether DC or DB, can be implemented through a range of investment mechanisms, using either individual or collective investment vehicles.

Pension funds are one of the main types of collective investment vehicle and are often embedded within pillar II schemes, as it is the case in the United States, United Kingdom, Switzerland and Sweden. They pool individual retirement savings and invest them across capital markets, while committing, on their liability side, to providing a stable stream of retirement income, whether on a defined contribution or defined-benefit basis.

Alternatively, collective funded pension vehicles can take other forms, such as insurance-based collective vehicles. France's Fonds de retraite professionnelle supplémentaire

(FRPS), for example, manage the non-unit-linked component of individual or collective insurance-based retirement schemes.

Individual funded pension schemes, typically associated with pillar III components, can either rely on an asset allocation made at the full discretion of pensioners or on a default, or managed allocation. The latter case creates a collective dimension in the management of the product, although the ownership of the underlying securities or fund units remains segregated at the level of each pensioner's investment account.

Among these different options, Europe is largely reliant on pillar I pay-as-you-go pension systems, which are deeply rooted in the European socioeconomic tradition.

Today, only about 23% of Europeans are enrolled in occupational pension schemes, and just 19% hold a personal pension product.[56]

In contrast, the U.S. pension landscape relies more heavily on asset-based savings: around 56% of U.S. workers participate in employer-sponsored pension plans[57] and 44% of all households hold individual retirement accounts.[58]

Consequently, the pool of supplementary pension assets remains much smaller in Europe than in other jurisdictions, reaching only 25% of GDP, compared to 147% of GDP in the US, 157% in Canada and 135% in Australia[59].

It should be noted, however, that supplementary pension coverage varies widely. In Sweden 90% of employees are covered by occupational pension schemes, as described below. Denmark and the Netherlands already started reforming their pension systems comprehensively.

As a consequence, the ratios of pension assets to GDP diverge widely across the EU, ranging from 1.1% of GDP in Greece to 204% in Denmark, with Germany and France sitting at the bottom of the bracket, with only 6.4% and 12.9% respectively, while Sweden, and the Netherlands are closer to Denmark (114.8 % and 150.3%).[60]

56 EIOPA – Consumer Trends report – November 2023 (link).
57 US Congress – Worker Participation in Employer-Sponsored Pensions – September 2024 (link).
58 ICI – The Role of IRAs in US Households' Saving for Retirement – March 2025 (link).
59 OECD – Pension Markets in focus – June 2025 (link).
60 OECD – Pension Markets in focus – June 2025 (link).

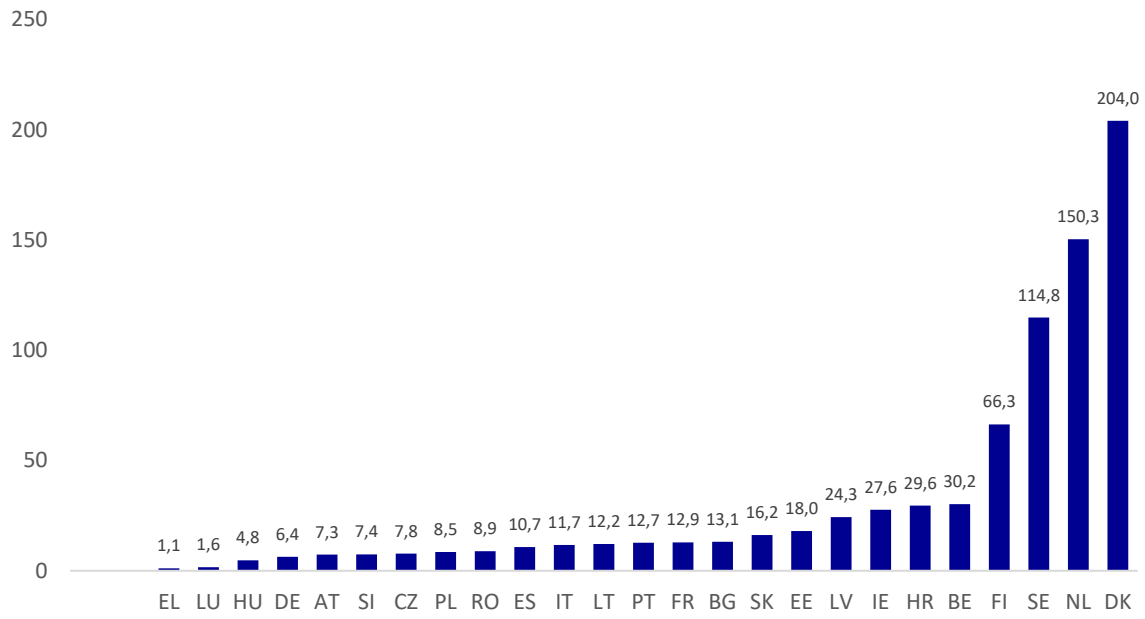


Figure 3.3: Assets in asset-backed pensions arrangements at end-2024 (percentage of GDP)[61]

These divergences reflect the fact that, among the EU jurisdictions that have introduced a hybrid pension model, combining funded and unfunded components, only three have so far achieved greater reliance on pillar II and pillar III schemes. Outside the EU, Switzerland and Iceland also have hybrid funded/unfunded systems. [62]

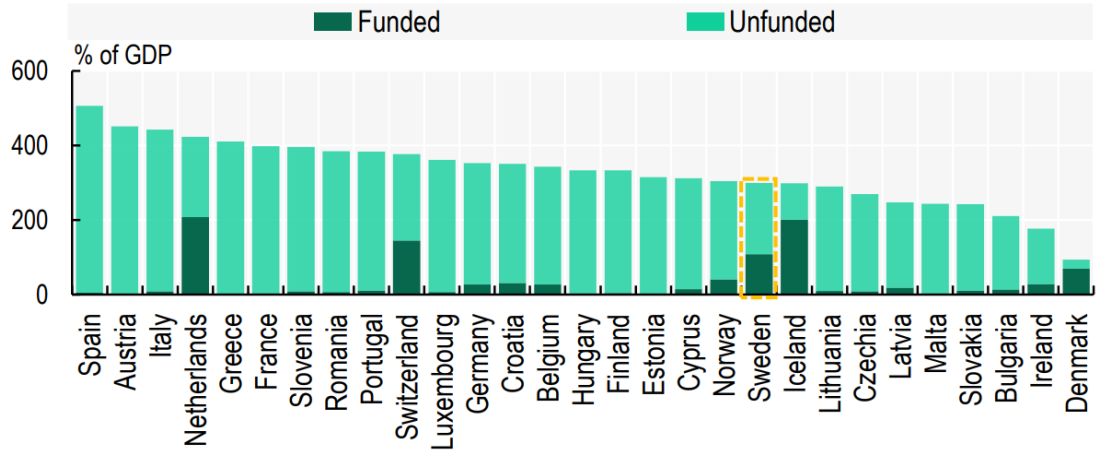


Figure 3.4: Funded and unfunded pension entitlements (end -2021)[63]

[61] OECD – Pension Markets in focus – June 2025 (link).

[62] OECD – The Swedish Equity Market: Institutional Framework and Trends – April 2025 (link).

[63] OECD – The Swedish Equity Market: Institutional Framework and Trends – April 2025 (link).

Consequently, the under-supply of long-term capital in EU capital markets, which is the principal driver of their underdevelopment, largely reflects the insufficient development of funded pension schemes in the EU, as highlighted in the Draghi Report.[64]

This shortage of long-term capital underscores another striking paradox[65]: European savers, despite facing some of the highest social contribution rates in the world to finance pay-as-you-go pension systems, exhibit one of the highest saving rates in the world, totalling 15.4% in the Euro Area in the first quarter of 2025[66] (compared to only roughly 5% in the U.S.[67]). This should theoretically result in a substantial pool of long-term assets invested in capital markets.

However, regulatory incentives and European investors' strong preference for liquid and guaranteed products, coupled with a high demand for non-domestic, and predominantly U.S., equities, has prevented the EU's substantial pool of retail savings (EUR 39.5 trillion as of 2024)[68] from translating into a deep pool of capital invested in domestic equity markets, as illustrated in the Noyer report: as of 2024, 30.6% of Europeans financial assets were invested in currency and deposits.[69]

Ultimately, the main aims of any pension reform should be the provision of a reliable and adequate income source for old age as well as the establishment of a well-balanced system addressing the demographic challenges while preserving the financial sustainability of public budgets.

In this regard, however, it should be noted that the challenge linked to the ageing population is less pronounced for funded pension systems, as these rely on accumulated assets rather than current contributions to pay benefits.

Nevertheless, even funded systems can face pressures if investment returns fall short of expectations or if individuals fail to save sufficiently, highlighting the importance of a complementary approach between pay-as-you-go and funded systems. At the same time, citizens can benefit from relatively high returns. Over the long term, asset-backed pension plans recorded positive investment rates of return in most jurisdictions.[70] For instance, the Swedish state-run "AP7 fund" has generated, on average, from 2000-2024 a capital weighted return of 11.5%.[71]

---

64 Mario Draghi – The future of European Competitiveness – September 2024 (link).

65 Christian Noyer – Developing European Capital Markets To Finance The Future – April 2024 (link).

66 Eurostat – Q1 2025 (link).

67 Bureau of Economic Analysis – Personal Saving Rate – June 2025 (link).

68 Eurostat – Households – statistics on financial assets and liabilities – October 2025 (link).

69 Eurostat – Households – statistics on financial assets and liabilities – October 2025 (link).

70 OECD – Pension Markets in Focus 2025 – November 2025 (link)

71 AP7 – Annual and Sustainability Report 2024 – April 2025 (link)

3.2. Sweden offers a good illustration of a successful transition towards a hybrid pension system with a substantial contribution to domestic innovation financing

3.2.1. Sweden's current hybrid system, unlike the systems inmost EU Member-States, relies partly on funded supplementary pensions

The Swedish pension system relies on pillars I, II and III, operating as a hybrid model in which public pensions still represent 65% to 70% of average pension income.

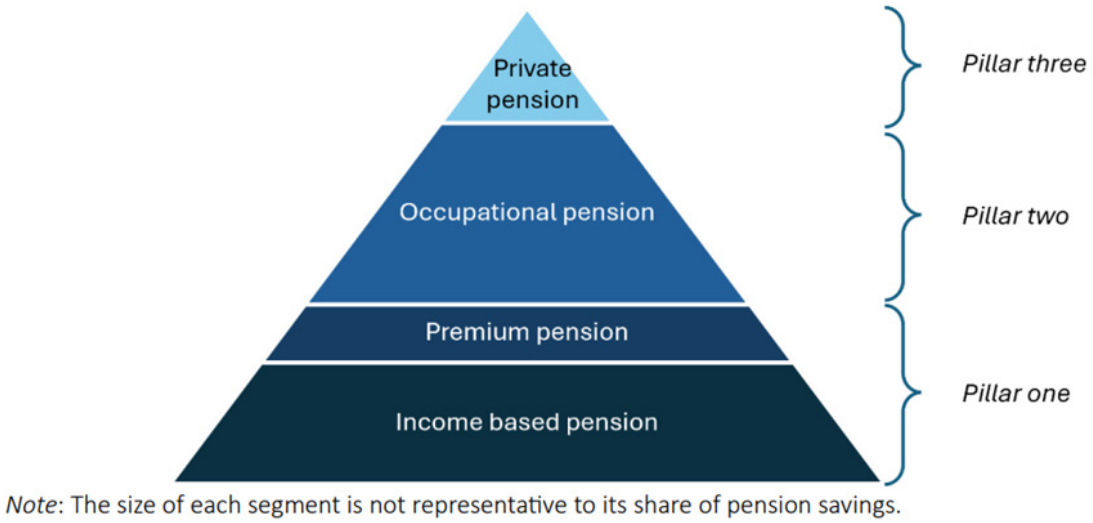


Figure 3.5: Sweden's three-pillar pension system[72]

Sweden's pillar I, or national pension system, is itself a combination of pay-as-you-go and funded arrangements.

The pay-as-you-go component is structured around a notional account system where contributions are fixed, at the level of 16% of employees' income, and recorded individually, while benefits are calculated at retirement. Pillar I is complemented by a mandatory funded component, called "premium pension", under which an additional 2.5% of employees' income is invested in capital markets through individual accounts administered by the Swedish Pensions Agency.

Through this funded component, employees' contributions are invested over their careers in professionally managed pension funds: Swedish workers can choose to allocate their retirement savings across up to five different pension funds through a dedicated platform, from more than 400 approved funds.

[72] CEPS – Learning from Sweden: A Blueprint for Building Resilient European Capital Markets – June 2025 (link).

When no choice is made, contributions are invested by default in the state-run "AP7 fund", which now manages roughly half of all premium pension assets, amounting to EUR 130 billion last year alone, or close to 25% of Sweden's GDP.

Sweden's pillar II complements the public scheme through a funded, defined-contribution occupational pension model. Introduced as early as 1973 and organized through collective agreements, this semi-mandatory scheme applies automatically to all employees covered by collective agreements, representing around 90% of all employees.

The framework and governance for the management of pillar II funds are set by social partners and structured around four occupational schemes, reflecting the employee's sector and socio-professional category. The management of the funds is carried out by occupational pension companies and life insurance firms, with a relatively high level of concentration around the country's three largest pension fund managers (Alecta, AMF and Folksam), which account for nearly two thirds of occupational pension assets.

The funds managed through the Swedish occupational pension system represent half of the country's total pension assets, or EUR 370 billion according to the OECD[73].

Sweden's pillar III consists mainly of the Swedish Investment Savings Account (ISK). Its purpose is not limited to old-age provision – rather it is an advantageous savings option. The ISK grew rapidly in popularity after the abolishment of tax deductions for individual private pensions schemes in 2016. Introduced in 2012, the ISK has quickly become popular in Sweden, with nearly 40% of the population now holding an account and total assets reaching EUR 176 billion in 2024.[74] Its appeal lies largely in its simple and standardised tax regime, which applies a fixed, standardized annual tax on the account's value rather than taxing actual capital gains and dividends.

This fixed rate is computed annually by the Swedish Tax Agency, which takes the government borrowing rate, adds 1% (subject to a minimum of 1.25%) and then applies a flat 30% tax rate on this value. This it amounted to 0.52% per year on average between 2012 and 2024. In addition, the first SEK 150,000 (EUR 13,000) saved in an ISK account are completely tax exempt, a threshold that is set to double to SEK 300,000 in 2026.

Taken together, these three pillars constitute a substantial pool of long-term capital: total assets in the Swedish pension system, including public and occupational schemes but excluding ISK accounts, totalled EUR 764 billion at the end of 2023, representing nearly 145% of GDP[75]. This is broadly comparable to the 153% recorded in Northern America, but far above Europe's average of 41% at end-2024.[76]

---

73 OECD – Pension Markets in focus – June 2025 (link).

74 European Commission – Staff working document accompanying the Commission recommendation on Increasing the Availability of Savings and Investment Accounts with Simplified and Advantageous Tax Treatment – September 2025 (link).

75 OECD – The Swedish Equity Market: Institutional Framework and Trends – April 2025 (link).

76 OECD – Pension Markets in focus – June 2025 (link).

3.2.2. The Swedish pension system and its funded component have been instrumental in fostering one of Europe's most dynamic innovation ecosystems

Thanks to its deep pool of domestic pension assets, largely oriented toward financing its national economy, Sweden has been able to develop a highly dynamic capital market.

Indeed, despite the relatively small size of its economy (3.1% of the EU's total GDP, compared to 16.4% for France and 24.4% for Germany), Sweden recorded 823 IPOs between 2016 and 2023, compared to 130 in France and 84 in Germany, and is now home to the largest number of listed companies in the EU.[77]

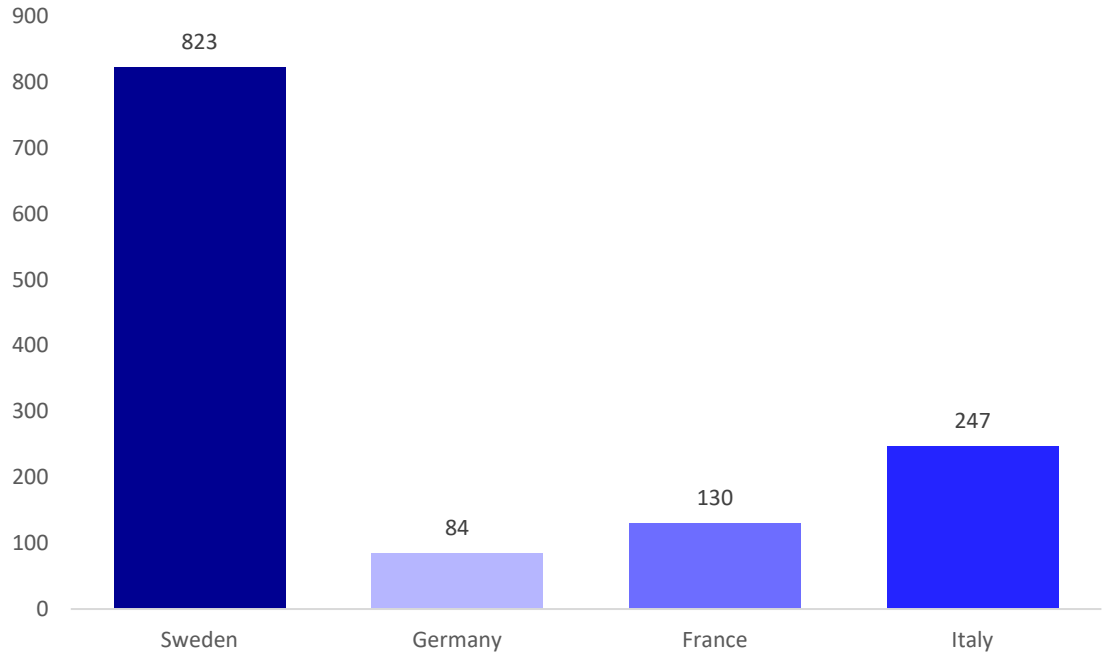


Figure 3.6: Number of IPOs (2016 – 2023)[78]

With an equity market capitalisation of 175% of GDP in 2024, more than twice the EU average, Sweden stands out as having one of the most developed equity markets in Europe.[79]

[77] CEPS – Learning from Sweden: A Blueprint for Building Resilient European Capital Markets – June 2025 (link).

[78] CEPS – Learning from Sweden: A Blueprint for Building Resilient European Capital Markets – June 2025 (link).

[79] OECD – The Swedish Equity Market: Institutional Framework and Trends – April 2025 (link).

The country also benefits from a very dynamic VC ecosystem, accounting for 7% of total EU VC investments in 2023. It has the highest level of per-capita VC investment in the EU (EUR 450 per person), more than double that of Ireland, which ranks second in the EU. [80]

Sweden is also home to EQT, the world's second largest private equity firm by fundraising between 2020 and 2024, and the only European player in a top 5 otherwise exclusively composed of U.S. players.[81]

By providing effective financing channels for innovative companies throughout their development cycles, via early and late stage VC and well-functioning public markets at IPO level, Sweden has managed to generate four of the EU's 14 deca-billion-dollar companies founded less than 50 years ago[82], more than any other country in Europe.

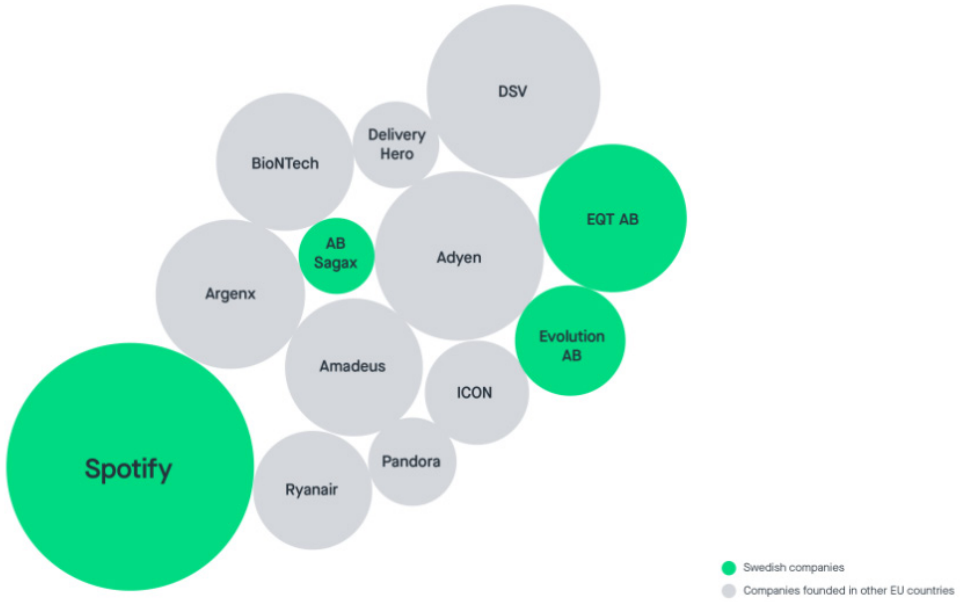


Figure 3.7: Publicly listed EU companies founded in the past 50 years and valued at over USD 10 billion[83]

Sweden's achievements in fostering the development of innovative companies extends beyond its ability to produce deca-billion-dollar companies, as the country also ranks among the global top 10 for the number of unicorns, with 46 as of May 2025[84].

80 CEPS – Learning from Sweden: A Blueprint for Building Resilient European Capital Markets – June 2025 (link).

81 Private Equity International – PEI 300: The world's largest private equity firms – June 2025 (link).

82 Stockholms Handelkammare – Stockholm - The greatest capital in the world? – 2025 (link). Data as of Q3-2024.

83 Stockholms Handelkammare – Stockholm - The greatest capital in the world? – 2025 (link). Data as of Q3-2024.

84 Dealroom – State of the Swedish Tech Ecosystem – May 2025 (link).

Thanks in large part to its capacity to finance innovation at scale, the country also ranks first in the EU for business-sector R&D expenditure as a share of GDP[85] and for investments in information technologies, while ranking second overall in firm investments. It is worth noting that Sweden's strong position in R&D expenditure comes despite relatively low levels of direct and indirect government support, nearly 30% below the EU average.[86]

3.2.3. The Swedish pension system's success in fostering substantial investment in innovation is based on several key principles

Although other countries have adopted funded or partly funded pension systems, not all of them have managed to achieve a positive impact on domestic innovation financing comparable to Sweden's.

Accordingly, close attention should be paid to the structural foundations of Sweden's pension system in order to identify possible reform pathways in other Member States.

The key structural drivers of the Swedish pension system's success in fostering innovation domestically while delivering attractive returns to Swedish pensioners can be described as follows:

- **A balanced approach, that builds on the pre-existing pay-as-you-go structure.** During the transition from an almost entirely unfunded (pay-as-you-go) to a hybrid system with a stronger funded component, Sweden' public pension pillar has continued to play a significant role. PAYG public pensions still represent 70% of average pension disbursements.[87] In addition, Sweden has managed to safeguard a relatively high level of security for pensioners through a guaranteed minimum pension, financed from the government budget.
- **A strong collective dimension in the pooling and management of retirement savings, enabling professional and cost-efficient allocation.** This collective dimension is primarily achieved through the central role of pension funds under the Swedish model, which together manage more than EUR 800 billion in assets.[88] This has allowed for a substantial share of Swedish retirement savings to be invested in illiquid assets, such as VC, therefore significantly strengthening the pension system's contribution to innovation. The commitments of pension funds' (including non-domestic ones) account for an average of 30% of overall raised PE and VC commitments between 2007 and 2023, compared with only 15% in the EU as a whole.[89]

---

85 European Commission – European Innovation Scoreboard 2025 – July 2025 (link).

86 European Commission – European Innovation Scoreboard 2025 – July 2025 (link).

87 OECD – The Swedish Equity Market: Institutional Framework and Trends – April 2025 (link).

88 OECD – The Swedish Equity Market: Institutional Framework and Trends – April 2025 (link).

89 CEPS – Learning from Sweden: A Blueprint for Building Resilient European Capital Markets – June 2025 (link).

- **A clear emphasis on equity across both collective and individual retirement savings vehicles, made possible by the absence of permanent capital guarantees.** In Sweden's public pension buffer funds, listed equities account for more than 50% of portfolios, and up to 87% in the AP7 (premium) fund.[90] Pillar II relies on equity to a similar extent: total equity exposure represents half of occupational pension funds' aggregate portfolios, including 37% of direct listed equity holdings, 7% of direct private equity holdings, and 6% of indirect exposure through investment funds.[91] The ISK is also characterised by strong focus on equity, with equity funds accounting for nearly 60% of assets held in funds through ISK accounts, alongside an additional 29% invested in balanced funds.[92]

- **A relatively strong domestic bias in asset allocation across occupational pension schemes, publicly funded pensions and ISK accounts**. The four main buffer funds (AP1, 2, 3 and 4) allocate between one quarter and one third of their equity portfolios to domestic securities[93], even though Sweden represents less than 1% of global equity market capitalisation. Swedish retail investors likewise display a strong domestic orientation, with nearly 40% of their equity investments allocated to Swedish assets, notably through their ISK accounts. While part of this home bias reflects cultural preferences, some regulatory factors are also at play, including the 40% ceiling on the share of the AP public pension funds that can be subject to currency risk, as well as the greater administrative complexity of reclaiming foreign withholding taxes on ISK accounts, which reinforces investors' home bias.[94]

Despite all these advantages of the Swedish system as well as Sweden's active early-phase investing ecosystem and lively IPO market, interview respondents expressed the view that there is still room for improvement in the intermediate area of scaleup financing.

3.2.4. Sweden's successful, and relatively recent, transition towards a hybrid pension system shows that such an outcome is achievable for other Member States that rely on pay-as-you-go systems

Before the 1990s reform, Sweden's pension system relied almost exclusively on a pay-as-you-go (PAYG) arrangement, as it is currently the case in most EU countries. The core of the Swedish system was an earnings-related, defined-benefit scheme relying on a national basic pension ("folkpension") and a national supplementary pension ("ATP") introduced in 1960 under a pay-as-you-go scheme.

