

## **BVI's<sup>1</sup> position on the EU Commission's Consultation to contribute the Defence Omnibus Simplification Proposal**

**Question 1.** Are there, in your view, obstacles (legal/regulatory/administrative) to establish new or expand/maintain existing defence industrial capacities in the EU?

- ☐ Yes
- ☐ No
- ☐ I do not know
- ☒ This question is not relevant for me

**Question 2.** Do you/your organisation face specific obstacles (legal/regulatory/administrative or other) to enable rapid grant of construction and environmental permits for defence industrial projects?

- ☐ Yes
- ☐ No
- ☐ I do not know
- ☒ This question is not relevant for me

**Question 3.** Do you/your organisation face specific obstacles (legal/regulatory/administrative or other) to ensure the timely and lawful availability and usability of necessary essential materials / inputs in the supply chains of the European defence industrial base ("EDTIB"), for which adequate substitutes are not available (eg, raw materials, components and substances)?

- ☐ Yes
- ☐ No
- ☐ I do not know
- ☒ This question is not relevant for me

**Question 4.** Are there, in your view, obstacles (legal/regulatory/administrative or other) to the availability of personnel?

- ☐ Yes
- ☐ No
- ☐ I do not know
- ☒ This question is not relevant for me

<sup>1</sup> BVI represents the interests of the German fund industry at national and international level. The association promotes sensible regulation of the fund business as well as fair competition vis-à-vis policy makers and regulators. Asset managers act as trustees in the sole interest of the investor and are subject to strict regulation. Funds match funding investors and the capital demands of companies and governments, thus fulfilling an important macro-economic function. BVI's 115 members manage assets of EUR 4.5 trillion for retail investors, insurance companies, pension and retirement schemes, banks, churches and foundations. With a share of 27%, Germany represents the largest fund market in the EU. BVI's ID number in the EU Transparency Register is 96816064173-47. For more information, please visit [www.bvi.de/en](http://www.bvi.de/en).



**Question 5.** Are there, in your view obstacles (legal/regulatory/administrative or other) related to access to finance, including Environmental, Social and Governance (“ESG”) investment?

- ☐ Yes
- ☒ No
- ☐ I do not know
- ☐ This question is not relevant for me

**Question 6.** Do you/your organisation face obstacles (legal/regulatory/administrative or other) related to the effectiveness and efficiency of defence procurement rules and procedures that slow down defence procurement process, introduce excessive complexity or administrative costs, limit unduly the access to defence procurement procedures etc.?

- ☐ Yes
- ☐ No
- ☐ I do not know
- ☒ This question is not relevant for me

**Question 7.** Do you/your organisation face obstacles (legal/regulatory/administrative or other) related to the effectiveness and efficiency of intra-EU transfers of defence-related products and the control of those transfers that unduly slow down transfers, introduce excessive complexity or administrative costs, limit the possibilities for effective cross-border collaboration or the access to cross border defence procurement procedures.

- ☐ Yes
- ☐ No
- ☐ I do not know
- ☒ This question is not relevant for me

**Question 8.** Do you/your organisation face obstacles (legal/regulatory/administrative or other) for the exchange of confidential and sensitive information with the European Commission, national authorities in ensuring simple and secure handling of such information?

- ☐ Yes
- ☐ No
- ☐ I do not know
- ☒ This question is not relevant for me



**Question 9.** Are there, in your view, issues stemming from the insufficient cross certification of defence products and lack of mutual recognition of certification and how could these issues be addressed?

- ☐ Yes
- ☐ No
- ☐ I do not know
- ☒ This question is not relevant for me

**Question 10.** Is there, in your view, a need to streamline EU defence industrial programmes (such as European Defence Fund, EDIRPA, ASAP) to reduce delivery time, simplify procedures and the treatment of Member States' co-funding?

- ☐ Yes
- ☐ No
- ☐ I do not know
- ☒ This question is not relevant for me

**Question 11.** Is there, in your view, a need to simplify or modify other EU-funded programmes (such as Horizon Europe, Structural funds, InvestEU or other) in order to improve the access and or usefulness of funding under these programmes for the defence industry?