By the late 1980s and early 1990s, demographic projections began to raise alarms. Sweden was facing the retirement of the large 1940s birth cohorts, and actuarial

90 OECD – The Swedish Equity Market: Institutional Framework and Trends – April 2025 (link).
91 OECD – The Swedish Equity Market: Institutional Framework and Trends – April 2025 (link).
92 Fondbolagens förening – The investment savings account in focus – October 2024 (link).
93 OECD – The Swedish Equity Market: Institutional Framework and Trends – April 2025 (link).
94 OECD – The Swedish Equity Market: Institutional Framework and Trends – April 2025 (link).

simulations showed that existing contribution rates would be insufficient to cover future liabilities.

This situation triggered a rare moment of broad political convergence around the need for reform. The Swedish transition towards a hybrid system unfolded through a political and technical process beginning in the mid-1990s. In 1994, a bipartisan government commission initiated a comprehensive review of the pension system, asking experts, social partners and political parties to define objectives that combined sustainability and intergenerational fairness. Between 1994 and 1997, extensive actuarial modelling, public consultations and cross-party negotiations took place.

Based on this work and on political consultations, the Swedish parliament passed pension reform legislation in 1998, establishing a dual-pillar system that came into effect in 1999.

The reform included the creation a notional defined-contribution (NDC) PAYG pillar, where individual accounts reflected lifetime contributions and automatic balancing mechanisms adjusted accrual rates and contribution levels in response to demographic and economic developments.

In parallel, a mandatory funded component was introduced within the country's pillar I system, allowing individuals to invest a portion of contributions in private accounts through public or private pension funds. During the implementation phase, transitional arrangements protected the rights of existing retirees and workers close to retirement, ensuring a smooth shift without abrupt reductions in expected benefits.

At the same time, the pre-existing but less developed Swedish occupational pension system (pillar II) underwent significant changes. Traditionally negotiated at sectoral or company level, these schemes were largely voluntary or limited in coverage. During the 1990s, collective agreements were restructured to create quasi-mandatory occupational pensions covering about 90 % of employees. These new schemes were designed as defined-contribution (DC) plans, with centrally selected fund managers and reduced administrative fees, increasing transparency and efficiency.

Consequently, the volume of assets under management in the Swedish pension system increased substantially, growing from less than SEK 1,500 billion in 2001 to close to nearly SEK 9,000 billion (EUR 810 billion) currently.[95]

[95] OECD – The Swedish Equity Market: Institutional Framework and Trends – April 2025 (link).

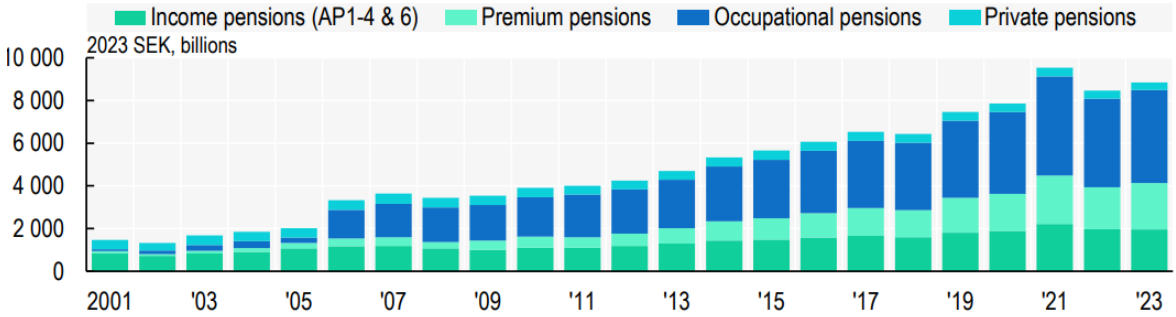


Figure 3.8: Assets under management in the Swedish pension system[96]

The issue of "double contributions" for the transition generation was successfully managed in Sweden by means of several strategies.

First, when the national supplementary pension was created in 1960, contributions were deliberately set above immediate needs, allowing for the accumulation of sizeable reserve funds in anticipation of future structural imbalances. The substantial **accumulated reserve funds**, which amounted to 38% of Sweden's GDP in 1995, helped absorb part of the financing strain, providing a financial cushion that allowed the system to maintain existing PAYG obligations while introducing the new funded component.

Second, Sweden kept the PAYG component dominant while transitioning towards a defined contribution mechanism, thereby minimising the funding gap that would have arisen if a much larger share of contributions had been diverted into capitalised accounts.

Third, transition rules were calibrated by birth year for the generations born between 1938 and 1953. Each cohort received a pension partly calculated under the old system and partly under the new one, with the new component gradually growing for later cohorts. This system helped smooth the transition and avoid a situation where workers from a given generation would have to finance both their parents' pensions and their own funded accounts at full cost.

96 OECD – The Swedish Equity Market: Institutional Framework and Trends – April 2025 (link).

3.3. Building on the Swedish example, EU Member States should undertake ambitious reforms of their supplementary pension systems to address the dual challenge of demographic ageing and the innovation financing gap

3.3.1. France and Germany, among other Member States, have undertaken recent initiatives to strengthen their pillar II and III schemes

Several European countries that historically lacked significant funded pension schemes have recently launched or further developed their pillar II (occupational) and pillar III (private / individual) supplementary pension arrangements.

In France, the landmark example is the Plan Épargne Retraite (PER) – a retirement savings plans – designed to complement the existing mandatory basic and complementary pay-as-you-go (pillar I) schemes. Launched in 2019, the PER alone accounted for EUR 126 billion in assets by the end of 2024 (out of around EUR 300 billion in supplementary pension arrangements) across nearly 11.6 million contracts. While this is encouraging, it should be emphasised that the volume of the PER remains modest (4.3% of the country's GDP) when compared to the pool of supplementary pension assets in other jurisdictions.

In Germany, the law to strengthen occupational pensions (Betriebsrentenstärkungsgesetz II) aims to broaden the scope of occupational pension schemes. The social partner model is being adjusted to make participation easier for third parties not covered by collective agreements. This will significantly expand the pool of potential participants. This model allows employers to offer "pure contribution commitments" without assuming liability for the level of benefits, which makes significantly higher equity allocations possible.

Moreover, Germany is working on reforms of parts of its pillar III by overhauling the tax-privileged pension scheme ("Riester-Rente") and introducing a specific pension scheme for young people (early start pension / "Frühstart-Rente"). In terms of the tax-privileged pension scheme, key aspects of the legislative reform include the creation of an unbureaucratic and cost-effective retirement savings account, the improvement of return opportunities by waiving mandatory guarantee requirements for retirement savings accounts, the introduction of a simple standard product that provides guidance and can serve as a benchmark for consumers as well as simplified tax incentives that benefit in particular those with low and middle incomes saving for retirement. In terms of the early start pension, it is envisaged that for children in the age of 6 to 18 years, ten euros per month are to be paid into an individual and privately organized retirement savings account. The main goal is to demonstrate to children and adolescents the opportunities of capital markets over long time horizons, and thereby to encourage early private pension savings.

While the expansion of pillar II and pillar III schemes signals a diversification of Europe's retirement financing architecture, the current scale of these pillars remains limited compared with other jurisdictions.

3.3.2. While encouraging, these efforts should be complemented by more decisive measures to further grow domestic retirement savings pools

Member States should first step up their efforts to grow assets under pillar II and III pension schemes more rapidly and at a larger scale, by taking two **priority actions:**

1. Broadening contributions under occupational pension schemes (pillar II).

While the creation of pillar II schemes in several EU Member States can be considered to be a welcome development, the next key priority should be to substantially increase the number of future retirees covered and grow the asset base invested through these schemes.

As a first step, auto-enrolment has been introduced in several Member States, including in France, albeit with a limited degree of ambition through the "PER enterprise obligatoire" (PEROB). Despite the introduction of this auto-enrolment mechanism, the amounts invested through PERs in France remain limited, compared to 32% of the U.S.' GDP for the 401(k) plans.[97]

By making pillar II contributions mandatory or applying an opt-out mechanism, the volume of occupational pension assets in Member States that carry out such reforms could grow substantially, as illustrated in Sweden, where pillar II assets total EUR 370 billion, or 66% of the country's GDP, with 90% of the workforce covered by occupational pensions.[98]

2. Strengthening the role of personal retirement savings accounts (pillar III) through beneficial tax treatments.

While the priority should be on dedicated retirement savings accounts, it is important to recognise that other long-term retail savings products can effectively fulfil a retirement role, even when this is not their original objective, as illustrated by the PEA in France or the ISK in Sweden.

For these products in particular, as recommended in the Noyer report, a label identifying products that incorporate certain features supporting long-term financing for European companies has been introduced. A group of willing Member States are currently working on implementing this label under the Spanish "competitiveness lab" format.

In Member States which do not currently offer dedicated long-term or individual retirement savings accounts, such products should be developed based on the key

97 Investment Company Institute – Quarterly Retirement Market Data – Q2 2025 (link).

98 OECD – The Swedish Equity Market: Institutional Framework and Trends – April 2025 (link).

structural principles formulated in the term sheet of the label. For Member States that have already developed such products, the priority should be to further extend their uptake among retail investors.

3.3.3. Several key principles should be observed to ensure that retirement savings are actively channelled towards financing innovation in Europe

1. Occupational pension schemes should be adapted where necessary to incorporate a collective dimension, notably through the establishment of pension funds when possible.

As outlined previously in this chapter, a collective, professionally managed allocation within funded occupational pension schemes offers several substantial benefits, including: (a) a less risk-adverse investment strategy allowing for higher returns on average over the long-term, (b) a more cost-efficient structure, as management fees can be mutualised and underlying investment products' costs negotiated under better conditions and lastly, (c) a substantially higher potential allocation in private equity and VC more specifically.

Among the various modalities for collective occupational pension schemes, pension funds can serve as an ideal contributor to innovation financing, given their capacity to pool assets at scale, implement long-term investment strategies and deploy substantial capital, particularly in VC.

The specific form that pension funds take may vary according to national circumstances: in some cases, they may be organised at the sector or company level; in others, they may be offered nationwide on a default basis, as it is the case in Sweden with the AP7 fund, under the funded compartment of the pillar I.

In cases where the creation of pension funds appears unrealistic in the short term for cultural, or socio-economic reasons, the development of other collective investments vehicles without a formal pension mandate or long-term retirement obligations could serve as a partial substitute for such institutional investors. Default asset allocations offered through pillar II products could be another possibility, as it is the case in France with the PER and the "gestion pilotée".

In addition, since investing in VC and, more broadly, in growth equity requires highly specialised skills, particularly for due diligence and risk assessment, fund size is an important factor when it comes to allocation in this asset class. Larger pension funds tend to be invested in alternative assets to a larger extent.[99] The current UK government' plan to strengthen the ecosystem through the creation of pension "megafunds" illustrates these constraints.

[99] OECD – Report on Long Term Investing of Large Pension Funds and Public Pension Reserve Funds 2023 – December 2023 (link).

2. Occupational and private pension schemes should be based on "defined-contribution" rather than "defined-benefit" approaches in order to avoid the classic hurdles associated with guaranteed products

Guaranteed products substantially limit institutional investors' ability to deploy capital in risk-bearing investments (despite the returns associated with this), and most notably in equity, be it via VC or listed markets.

Defined-contribution products, by contrast, tend to feature greater allocations to innovation financing, as the Swedish model illustrates. For this reason, an increasing number of countries with mature funded pension systems are transitioning towards defined-contribution systems. The Netherlands is doing so through the Future Pensions Act. In Germany, the social partner model in the area of occupational pensions is already based on defined-contribution schemes, and the Riester-Rente (tax privileged personal pension) is being reviewed to make it simpler, more flexible and cost-efficient, e.g. by removing mandatory guarantees.

While the absence of full guarantees during most of the investment period should be preserved, a gradual desensitisation of the portfolio may be appropriate in some cases in order to reduce the likelihood that a sudden market downturn negatively affects future pension income. This approach is used in France in the PER, where the default "gestion pilotée" (managed allocation) automatically adjusts the asset mix over time, lowering exposure to risky assets as the saver approaches retirement, and increasing the share of more secure (but lower-yielding) investments.

3. Collective retirement vehicles should have sufficient scope to invest in risky assets

A significant amount of retirement assets is not sufficient, in itself, to guarantee strong venture and growth financing.

While public figures suggest that U.S. pension funds allocate between 1% and 3% of their total assets in VC[100], existing EU occupational pension funds representing EUR 2.7 trillion invest, on average, allocate less than 0.02% of their total assets in VC[101], relying primarily on investments in listed equity and bonds and generally keeping their investment in alternatives at rather low levels.[102]

[100] Dealroom – From Savings to sovereignty: Innovation and Long-term Economic Growth in Europe – September 2025 (link).

[101] European Capital Markets Institute – Closing the gaping hole in the capital market for EU start-ups – the role of pension funds – August 2024 (link).

[102] EIOPA – IORPS in Focus Report – February 2025 (link).

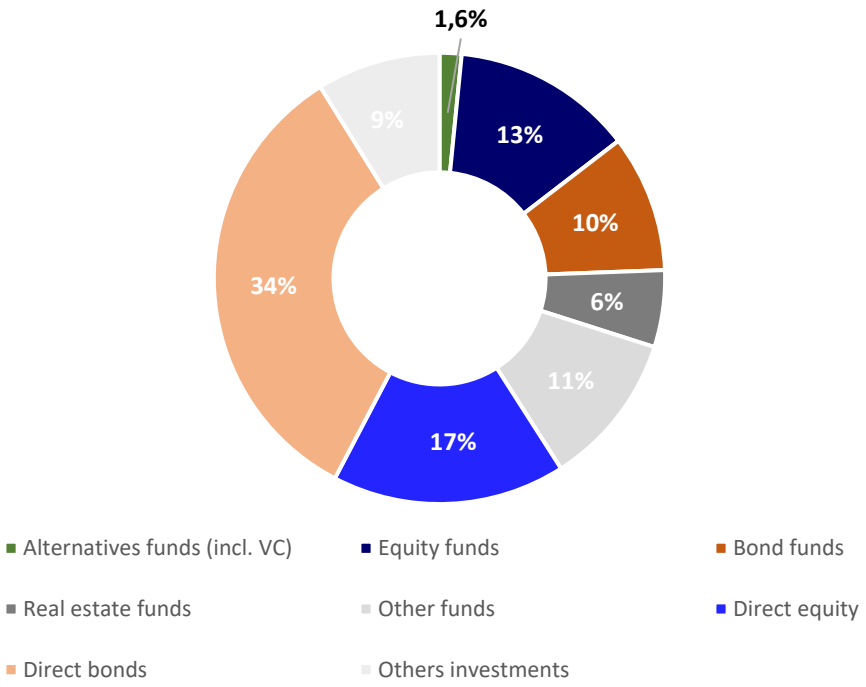


Figure 3.9: EU IORPs asset allocation[103]

There are other factors, including cultural aspects, that can limit pension funds' investments in VC, but it is also crucial that the regulatory framework does not discourage long-term and illiquid investments. Overly restrictive rules can deter pension funds from allocating to innovation while, conversely, clear regulatory guidance on the share of VC investment that pension funds can prudently fit into their long-term portfolio can be instrumental in unlocking more pension capital, as the 1979 change in the "prudent person rule" for pension funds in the U.S. clearly demonstrated.

While the EU boasts prudential standards for occupational pension providers through the IORP Directive, national authorities retain the responsibility to define portfolio limits on specific funds. The national OECD survey on investment regulation of pension providers[104] shows that several Member States' pension regulations keep restrictive caps on equity and alternative investments. As an example, certain State legislation require investments to be redeemable on an ongoing basis, facially barring pension funds from investing in alternative assets.

As part of the current review of the IORP II Directive, there could be merit in explicitly stating at the European level that national restrictions on certain investments should not go below certain levels. The Netherlands, the EU's most developed IORP industry in Europe, has no explicit legal caps on investments in VC or private equity, and instead relies on qualitative standards.

[103] EIOPA – IORPS in Focus Report – February 2025 (link).

[104] OECD - National OECD survey on investment regulation of pension providers – 2025 (link).

3.3.4. The transition to a hybrid system will go along with additional contribution needs that should be managed in different ways depending on the national context

One of the main challenges highlighted in discussions on transitioning towards a hybrid, partially funded pension system concerns the financing of the transition itself, as new mandatory contributions to funded components, potentially through mandatory pillar II pension schemes, will not eliminate the need for current contributors to continue financing the pensions of today's retirees under pre-existing pay-as-you-go schemes.

In Sweden, substantial reserve assets helped partially finance the transition to a hybrid, defined-contribution system. As a result, the problem was less acute, and a broadly accepted solution was adopted.

In the case of other Member States without such deep pools of pre-existing reserved assets, three ways of financing the dual contribution required during the transition period can be considered: using public budgets, relying on additional employee or employer contributions, or limiting pension payments to current retirees.

However, these measures would be difficult to implement in most cases. Many Member States already face high levels of public debt and are currently prioritizing fiscal consolidation, leaving little room to fund dual contributions through public budgets. In addition, the high inflationary pressures experienced during the Covid and energy crisis have strained household finances, leaving little room for increased contribution of current workers. Lastly, growing competitive pressure from emerging countries limits the feasibility of substantially increasing payroll contributions.

Given these various constraints, which affect Member States to different degrees, national responses should be tailored to each specific context, but will most often involve a combination, of the measures mentioned previously. A key factor in easing the transition will be Member States' ability to anticipate the implementation of these reforms as much as possible in order to allow for a long and gradual transition, during which pillar I pensions will take a gradually smaller role, while pillar II and III schemes progressively take on a greater role.

3.3.5. These efforts to increase retirement savings could be complemented by measures to incentivise young citizens' participation in capital markets

In addition to broadening pension systems to include asset-backed pillars, some countries have also facilitated long-term capital formation, especially for young citizens.

This often goes hand in hand with a long-term strengthening of financial literacy and a deepening of the investment culture.

Enabling young people to participate in the capital market

In various countries, such as Israel, the United Kingdom, Canada, and the U.S., long-term wealth accumulation is promoted through so-called Child Development Accounts (CDA). CDAs are usually savings or investment accounts that are subsidised by the government or offer tax advantages. The structure varies in terms of eligibility, the intended use of the saved assets, tax treatment, the amount of the subsidy and the financial products used.

In Israel, for instance, the **"Savings for Every Child"** programme has been in place since 2017. The aim of the programme is to sustainably remove institutional barriers to saving, promote wealth accumulation and improve long-term investment behaviour. Under the programme, every child who is eligible for child allowance receives a personal savings plan into which the government pays ILS 57 (approx. EUR 15) per month from birth until the child's 18th birthday. The payment can be supplemented by an additional amount of the same value directly deducted from child benefit. Parents can choose from a variety of investment options with different risks and returns to decide how the money for their children will be invested. The administrative costs are covered by the state until the child's 21st birthday. If parents do not make an active decision, the money is invested in an investment fund with a "low risk" profile. At 18, young adults can withdraw the amount they have saved, with their parents' consent. From their 21st birthday onwards, parental consent is no longer required.[105]

Germany is embarking on a similar path: the government's coalition agreement proposes the creation of an "early-start pension" (**Frühstart-Rente**) for children and young people. The agreement envisages that for every young person, at the age of 6 to 18, ten euros per month are meant to be paid by the government into a retirement savings account. Subsequently, it should be possible to continue these savings through private contributions until retirement. The returns of the early start pension are to be tax-free until retirement. Payouts will be possible once the standard retirement age has been reached. The overall aim is to boost the financial literacy of young adults and provide them with initial capital to set up their own pension savings plan.

An approach similar to the programmes described above could be taken in Europe. An **investment savings programme for every young European** under the age of 18 from a participating EU Member State would reach many young Europeans who would otherwise not have participated in the capital market. Automatic enrolment into the programme would guarantee that European children benefit regardless of their socio-economic background. A small monthly amount would be invested in a standard product for each participant. A publicly managed pension fund, for example, would be suitable for this purpose.

The programme would give young Europeans early experience with investments and increase their financial literacy in a hands-on way. This positive experience could

[105] SVR – Policy Brief 2/2024– July 2024 (link).

empower EU citizens to make better financial choices later in life. The proposed programme also provides a clear, tangible benefit and gives 18-year olds some capital to start out in life, invest in their education or build the foundation for their retirement savings.

Such a programme would require a significant amount of funding, which should be provided at the national level. The precise amount would depend on the programme's particular design and scope and should be explored in this context.

4. A greater share of the existing pool of institutional and retail capital should be strategically mobilised towards financing innovation

4.1. Given that potential pension reforms will take time, unlocking existing institutional capital pools – especially those of insurers – will be pivotal in the near term

While Europe does not yet have a deep pool of retirement savings assets invested through pension funds or other collective retirement vehicles, the continent boasts a deep pool of capital held by its insurers and reinsurers. EU insurers manage EUR 9 trillion in assets[106] (around 55% of EU GDP), which is comparable to the level of insurance assets in the U.S. (USD 9 trillion, representing around 30% of U.S. GDP).[107] This deep pool of insurers' assets therefore helps offset, at least in part, the relative scarcity of pension fund assets in the EU (about 20–30% of GDP in the EU[108] versus over 150% in the U.S.).[109]

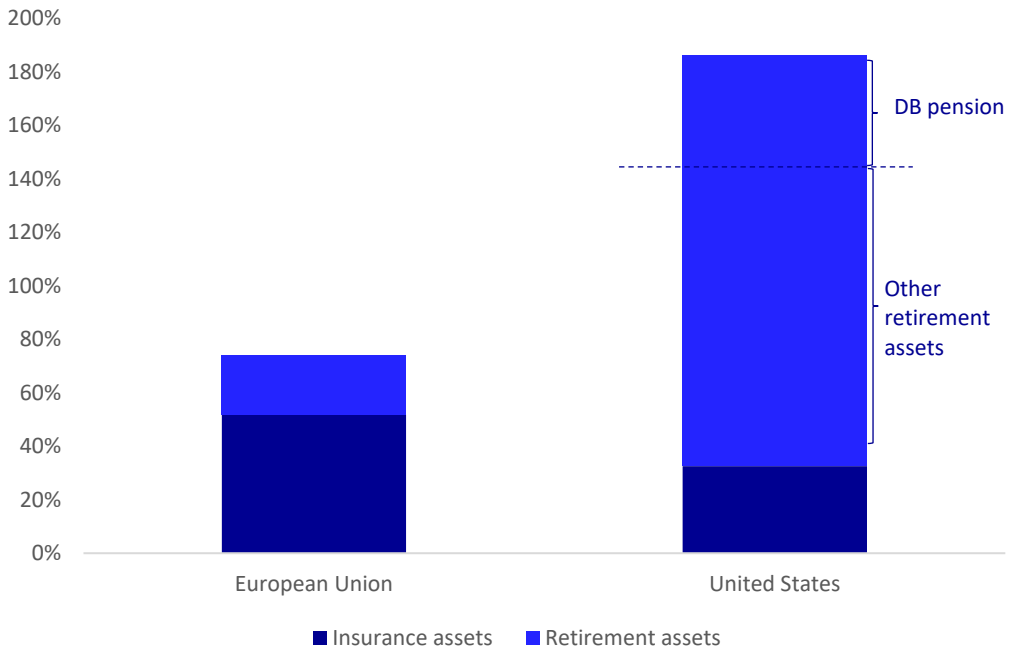


Figure 4.1: Retirement and insurance assets (percent of GDP, 2024)[110]

However, despite their relative abundance, European insurance assets are significantly underexposed to VC, growth investments and equity in general. In principle, insurers' long-term investment horizon could support VC and growth fund allocations; in practice,

106 EIOPA – Statistics: Asset Exposures – Q4 2024 (link).
107 NAIC – Capital Markets Special Report – Q4 2024 (link) 2023/2024 data.
108 OECD – Statistics: Assets Earmarked for Retirement – Q4 2024 (link).
109 ICI – Quaterly Retirement Market Data – Q4 2024 (link).
110 Authors' calculations based on data from Eurostat, EIOPA, OECD, BEA, NAIC and ICI.

asset-liability considerations and product designs based on a strong preference of European policyholders for guaranteed products steer portfolios towards low-risk assets.

Currently, direct equity holdings[111] of EU insurers, excluding unit-linked contracts and related undertakings,[112] account for approximately 2.4% of their balance sheets on average, predominantly through listed equity.

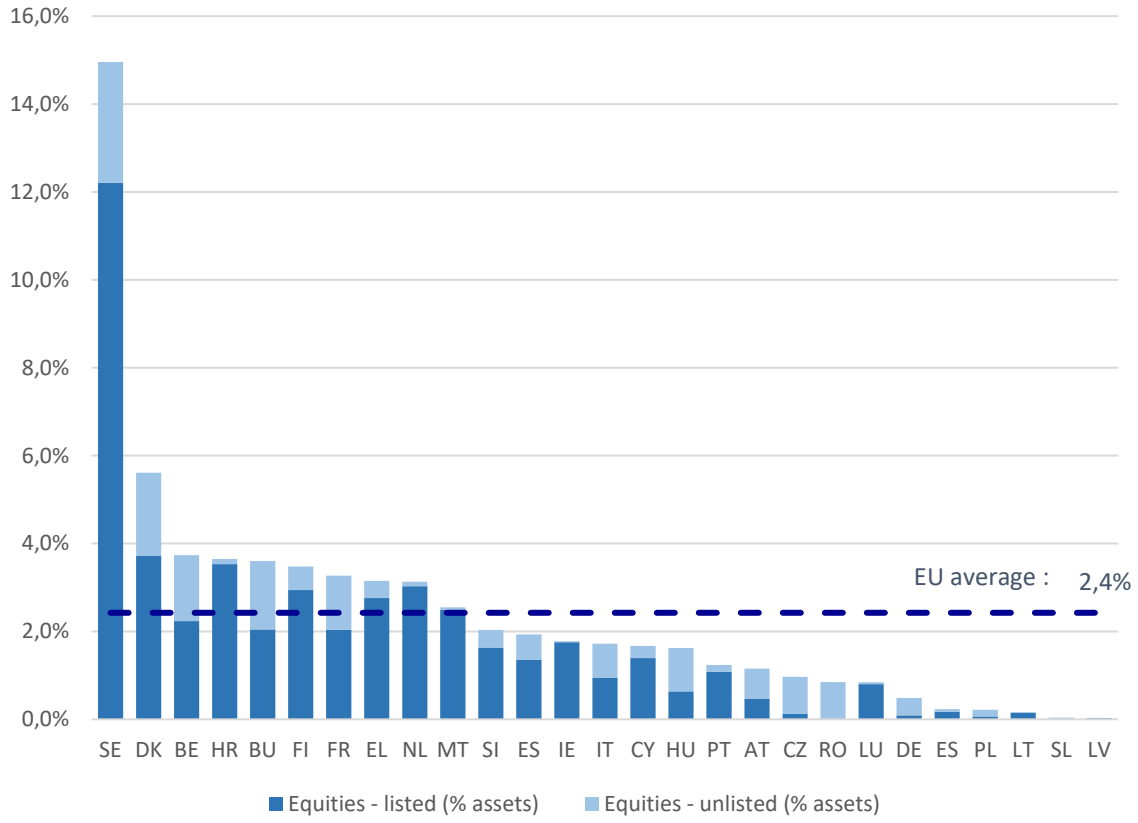


Figure 4.2: Direct equity holdings of insurers, excl. unit-linked contracts and participations in related undertakings, by country (percent of total assets, year-end 2024)[113]

Indirect equity holdings (through investments in equity funds or private equity funds) account for approximately 4.4% of insurers' financial exposures excluding unit-linked contracts.

111 i.e. excluding through equity funds.

112 Based on EIOPA balance sheet data (link), holdings in related undertakings represented approximately 11% of total assets at Q4 2024.

113 Based on EIOPA balance sheet data (link) and own calculations.

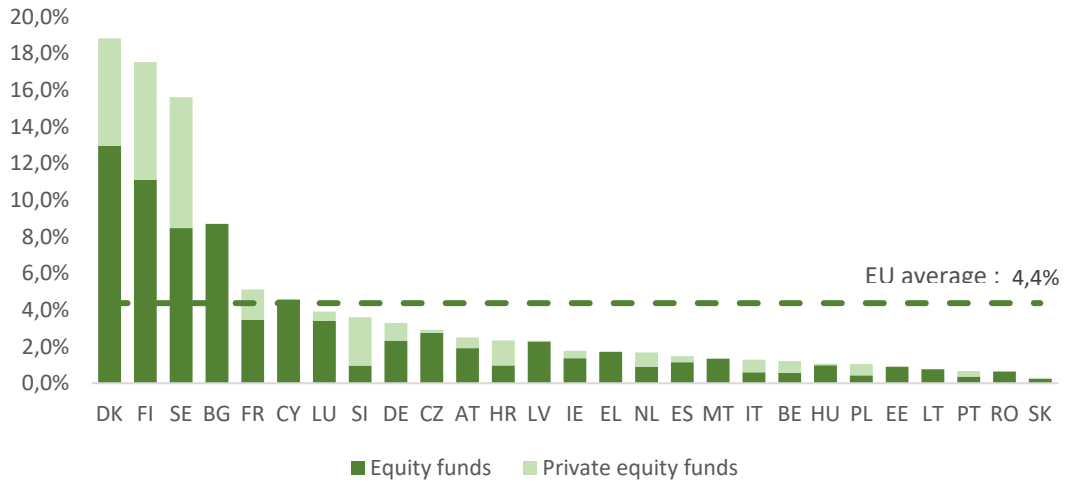


Figure 4.3: Equity holdings through funds by insurers excl. unit-linked contracts, by country (percent of financial exposures, Q2 2025)[114]

Among this subset, European insurers' exposure to VC, while not disclosed separately, is estimated to be well below 0.5% of insurers' total financial exposures, with variations in different countries. By comparison, U.S. public pension funds allocate about 1% to 3% of their total assets to VC.[115]

Given the size of insurers' asset base, even a small increase in the proportion of assets allocated to VC could lead to significant additional investments. For instance, a mere 0.1% shift in asset allocation to VC would channel an extra EUR 10 billion into the VC ecosystem.

Several factors contribute to insurers' conservative portfolio allocation:

First, it should be noted that insurers' asset profiles ultimately mirror their liability structures. Although life insurers generally operate with a long-term horizon, the strong preference of European policyholders for guaranteed products leads to a disproportionate concentration of investments in low-risk assets.

In this context, the expansion of unit-linked contracts can be seen as a positive development for overall equity exposure, since policyholders (rather than insurers) bear the investment risk in such contracts. Policyholders investing in unit-linked assets allocate roughly 45% of their portfolios to equities, compared with only 7–8% for non-unit-linked investments.[116]

[114] Based on EIOPA balance sheet data (link) and own calculations.

[115] Dealroom – From Savings to sovereignty: Innovation and Long-term Economic Growth in Europe – September 2025 (link). Figures for U.S. insurers' investment in VC are not disclosed but are very limited.

[116] EIOPA – Statistics: Asset Exposures – Q2 2025 (link).

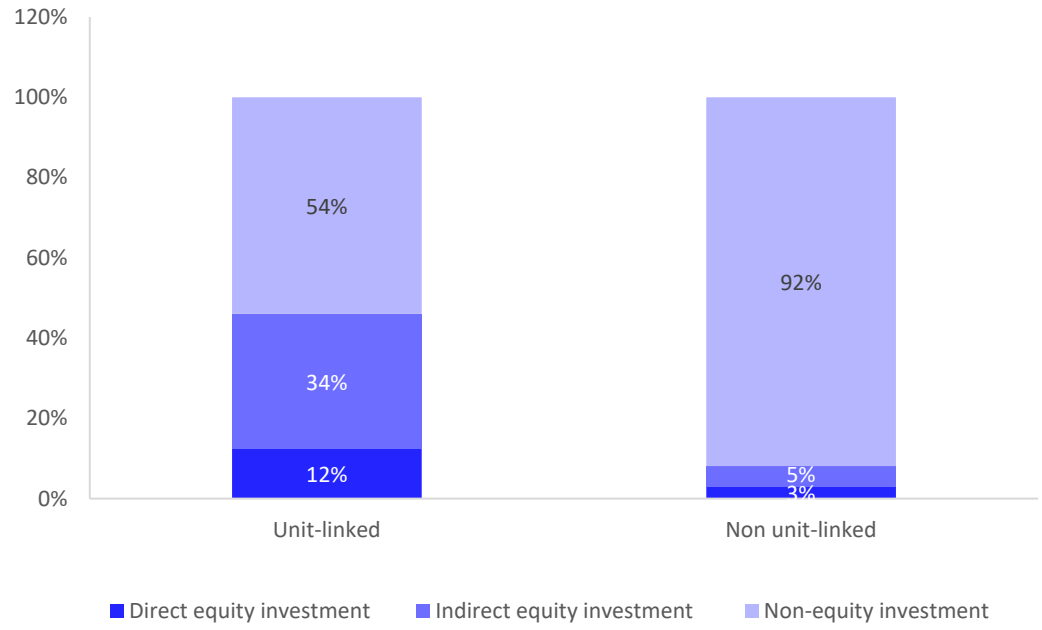


Figure 4.4: Equity holdings in unit-linked and non-unit-linked investments, excl. participations in related undertakings (percent of total exposures, Q2 2025)[117]

However, because investment choices in these products are made by policyholders and are thus subject to retail suitability rules, their growth has limited potential to meaningfully increase allocations specifically to higher-risk equity products, such as venture or growth capital. Around 98% of equity investments in unit-linked portfolios are in listed equities,[118] prompting the question of whether retail distribution rules might be a possible roadblock to higher VC allocation and whether there might be untapped potential. Inserting these products through cost-effective widely diversified fund-of-funds concepts investing in VC – provided by public or private actors – could offer the necessary risk mitigation and pave way to higher allocations to VC (see 4.4.).

Second, Europe's insurance prudential framework (Solvency II) was too conservative for equity investments, and its recent review should incentivise insurers and reinsurers to invest more in this asset class. European prudential treatment requires insurers to hold enough capital to cope with a 200-year crisis. For equity investments, insurers must hold enough capital to absorb losses in own funds from equity investments resulting from an instantaneous drop in equity valuations.[119] The precise calibration of the "equity shock" depends on factors such as the geographical location of the investment, the insurer's level of control over the investee company and the intended holding period of the equity exposure.

While the capital requirements framework legitimately ensures that insurers hold more capital against riskier assets, it also tends to skew risk-return expectations, steering

[117] Based on EIOPA balance sheet data (link) and own calculations.

[118] European Parliament – Solvency II: Prudential treatment of equity exposures – September 2022 (link).

[119] Before applying correlation factors with other risks inherent to the activities of insurers and reinsurers, which lower overall capital requirement levels.

investment decisions towards lower-risk products. At the same time, it tends to overlook the significant positive effects of diversification allowed by large portfolio holdings or other strategies: although, statistically, most startups fail (with high returns for a few successful investments), a sufficiently diversified portfolio of investments (e.g. through investments in multiple VC funds or in funds-of-funds) can substantially reduce the risk, and combining different fund vintages offers an additional risk-mitigating factor. Data provided by the EIF shows that for VC fund vintages e.g. from 2014 to 2019, the proportion of funds which are valued at less than 100% of the paid-in capital (i.e. TVPI < 1) is usually lower than 25%,[120] which means that 75% of all VC funds of these vintages at least return paid-in capital, with most of those making a profit.

As a result, insurers' portfolios remain focused on fixed-income assets, particularly government and investment-grade corporate bonds, which carry low capital charges under the prudential framework. There has also been a growing interest in long-dated infrastructure debt and private credit, offering enhanced yields within acceptable regulatory limits. In parallel, some insurers have increased allocations to real estate and alternative assets with stable cash flows to diversify returns.

Recognising these unintended effects, European policymakers decided during the recent review of the Solvency II framework to recalibrate the prudential treatment applicable to equity investment, especially its failure to sufficiently consider insurers' naturally long-term investment perspective. The Solvency II review adopted in 2024 sought to provide a more nuanced treatment for long-term equity investments (LTEI), taking into consideration the fact that the previously existing LTEI treatment was rarely used – which implies that insurers did not have sufficient incentives to invest in equities, at least from a prudential perspective.[121]

The expanded eligibility of long-term equity investments (to include equities that insurers can demonstrate they are able to hold on for at least five years) should allow them to subsequently obtain easier access to the favourable 22% capital charge (instead of 39% for equities listed on most regulated markets or 49% for other types of equities) and thus enable greater portfolio allocation to long-term assets, including venture and growth capital, without increasing overall capital requirements. This revised mechanism will come into effect on 30 January 2027.[122]

The review will enhance the capital efficiency of illiquid assets and reduce standard formula insurers' target return thresholds for these asset classes, thereby creating a clear regulatory incentive to commit capital to long-term private equity funds and alternatives in general. For internal model users (usually large insurers), an indirect impact is to be expected: even though they already had more freedom to calibrate equity and spread

120 Based on trackVC.eu data (link).

121 Which could also be partly explained by the strict conditions for benefiting from the LTEI scheme, but also by the fact that a large share of equity investments already benefit from reduced shocks: (i) 30 % for equity investments in infrastructure; (ii) 22% for equity investments in strategic companies.

122 Technical specifications are provided for in the revised Commission Delegated Regulation (EU) 2015/35.

risks in a way that reflects their true long-term investment horizon, they usually have to show that their model is consistent with the Solvency II framework. Additionally, the possibility to assess compliance with long-term equity investment (LTEI) conditions at the fund level, rather than through a look-through approach for closed-end alternative investment funds without leverage, should benefit VC funds more specifically. It is estimated that the Solvency II review could allow the insurance sector to invest another EUR 100 billion or so in the economy, representing around 0.6% of the EU's GDP.[123]

However, the overall impact of the review remains uncertain.

Despite these welcome changes, interview respondents were mostly of the view that the LTEI review cannot be seen as a turning point comparable to the 1979 reinterpretation of the U.S. "prudent person rule", which gave pension funds regulatory leeway to invest in VC. The recalibration introduced by the LTEI review removes major prudential frictions, but does not take the conceptual step of affirming that equity exposure, when long-dated and diversified, can be fully consistent with a prudent investment strategy.

Currently, insurers are best placed to provide the patient capital that innovative companies need in order to scale. To enable them to fulfil this role, it is imperative that:

- **The LTEI mechanism is used more by insurers and reinsurers following its revision and the effectiveness of the review is monitored closely**
- **Insurers and reinsurers commit to actively modifying their investment policy in favour of increasing the proportion of their investment in VC (see 4.2.)**

[123] European Parliament – Press release: Legislators strike deals on updating the EU's rules regulating the insurance sector – December 2023 (link).

4.2. To further promote European institutional investors' allocation in VC, initiatives such as Tibi and WIN should be deployed across EU Member States

4.2.1. National initiatives prove valuable in mobilising institutional investors towards innovative scaleup financing

Institutional investors' allocation to VC investments has substantial room to grow. Despite harmonised European rules, insurers' total equity portfolio allocation for non-unit-linked investments ranges from 9% of financial exposures in Spain to 43% in Sweden.[124] Although specific data on VC investments is not available, it can be assumed that the variation in allocation is similar.

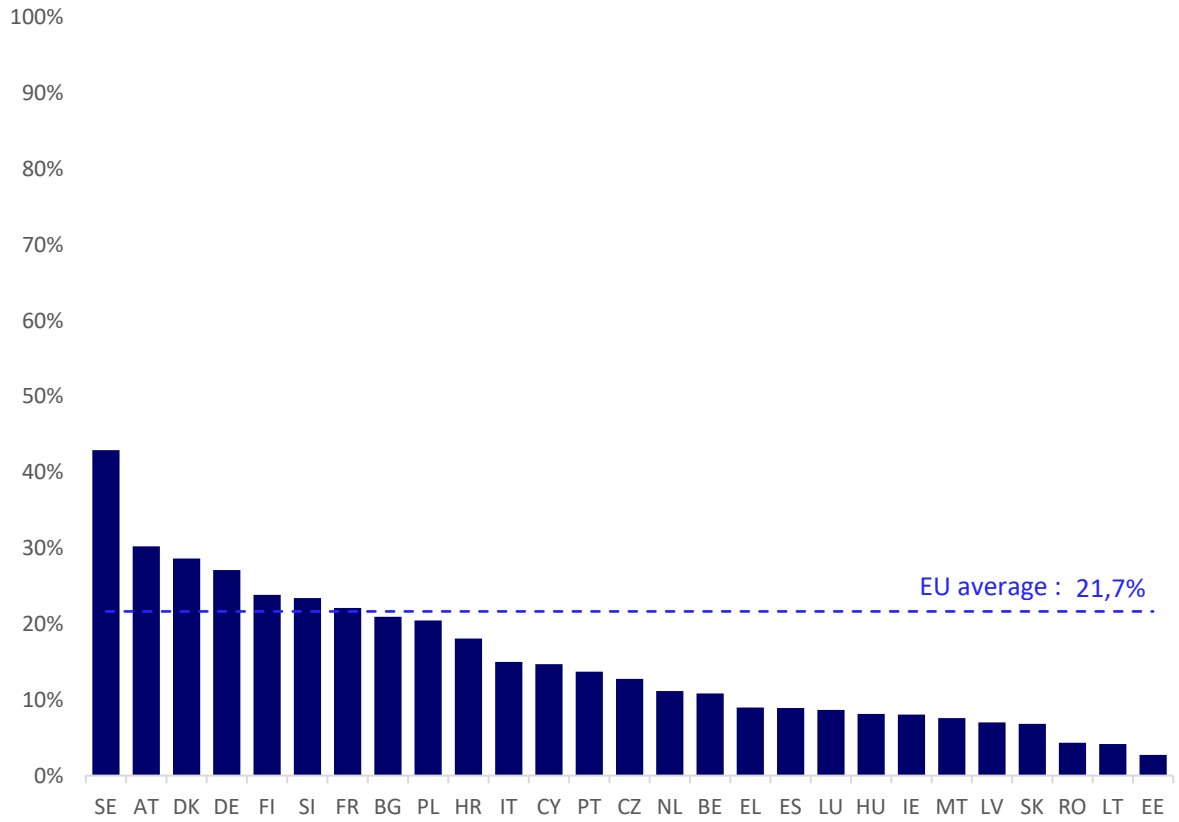


Figure 4.5: Total equity holdings (direct equity, equity funds and private equity funds) by insurers, excl. unit-linked contracts, by country (percent of financial exposures, Q2 2025)[125]

Liability structures, product preferences and prudential requirements alone do not explain the limited exposure of institutional investors to VC and growth investment. In addition to the factors already mentioned, such as the share of unit-linked contracts and the different levels of policy support and tax benefits for guaranteed products, European

[124] These figures include investments in related undertakings.

[125] Based on EIOPA balance sheet data (link) and own calculations.

limited partners' (LPs)[126] limited involvement in venture and growth capital also reflects internal risk aversion, an unfavourable perceived risk-return profile, and a lack of familiarity with the asset class.[127]

The Tibi report similarly highlighted that French LPs' investment teams often lacked the specialised expertise needed to assess and manage tech-driven and venture-oriented assets, even within listed equities, where exposure to the technology sector is largely the result of broad geographic allocations. The report described a "vicious circle": without dedicated teams, LPs struggle to build the track record necessary to deploy significant volumes to venture and growth capital, which in turn prevents the emergence of large, specialised late-stage domestic funds.[128]

This suggests that LPs lack sufficient internal incentives to expand their VC allocation. Traditionally, tax measures are a way to extrinsically promote certain behaviours, in this case greater VC allocation and creation of the necessary internal conditions of the LPs for VC investment. Tax depreciations on VC investments as part of investment in research, innovation and development may, therefore, tilt the scale. However, it seems difficult to implement such stimuli at present in view of budgetary constraints.

Launched in 2020, the French Tibi initiative is built around the commitment made by large French institutional investors to channel capital into VC and growth funds supporting high-growth technology companies. These investors indicate upfront the level of investment they intend to deploy across funds approved under the Tibi framework. To support this commitment, there is a formal approval process for VC and growth funds.

Fund managers are reviewed by a selection committee, which confirms that a clear set of eligibility criteria is met, including minimum fund size, allocation to innovative companies, professional governance standards, and the capacity to mobilise institutional investors. The selection committee is composed of representatives of the initiative's 37 institutional LPs.

Since its inception, the Tibi initiative has successfully mobilised EUR 12.9 billion in investment commitments.[129] While its first phase (2020–2022) channelled EUR 6.4 billion into late-stage VC and global listed tech funds, the second phase aims to allocate EUR 7 billion towards early-stage and disruptive technologies such as AI, deeptech and defence. Interview respondents unanimously praised the initiative for bringing together 37 LPs[130]

---

126 The limited partner is an investor (usually institutional) that commits capital to an investment fund, while delegating investment decisions and operational management to the general partner (GP). LP's liability is limited to its capital commitment.

127 European Commission – Study of barriers to, and drivers of, the scaling-up of funds investing in innovative and growth companies – September 2025 (link).

128 Philippe Tibi – Financing the Fourth Industrial Revolution – July 2019 (link).

129 Inspection Générale des Finances – Évaluation de l'initiative Tibi – October 2025 (link).

130 23 insurers, 6 corporates, 2 pension funds, 2 family offices, 2 funds of funds, the Caisse des Dépôts et Consignations, and France 2030.

to secure commitments to around 150 labelled funds, in an asset class that would usually not fit into their risk allocation. The initiative has successfully reframed the issue for institutional investors, demonstrating that, from a fiduciary and diversification perspective, the absence of any allocation to such assets is itself inconsistent with a prudent long-term investment strategy.

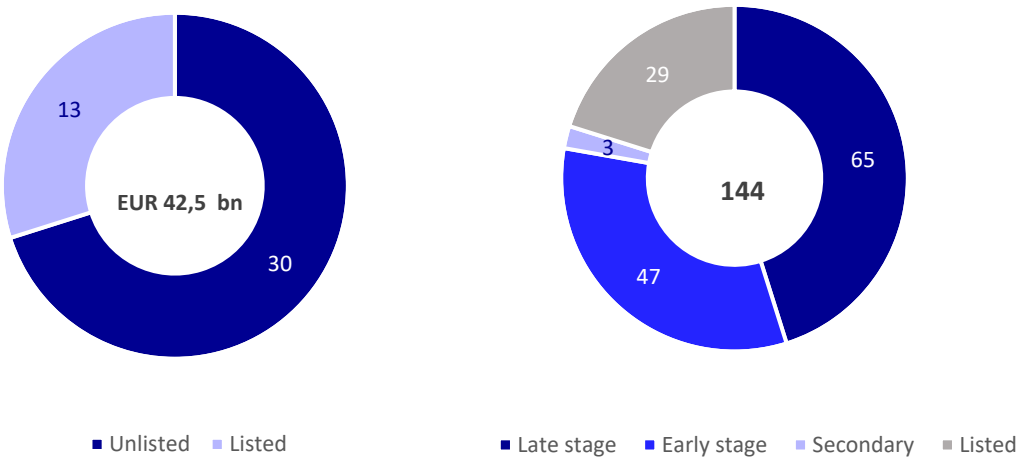


Figure 4.6: Volume and number of Tibi labelled funds between 2019 and 2025[131]

The Tibi initiative has contributed to mobilising a very substantial amount of new domestic capital raised by technology-oriented funds and shifted the structure of French investment in the growth segment toward tech companies. French private equity investments in tech companies have surged, with an average annual amount of EUR 5.2 billion over the 2019–2024 period, compared with just EUR 1.6 billion per year over the 2011–2018 period.[132]

Nearly half of the investments by French VC and private equity funds came from Tibi-labelled funds.

[131] Inspection Générale des Finances – Évaluation de l'initiative Tibi – October 2025 (link).

[132] Inspection Générale des Finances – Évaluation de l'initiative Tibi – October 2025 (link), based on Invest Europe data.

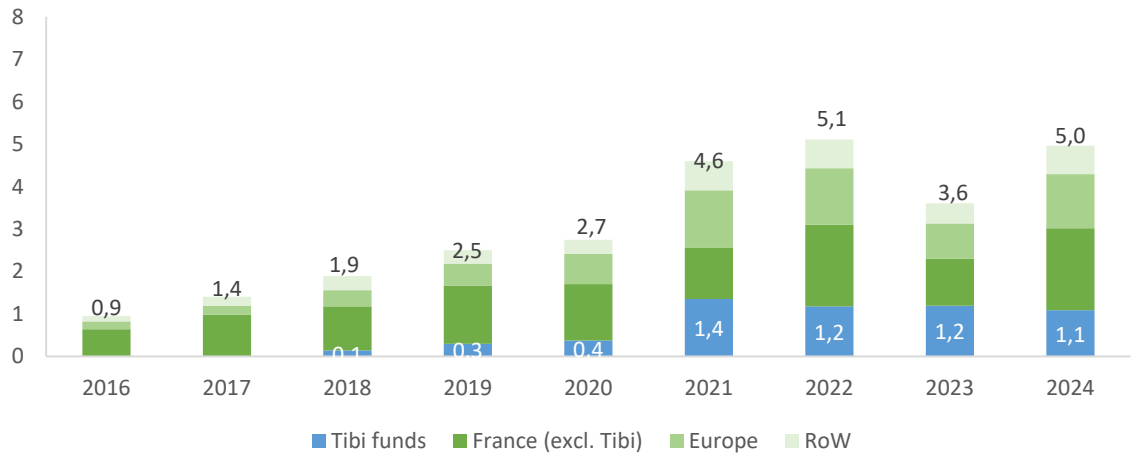


Figure 4.7: Amounts invested by VC and growth funds in French tech companies (in EUR billion)[133]

Launched in September 2024, the German WIN initiative[134] is a broad alliance of businesses, associations, government and KfW, committed to the promotion of startups, innovation and VC in Germany. The initiative consists of an extensive package of measures developed by the participants to improve the framework conditions for growth and innovation capital in Germany - including regulatory measures as well as measures targeted at improving knowledge and professionalisation in VC investing. In addition, the participating businesses - predominantly from the insurance sector[135] – have committed to investing EUR 12 billion in the VC ecosystem by 2030. A first report on the commitments is expected at the beginning of 2026, but the numbers for the second quarter of 2025 are indicative of a positive trend: German startups raised around EUR 2.4 billion in fresh capital, an increase of over 40% compared to the same quarter of the previous year (EUR 1.7 billion).[136] In the first half of 2025, investments totalled just under EUR 4 billion, with a clear upward trend in growth capital, supported by large financing rounds in the scaleup phase.[137]

Against the background that the investment in the U.S. VC ecosystem by European institutional investors significantly outweighs investment in the European counterpart, the main factor behind this according to the institutional investors interviewed, in addition to the bigger scale of the respective funds, is the level of professionalisation, for example when it comes to catering to the reporting needs of institutional investors. To address that, the WIN initiative should be continued and aim to increase commitments for investment in the VC ecosystem, as foreseen by the German coalition agreement.

Based on the positive impact generated by the Tibi and WIN initiatives, as well as other initiatives in Europe, Member States could develop similar schemes in order to foster

133 French Treasury ; France Invest – Activité 2024 des Acteurs Français du Venture & Growth – June 2025 (link).

134 Wachstums und Innovationskapital für Deutschland, Growth and Innovation Capital for Germany.

135 6 insurers, 5 corporates, 4 banks, 2 global asset managers, a pension fund as well as others

136 KfW Research – KfW Venture Capital Dashboard – Q2 2025 (link).

137 KfW Research – KfW Venture Capital Dashboard – Q2 2025 (link).

the development of their VC ecosystems. To ensure their success, they could rely on the following key principles:

(1) **Initial implementation by Member States:** in view of the specific nature of the respective VC markets in the Member States, their degree of maturity, and the need for significant political commitment, it would initially be beneficial for such initiatives to be launched by and in the respective Member States, following a thorough assessment of relevant LP stakeholders, potential domestic regulatory constraints and main cultural hinderances. For instance, in some Member States, the key investors are primarily insurers, while in others they may be pension funds, corporates or other types of LPs.