- ☐ Yes
- ☐ No
- ☐ I do not know
- ☒ This question is not relevant for me

**Question 12.** Is there anything else that can be done to simplify the EU regulatory environment and harmonise rules for you/your organisation and the defence industry overall?

- ☒ Yes
- ☐ No
- ☐ I do not know
- ☐ This question is not relevant for me

**If you selected yes, then:**

**Question a.** Explain which provision/administrative procedure creates the problem for you/your organisation and provide specific examples.

BVI is the association of the German fund industry. We fully acknowledge the necessity to provide easy, diversified and attractive financing opportunities for the EU defence companies. Last year, together with the German banking associations and the BSW, we amended the German ESG Target Market Concept by abolishing the requirement for excluding investments in military equipment for financial products offered to clients with sustainability preferences in Germany. Consequently, funds



and other financial products with sustainability features currently face no regulatory or standard-driven constraints to invest in companies from the defence sector, except for specific weapons banned under international treaties.

In the last months, the offering of funds investing in defence companies expanded rapidly. There are different approaches in the market: while some fund companies follow the example of the ESG Target Market Concept and adapt their internal ESG policies by waiving the exclusion of defence companies, others prefer to launch dedicated defence or security funds without any ESG claims. In any case, there is an abundant choice for retail investors interested to invest in the EU defence sector, because only around 50% of retail funds distributed in Germany have ESG characteristics under Articles 8 or 9 SFDR. In funds without ESG claims, the choice of investee companies is based primarily on risk/return considerations in line with the specific investment strategy.

Nonetheless, we see further room for promoting the general acceptance of mobilising private capital for investments in defence companies and reducing remaining antagonism (cf. below).

In this context, it should be noted that most (UCITS) investment funds invest predominantly in liquid equity or bond instruments listed on regulated markets. Such investment funds also are large buyers of sovereign and sub- sovereign bonds and may in this way very quickly improve the funding of the defence sector at EU and Member State level. However, they must not be seen as suitable vehicles for directly solving financing issues for defence SMEs. As SMEs do not offer sizable public equity or bond offerings, their financing needs need to be addressed primarily by banks. Start-up, venture capital and private equity funds under AIFMD can contribute only to a lesser extent as they constitute only a small sub-section of the fund market focused mostly on institutional investors. However, as SME financial and business operations transparency is limited compared with listed companies, investments in SME require more analytical and managerial resources for fund management companies which can't be expanded quickly. Encouraging at least medium-sized defence companies to consider an exchange listing and/ or issuance of larger-sized bonds could be overall more efficient for concrete funding results.

**Question b. Provide concrete proposals for changes that would solve the issue.**

A positive example of measures promoting broader acceptance of defence financing is the public [statement](#) made by the French supervisory authority AMF which signals clear support for fund managers expanding their defence-related product offerings. Asset management companies wishing to launch new funds with the aim of making significant investments in companies belonging to the Defence Technological and Industrial Base (DTIB) shall benefit from an accelerated processing of their approval applications, and enhanced support from the AMF teams.

Also it may be worthwhile to encourage market participants and supervisory authorities to adjust individual (at company level) or collective (market standard as is the case in Germany) target market concepts under MiFID by replacing existing arms and ammunitions products exclusions with the EU standard as expressed in the climate benchmark (PAB/ CTB) criteria under BMR, i.e. the exclusion could be limited to investments in specific weapons banned under international treaties.

We are also supportive of the idea of a legally binding recognition of security as the basis of sustainability by a statement at the highest EU level. On the other hand, we would caution against too strong push for acknowledging defence-related investments as a positive contribution to sustainability



objectives, as it might provoke strong counterreactions from the public and create reputational issues for sustainable investments in general (similar to the heated public debate on the inclusion of nuclear and natural gas activities in the EU Taxonomy). As explained above, there are no more regulatory or standard-based impediments for funds with sustainability features to invest in defence companies. The choice to include or exclude defence investments in such funds is up to the fund manager in consultation with its investor base and distribution networks. As fund managers have started reviewing their ESG policies and launching dedicated defence-focused funds, interested investors already have plenty of opportunities for defence investments.