Depending on the national specificities, a holistic ecosystem-building approach combining financing, regulatory, know-how-building and other measures, , can be a useful addition, as is the case with WIN. This can create more favourable conditions for founders, companies and investors.

To achieve the necessary scale, all initiatives should be deployed with the clear aim of interlinking them on a pan-European level (see 4.2.2).

(2) **High-level political backing:** Currently, the key barrier to investment in venture and growth by institutional investors' is not technical or prudential. Simply put, VC investment tends to fall outside of their comfort zone. These investors traditionally do not have dedicated private markets portfolio managers and have low incentives to hire them.

Political initiatives such as Tibi and WIN have a strong signalling effect and help to reduce the perceived stigma attached to investing in innovation. The aim of the initiatives should be to address the ecosystem as a whole and, in particular, encourage prospective investors to acquire familiarity with it, and ultimately overcome the structural inertia that has kept them out of the asset class. To this end, each initiative requires high-profile and continuous political backing. High-level involvement on an ongoing basis is necessary to ensure executive-level engagement on this crucial issue on the LPs' side.

(3) **Defined and realistic investment target for LPs:** Each national scheme should be centered around a dedicated target allocation or commitment to risk capital, determined domestically, with no target set below 1% of relevant LPs' balance sheets over the medium term.

As a point of comparison, the Mansion House Compact in the United Kingdom included a commitment for defined contribution pension plans to allocate 10% of their portfolios to alternative assets, including private equity, alternatives and real estate, with at least 5% in UK assets. Although voluntary, the Mansion House Compact is backed by a legislative safety net: under the Pension Schemes Bill, the government has reserved the ability to make these commitments binding if the voluntary targets are not met. The UK government estimates that these

commitments could mobilise up to GBP 50 billion in additional investment for the national economy, notably in infrastructure, housing and growth companies.

(4) **Include a European dimension:** To give a national initiative a meaningful European dimension, each scheme should be open to other EU Member States' VC funds as well as potential LPs, provided they have, or are willing to open, an investment office in the country concerned. As illustrated by the French Tibi and German WIN programmes, such openness both strengthens the growth of local ecosystems and supports the emergence of truly pan-European VC players.

Other Member States should adopt initiatives similar to Tibi and WIN in order to address cultural and non-regulatory barriers preventing insurers and other institutional investors from allocating more capital to VC and growth funds. In conjunction with the effect of the LTEI reform, such political incentives can ensure that the Solvency II review has the intended effect by encouraging insurers to redeploy part of the capital relief provided by the new framework towards riskier assets, including venture and growth capital.

4.2.2. To foster pan-European VC funds, a European VC initiative should be initiated to promote investments on a European scale

Building on these national initiatives, France and Germany could initiate a pan-European "VC Initiative" to incentivise long-term institutional investors to act as anchor LPs in pan-European venture and growth funds.

The platform would bring together LP investors participating in Tibi- and WIN-like initiatives with potential investees, such as venture and growth funds. Among VC funds operating (or featuring substantial teams) in at least two Member States that have already launched national Tibi- and WIN-like programmes, those that have reached a certain critical size and show a strong track record could participate in the European initiative and access a broader pool of European LPs.

The participating LP base would be comprised of institutional investors that take part in national initiatives and display an appetite for larger tickets through VC funds on a pan-European scale. The national initiatives would provide the backbone for identifying relevant LPs and investees (GPs).

Strong mutual interests could be satisfied for both LPs and GPs, while at the same time fostering knowledge-sharing and increasing the professionalism of the ecosystem. Previously domestically focused VC funds would gain access to a wider pool of European LP investors, including those outside their Member State, allowing them to increase their investor base and potential assets under management. This would ultimately enable them to invest in later-stage funding rounds through larger tickets, with the potential to create pan-European VC funds over EUR 1 billion. As for large European institutional investors, this initiative would allow them to commit substantial tickets to sufficiently big

vehicles. This could prove useful, since their ability to invest in VC across Europe is sometimes constrained by the small size of European VC funds.

Specifically, the European VC Initiative could host regular events with high-level political backing in the participating Member States during which the investees (GPs) would be able to directly pitch to a pan-European set of LPs and additionally share knowledge on key subjects such as growth and deeptech investment.

An initiative of this kind would signal confidence in Europe's innovative startups and scaleups, as well as venture and growth funds, and give willing LPs, including those from smaller markets, access to high-quality cross-border investment opportunities. The platform would provide a good opportunity to better link portfolio funds and companies of the European Tech Champions Initiative and more generally of the EIF, Bpifrance, KfW Capital and other European public VC investors, with LPs participating in Tibi, WIN or other similar national initiatives.

By creating a joint pan-European VC Initiative open to other EU Member States, France and Germany could take on a leading and initiating role in strategically connecting European institutional investors with European cross-border venture and growth funds, strengthening globally competitive European venture and growth managers and promoting the further development of the European ecosystem.

Such an initiative could prove particularly effective, as it would build on existing national initiatives and the concrete market dynamics they have already generated. The initiative could serve as a bridge between national-level mobilisation efforts and a future European Innovation Investment Pact as proposed by the European Commission in its Startup and Scaleup Strategy[138]. It could therefore serve as a nucleus for the European Innovation Investment Pact, anchoring it in established market realities and investment practices. Complementarily, the European Innovation Investment Pact would be best placed to interconnect the VC Initiative with the influential work of the EIB Group, in particular the EIF, which has had a significant impact on the European VC ecosystem as a whole (see chapter 5).

4.3. Transparency, liquidity and scale are further non-prudential impediments that need to be addressed

This effort should be complemented by national and European initiatives aimed at addressing further non-prudential barriers faced by institutional investors. Three aspects specifically merit further consideration:

(1) **A stronger effort should be made to highlight the high long-term returns of VC investments, when sufficiently diversified.** From an LP's perspective, VC is one option within the broader alternative assets universe, and its attractiveness

[138] European Commission – The EU Startup and Scaleup Strategy: Choose Europe to start and scale – May 2025 (link).

ultimately depends on its ability to deliver returns commensurate with its higher illiquidity and risk profile relative to other alternatives. In a market characterised by high dispersion in fund performances, greater transparency on fund outcomes, including anonymised benchmarks of leading performers, could be transformative. National promotional banks and the EIF, which already collect detailed data on fund performance, could play a central role in this effort.

(2) **The secondary market for private equity should be developed to improve overall liquidity prospects in order to encourage LPs to commit capital upfront.** The market for secondary transactions in private equity fund stakes is growing rapidly, rising from EUR 112 billion in 2023 to EUR 162 billion in 2024 worldwide.[139] Although the market remains dominated by the buyout segment, VC secondaries now account for roughly 15% of GP-led and LP-led types of deals. A dedicated VC secondary market has emerged, led by major U.S. players. This includes the growth of specialised secondary funds, trading platforms, and advisory services. By contrast, the EU remains at an early stage, with only a nascent ecosystem.

While interview respondents generally emphasised that the development of secondary platforms should be market-led, an appropriate regulatory framework could play an important catalytic role in encouraging their emergence. The aim should be to provide secondary liquidity for investors in illiquid closed-end private funds, allowing institutional holders to exit their portfolios while facilitating the matching of buyers and sellers at the fund-unit level. The platform would function as a restricted marketplace for institutional investors, displaying non-priced indications of interest (e.g. volumes and fund identifiers) and enabling bilateral negotiation and settlement (on or off-platform). A pragmatic approach could begin, if necessary, with a pilot framework under ESMA oversight, providing a targeted regulatory regime, potentially inspired by the UK PISCES sandbox.

(3) **Finally, the mismatch between the typical ticket size of institutional investors and the comparatively small scale of most VC and growth funds needs to be addressed.** At the same time, the limited commitment of institutional investors is itself a major reason behind the small size of European VC and growth funds, creating a chicken-and-egg dynamic in which small funds deter large LPs and the absence of large LPs keeps funds small. This cycle should not obscure the fact that any structural barriers preventing funds from scaling up should still be tackled proactively.

In particular, the potential impact of the assets under management threshold[140] that triggers mandatory authorisation and the application of the

[139] BlackRock – Secondaries: FY2024 Secondary Market Recap & Outlook – 2025 (link).

[140] EUR 500 million of assets under management (EUR 100 million of assets under management while using leverage).

full set of rules for alternative fund managers under the AIFM Directive may need to be considered. For some funds, the perceived disadvantages of the authorisation and the related costs[141] seem to outweigh the perceived advantages (especially the so-called EU passport to market funds across borders in the EU connected under the full AIFMD authorisation). Although raising the threshold[142] might lift some pressure off fund managers and allow funds to grow, this would not solve the burdens associated with the existence of any threshold.

4.4. The retailisation of investments in growth companies should be encouraged in a risk-appropriate manner

With EUR 35.5 trillion in household financial assets,[143] the EU holds a significant reservoir of capital that could be mobilised to deepen its capital markets and finance the growth of its scaleups.

Historically, retail investors have had limited access to VC in European markets, primarily because of the high risks associated with this asset class, stemming from its illiquidity and information asymmetries. Consequently, investor protection rules have traditionally imposed high minimum investment thresholds, typically starting at EUR 100,000 and effectively restricting access to professional or high-net-worth investors.

Private markets are increasingly undergoing a "retailisation" movement, aimed at making investment strategies in unlisted assets such as private equity, private debt, infrastructure and real estate, which have historically been reserved for large institutional investors due to their illiquidity, complexity, and long-term horizons, more accessible to individual investors. Recent regulatory adjustments and financial innovations in the areas of product design and distribution have enabled asset managers to offer retail-compliant vehicles that provide diversified and professionally managed exposure to these asset classes, while overcoming challenges around liquidity management, transparency, and investor protection.

In this context, interview respondents widely praised the revised European Long-Term Investment Funds (ELTIF) framework,[144] which introduces a simplified and harmonised vehicle for alternative assets that can be distributed across borders to retail investors in the EU under the passport regime.

---

141 Authorisation process, depository requirement, requirements on governance, risk and portfolio management, additional reporting, etc.

142 The threshold was introduced in 2011. Even from the perspective of inflation alone, it may no longer be suitable for the current market realities.

143 Eurostat – Households - statistics on financial assets and liabilities – October 2025 (link).

144 The amended Regulation expands the range of eligible assets (notably allowing greater investment in VC), simplifies investment rules, enables the creation of open-ended evergreen ELTIFs and lowers entry barriers by removing the previous EUR 10,000 minimum investment threshold, while maintaining robust safeguards to ensure that retail investors make well-informed investment decisions.

The review has already translated into a marked rise in the number of ELTIFs authorised across the EU, reflecting renewed investor, manager and distributor interest under the revised rules.

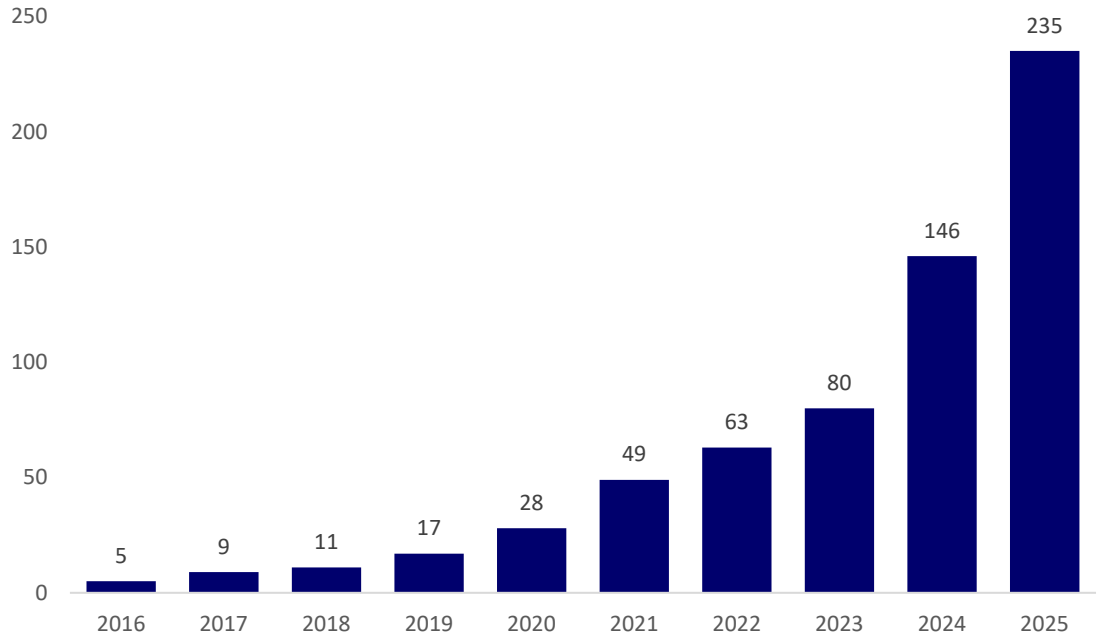


Figure 4.8: ELTIFs evolution (number of authorised funds)[145]

Despite this background and aside from ELTIFs, industry feedback on expanding retail participation in VC in general has been mixed. Many market participants stressed that encouraging traditionally risk-averse European retail savers, whose assets are largely held in low-risk, guaranteed products, to invest directly in one of the riskiest and most illiquid asset classes could prove challenging. They highlighted the reputational risks involved if unsuitable VC funds were marketed to retail investors and subsequently incurred heavy losses or liquidity issues, undermining confidence in the entire asset class.

First, the target audience should quite naturally remain centred on high-net-worth individuals[146], typically reached through private banking channels. ELTIFs, regardless of the asset class, can play an increasingly important role when it comes to diversifying the portfolios of retail investors with some financial education, but not as a first go-to for starting an investment account. The focus remains on lower-risk strategies, such as private debt and infrastructure or (in the private equity sector) the traditional buyout segment.

In this regard, the implementation of MiFID II might have significantly undermined the distribution of investment products to non-professional investors across the EU, according to some industry respondents. While MiFID II aims to enhance investor

[145] ESMA – Register of authorised European long-term investment funds (ELTIFs) – November 2025 (link).

[146] In this respect, the European collective undertaking dedicated to investments in VC (European Venture Capital Fund or EuVECA) mostly caters to professional investors, but opens up the possibility of marketing these investments to semi-professional investors through a minimum investment amount of EUR 100,000.

protection and increase market transparency, its regulatory requirements have also made it more difficult for financial products to be marketed to retail investors. Detailed advisory, suitability, and disclosure requirements that apply to the marketing of complex or high-risk products appear to have increased the complexity and cost of compliance disproportionately. This has led to a potential reduction in the diversity of products available to investors.

Several options could be considered to address these challenges: For instance, the MiFID definition of the "professional investor" could be expanded further to enable wealthy individuals to directly invest in additional market segments. The quantitative and experience-based tests, built for liquid, regulated markets, do not map well onto the characteristics of VC (and PE in general) and inadvertently classify many sophisticated investors, including high-net-worth individuals, business angels, and even some AIFM executives, as purely retail, despite their ability to understand and bear the risks of private assets. Expanding the category to allow wealthy individuals and knowledgeable insiders to opt into the professional status would remove an artificial barrier to their participation in VC funds, aligning MiFID with the reality of private assets. In addition, innovative distribution models could provide a meaningful contribution and could be facilitated, for example, through the use of regulatory sandboxes for selected MiFID II requirements, thereby fostering innovation while preserving a high level of consumer protection under close regulatory supervision.

Second, retail investors are unlikely to enter the VC space spontaneously, given the illiquidity and high-risk profile of the asset class. However, incentives are difficult to calibrate carefully.

Because the positive externalities of VC investment are not internalised by individual investors, tax incentives[147] to improve the expected risk-return profile are justified.

Where evaluations exist, results highlight that eligibility rules, holding-period requirements, treatment of losses, and administrative stability crucially shape effectiveness.[148] Design and calibration are key in determining whether these incentives genuinely trigger additional investment or instead create adverse selection and proliferation of low-performing funds.

Aside from tax incentives, policy initiatives in this area could therefore focus on two complementary approaches:

(1) **A "proof-of-concept" approach to demonstrate that, despite its specific risk-return profile and long-term horizon, VC can offer attractive returns and occupy a legitimate place within a diversified portfolio for retail or semi-professional investors**. Recent developments featuring innovative distribution

147 In the form of upfront deductions, capital gains relief or loss offset mechanisms.

148 European Commission – Effectiveness of tax incentives for venture capital and business angels to foster the investment of SMEs and start-ups – June 2017 (link).

channels with low entry barriers for retail investors, monitored by supervisors following a risk-based approach and taking into account transparency and investor protection, show that there are ideas in the market for how to make VC funds, especially in the form of ELTIFs, retail-ready.

Two structural options seem to be particularly interesting:

- Dedicated fund-of-funds structures, which help mitigate liquidity constraints and smooth returns for investors.[149] Possible regulatory limits to building funds-of-funds structures, including under the ELTIF framework, may need to be reviewed, while carefully monitoring possible additional costs created by fund cascades
- A targeted VC/growth component within more generalist retail private equity funds

Public initiatives could be valuable in demonstrating viability. In this fashion, Bpifrance has launched a series of retail-accessible private equity funds, available online and primarily investing through secondary vehicles managed by Bpifrance Investissement. Similar initiatives could be launched at the European or national level, including the potential structuring of a retail tranche of the ETCI initiative (see chapter 5), to offer small-scale retail participation. While such efforts are unlikely to mobilise capital at scale, they could help familiarise retail investors with the asset class, promote financial literacy and foster a more capital-market-oriented investment culture.

(2) **Indirect retail exposure via insurance and retirement savings products.**

A way forward could lie in managed portfolio schemes within savings products, under which policyholders delegate portfolio management to professional managers who adjust risk exposure over time, allocating a higher share to risky assets early in the savings cycle and gradually reducing risk as retirement nears. In France, for instance, the Green Industry Law introduced a minimum allocation to unlisted assets in life insurance and retirement savings plans (PER) within such managed portfolio schemes. This aims to encourage asset managers to develop suitable products and gradually integrate venture and growth capital into retail portfolios.

These structures, known as “lifecycle investment options,” could serve as a bridge between long-term retail savings and illiquid private assets (see chapter 3). Over time, by increasing the share of private assets in the early phases of these lifecycle structures (supported by public incentives), these schemes could mobilise a meaningful pool of retail capital invested in risky, long-term assets as part of life insurance and retirement savings frameworks.

[149] Especially the J-curve effect, i.e the typical pattern of negative early returns in private equity due to fees and initial investments before later value realisation.

5. National and European public financing must continue supporting the innovation financing ecosystem, helping it to reach the next level

5.1. European public financing mechanisms have played a central role and should be sustained and optimised to maximise their impact

5.1.1. Europe's early-stage success is supported by national promotional institutions

National promotional institutions (NPIs) have played an instrumental role in developing national startup financing ecosystems. Bpifrance in France, KfW Capital in Germany and other NPIs across Europe have significantly expanded domestic VC markets by co-investing in VC fund-of-funds, VC funds and directly in startups across sectors and growth stages. They have also been involved in designing and marketing fund products aimed at institutional investors that had been reluctant or unable to invest into VC.

Over the past decade, as the financial firepower of NPIs increased, Europe has seen the number of early-stage companies increase more than fourfold. European startups raised around ten times more in 2024 than in 2015[150], with public actors playing a catalytic role in anchoring local VC ecosystems.

Beyond these quantitative effects, NPIs have generated powerful qualitative spillovers that have transformed Europe's innovation landscape. By sustaining early-stage funding cycles over time, they have helped normalise entrepreneurship as a career path and contributed to a seven-fold increase in the European tech workforce[151].

In approximately seven years since its creation, KfW Capital in Germany has implemented a wide variety of programmes to support the German and European startup financing ecosystem, with additional initiatives in the pipeline. As a wholly-owned subsidiary of the German state-owned promotional bank KfW, KfW Capital has invested approximately EUR 2.8 billion in the VC ecosystem and committed capital to nearly 150 funds, thereby financially supporting more than 2,800 startups. KfW Capital consistently invests in line with market trends, with a focus on returns, independently of economic cycles and across sectors. This makes KfW Capital a key anchor investor in the German VC landscape.[152]

Beyond its equity investments, KfW Capital has further developed the market and attracted new investors to the VC asset class. A major milestone was the successful launch of the Growth Fund Germany, one of Europe's largest VC fund-of-funds, with a

[150] Atomico – State of European Tech 24 – November 2024 (link).
[151] Atomico – State of European Tech 24 – November 2024 (link).
[152] KfW Capital data

volume of approximately EUR 1 billion. For the first time, it succeeded in raising substantial private capital (around two-thirds of the fund's volume) – including from investors with no prior exposure to VC. By September 2025, the fund-of-funds had already committed approximately EUR 800 million to 40 target funds. The second generation of the fund is currently being prepared, with fundraising starting in 2026.[153]

KfW Capital also coordinates the German government's Future Fund, which provides substantial support for the German and European VC ecosystem, with a volume of more than EUR 10 billion. The Future Fund combines quantitative expansion with qualitative improvements to existing financing instruments, while also developing new instruments. The goal is to strengthen financing for innovative, technology-oriented companies throughout the startup, growth and scaleup phases.

Bpifrance plays an equally central role in supporting the French VC ecosystem, primarily through a fund-of-funds strategy. Originating from the Caisse des Dépôts et Consignations in 1994 and created in 2012 by bringing together several public investment entities, Bpifrance primarily takes minority positions in private VC and growth funds in order to increase the capital supply in under-served segments and foster the professionalisation and scaling of French fund managers. This fund-of-funds strategy is embedded in a broader public policy framework combining Bpifrance's own resources with dedicated instruments under the Programme d'Investissements d'Avenir (PIA). Between 2011 and today, Bpifrance has committed a total of EUR 6.8 billion across nearly 280 funds, combining EUR 3.9 billion invested under France 2030 with EUR 2.9 billion from its own balance sheet. These commitments have supported cumulative fundraisings of EUR 31.3 billion, corresponding to an aggregate leverage of around 4.6x. [154]

Within France 2030, EUR 3.9 billion has been committed across 181 funds. In the seed segment, the Fonds National d'Amorçage (FNA) has committed EUR 1.2 billion across 62 funds, enabling these funds to raise EUR 3.3 billion, representing a leverage of about 2.8x. At the portfolio-company level, the FNA has generated EUR 24.5 billion in follow-on financings, reflecting a leverage of around 38x on drawn amounts. In the growth segment, the Multicap Croissance programme has committed EUR 2.0 billion across 74 funds, supporting total fundraisings of EUR 23.1 billion, corresponding to a leverage of around 11.6x. [155]

Bpifrance also engages in direct investment activities complementing the fund-of-funds strategy. It invests both from its own balance sheet, notably through the Large Venture Fund created in 2013, and on behalf of the state through PIA and France 2030 mandates such as the Sociétés de Projets Industriels (SPI) fund, endowed with EUR 800 million to

153 KfW Capital data

154 Bpifrance data

155 Bpifrance data

support industrialisation projects. Across these channels, Bpifrance invested EUR 3.9 billion directly in nearly 450 startups between 2013 and 2022. [156]

Taken together, these instruments have strengthened the continuity of financing available to French startups. Nearly 40% of companies financed in the growth segment previously received support from Bpifrance, either directly or through partner funds, and about 10% were first financed at the seed stage, illustrating the institution's ability to accompany firms across successive phases of their development. [157]

At the European level, the EIF, established in 1994 and part of the European Investment Bank (EIB) Group, is the EU's specialist institution for providing risk finance to SMEs. Its core mission is to enhance access to finance for innovative and high-growth SMEs by offering a wide range of instruments through selected financial intermediaries, including banks, guarantee institutions, leasing companies, and PE or VC funds.

Operating on market-based principles, the EIF assumes SME risk to advance EU objectives in areas such as innovation, R&D, entrepreneurship, growth and employment. Its activities include providing equity, debt (guarantees and securitisation), and inclusive finance instruments (micro-credit) to address various market needs and support the EU's strategic priorities such as the green and digital transitions.

Over the past 30 years, the EIF has been the leading public provider of risk capital, and in particular of VC, to young and innovative European startups. It manages several key programmes and initiatives on behalf of the EIB, the European Commission and EU Member States. The EIF estimates that its support has reached over 2.1 million micro, small and medium-sized enterprises across Europe, with total commitments amounting to EUR 136.7 billion, including EUR 14.4 billion in 2024.[158] In 2024, the EIF conducted 102 VC transactions, making up by far the largest share of equity transactions. In the same year, the EIF invested EUR 3.46 billion in VC funds.[159]

5.1.2. Deep dive: market failures provide economic rationale for government activities in the VC market

Even as the ecosystem has matured, national public instruments for innovation, which have played a decisive role in the emergence of the European startup scene, will remain essential to correct persistent market failures that constrain the financing of innovative firms. However, as the ecosystem matures, public financing frameworks must also adapt in order to remain effective and better align with the ecosystem's changing needs.

A key market failure in VC financing relates to the positive externalities of innovation, meaning that an innovative company may bear the costs of developing new

156 Bpifrance data

157 Bpifrance – Impact des actions de Bpifrance sur le marché du capital-risque – May 2025 (link).

158 European Investment Fund – The EIF's 30 years Anniversary book – August 2024.

159 European Investment Fund – Annual Report 2024 – April 2025 (link).

technologies but be unable to reap the benefits. The resulting knowledge spillovers mean that the outcomes of many innovation projects extend well beyond the originating firm: clients may use them to boost productivity and competitors can replicate them at little or no cost. Companies can thus integrate insights generated elsewhere into their own innovation process or imitate products and production methods cheaply. In general, the more disruptive the innovation, the larger the associated spillovers and efficiency gains.

A second market failure arises from information asymmetries. Because the success of innovation projects is inherently uncertain, securing external financing is difficult. This is true for all kinds of innovative projects, including those of established companies, but even more so for ground-breaking ideas of technology startups that underpin future economic growth. High potential returns are typically offset by significant uncertainty about achieving technical or commercial viability, especially in projects with a high degree of technological novelty (as is often the case in deeptech startups). Moreover, information about a project's true prospects is unevenly distributed between companies and investors. The VC market also exhibits additional information asymmetries, such as those between a VC fund (GP) and its prospective investors (LPs).

For both these aspects, even though public financing mechanisms are sometimes perceived as playing a more limited role in the U.S. startup ecosystem, public procurement essentially fulfils a comparable function by allowing young, sometimes pre-revenue companies to access early and significant sources of demand through government contracts. However, the complexity and administrative burden of public procurement procedures may constitute a material barrier for startups with limited resources in the EU. Those that succeed in securing public contracts benefit from both early revenue generation and a strong validation signal. Public procurement thus operates not only as a source of non-dilutive funding, but also as a powerful anchor for private investment, as investors are typically more willing to back companies whose technologies and business models have been endorsed through public purchasing decisions.

In addition, in less developed VC markets like the EU, fund sizes are often insufficient to meet institutional investors' minimum ticket requirements. Public investment can help bridge this gap by allowing institutional investors to access suitably sized vehicles, often through funds-of-funds, until the market reaches a scale where they can invest directly.

Providing suitable investment opportunities and reliable information platforms can further enhance the role of public programmes as anchor investors in European VC markets. When public investors invest in a fund early on, their rigorous due diligence can signal quality to other investors, indicating that the fund meets key standards, such as professionalism, reporting standards and alignment of interest.

Finally, public investment can smooth the financing cycle for startups by sustaining capital availability even during market downturns.

Given the magnitude of the gap between European and U.S. markets and the constraints on public resources, it is clear, however, that public funding alone cannot close this divide (see chapters 3 and 4).

The central goal of public intervention in the VC market should therefore be to mobilise private investment and strengthen the private startup financing ecosystem.

5.1.3. Europe's strong public role in VC is justified, but must be designed to crowd in private investors

Because public institutions have intervened early and consistently, Europe's VC market today has a comparatively high share of public financing. Approximately 25% of total fundraising for European VC funds originates from NPIs in 2024. This number is substantially higher than the 9% average for private equity as a whole.[160]

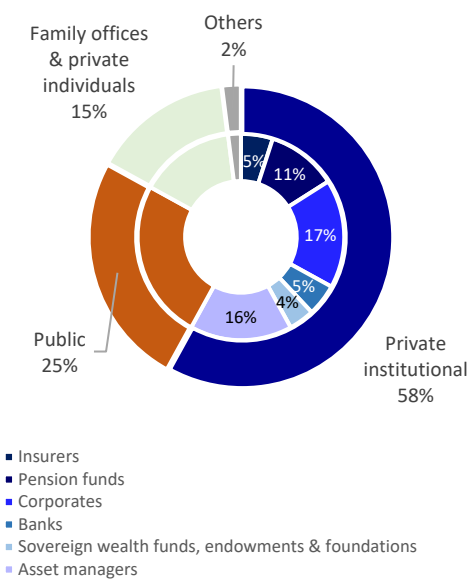


Figure 5.1: Funds raised by investor type (incremental amount raised in 2024 as a percentage of total amount)[161]

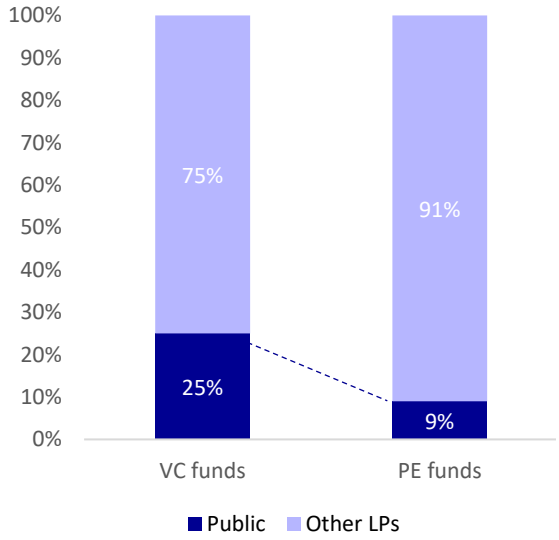


Figure 5.2: Investor type for VC and PE funds (incremental amount raised in 2024 as a percentage of total amount)[162]

According to the information gathered in the interviews, this share can vary significantly across geographies, segments and industries. For example, in countries with well-established public equity investment programmes, the contribution of public investors can be higher. The same holds for funds that invest in deeptech sectors, due to the higher technology risk.

160 Invest Europe – Investing in Europe: Private Equity Activity 2024 – May 2025 (link).
161 Invest Europe – Investing in Europe: Private Equity Activity 2024 – May 2025 (link).
162 Invest Europe – Investing in Europe: Private Equity Activity 2024 – May 2025 (link).

Feedback from market participants from a wide range of perspectives has been unanimously positive on the catalytic role of public investment in European VC. It plays a role in quantitatively expanding the VC market, building the ecosystem and mobilising institutional investors in the VC asset class. In isolated cases, however, concerns were raised about the extent of public-sector involvement and the risk of creating a structural dependency on public funding.

In order to avoid crowding out private investment, public programmes must adhere to key design principles. A central risk of government support is the unintended crowding out of private capital. Such a situation would arise if public funds were used for investments that would have been financed from private funds even without government intervention, leading to market distortions and fiscal costs without delivering corresponding economic benefits.

However, international empirical studies show that government support for VC tends to complement rather than crowd out private investment.[163] Achieving this outcome, however, depends critically on how public programmes are designed. The single most important guiding principle is that public financing should operate on a *pari passu* basis: a substantial share of private investment must be mobilised concurrently and under identical terms as the public investment. When structured in this way, public programmes behave as genuine market participants under market-compliant conditions, therefore avoiding market distortions and actively mobilising private capital.

A comparative analysis of German and French national approaches is consistent with the findings of a recent OECD study, which distinguishes two main types of government-sponsored VC interventions.[164] Scope-enhancing initiatives target underserved technologies, regions or groups and are most effective where market gaps stem from high experimentation costs, geographical thinness or sector-specific externalities. Scale-enhancing initiatives, by contrast, aim to expand the overall supply of VC in economies where domestic markets are structurally small or underdeveloped.

Promotional programmes must begin with a clear articulation of the specific market failure they aim to address, as this shapes all subsequent design choices. Governance rules matter more than ownership structure: fully government-backed funds can perform similarly to private funds if their governance follows market practice, while funds with private LPs may behave like policy instruments if public actors exert disproportionate influence.

A central conclusion is that public VC performs best when private actors participate meaningfully, especially when governance structures allow private investors to bring market knowledge and when investment decisions are taken according to private-sector standards. Public-sector civil servants typically lack the specialised skills and incentive

[163] Leleux, Benoit & Surlemont – Public versus private venture capital: seeding or crowding out? A pan-European analysis – January 2003.

[164] OECD – Benchmarking government support for venture capital: A comparative analysis – June 2025 (link).

structures of professional VC investors, suggesting that government-sponsored programmes are most effective when they invest on commercial terms to minimise distortions and avoid misallocation.

Building on these OECD findings and on the comparative analysis of German and French approaches, investing through VC funds is the most effective leverage tool available to public actors. Both KfW Capital and Bpifrance, alongside the EIF, have demonstrated that this approach allows ecosystems to scale rapidly while minimising market distortion. Because NPIs invest *pari passu* alongside private LPs, funds remain subject to market discipline, investment committees are not politicised and private LPs retain confidence in the governance of these vehicles. This market orientation and alignment of incentives are essential both for attracting institutional investors and for ensuring that strong and scalable private European funds emerge without displacing private capital.

Direct investment programmes, while valuable for addressing specific market failures, do not generate the same systemic impact. Investments in funds, by contrast, accelerate the professionalisation of fund managers, increase fund sizes, attract new LPs and ultimately help catch up with the depth of the U.S. market.

As a result, investing through VC funds should remain the core instrument for further developing the national and European VC markets. Given the need to develop European-scale vehicles, the current focus should be put on strengthening the EIB Group's financing ecosystem, complemented by the proximity and decentralisation provided by national initiatives, rather than establishing new channels of financing for European scaleups.

5.2. Europe must prioritise true late-stage catalyst mechanisms by aligning national and EU public instruments with scaleup needs

5.2.1. On a European level, a Member State-backed second phase of ETCI would significantly bolster the availability of late-stage financing for European scaleups

Despite these efforts, European scaleups continue to face a persistent financing gap, particularly for rounds above EUR 100 million, where non-European investors remain dominant (see chapter 2). This weakness goes hand-in-hand with the limited number of large pan-European venture and growth funds, especially when compared with the U.S., where multi-billion vehicles are far more common (Figure 5.2).

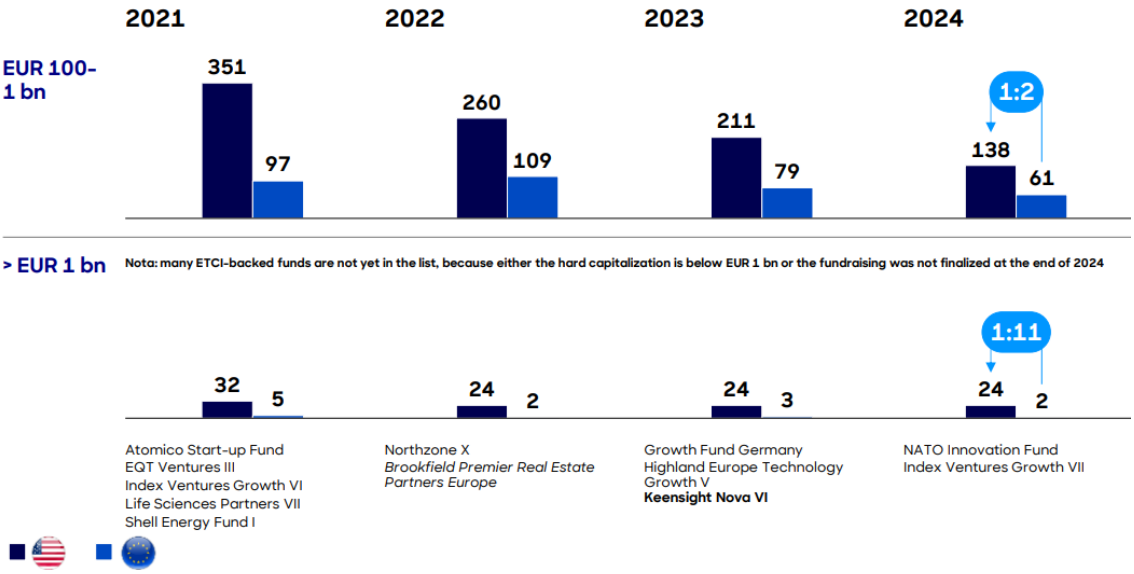


Figure 5.2: Number of VC funds by vintage year, U.S. vs. Europe (incl. UK), 2021-2024[165]

It is precisely to address this structural gap that the European Tech Champions Initiative (ETCI) was launched in 2023. Managed by the EIF, ETCI 1.0 pooled contributions from six Member States — France and Germany (EUR 1 billion each), Spain (up to EUR 1 billion), Italy (EUR 150 million), Belgium (EUR 100 million) and the Netherlands (EUR 100 million) — alongside commitments by the EIB Group (EUR 400 million) and the EIF (EUR 100 million), for a total public envelope of up to EUR 3.85 billion. Managed by the EIF, ETCI 1.0 has provided cornerstone commitments of EUR 100–350 million to large venture and growth funds operating in Europe.

A mid-term evaluation conducted in early 2025 concluded that ETCI 1.0 is broadly progressing as intended.[166] By the end of 2024, around 70% of the available envelope had been approved, deployment was on track with the planned timeline, and participating funds indicated that the programme had enabled larger fund sizes and accelerated negotiations with private investors.

Interviews conducted for this report similarly highlighted the relevance of the instrument and the importance of ensuring continuity in order to avoid a negative market signal at a time when several European fund managers are aiming to reach critical scale. This aligns with the conclusions of the mid-term evaluation, which likewise recommends maintaining the instrument while gradually reducing ticket sizes to foster the emergence of a self-sufficient ecosystem. Beyond the progress achieved in terms of deployment, ETCI 1.0 is expected to generate a significant leverage effect. Based on current commitments, up to EUR 3.85 billion in public capital will be invested in selected

[165] EIF – Evaluation of ETCI 1.0, Final report – August 2025 (link), based on Pitchbook data and Roland Berger analysis.

[166] EIF – Evaluation of ETCI 1.0, Final report – August 2025 (link).

funds, which is projected to support total fundraisings in the range of EUR 14–17 billion – a multiplier of roughly 4x (Figure 5.3).[167]

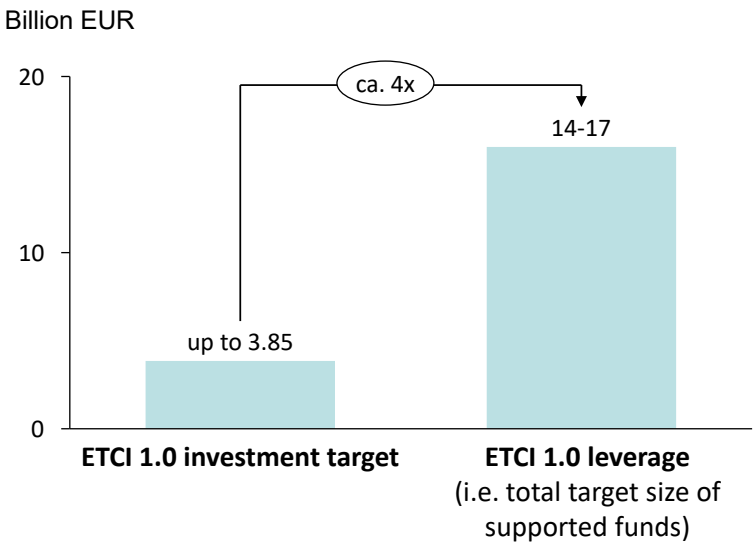


Figure 5.3: ETCI 1.0 mobilised amounts (EUR billion, 2023–2026) [168]

The first phase of ETCI helped address the European scaleup gap by enabling several European managers to reach fund sizes they would normally have achieved only after one or two additional vintages. Such an effect represents a structural gain for the ecosystem: attaining scale more quickly allows funds to professionalise their internal organisation earlier, develop cross-border capabilities and invest in the operational resources necessary to accompany scaleups over longer time horizons. This acceleration does not alter market dynamics and remains compatible with long-term sustainability.

With ETCI 1.0 now nearing full deployment, a second phase of the initiative (ETCI 2.0) should be launched to continue scaling privately managed European growth funds, in light of both the mid-term evaluation and the strong convergence of views expressed during the interviews in favour of maintaining continuity. To achieve this, ETCI 2.0 will need to attract a broader base of private investors.

One option would be to establish an asymmetric risk-sharing structure, under which certain investors, including the public contributors, would invest in an underlying equity layer that bears the full downside risk and captures the full upside potential, while private investors additionally participate through a senior, bond-like instrument with an investment grade rating. The downside risk is secured by the underlying equity layer and the upside potential is limited by a fixed interest rate.

Such a structure would unlock substantial private investment, as some institutional investors could subscribe to the bond-like instrument from their fixed-income allocation, rather than from the pockets used for direct commitments to VC and growth

[167] EIF – Evaluation of ETCI 1.0, Final report – August 2025 (link).

[168] EIF – Evaluation of ETCI 1.0, Final report – August 2025 (link).

funds. This instrument would fall outside Solvency II or IORP II equity risk charges and benefit from the prudential treatment applicable to fixed-income exposures. This would enable investors to increase their overall exposure to the asset class without reducing their capacity to invest directly in European VC and growth funds, avoiding any form of substitution with national initiatives or existing programmes.

Additionally, expanding the number of participating Member States in ETCI 2.0, in addition to securing meaningful contributions from the EIB and the European Commission, is essential to strengthening the instrument's European dimension.

While fund managers from smaller VC markets might not be selected for investment by ETCI 2.0, scaleups in these markets can still be financed by large, well-capitalised European funds, thus also benefitting from the initiative. ETCI should be seen primarily as a tool to finance European scaleups, with funds acting as intermediaries to deploy capital efficiently. Broader Member State participation would therefore help build a more integrated late-stage ecosystem, enabling fund managers to operate across jurisdictions and support companies as they scale across Europe.

In terms of prioritisation, ETCI 2.0 should continue to focus primarily on large, pan-European funds above EUR 1 billion, as these entities remain essential for Europe's ability to retain scaleups and to finance their growth domestically. A limited share of the programme could also support smaller funds on their scaling trajectory where this would facilitate the participation of additional Member States or strengthen the long-term development of local ecosystems, provided such investments remain fully aligned with the overarching objective of reinforcing Europe's late-stage investment capacity.

Like any other EU-level programme, ETCI 2.0 should be closely coordinated with existing national and European investment programmes and institutions in order to leverage potential synergies between programmes and avoid competition in fundraising (especially **with private institutional investors) and investment strategies.**

A second phase of ETCI (ETCI 2.0) should be launched to continue scaling privately-managed European growth funds, maintaining the initiative's focus on funds targeting a size above EUR 1 billion. To achieve this objective, ETCI 2.0 will need to attract substantial private investment, which could be facilitated by introducing an asymmetric risk-sharing structure. All activities on a European level should be coordinated closely with Member States and NPIs in order to leverage potential synergies and avoid competition in fundraising and investments strategies.

5.2.2. National promotional institutions should increasingly coordinate across national borders to enable European champions to scale up

At the national level, NPIs should evolve from primarily national logics toward a more coordinated European framework to increase the European footprint of their programmes. While NPIs have proven effective in nurturing their domestic ecosystems,

the combination of persistent scaleup gaps and the constraints of nationally defined mandates call for greater alignment and deeper cross-border cooperation.

Currently, NPIs understandably focus on their home markets. Most programmes include geographic return clauses requiring that the majority or, in some cases, a multiple of the NPI's investment in a fund flows back to domestic companies. While this is consistent with NPIs' national mandates and in some cases prescribed by the legal requirements associated with the public resources they deploy, it contributes to a fragmented and insufficiently large VC landscape across Europe.

The need for political acceptability is understandable, and NPIs may indeed need to secure a minimum national return equivalent to their financial contribution. However, this should remain a safeguard rather than a guiding objective.

To strengthen the European dimension of public investment, NPIs should progressively move from a predominantly national approach when it comes to return expectations towards a more coordinated European perspective. Thus, beyond the minimum national return, NPIs could commit to operating with a shared European outlook, allowing capital to flow more freely across participating Member States.

While competition among startups should remain the driver of market consolidation, it is essential that surviving companies have access to the resources required to scale to a globally competitive size.

In practical terms, NPIs could form a partnership in which each institution agrees to cap its domestic return requirement at up to 1× of its contribution, while committing an additional multiple to investments anywhere within participating Member States or across the EU. Adopting such a framework would encourage NPIs to invest together, build genuinely pan-European portfolios and support the emergence of larger, more integrated sources of growth capital. This would, in turn, facilitate the scaling-up of European companies and strengthen Europe's technological and industrial leadership.

With their large domestic VC base, France and Germany could provide the backbone for such an initiative. Thanks to the depth of their pool of domestic VC players and the experience of their NPIs, France and Germany could serve as foundational anchors, helping to catalyse broader participation across the EU and provide incentives to join the network.

NPIs should increasingly work together with a genuinely European perspective, limiting domestic return expectations and placing greater emphasis on shared European objectives. A closer partnership between NPIs on this basis would encourage more coordinated investment strategies.

6. A 28th corporate-law regime needs to be created to facilitate the cross-border expansion and financing of European scaleups

The European internal market is home to a vibrant ecosystem of innovative startups and scaleups, but market fragmentation remains an obstacle. In the past decades the EU has made significant progress in creating a unified economic area that facilitates the free movement of goods, services, capital, and people across Member States. However, the establishment of a truly integrated single market remains a work in progress. As illustrated by an analysis conducted in the European tech sector, market fragmentation remains one of the biggest obstacles to starting and/or scaling a company from Europe today (Figure 6.1)

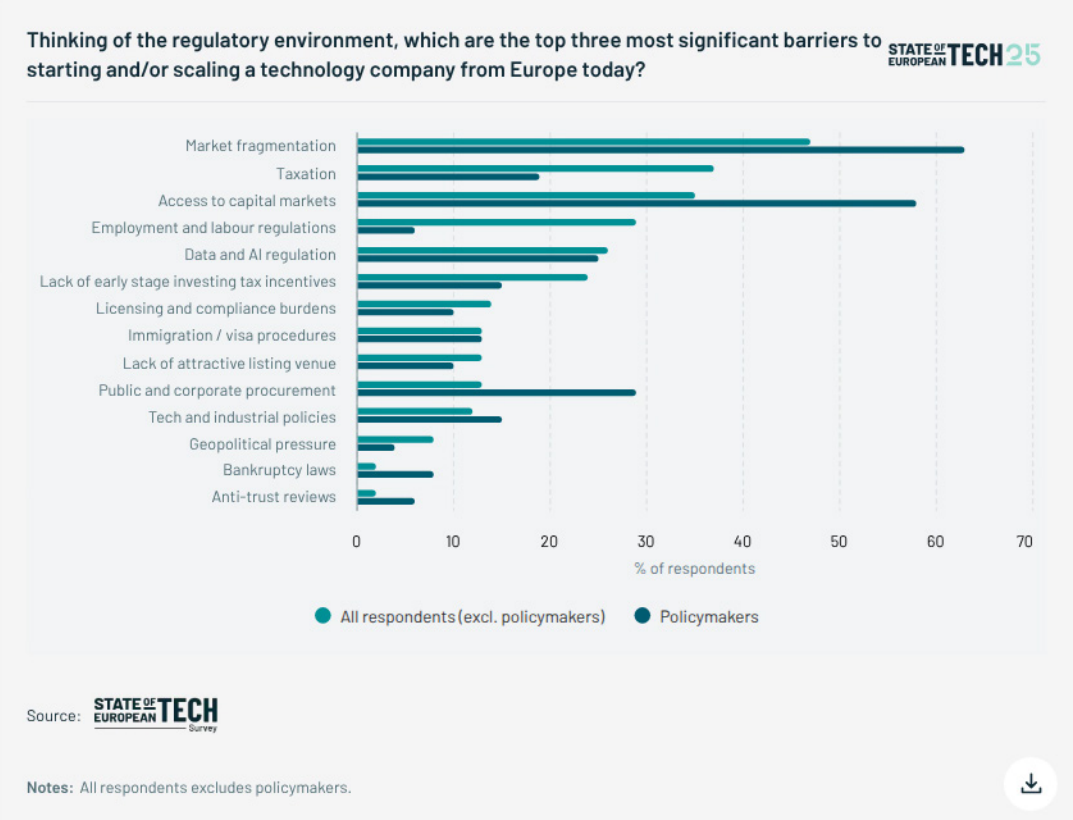


Figure 6.1: Most significant barriers for starting and/or scaling a company from Europe[169]

6.1. The lack of a harmonised legal framework creates high legal complexity and increased transaction costs when trying to scale businesses across the EU

One of the most significant barriers to scaling businesses across the EU is still the lack of a harmonised legal framework. Each Member State has its own set of laws and regulations governing business activities, investment structures, and financing options.

169 Atomico – State of European tech – November 2025 (link).

Even when legislation is harmonised, it is often implemented based on different interpretations, as the GDPR illustrates. For scaleups, this creates a complex and costly environment, as they must navigate a patchwork of legal systems, each with different requirements for investment contracts, intellectual property protection, labour laws and tax regulations. In a survey about obstacles to a better functioning single market, 69% of EU firms identified different contractual and legal practices as significant obstacles to the single market (Figure 6.2). Micro, small and medium-sized enterprises even consider legal fragmentation to be the most important concern affecting their business (Figure 6.3). The fragmentation of the EU market and the associated barrier it represents for European scaleups explains, to a large extent, the lower growth prospects and thus the lower valuations faced by European scaleups. As outlined in the Draghi report, scaling up in a more integrated market like the US can allow for faster expansion and thus profitability.

Figure 6.2: Ranking of single market obstacles[170]

	Micro-enterprises (1-9 employees)	Small enterprises (10 – 45 employees)	Medium-size enterprises (50-249 employees)	Large enterprises (+250 employees)
1	Different contractual/legal practices	Different contractual/legal practices	Different contractual/legal practices	Increasing reporting requirements linked to sustainability
2	Different national service rules	Insufficient legal/financial info. About potential business partners in other countries	Increasing reporting requirements linked to sustainability	Different contractual/legal practices
3	Inaccessibility to information on rules and requirements	Inaccessibility to information on rules and requirements	Different national product rules	Different national service rules
4	Insufficient legal/financial info. About potential business partners in other countries	Costs of regulation	Issues related to payment recovery	Different national product rules
5	Costs of regulation	Different national product rules	Disruption of supply chain	Costs of regulation

Figure 6.3: Ranking of top 5 obstacles according to size of company[171]

This legal fragmentation raises transaction costs for both entrepreneurs and investors. When deciding to grow across borders, scaleups must often engage in lengthy and expensive legal consultations to ensure compliance with multiple jurisdictions when deciding to grow cross-border. This can deter potential investors, who may be hesitant to

[170] Eurochambres – Single Market Survey 2024: Overcoming Obstacles, Developing Solutions – January 2024 (link).

[171] Eurochambres – Single Market Survey 2024: Overcoming Obstacles, Developing Solutions – January 2024 (link).

engage in a market lacking uniformity and predictability in its legal processes. Furthermore, it makes cross-border investments more difficult, as VC and PE investors face additional legal risks and uncertainties dealing with companies operating in different legal environments.

The legal fragmentation also limits scaleups' access to cross-border financing, which is critical for their growth. In a fragmented market, investors are often reluctant to commit capital across borders due to the complexities of differing legal systems, which can delay or complicate the enforcement of contracts and the protection of intellectual property rights. For example, an investor in one country may be wary of investing in a company in another country if they perceive the local legal system as less reliable or predictable. Despite its significant economic size, the EU struggles to compete with the U.S. and China when it comes to attracting global VC for companies. Although the EU has made strides in improving access to finance for startups, the fragmentation of its legal systems still makes it a less attractive destination for international investors who are accustomed to the more streamlined and uniform regulatory environments in places such as Silicon Valley.

To fully unlock the potential of the European internal market for scaleups, it is crucial that the EU harmonises its legal frameworks and offers a uniform European legal framework. This must take particular account of the needs of fast-growing companies.

6.2. A 28th regime for a new European legal form to accelerate the growth of scaleups

The persistent fragmentation of company law and regulatory frameworks across the 27 Member States creates significant obstacles for scaleups, especially when it comes to financing. For scaleups seeking to grow beyond their home markets, this fragmentation translates into higher costs, legal uncertainty and reduced access to capital. Scaleups operating or expanding across borders must comply with different legal requirements in each country. This means navigating diverse rules on corporate governance, shareholder rights and financial reporting. Business practices can sometimes hinder cross-border transactions, as third parties and banks are reluctant to work with a company whose legal governance and responsibilities are subject to legislation with which they are unfamiliar (leading to discrimination based on IBAN, shorter payment terms requested by suppliers, etc.). This leads to the creation of subsidiaries in each country of business or the use of multiple intermediaries. The resulting administrative burdens, consultancy costs and legal fees divert resources away from innovation and growth, making it harder for companies to attract investors seeking efficiency and predictability.

Investors, particularly VC and PE firms, prefer clear and stable legal environments. The lack of a uniform company law regime creates uncertainty about issues such as liability, shareholder protection, and exit strategies. This can discourage cross-border investments, as investors may be reluctant to commit capital to companies facing complex or unpredictable legal landscapes. Fragmentation also restricts access to financing. Scaleups

often struggle to raise funds from investors in other EU countries due to unfamiliarity with foreign legal structures and regulatory requirements.

In order to respond appropriately to these challenges, the introduction of a 28th company law regime – a voluntary, EU-wide legal form for businesses – was strongly advocated in the interviews. Past attempts to promote harmonisation in company law in the EU have not led to the desired success. While the introduction of the Societas Europaea (SE) was an important first step in the introduction of a pan-European company law regime, the SE remains fundamentally tethered to national legal systems through supplementary legislation and residual gaps. According to the interviewees, the SE is not perceived as one pan-European legal form but can be compared to a "sausage skin" put around 27 different "fillings".

Therefore, many of the interviewees expressed great hope and expectations in response to the Commission's new approach of developing an alternative, truly European option in the form of a 28th regime, specifically for companies that want to scale their business model within the EU. Numerous approaches are conceivable and are currently under discussion. However, in order to avoid an interminable debate, the 28th regime must follow clear principles and a decisive proposal must be selected quickly, with an EU-wide collective commitment to its swift implementation.

6.2.1. The 28th regime must pursue ambitious goals in order to successfully improve conditions for scaleups in the EU

The 28th regime needs to mark a transformative step towards creating a standardised, flexible legal framework for companies across the EU. A uniform, optional corporate form designed to address the growing need for businesses to scale efficiently across borders, attract investment more easily, and ensure legal certainty throughout their life-cycle should therefore be implemented. Alongside other measures specific to financing markets and public incentives, this should serve as an innovative solution to foster entrepreneurship, strengthen the internal market and boost Europe's global competitiveness.

A key advantage should be its ability to provide businesses with access to the necessary capital throughout their life cycle by creating a seamless framework. From early-stage startups to mature companies, the 28th regime must attract a wider pool of investors by offering a standardised, EU-wide corporate structure. This would help investors understand the legal environment and investment risks across the EU, encouraging more cross-border investments. Additionally, such a uniform corporate form could increase the EU's attractiveness for third-country enterprises seeking to establish a European branch or seat as such a regime would abolish the need to navigate and choose between diverse national legal environments. It should be easy to transition to a publicly traded company, including obtaining financing via the public capital market.

The 28th regime must offer significant advantages in terms of legal certainty and flexibility for both founders and investors. One of the primary hurdles for entrepreneurs today is navigating the complexities of different legal systems in each EU country. Therefore, the 28th regime must establish a legal framework that is consistent and standardised across all Member States, allowing businesses to operate and expand within the EU. A simple and common legal framework for their branches and subsidiaries, as well as a "legal brand" that third parties can easily recognise, could help entrepreneurs to make market prospecting more efficient and simplify cross-border business relationships. Investors would be able to implement their standard agreements and standard designs uniformly across the entire EU without struggling with the particularities and intricacies of the different national legal regimes.

To allow growth companies to reap these benefits, the key components of a 28th regime should include:

- **Simplified registration process**: Entrepreneurs should be able to establish their businesses under the same legal framework, regardless of the Member State in which they are based, minimising bureaucratic hurdles and time delays.
- **Predictability**: With standardised rules, businesses and investors would have a clearer understanding of their rights and obligations, fostering trust in cross-border transactions.
- **Lower administrative costs**: A single legal form would reduce the need for costly legal advice and administrative procedures associated with setting up and maintaining companies in multiple jurisdictions.
- **Digitalisation**: The 28th regime could and should be designed with a "digital first" mindset and build on previous initiatives (such as BRIS) to upgrade digital company law. This should include the use of digital/electronic signatures as well as the "once-only" principle to reduce duplication and lower compliance costs. The use of standardised templates could also be increased in order to streamline documentation and filings. Ideally, there would be a fully digital company lifecycle with incorporation, filing, reporting and dissolution entirely online.
- **Creation of a brand**: The 28th regime should make it possible to create a product that appeals to investors and is recognised by lenders, such as the limited liability company in the US.
- **Increased attractiveness for local talent**: In the early stages of development, acquiring local talents who are intimately familiar with the target market is key to success. A common corporate structure throughout the single market is likely to promote this.
- **Financial incentives for employees**: The 28th regime should also enhance employee compensation of via a simple scheme featuring stock options and shares in the company.

- **Public procurement**: A single form recognised in all Member States is likely to strengthen confidence in companies registered under this form and facilitate their access to European public procurement markets.

For scaleups and fast-growing companies, the ability to scale operations across the EU's internal market is crucial. The 28th regime should enable businesses to easily expand into other EU Member States, improving their chances of becoming global players. The key benefits of this system for scalability and cross-border mobility need to include:

- **Enhanced cross-border mobility**: Companies need be able to move their headquarters or branches from one Member State to another without the need for complex reorganiation processes. This would significantly reduce the administrative burden on businesses looking to expand within the EU.
- **Flexible corporate structure**: The 28th regime should ensure legal certainty and efficiency for founders by offering them a tailor-made organisational structure. Contractual freedom must prevail, with as many references as possible to the articles of association. This should allow companies to scale efficiently by welcoming new shareholders and employees through simple contractual arrangements, where necessary with amendments to the articles of association that can easily be incorporated into the scheme, while maintaining a single legal identity and governance structure.
- **Framework for the design of equity and debt instruments according to modern international standards:** The 28th regime should allow for a high degree of flexibility in the design of equity and debt instruments, enabling the issuance of internationally established financial instruments and multiple classes of shares with differentiated rights and features to meet the needs of various investors and financing structures, from seed and very early stage to growth capital (like Simple Agreement for Future Equity – SAFE).
- **Framework for the design of management packages and employee incentives:** We need a flexible, simple legal provision to set up and operate an EU-wide programme for employee share ownership especially for growth companies that operate across European borders (like free shares or founders warrants).
- **Framework for flexible changes to the articles and the transfer of shares:** The regime should allow for flexibility in registration and documentation of changes to the articles, e.g. in the context of financing rounds, as well as in cases of a transfer of shares. It should not impose strict formal requirements, such as notarisation.
- **Encouragement of cross-border mergers and acquisitions (M&A)**: A standardised legal framework should also make it easier for companies to merge, acquire or enter into partnerships with businesses in other EU countries, facilitating further growth opportunities. In this context, it is important that the

28th regime has clear and robust rules for the acquisition of shares, especially from a holder who is not the owner by a party acting in good faith.

6.2.2. How to enshrine a uniform and simple 28th regime in EU law: expert proposals that can inspire the work of the Commission and of the co-legislators

External legal expertise has shown a possible way to structure the 28th regime. Formulating ambitious requirements for a regime is likely to be significantly easier than achieving their concrete implementation. To this end, the first step is to develop a far-reaching proposal under company law that meets these requirements. Legal issues were addressed in the interviews and appropriate further expertise was sought by the task force externally.

The first step should focus on company law, based on simple legal principles in response to the entrepreneur and investor needs described above. The proposal announced by the Commission will be of great importance in taking a decisive step forward in this regard. This proposal would be best discussed and adopted in the form of an EU Regulation in order to achieve the strongest legal binding force across all EU Member States and to reach the highest degree of harmonisation.

The proposal should strike a balance between standardisation and simplicity in order to maximise the chances of success during the negotiations with the Parliament and the Council and ultimately achieve the greatest possible takeup of this form on the part of entrepreneurs. During our mission, two detailed proposals were discussed by legal experts from Germany and France:

- *Rüdiger Veil*, a professor of corporate and capital markets law at LMU Munich, and *Jochen Vetter*, an experienced corporate lawyer and honorary professor at the University Cologne, have presented a joint concept for a European Uniform Corporation (EUC).
- The *Henri Capitant Association*, a French international non-profit organization founded in 1935, has been actively involved in advocating for a unified European Business Code aiming to harmonize key rules governing commercial and corporate law across EU Member States. Its proposal for a simple European legal form (2019) was taken up and detailed by the *Haut Comité Juridique de la Place Financière de Paris (HCJP)*, requested by the French Ministry of Economy and Finance and the Ministry of Justice (2021[172]). The HCJP presented a solution for a Simplified European Stock company (SES).

Both proposals provide answers to the needs of the future 28th regime and could make a valuable contribution to its practical implementation. They can inspire the work of the

[172] Banque de France, Rapport sur la Société Européenne Simplifiée (SES), 2021 (link).

Commission and of the co-legislators and are therefore presented in more detail in the Annex.

6.3. In addition to corporate law, stock option regimes are another area where reducing fragmentation could reduce barriers to scaling up

The reduction of tax fragmentation can provide a useful building block for corporate law, in which the approach of the 28th regime can be utilized. As mentioned by several interview respondents, fragmentation of tax rules on equity-based remuneration (stock options and other forms of employee participation in equity) acts as a very concrete brake on scaleup growth. In this context, the stock option scheme in the U.S. is often described as one of the key – and indeed essential – factors behind the growth and success of Silicon Valley since the early 1970s. It has enabled very young companies willing to offer salaries and benefits comparable to those offered in other more mature industries to attract and retain the best talent by directly linking employees to the company's long-term success.

Within the single market, an EU company that wants to recruit and retain talent in several Member States cannot roll out one simple, streamlined equity plan as a U.S. company would. Instead, it must maintain a mosaic of local sub-plans, each with different tax triggers, social-security treatment, valuation rules and documentation. This not only increases legal and administrative costs, but also raises strategic issues: the company cannot offer a single, easy-to-understand employee value proposition to staff across the continent. Employees in one country may be taxed at grant, others at vesting, others only at sale; some face heavy social charges, others don't; some benefit from a preferential regime, others from pure marginal income tax. The result is that the same notional package translates into very different net outcomes and risk profiles, forcing companies to engineer sophisticated stock option plans in each Member State to achieve the same outcomes.

By contrast, pure corporate tax fragmentation is, up to a point, manageable for scaleups. Large companies already live with different corporate tax bases, local rates and specific deduction rules, even in the U.S., where there is significant fragmentation at state level. Conversely, employee-level equity schemes directly affect a firm's ability to deploy a standardised incentive policy across borders.

Against this background, targeted tax measures can be transformative for EU scaleups without requiring unachievable full-blown tax harmonisation. A small number of coordinated design choices, such as deferring taxation of stock options until a liquidity event, capping social contributions on such instruments or providing a safe-harbour valuation framework, can radically improve consistency between jurisdictions and, as a result, lift barriers to scaling up. Several Member States have already used such instruments domestically (for instance BSPCE in France or relevant special targeted provisions introduced by the *Zukunftsfinanzierungsgesetz* in Germany), but their impact is

diluted when cross-border groups cannot rely on broadly similar principles across their main markets. A European agenda that focuses on aligning the key features of employee equity taxation, rather than on harmonising general income tax, could materially shift talent dynamics in favour of EU-based scaleups.

With this perspective, Franco-German convergence could be a powerful catalyst. Without needing to align headline tax rates to make a difference, the two countries could instead converge on the key parameters of employee equity schemes: broadly similar granting conditions (eligibility criteria tied to the age of the company), a common approach to the event triggering taxation (taxation at disposal or at a clearly defined liquidity event, rather than at grant or vesting) and comparable rules for determining the tax base (recognised valuation methods, treatment of discounts, social contributions). Some of these questions are linked to company law. The 28th regime should contribute to promoting the alignment of employee participation in equity, including stock options, with relevant aspects of company law. If France and Germany were to move together on these levers, they would offer European companies a large, integrated talent pool with a predictable and attractive treatment of employee ownership. That, in turn, could create a blueprint for soft coordination at EU level, delivering tangible benefits for European scaleups without opening the politically sensitive debate on general income-tax harmonisation.

7. To support the long-term financing needs of innovative companies, several improvements to the current listing and trading frameworks should be considered

7.1. The continent's equity markets should offer more attractive financing conditions for European innovative companies

7.1.1. Exit opportunities, notably through IPOs, are a necessary foundation for a dynamic VC ecosystem

While the underdevelopment of VC, particularly at the later stage, is one of the main impediments to the growth of scaleups in Europe, innovative companies' limited ability to exit through IPOs constitutes another major obstacle to their successful development. Exits, whether through IPOs or M&A, are indeed a necessary foundation for a healthy VC market, allowing LPs to materialise returns and allocate the returned capital to new ventures: a VC ecosystem without sizable exits struggles to attract new large-scale private commitments, as invested capital remains "stuck" in previous investments.

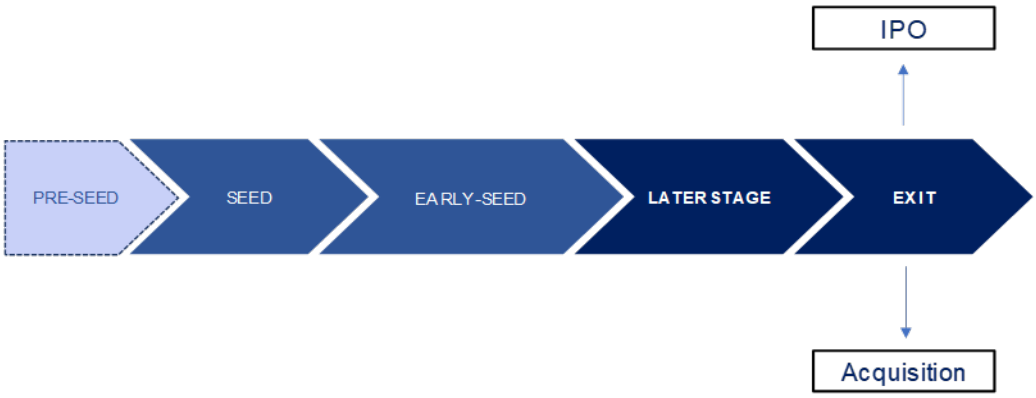


Figure 7.1: Innovation financing ecosystem

But dynamic IPO markets not only provide exit opportunities for VC funds, they also provide a way for later-stage ventures to continue their development, as being listed offers several advantages, including:

- Flexible and regular access to capital, since companies, once listed, can raise substantial financing more quickly and efficiently, through a variety of public instruments including follow-on offerings (issue of additional shares to the public) and convertible bonds sales. These activities can usually be carried out relatively quickly: in six to 12 weeks for a traditional follow-on offering, or a few days only for an accelerated offering/block trade.

- Improved ability to make external acquisitions, as public companies can use their shares as currency in M&A transactions, which provides additional flexibility compared to relying solely on cash or debt financing. Flexible and quick access to capital through follow-on offerings, described above, enables companies to raise money quickly when strategic opportunities arise.
- Enhanced access to debt and diversified financing sources, as listed companies benefit from greater visibility, transparency, and credibility in the eyes of lenders and investors. Being publicly listed allows firms to tap not only equity markets but also corporate bond markets or syndicated loans, often with better terms than are available to private companies, thereby complementing equity financing and providing additional financial flexibility.

In this context, it appears relatively clear that a dynamic VC ecosystem, though necessary, is not sufficient on its own to enable innovative companies to scale effectively and reach their full potential. The presence of deep and liquid public equity markets is equally critical, as these provide both exit opportunities for early-stage investors and ongoing access to capital and diversified financing to support growth, expansion and long-term competitiveness.

7.1.2. Europe, however, is currently facing a steep decline in listings, which reflects the continent's relatively unattractive conditions

Europe, is currently facing a substantial decline in IPO activity, a pattern not exclusive to the continent, but more acute in the region than in the U.S. for instance. This slow and steady decline in both the number of IPOs and the amounts raised has been observed in Europe since 2015, with one notable exception in 2021, when global IPO markets experienced a surge in listings, notably due to the abundance of liquidity fuelled by ultra-accommodative monetary policies.

As a consequence, Europe is making up a continuously smaller part of global IPO issuance, representing only 8% of global IPO volumes in the first half of 2025,[173] compared to 14% in 2024, and a third in 2015 (Figure 7.2).

[173] Bloomberg, Europe's IPO Drought Has Stock Exchanges Battling for Listings, 10 June 2025 (link).

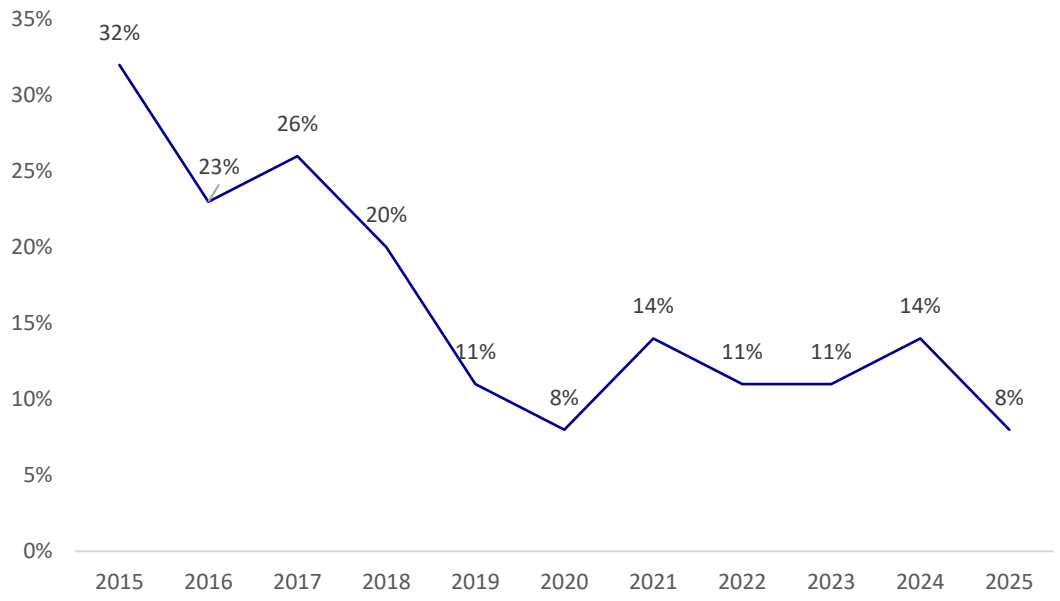


Figure 7.2: Share of Europe in global IPO volumes 2015-2025[174]

During this same period, an important wave of delistings has been observed both in the U.S. and in Europe, though it has been more pronounced in the latter (12,000 delistings between 2005 and 2024 in Europe, compared to 5,000 in the U.S.).[175]

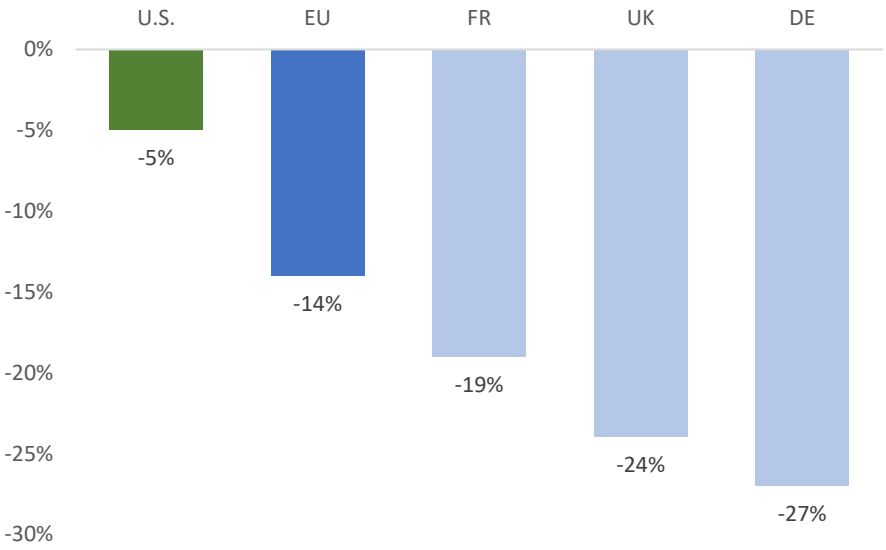


Figure 7.3: Decline in the number of domestic listed companies 2014-2024[176]

Several aspects need to be looked at to explain this substantial decline in the number of IPOs and listed companies in Europe over the past decade. Some aspects are the same as in other jurisdictions, while others appear to be specific to Europe:

174 Bloomberg – Europe's IPO Drought Has Stock Exchanges Battling for Listings – June 2025 (link).

175 OECD – Corporate Governance Factbook 2025 – October 2025 (link).

176 New Financial – The Future of European Equity Market Structure – October 2025.

First, one of the trends that is also apparent in other jurisdictions is that companies are tending to stay private for longer. This has been fuelled by the strong growth of private markets assets in recent decades. Total PE assets under management nearly doubled between 2019 and H1 2024, according to Preqin data compiled by McKinsey (Figure 7.4).

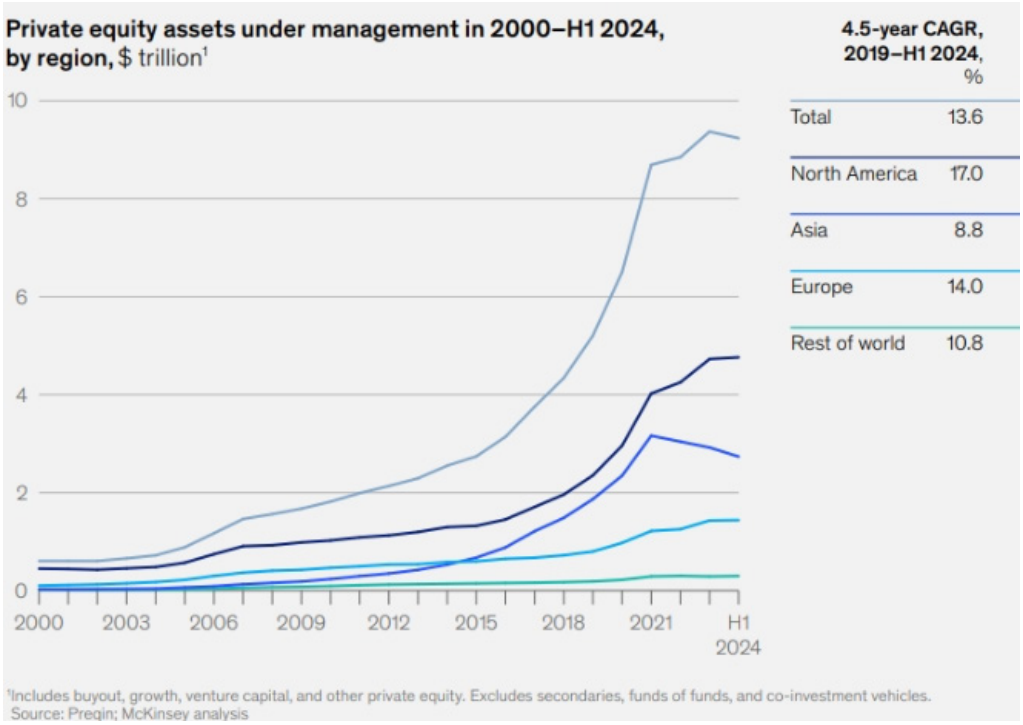


Figure 7.4: Private equity assets under management by region in 2000 – H1 2024[177]

This surge in private capital availability globally has allowed companies to raise significant funding without going public, reducing the pressure to access public markets. As PE financing is associated with reduced reporting requirements and limited governance obligations, many companies have opted to remain private for longer, leveraging instead the funding liquidity offered by private investors.

As IPOs should not be seen as an end goal in themselves, the increase in private asset capital under management could, in theory, be viewed positively, as it provides often less mature firms with additional funding tools, resulting in more flexibility and access to patient long-term capital. However, since U.S. PE funds and VC actors, in particular, have substantially deeper pockets than European ones, and are often able to deploy substantial capital in Europe, this uptrend in mostly U.S. financed, private investment does not necessarily benefit long-term value creation on the continent, as described in the first part of this report.

Second, the global economic and geopolitical context, marked by rising uncertainties, has also weighed heavily on listing activity in Europe and other parts of the world. The succession of shocks over the past decade, including trade tensions, the global pandemic, as well as the war in Ukraine, have increased market volatility and generated substantial

[177] McKinsey – Braced for shifting weather: McKinsey Global Private Markets Report 2025 – May 2025 (link).

sources of uncertainty for both issuers and investors. As IPOs require a relatively long preparation phase, during which issuers must lock in key parameters, including the pricing of the operation, they are particularly sensitive to unstable market conditions. After IPO activity reached a particularly low point in 2025 in Europe, with only 47 deals during the first nine months of the year compared to a 20-year average of 160,[178] the region appears especially exposed to the current geopolitical environment.

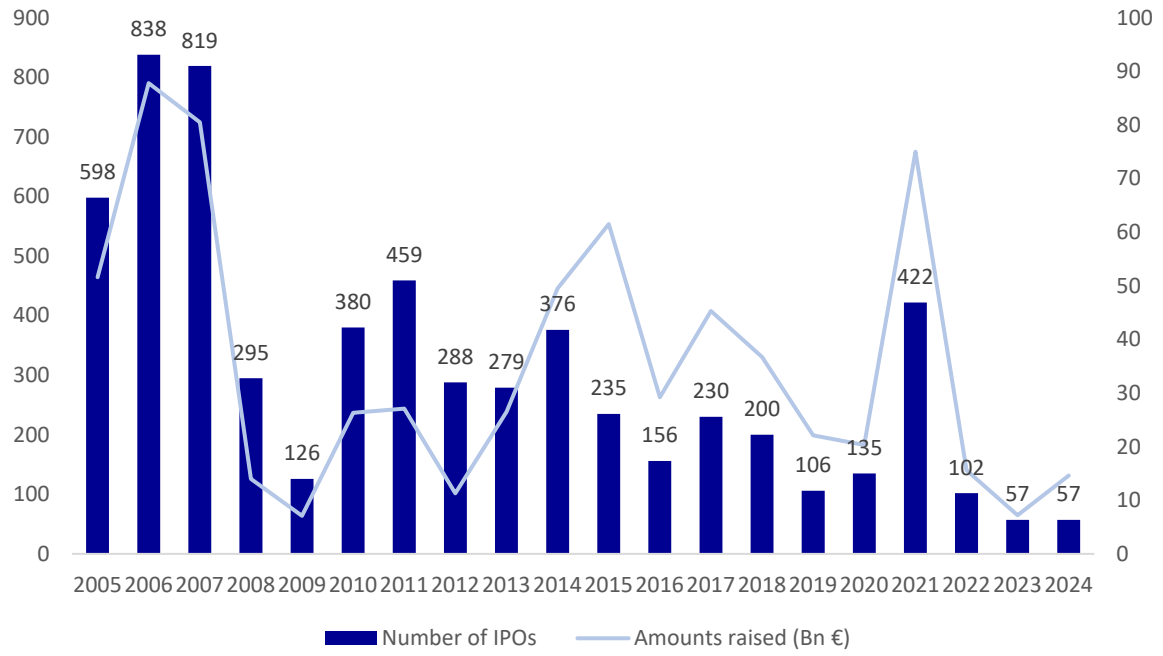


Figure 7.5: Variation of the number of listings and amounts raised yearly in Europe[179]

Third, the relatively unattractive listing conditions in Europe, notably in terms of valuations, seem to have exacerbated the issue. This has been reflected in the increased valuation gap between the U.S. and Europe's equity markets in recent years, which has made the cost of capital higher in Europe. According to a Bloomberg estimate, the price/earnings ratio of U.S. companies, after beeing adjusted to reflect the differentiated sector composition of the S&P 500, remains 27% higher than in Europe (Figure 7.6). In addition to the relevant economic factors, the interviews revealed that an IPO in the US is simply more attractive, and that VC funds try to achieve an exit via an IPO in the U.S. for sake of their reputation.

[178] Bloomberg – European IPO drought nears 20-year low – November 2025 (link).

[179] Based on PwC IPO annual reports.

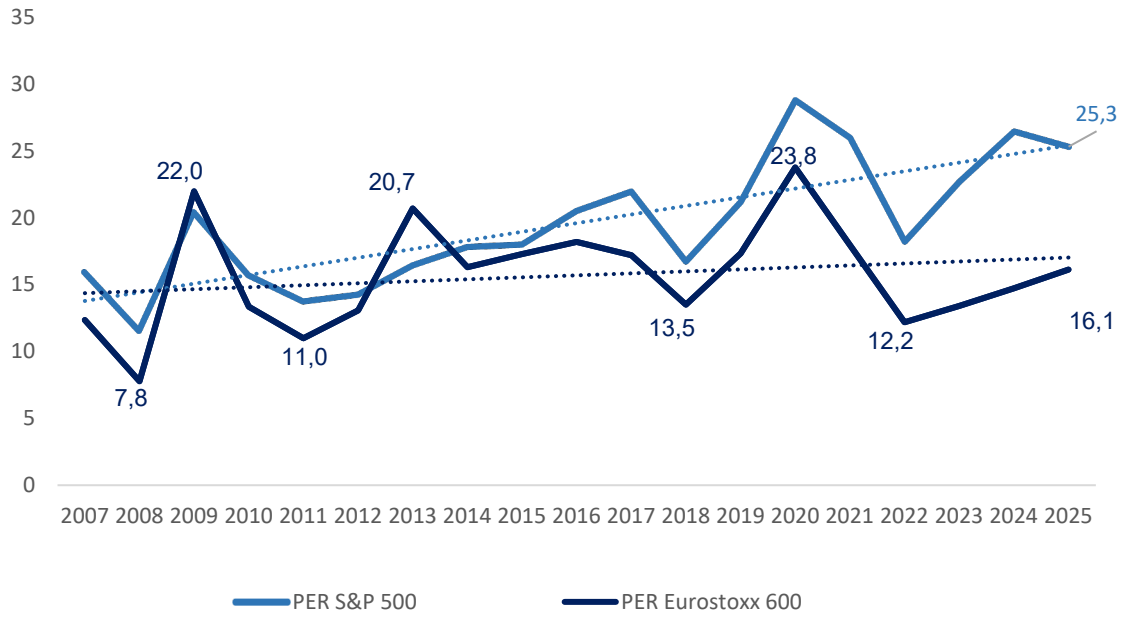


Figure 7.6: Price/Earnings Ratio S&P 500 vs. Stoxx Europe 600[180]

7.1.3. In this context, an increasing number of companies are turning to the U.S. for their listing, sometimes ending up relocating there entirely

The relatively unattractive listing conditions described above have led several of Europe's high-profile scaleups, including Spotify, BioNTech and Klarna, to list outside the EU over the past decade.

Unfortunately, this trend is not confined to a few high-profile cases, as around one-third of EU companies with a market valuation between USD 500 million and USD 10 billion that listed between 2013 and 2023 chose to do so in the U.S. (Figure 7.7).

[180] Bloomberg – European IPO drought nears 20-year low – November 2025 (link).

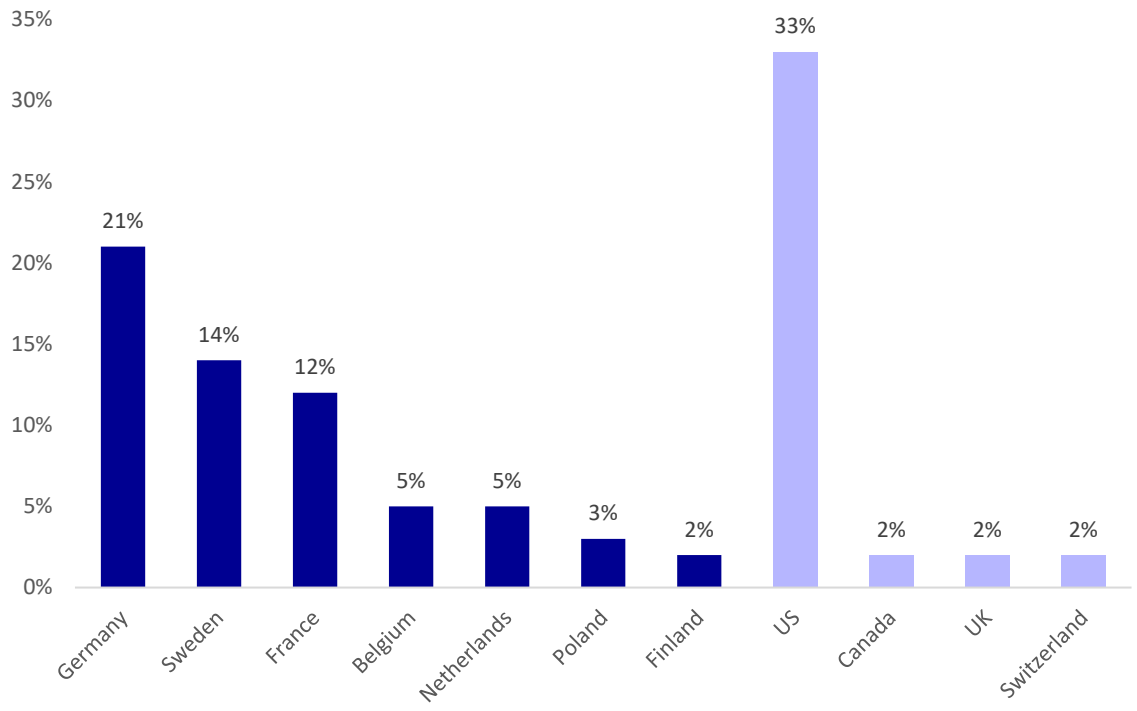


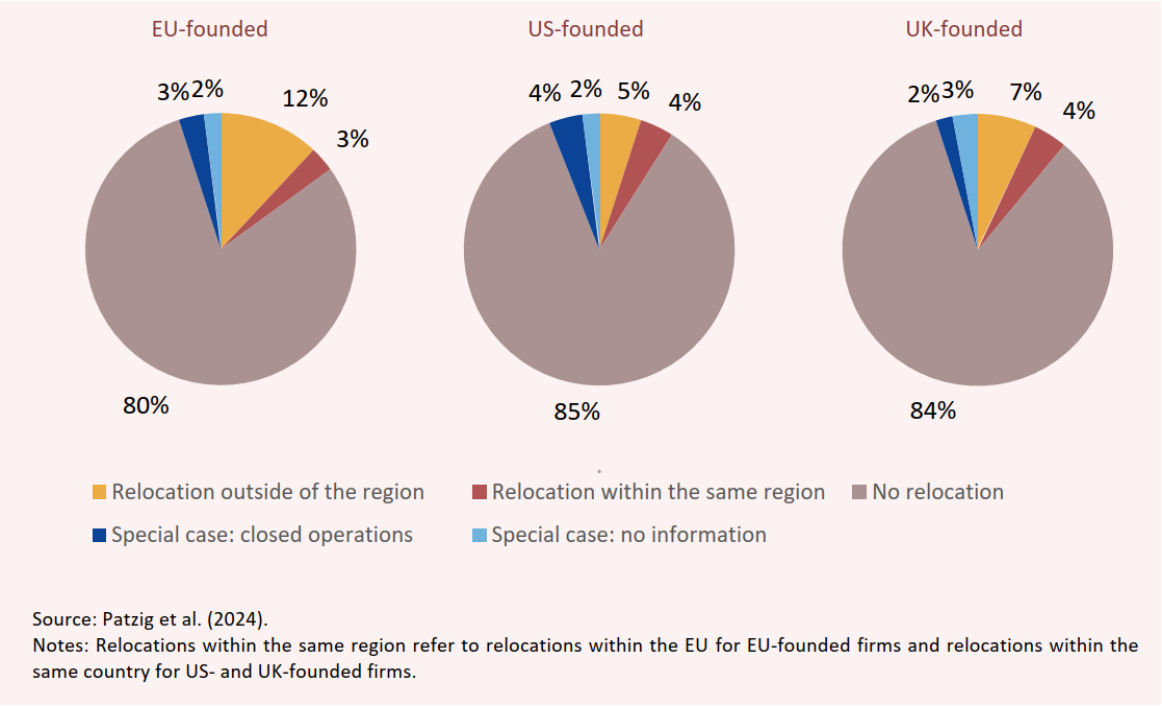
Figure 7.7: Stock exchange location for IPOs involving EU scaleups[181]

If the waves of listings in the U.S. by European companies only led to increased financing opportunities without shifts in governance or operations, they could, in theory, be considered to have a neutral impact, solely broadening the companies' funding options.

However, in practice, a frequently observed phenomenon is that such listings trigger a progressive relocation of strategic functions towards the U.S., sometimes resulting in a total company migration to the U.S. with a transfer of the headquarters and management (Figure 7.8). This phenomenon has been well illustrated by the Draghi report, which estimates that nearly 30% of all European unicorns have so far relocated their headquarters to the U.S.

This poses a wider economic problem: while relocating abroad might be or seem optimal for investors and entrepreneurs, it results in a brain drain which is detrimental to the EU's economic development. Further, it reduces the positive spill over effects that scaleups have on other firms in the ecosystem. Providing economic support, for example through public initiatives such as WIN and Tibi or direct public financing, to growth companies that eventually relocate to another jurisdiction might also constitute an inefficient allocation of resources, as economic growth, jobs, innovation and tax income are taken elsewhere.

[181] EIB – The scale-up gap – Financial market constraints holding back innovative firms in the European Union – June 2024 (link).



Source: Patzig et al. (2024).
Notes: Relocations within the same region refer to relocations within the EU for EU-founded firms and relocations within the same country for US- and UK-founded firms.

Figure 7.8: Relocation frequency by region where firm was founded[182]

In addition, the general feedback from interview respondents was that overseas IPOs only make sense for issuers in very specific circumstances, the defining criterion being that the company already possesses a substantial commercial footprint in the target IPO market.

Conversely, companies seeking prestige or valuation uplift without factoring in overseas (and especially U.S.) investors' limited appetite for mid-size foreign listings almost systematically underperform, suffering from low liquidity and low analyst coverage.

According to a Euronext study from 2024, European issuers newly listed in the U.S. between 2018 and 2023 saw their share price decline by 17% on average after one year, compared to an increase of 8% for European companies that have decided to list on Euronext over the same period.

7.2. While broadening the domestic investor base is key to reviving IPO activity, action needs to be taken on several fronts to strengthen the attractiveness of listing in the EU

7.2.1. Unjustified regulatory gaps between listed and non-listed companies should be addressed

First, it should be noted that while regulatory aspects of accessing public markets have long been highlighted as potential barriers or deterrents to going public, much has been

[182] EIB, The scale-up gap – Financial market constraints holding back innovative firms in the European Union, June 2024 (link).

done in recent years to address this issue. Measures have been implemented that are aimed at supporting equity markets, streamlining reporting requirements and reducing the costs of listing. This focus on enhancing the attractiveness of EU equity markets was first addressed with the creation of SME Growth Markets under MiFID II. This was further strengthened in 2019 and has been reinforced by the adoption of the EU Listing Act at the end of 2024. The Listing Act represents a significant step forward: it substantially eases IPO requirements by extending exemptions from the requirement to prepare a prospectus, streamlining disclosure obligations and introducing measures to enhance research coverage for listed companies, notably SMEs and mid-caps, thereby supporting their visibility and access to market financing.

These measures have been complemented by national initiatives aimed at enhancing the attractiveness of equity markets. In France, the Attractiveness Act introduced measures to facilitate initial public offerings, including a new regime for shares with multiple voting rights to enhance attractiveness for issuers, and significantly simplified procedures for capital increases of listed companies. Similarly, Germany introduced multiple-vote shares for German stock corporations through the Financing for the Future Act (*Zukunftsfinanzierungsgesetz*).

In other Member States, targeted measures have also been implemented to support listings: for instance, Italy has introduced an IPO bonus scheme designed to encourage companies to raise capital on the market and reduce the net cost of going public. These national initiatives complement the European framework by addressing local barriers and providing both financial and operational incentives for companies choosing public market financing.

For many growth ventures, however, the regulatory burden and complexity of going public in the EU are still perceived as deterrents. In particular, over time, listed companies are subject to additional obligations, despite these not being inherently linked to their status as publicly traded entities. These layers of requirements have widened the regulatory gap between listed and non-listed companies, without clear justification, making the transition to public markets disproportionately demanding for emerging growth companies.

New sustainability reporting requirements, particularly those introduced by the Corporate Sustainability Reporting Directive (CSRD), initially placed disproportionate obligations on listed companies – including, in the original proposal, listed SMEs – while exempting non-listed SMEs of comparable size.

This sequencing created a regulatory asymmetry that lacked clear justification: a company's sustainability impact and the need to report on it are not inherently linked to whether it is listed or privately held.

The scope of the CSRD has since been adjusted, removing the distinction between listed and non-listed firms. However, the ESG disclosure obligations which initially applied only

to listed SMEs temporarily widened the regulatory gap between listed and private markets. This regulatory asymmetry, which was based on the company's listing status, lacked clear justification, as it assumed that the obligation to report on sustainability impacts is intrinsically tied to being publicly traded. It also sent a discouraging signal to firms considering going public, at least until the CSRD package was revised. The Omnibus revisions, however, have since reduced the scope to exclude all SMEs, regardless of their market status, so that listed and non-listed companies now have to adhere to similar ESG reporting requirements.

On the governance side, mechanisms which apply only to listed companies increase transparency and shareholder engagement, but also create additional operational and reputational constraints.

By targeting only listed companies, these obligations widen the gap between listed and non-listed companies and may send a discouraging signal to SMEs and mid-caps considering an initial public offering.

In this context, it would be valuable to conduct a comprehensive review of all regulatory divergences between listed and non-listed companies that specifically affect listed firms, where such obligations are not strictly justified by the very nature of being publicly listed. In addition, divergences of this kind between listed and non-listed companies should be prevented in future through new EU legislation.

7.2.2. Regulatory requirements for listing should be further reduced through the creation of an IPO on-ramp

For growth ventures disproportionate regulation and complexity, as well as incurring high costs, are the main deterrents to going public in the EU. Some regulatory requirements, while being justified for large listed companies, can be excessive for emerging growth firms during their first years of public trading.

One mechanism to improve access to market finance for EU scaleups could be to create an IPO on-ramp, including exemptions from and an easing of the rules considered especially costly for scaleups. By including a transitional phase of up to five years, it would be possible to reduce the entry burdens to regulated markets for scaleups.

After this transitional phase, the full regime would apply, ensuring investor protection and market integrity. Such a transitional model would allow scaleups to acclimatise to full compliance, fostering growth and investor confidence without sacrificing long-term market standards.

In terms of implementing such an IPO on-ramp, valuable lessons can be drawn from the U.S. JOBS Act. The JOBS Act created an IPO on-ramp for emerging growth companies (EGCs), exempting them from key regulatory requirements, such as aspects of executive compensation, accounting standards, auditing, and board disclosure, for up to five years. While its aim was to improve access to public capital markets for growth companies,

some studies show that while it initially revived IPO numbers, it did not lead to a permanent increase. Further, analyses of the consequences of the JOBS Act have shown that the indirect costs of going public increased as a result of reducing mandatory disclosure obligations, as capital formation and market liquidity appear to be negatively affected. Therefore, extensive deregulation might even have adverse effects for growth ventures.

Maintaining a high level of market integrity and investor protection should still be a priority. Therefore, the IPO on-ramp exemptions should be limited to those requirements deemed most costly and least essential for investor protection, striking a balance between market integrity and innovation. The following measures could be considered for such an on-ramp:

- **Allowing secondary issues of up to 50% of the capital already issued to be issued without a prospectus**: First amendments were already made by the Listing Act: the existing threshold for prospectus-free secondary issuances of securities on a regulated market and SME growth market was raised from 20% to 30% of the number of securities already admitted to trading on the same market. In the UK, the threshold at which a prospectus is required for a further issuance of securities was raised from 20% to 75% of those same securities already admitted to trading, effective from 19 January 2026.
- **Creation of a positive list of events requiring public disclosure of inside information**: Similar to the US, event-driven obligations requiring ad hoc disclosure could be limited to a closed list of specified events, such as management changes, or certain financial developments. The list pursuant to article 17(12)(a) of Regulation No (EUR) 596/2014 (Market Abuse Regulation, MAR) could be seen as an example for that.
- **Limiting the insider list regime only to permanent insiders**: While issuers are generally obligated to draw up an insider list in accordance with the requirements set out in Article 18 of the MAR, issuers whose financial instruments are admitted to trading on an SME growth market can already limit their insider lists to persons with regular access to inside information. This was part of the Commission's proposal for the Listing Act but was not included in the final Act.

Overall, an IPO-on-ramp could be feasible for facilitating proportionate and cost-efficient access of scaleups to Regulated Markets. Unlike existing SME Growth Markets under MiFID II, which offer lighter regulation for trading venues, the IPO on-ramp would be available to ventures seeking to list on Regulated Markets, thus broadening access to deeper pools of capital and especially targeting investments by institutional investors.

7.2.3. Investment research, especially for SMEs has decreased rapidly in the EU over the past few years, but could be revitalised through a digital, pan-European research platform

The EU's scaleup ecosystem faces structural information disadvantages in relation to investment research constraining capital formation and reducing market efficiency. While large-cap companies are generally well covered by analysts, small-cap companies lack sufficient amounts of research (Figure 7.9).

This is especially problematic, as more and better research is generally thought to lead to more efficient price formation, thereby attracting more investors and ultimately increasing a market's liquidity. Lower research coverage, on the other hand, directly correlates with reduced liquidity, wider bid-ask spreads, as well as lower institutional ownership.

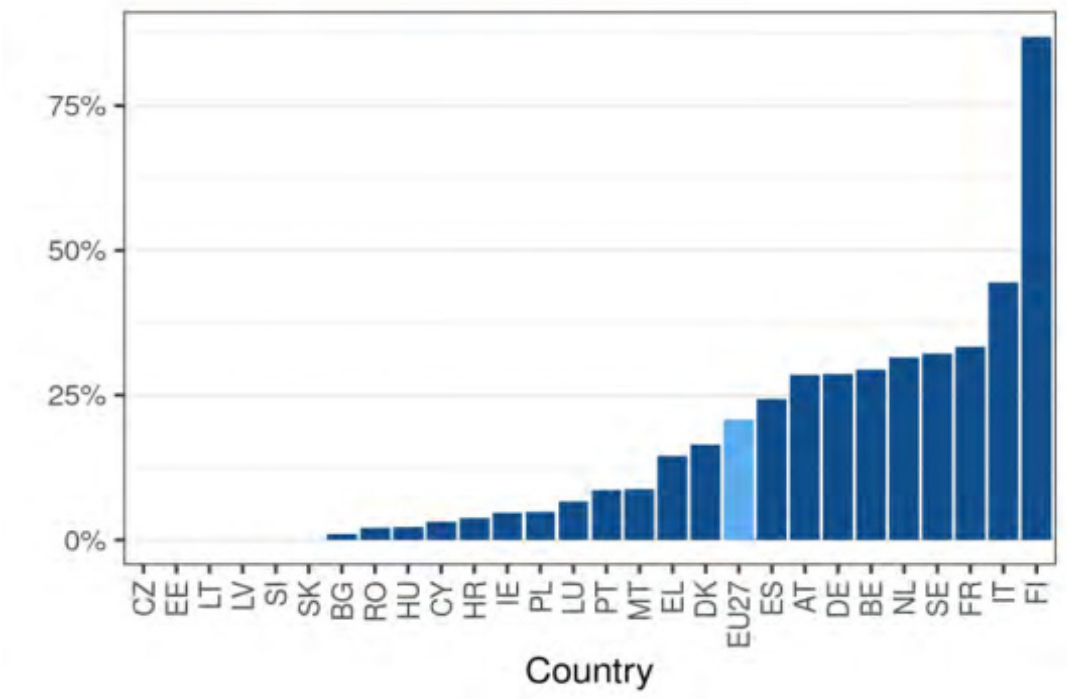


Figure 7.9: Share of SMEs with listed shares covered by analysts[183]

While the level of small and mid-caps coverage before MiFID II was generally considered satisfactory in Europe, though already declining, the so-called "unbundling" introduced by the Directive fundamentally changed the economics of research production. By requiring asset managers to pay explicitly and separately for research, rather than bundling it with execution fees, MiFID II reduced the implicit cross-subsidisation that previously helped finance coverage of less liquid or less widely-held stocks.

[183] European Commission – Monitoring progress towards a Capital Markets Union: a toolkit of indicators – September 2025 (link).

As a consequence, research budgets contracted significantly, decreasing by 20-30% on average between 2017 and 2019,[184] leading brokers to prioritise large-cap issuers with higher trading volumes and more predictable revenue potential.

After this adverse effect of the MiFID II Directive on investment research was widely acknowledged, the so-called MiFID II Quick Fix, adopted in 2021, reintroduced the option of bundled payments for research and execution for companies with a market capitalisation under EUR 1 billion and the Listing Act reverted to the legal status prior to MiFID II and reinstated a full rebundling.

In addition, the Listing Act introduced a specific framework for the possibility of issuer-sponsored research, a mechanism under which independent research providers produce analysis financed by the issuer itself, while complying with enhanced transparency, disclosure and independence requirements to mitigate conflicts of interest and preserve the credibility of the research.

By allowing issuers to pay for such research and, once it is established, to make issuer-sponsored research accessible to the public free of charge on ESAP, issuer-sponsored research is made more visible. However, the Listing Act's changes alone might not be sufficient to catalyse a significant improvement in research availability and quality for SME in the EU.

Indeed, the unbundling has had a strong and lasting effect on the quality and availability of small and mid-cap research, as many sell-side firms have scaled back their research teams to accommodate the decline in demand, thereby weakening the research ecosystem over the long term.

In addition, as investment research was unbundled, brokers' execution fees and margins were squeezed significantly: while this can be considered positive for investors, it seems unlikely that brokers will be able to raise these fees again in the future to indirectly fund the small and mid-cap research they had previously distributed.

In this context, introducing a pan-European research platform could help invigorate the market for investment research. By establishing such an infrastructure, investment research production and dissemination could be increased. The model described in the UK Kent Review could be adapted to the EU's needs.[185] As a central facility for the promotion, sourcing, and dissemination of research, combined with access to public financial and sustainability-related information, it could revive the EU-wide availability of investment research generally and for growth companies especially.

Such a research platform could perform a variety of functions:

[184] European Commission – The impact of MiFID II on SME and fixed income investment research – April 2020 (link).

[185] Rachel Kent – UK Investment Research Review – July 2023 (link).

- One basic function of such a platform could be to help investors, as a first step, to identify the producers of sell-side research for any given European company.
- A more advanced function could be the option of a pay-per-view access for asset managers and other buy-side institutions to the respective research documents available for a company.

In this way, buy-side institutions would benefit from much wider access to research on European issuers, and SMEs in particular, than under the current model. Currently, they are usually obliged to subscribe to the complete research feed produced by a given research provider – most often a sell-side bank – if they want to access research on a company that is not covered by the providers to which they have currently subscribed.

While the benefits of such a platform for research consumers and covered issuers are clear, the design should also take into account the economic interests of research providers. First, the pricing structure should balance the interests of both research providers and consumers, while remaining market based. Second, such a mechanism should be designed under a model compatible with the current subscription system, ensuring it remains central to research distribution.

Ideally, a link would be created between the European Single Access Point (ESAP) and such a research platform, with an integrated all-encompassing platform as an ideal solution. The current creation of ESAP is an important step towards more digital innovation and transparency, fostering a more integrated and efficient financial market environment. ESAP will provide a centralised access point to standardised information on EU issuers, enabling investors to consult and compare this information. Connecting of a pan-European research platform with ESAP would provide an even more comprehensive centralised platform for accessing information about EU issuers and securities.

7.3. In addition to strengthening the attractiveness of listings, the EU should foster deeper integration and increased liquidity in its venues

7.3.1. The fragmentation of listing and trading platforms in the EU and its impact on scaleup financing

The interviews revealed an ambivalent picture regarding the problem of fragmentation among EU listing and trading venues. While the competition between regulated markets and other execution venues in the EU with over 30 different potential listing venues, more than 200 trading venues, and more than 40 systematic internalisers (SIs) across Member States creates a welcome downward pressure on trading costs, the high number of listing venues in the EU also means that IPOs are spread across a large number of potential venues, leading to lower visibility and fragmented investor attention for new listings.

In addition to the multiplicity of listing venues which is not new, one visible development observed over the past decade is the evolution of the equity trading landscape in Europe, with a constant decline observed in the market share of primary (lit) venues (i.e. traditional stock exchanges), which has decreased from 38% in 2020 to 30% in 2026 according to Oliver Wyman,[186] and 31% according to New Financial.[187] While the decrease in explicit and implicit trading costs observed in parallel of this increased competition between different types of trading venues is welcomed, this shift in liquidity also raised concerns regarding the implications of a reduced pre- and post-trade transparency, uneven access to market information, robustness of price formation.

The 2024 MiFIR (Markets in Financial Instruments Regulation) Review aimed at reinforcing the level-playing field between regulated markets (RMs), multilateral trading facilities (MTFs), Over-the-Counter (OTC) markets and Systematic Internalisers (SIs). It included several measures aiming at strengthening transparency across different forms of execution venues: among them, SIs, which are typically large financial institutions such as banks and brokers that trade financial instruments on a frequent basis outside of exchanges, will face tighter reporting requirements and pre- as well as post-trade transparency obligations.

However, to establish an effective level-playing field between on-exchange and off-exchange trading, additional measures could be considered. In particular, periodic auctions, which constitute one of the different modalities for off-exchange trading, would require a clarified regulatory treatment, notably by being subject to the so called "tick-size regime", which would better align the conditions imposed on lit, multilateral trading venues. In addition, the overly complex system of exemptions from transparency requirements (the so-called waiver system) mainly benefitting off-exchange trading should also be reviewed.

7.3.2. Strengthening the position of EU market operators in global capital markets

The interviews did not reveal a clear picture regarding the question of whether a central pan-European stock exchange and/or listing venue could make a significant contribution to countering the trend towards listing outside the EU. Undoubtedly, companies in the U.S. continue to have several trading venues to choose from for listing, and competition between them is necessary to keep costs down. Therefore, such a concentration in the EU should never be at the expense of investors' benefits stemming from the existing competition between venues, in particular lower trading costs.

However, due to the existing competition in the EU, there does not appear to be sufficient concentration or specialisation of listing and trading venues, which would increase liquidity accordingly. The development of pan-European venues has the potential to generate substantial advantages, especially for growth ventures, but also for

[186] Oliver Wyman, The Liquidity Matrix – Addressing fragmentation in European equity markets, July 2025 (link).

[187] New Financial, The Future of European Equity Market Structure, October 2025.

the EU as a whole. While liquidity concentration within in the EU represents the most compelling economic benefit, international capital attraction constitutes a second critical advantage. Additionally, economies of scale in the market infrastructure of such a venue could lead to direct efficiency gains. Further, such a pan-European venue could increase the EU's international competitiveness. While parity with the largest international markets, for example in the U.S., would not be achieved overnight, the creation of such a venue could constitute an important first step.

The successful implementation of a pan-European stock exchange and/or listing venue would require the following:

First, any concentration or even consolidation must remain fundamentally market-driven. The creation of pan-European venues due to a consolidation of European market operators should emerge from market participants' rational economic decisions, such as pursuing economies of scale, reducing post-trade fragmentation costs and capturing a broader investor base, rather than from regulatory requirements. Listing and trading venues are operated by commercial enterprises in a competitive market. These primarily follow economic considerations, which is why the economic reasons for consolidation processes in the market must always be convincing.

Second, the existing competition law and merger control framework should facilitate such a concentration and, if decided by market participants a market consolidation. The potential infrastructure efficiencies, EU scaleups' financing possibilities and, especially, the EU's international competitiveness should be considered in a potential merger control.

7.3.3. The creation of a European Innovation Market could facilitate a concentration of the capital available in a growth-oriented listing segment

While the creation of a pan-European listing venue could be pursued through a consolidation within the landscape of European market operators and potentially facilitated through the current Market Integration and Supervision Package, it is unclear at this stage whether such path will be successfully pursued.

Following two Capital Markets Union (CMU) action plans, the European Commission's Savings and Investment Union (SIU) strategy aims to remove barriers to cross-border financing and deepen integration. While some progress towards a more integrated capital market has been made in the past years, persisting obstacles to the cross-border development and financing of EU scaleups have to be addressed, as the fragmentation of the EU's capital market continues to hinder the market-driven emergence of European champions. Despite harmonisation efforts, cross-border listings in the EU are rare as they are highly complex due to, among others, that fragmentation. Especially the strong orientation towards tech and growth companies is missing in the EU where, so far, under many mid-sized exchanges no clear leader for tech/growth IPOs has emerged.

In addition to the fragmentation of listing and trading venues, the current post-trade market ecosystem in the EU does not adequately accommodate growth-oriented issuers, especially those with large financing needs. As examined in detail in the 2024 Noyer report of 2024, the post-trade environment in the EU is considerably less unified than in the U.S. The U.S. operates a single CCP and a single CSD for all equity trades, while in Europe there are more 17 CCPs and 28 CSDs for equities alone. Further, different platforms use the services of different CCPs and CSDs, leading to even more complexities.[188] As a result, cross-border transactions are more complex and costlier than domestic ones. A more consolidated post-trade infrastructure would enable economies of scale, leading to a significant cost reduction.

Therefore, the further harmonisation of the post-trade environment for clearing and settlement in the EU is central to facilitating market integration. In this regard, the Market Integration and Supervision Package proposed by the Commission will be useful in advancing market integration across the EU by further integrating financial market infrastructure, including by improving supervisory convergence and moving towards centralised supervision for the most systemically relevant, cross-border infrastructures.

As the path towards a truly integrated and efficient pan-European equity market through further consolidation remains unclear, the current work on market integration and supervision in the EU could be completed by a regulatory option aimed at facilitating the emergence of a pan-European listing venue which could qualify as a European Innovation Market. The EU could leverage the advantages of a regulatory framework to guide market forces and accelerate developments. In order for liquidity across the EU to be concentrated in a single trading venue, one central problem appears to lie in the fragmentation of clearing and settlement, as this is based on the continuing fragmentation of securities law. Demand for a pan-European venue would therefore have to include clearing and settlement in order for such a concept to be successful.

While attractive from a theoretical point of view, such option should be considered in the light of its feasibility, given the potential challenges linked with the creation of a new liquidity pool, and creation of a new integrated post-trade infrastructure from scratch.

The introduction of a European Innovation Market as way forward to centralise listings towards a single venue

The introduction of SME Growth Markets under MiFID II is aimed at promoting access to capital markets for SMEs and facilitating the further development of specialist markets catering to SME issuers' needs. 28 MTFs have already been granted SME Growth Market status. However, the reception and success of SME Growth Markets varies considerably across Member States. While it is very popular in some, very few companies make use of it in others. A specific pan-European listing segment should therefore be developed as

[188] Cf. New Financial, The Future of European Equity Market Structure, October 2025.

part of the Regulated Market, just as the SME Growth Market is a sub-segment of the MTF. In order to make it attractive to scaleups in the EU, this trading segment should be given a unique selling point. To this end, we propose labelling it "European Innovation Market", which only ESMA can award and approve exclusively for the EU.

The definition of such a European Innovation Market could be built on existing regulations on cross-border market venues. Parallel to the SME Growth Market, the European Innovation Market should be subject to an approval process. However, in order to emphasise the European dimension, ESMA should have exclusive responsibility for the relevant approval. In order to qualify for a pan-European dimension, requirements for an appropriate European size must be met for this purpose. Article 25a of the MAR sets out two thresholds for trading venues with a significant cross-border dimension: an annual share turnover of EUR 100 billion or more per year in any of the last four years and cross-border activity above 50%. Building on these, similar quality and quantity benchmarks could be set as requirements for markets qualifying for the European Innovation Market segment.

It remains to be seen whether the European Innovation Market offer is attractive enough to encourage market operators to develop and operate it. For the EU, however, this regulatory path represents a very cost-effective possibility to pave the way for a greater Europeanisation of listing venues. And this path avoids the need for a political decision on which trading venue can operate an EU stock exchange.

The European Innovation Market should not rely solely on initial public offerings for scaling. It would be conceivable to enhance the trading venue by listing major European stocks, for example through a secondary listing. Considering the multitude and importance of national Regulated Markets, the possibility and facilitation of secondary listings, particularly in the initial phase, is crucial for the implementation of such a new segment. Companies listed on their national markets could and would ideally decide for a secondary listing on the European Innovation Market for access to deep pools of capital and more visibility. In order to make such listing segments even more appealing, a flagship index could be created. Central supervision of such a new listing segment should lie with ESMA, avoiding the shared responsibility of multiple NCAs.

In view of the problems outlined above regarding the fragmentation of clearing and settlement, the European Innovation Market should also move towards greater standardisation when it comes to listing, clearing, and settlement. For the listing of the entities incorporated under the 28th regime in the future, it would be conceivable for example that ESMA could set the standard for its securities legislation based on Level 2 legislation and select a provider through a public tender process to offer clearing and settlement on the European Innovation Market.

8. Annex

8.1. The proposal for a European Uniform Corporation (EUC) by *Veil/Vetter*: a new legal form to strengthen Europe's growth financing

8.1.1. Preliminary remarks

The policy debate on a Saving and Investment Union sees a 28th regime as an opportunity to improve the financing of startup and scaleup companies. The Draghi report recommends that these companies should be given the opportunity to adopt a new EU-wide legal statute. The advantage of a European legal form is compelling: it enables legal and administrative efficiency, reduces compliance costs, and facilitates cross-border mergers, mobility of capital and the transfer of headquarters within the EU. Ultimately, it supports competitiveness, scalability and the integration of European business operations throughout the European Union.

Currently there is no uniform legal form for business corporations available in the EU Member States. In particular, the European rules on the Societas Europaea (SE) refer to a broad extent to the national rules applicable to stock corporations in the pertinent member state so that there are in fact 27 different legal SE regimes. As a consequence, investors in a variety of European startup companies have to make themselves familiar with a variety of different legal regimes for their investments. Similarly, entrepreneurs who want to set-up enterprises or subsidiaries in various Member States have to comply with various applicable national laws.

In the life cycle of a business corporation from formation/startup, seed, venture, private equity and debt financing to a public listing with equity and debt instruments a change in the legal form typically occurs. The reason for this is that the strict and predominantly mandatory rules applicable to stock corporations and SE, which are required for public listings, do not suit the needs of the early startup phase. Conversely, the much more flexible limited liability company, which is the preferred form for startups, does not issue shares that are easily transferable or suitable for public trading.

The current rules for both, the limited liability company under national laws and the public stock corporation under both European and national laws, do not specifically address the interests and needs of "investors", but largely deal with founders, shareholders and creditors. The balance of interests between founders and (in particular VC and PE) investors need to be negotiated and formalized by contract.

8.1.2. Concept for a European Uniform Corporation ("EUC")

Creation of a new legal form for business corporations with a uniform set of rules for all Member States (or at least those which adopt the EUC) based on EU law regardless of the registered office or administrative headquarter within the EU. Member states would be

prevented from amending or modifying the legal regime unless expressly permitted by EU law (with such permission to be granted, if at all, only within a very limited scope). Both founders and investors should be able to apply their standard financing and governance documents uniformly for all EUCs, regardless of their statutory or actual seat.

The EUC can freely determine and relocate its statutory seat (registered office) and administrative headquarter within the EU.

The EUC shall be an attractive legal form as alternative to the domestic legal forms and the SE for both privately and publicly held companies. Therefore, the EUC legal regime will distinguish two phases and provide a coherent framework designed to facilitate access to capital markets, covering the entire corporate financing spectrum from startup and seed to VC, private equity and public debt and equity. To support this transition, the regime should – as part of phase 2 – include an *IPO-on-ramp* mechanism that allows EUCs to enter the regulated market under proportionate and cost-efficient conditions, granting for a transitional period of up to five years certain exemptions or lighter regulatory requirements.

- Phase 1 (private phase); covering, in particular, formation/startup, seed, venture capital and private equity financing: The EUC Regulation will provide for broad flexibility to shareholders to deviate from statutory rules and to negotiate tailor-made articles of association.

- Phase 2 (public phase); following, in particular, a listing of the shares with a potentially large number of investors in publicly traded shares and debt instruments. Deviations from the statutory rules are not permitted where they could adversely affect the interests of investors. Investors must be able to rely on the fungibility of their shares and a certain standardized governance, including the protection of minority rights regardless of the seat of the EUC.

Faster incorporation process by reduction of formalities and preventive control by state authorities (e.g. regarding provision of capital); instead responsibility of founders and private enforcement.

Ability of the EUC to convert in other national legal forms and vice versa.

No specific rules for taxation of an EUC. The national rules for corporations apply.

8.1.3. Flexibility and enhanced freedom for Articles of Association

a) Principles

Statutory EU law will provide for mandatory rules for the protection of creditors and public interest as well as the basic corporate governance design, e.g. the corporate bodies like management board, supervisory board and shareholders meeting and their respective minimum competences.

The corporate governance design should however allow for flexibility, e.g.

- both a monistic (one-tier board) or dualistic (two-tier management and supervisory board) system should be possible;
- discretion of the shareholders to expand the competences of the shareholders beyond the minimum requirements.

Traditional elements of a corporation's legal structure should be mandatory only where (i) they are necessary to fulfil a specific purpose, e.g. the protection of creditors, and (ii) no alternative measures exist that are less restictive yet sufficiently effective.

The EUC framework should emphasise flexibility and contractual freedom for the parties (founders and investors) in phase 1, while providing for mandatory and standardised protection of anonymous public investors only in phase 2.

To be noted: Broader flexibility and discretion for founders and investors in phase 1 requires more intense consultancy as compared to strict legal rules with limited flexibility. In order to reduce the effort and costs for founders and investors, the law should provide for fall-back solutions from which founders can deviate, but which may serve as an adequate basis at least for an initial phase.

b) Protection of creditors

An adequate protection of creditors will be safeguarded by mandatory provisions.

However, deviating from current EU rules[189] the protection of creditors should not primarily be based on the control of the contributions and the maintenance of a minimum share capital, but primarily on alternative mechanisms such as restrictions on open and hidden distributions, enforced by strict liability, obligations to file for insolvency proceedings and appropriate accounting rules.

The registered nominal share capital must be provided by the founders who have subscribed the shares. However:

- Founders should enjoy broad flexibility in allocating shares irrespective of their respective capital contributions. Individual shareholdings should not be linked to a specific amount of contributed capital.
- Shares should not be required to represent a minimum amount of capital.

[189] As set forth in Chapter IV of the DIRECTIVE (EU) 2017/1132 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCI of 14 June 2017 relating to certain aspects of company law.

- State control over the provision of capital should be limited. Instead subscribers should be held liable for providing the capital they have undertaken to contribute, bearing the burden of proof in this regard.

Consequences would be:

- The incorporation and capital increases would be eased and accelerated.
- The founders can agree that certain founders contribute capital and others provide services to the company.
- The par value requirement for the subscription of shares can be abandoned (which would also facilitate capital increases in a financial crisis).

c) Shares and sharetTransfers

The EUC legal framework should not prescribe a minimum nominal amount per share. Shareholders should be free to allocate the share capital among themselves (cf. b) above).

Shareholders should be able to transfer shares without undue administrative burden, such as notarisation requirements.

Restrictions on the transfer of shares, such as preemption rights, drag-along-rights or tag-along-rights, may be provided for in the articles of association, however should be limited in phase 2.

d) Allocation of profits and proceeds

The articles of association shall freely determine the allocation of dividends and liquidation proceeds to the shares.

The creation of different classes of shares shall be permitted.

Such flexibility shall, however, be limited in phase 2.

e) Corporate governance

The articles of association may set forth different classes of shares with different voting power.

The EUC legal framework shall permit flexibility in adopting either a monistic (one-tier board) or dualistic (two-tier management and supervisory board) governance structure.

f) Employees' co-determination and participation

The rules on employees' participation in form of co-determination in the company’s board pose a particular challenge for a uniform EUC across the EU, as these rules vary

greatly between Member States and follow different traditions. In order to fully realize the idea of uniformity in the EUC, it would also be important to apply a uniform concept of employees' co-determination in the (supervisory) board of the EUC.

The rules governing employees' participation at the level of the undertaking should continue to be left solely to the national labour legislation (*Betriebsverfassungsrecht*). The Member States may provide for specific co-determination rights and establish work councils for EUC establishments situated within their jurisdiction on plant, company and group level, consistent with the provisions applicable to domestic undertakings. It appears worthwhile to be considered whether it is possible for Member States to establish the level of employees' co-determination desired for their respective jurisdiction by means of national labour legislation. For that purpose, in addition a uniform EUC works council, similar to the SE works council, may also be envisaged in the long run. That may ease the joint establishment of a uniform board governance of the EUC.

8.1.4. Binding rules for public EUC (phase 2)

In addition to the minimum rights and protections of shareholders applicable in phase 1, additional mandatory rules should be provided for, in particular with respect to the following areas:

- Size and composition of board/supervisory board, e.g. minimum requirements as to independency, expertise and qualifications, limits on overboarding, representation of minority shareholders, restrictions on delegation rights by shareholders.
- Limitation on special rights of individual shareholders, such as disproportionate voting power, restrictions on delegation rights by shareholders, liquidation preferences.
- Absence of limitations on transferability of shares.
- Principle of equal treatment of shareholders.
- Control of related party transactions.
- Enhanced public disclosure, unless such disclosure obligations are already provided for under applicable capital markets law.

8.1.5. Further details that should be discussed

To be discussed whether a central European company register for EUCs shall be established or whether national registers can provide for the desired control or proper incorporation and disclosure.

The EUC legal framework should explicitly enable fully digital share issuance and management, including E-shares recorded on distributed ledger technologies (DLT) such

as blockchain. This would allow for paperless registration, real-time transfer of ownership, and improved transparency in shareholder structures. The use of DLT could also facilitate cross-border settlement and simplify the enforcement of shareholder rights.

Legal disputes, in particular challenges of shareholder resolutions by minority shareholders, raise questions of judicial competence, as there are currently no European courts with jurisdiction over such matters. Accordingly, reference to the courts of the EUC's statutory or actual seat is indispensable. The EUC legal framework should, however, permit the inclusion of arbitration clauses in the articles of association under certain conditions. Consideration should be given to the establishment of a specialised EUC Arbitration Center, composed of qualified arbitrators. In the interest of the uniform interpretation and consistent development of the EUC law it should further be examined whether arbitral awards could, under defined conditions, be subject to limited judicial review before an EU court, particularly where issues of EU law or harmonised interpretation arise.

Specific provisions for dominated EUCs: Can national rules apply, e.g. may an EUC be a party to a domination and profit and loss pooling agreement? As long as national tax laws require such agreements to establish fiscal unities, this possibility remans indispensable.

Which insolvency law regime shall apply? In light of the absence of a European insolvency regime, reference to the national insolvency laws of the statutory or factual seat required.

8.2. The proposal for a Simplified European Stock Company (SES) by the HCJP

8.2.1. Preliminary remarks

The Henri Capitant Association is a French international non-profit organization founded in 1935. It has published a draft European Business Code, covering many areas of business law, including company, banking and insolvency law. The aim of the draft code is "to raise the profile of the European Union by highlighting the codification shared by so many countries, while promoting economic growth in the area and the completion of the common market"[190]. In this framework, its proposal for a simple European legal form (2019) was taken up and detailed by the **Haut Comité Juridique de la Place Financière de Paris (HCJP)**, requested by the French Ministry of Economy and Finance and the Ministry of Justice (2021)[191]. The HCJP presented a solution for a Simplified European Joint Stock Company (SES).

The Societas Europaea Simplicior (SES) proposal is a new legal form for business corporations designed specifically for small and medium-sized enterprises,

[190] Association Henri Capitant, Draft European Business Code (link).

[191] Banque de France, Rapport sur la Société Européenne Simplifiée (SES), 2021 (link).

implemented through EU law. The SES represents a harmonised, optional corporate legal form under European law. It provides companies with a flexible and coherent legal structure that is recognised across all EU Member States, while maintaining a sufficient connection to national legal frameworks. By establishing a structured yet optional legal regime, the SES aims to address the complexities and costs that have prevented SMEs from accessing existing European corporate forms in many EU countries. Due to its simplified scope of application, the SES would enable entrepreneurs to establish and manage a company with reduced administrative burdens and lower costs, fostering a truly integrated European corporate environment for SMEs, startups and scaleups.

8.2.2. Concept for a Simplified European Joint Stock Company (SES)

a) A simple form that allows for a high degree of contractual freedom

The SES is a simplified legal regime based on EU regulation that explicitly references statutory freedoms and national law where necessary. Unlike the Societas Europaea (SE), which has proven too complex and costly for SMEs, the SES would be a flexible yet directly applicable European legal form. This can be achieved through an EU regulation with generally binding rules that explicitly allow for customisation where gaps exist. This dual approach—detailed regulation combined with contractual flexibility (articles of association)—reflects the success of the French SAS model since 1994.

b) No minimum capital requirement

The SES is a joint stock company operating in a digital environment. The SES would be constituted ab initio without any minimum capital requirement beyond a symbolic euro. It would be accessible to one or more shareholders, whether natural or legal persons, thereby accommodating both sole entrepreneurs and collaborative ventures. The corporate form should benefit from all legal advances in digitalisation and remote communication, enabling efficient formation and ongoing administration through modern technological means.

c) Statutory seat

The attachment criterion would be based on the statutory seat, as evidenced by registration in a national company register. This pragmatic approach ensures clear jurisdictional anchoring while facilitating cross-border activity. Crucially, the SES introduces the concept of European vocation, which must be defined precisely in the articles of association and form part of the company's objectives.

d) A flexible capital structure

The capital structure of the SES is designed for flexibility and efficiency. As a joint stock corporation, the SES provides a familiar framework that accommodates equity investment, share transfers, and capital increases. The absence of minimum capital requirements reflects modern understanding that such requirements do not effectively

protect creditors. Creditor protection is instead ensured through accounting standards, disclosure requirements, and limitations on distributions that threaten solvency.

e) Core principles on corporate governance

Governance under the SES is deliberately flexible yet clearly structured within the framework provided by the regulation. The detailed EU regulation would establish core governance principles while explicitly permitting statutory customisation where appropriate. This balance ensures investor protection and legal certainty while accommodating diverse business needs. The regulation should address key governance issues including director duties, shareholder rights, related-party transactions and fundamental corporate changes, providing clear default rules that can be modified through the articles of association where permitted.

f) Employee participation compliant with national rules thanks to the flexibility of the articles of association

In terms of employee participation, the SES adopts a pragmatic approach that respects national social models. The employee participation system would be that of the Member State of registration. This approach recognises that employee participation regimes reflect deeply rooted national social and political choices that cannot realistically be harmonised in the short term. By applying the participation rules of the registration State, the SES avoids the complex negotiations that have blocked previous proposals while ensuring that employee rights are respected according to established national frameworks.

g) Digitalisation

The digital dimension of the SES reflects contemporary business practices. Formation, reporting, and ongoing administration should be capable of being conducted entirely digitally, utilising electronic signatures, online platforms, and digital filing systems. This digitalisation reduces costs, accelerates processes, and makes the SES accessible to entrepreneurs throughout the European Union. The regulation should explicitly authorise digital share issuance and management, potentially including shares recorded on modern technologies, while ensuring adequate security and traceability.

g) Relations to other areas of law

The relationship with national law is carefully calibrated. The regulation would provide comprehensive rules on core corporate matters—formation, capital, shares, governance, fundamental changes, and dissolution. However, various matters would necessarily remain governed by national law of the Member State of attachment, including taxation, insolvency procedures, and specific aspects of labour law beyond board-level participation. This pragmatic division recognises areas where European harmonisation has not yet been achieved while ensuring that the core corporate law framework is truly European.