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From:	European Economic and Social Committee (EESC)
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To:	Mr Jeppe TRANHOLM-MIKKELSEN, Secretary-General of the Council of the European Union
Subject:	Opinion of the European Economic and Social Committee (EESC) on the Review of the European Long-Term Investment Funds (ELTIFs) Regulation 2021/0377 (COD) - COM(2021) 722 final

Delegations will find attached the opinion mentioned above.

Other language versions of the opinion will soon be available on the EESC's website :

https://dmsearch.eesc.europa.eu/search/opinion

Encl.

OPINION

European Economic and Social Committee

Review of the European Long-Term Investment Funds (ELTIFs) Regulation

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Proposal for a Regulation of the European Parliament and of the Council amending Regulation (EU) 2015/760 as regards the scope of eligible assets and investments, the portfolio composition and diversification requirements, the borrowing of cash and other fund rules and as regards requirements pertaining to the authorisation, investment policies and operating conditions of European long-term investment funds
[COM(2021) 722 final - 2021/0377 (COD)]

ECO/575

Rapporteur: **Pierre BOLLON**

Referral	European Parliament, 14/02/2022 Council of the European Union, 22/03/2022
Legal basis	Articles 114 and 304 of the Treaty on the Functioning of the European Union
Section responsible	Economic and Monetary Union and Economic and Social Cohesion
Adopted in section	03/03/2022
Adopted at plenary	23/03/2022
Plenary session No	568
Outcome of vote (for/against/abstentions)	111/1/0

1. **Conclusions and recommendations**

1.1 The EESC strongly supports the proposed balanced review of the European Long-Term Investment Funds (ELTIFs) Regulation, as its previous format did not achieve its well-intended goals. A shift in financial resources and savings towards long-term investments is particularly necessary for the socially inclusive "post"-COVID recovery and for the twin digital and climate transitions. In this perspective an in-depth review of the ELTIF Regulation is indeed essential. The EESC consequently hopes that the adoption process will not lead to the addition of new regulatory requirements that would weaken the drive towards more simplicity rightly proposed by the Commission.

1.2 "ELTIFs 2" is a timely and relevant proposal that can substantially boost economic growth and job creation in the EU. ELTIFs are long-term funds that benefit from a "European passport". They will have to play a significant role in financing the twin climate and digital transitions, in building up transport and social infrastructure, and in financing housing projects, as well as, of course, in financing small and mid-size European companies, especially innovative ones and start-ups.

1.3 A sufficiently accurate estimate of the global shortfall in long-term financing is unfortunately not available at this stage. Work is still needed at European level for a better estimate, but the financing need is undoubtedly large, amounting to several trillion euro.

1.4 Crucially, the EESC strongly emphasises the importance of funding the essential transition towards a much less carbon-intensive (and ultimately carbon-neutral) European economy, and of the European "Strategy for financing the transition to a sustainable economy". It is also necessary to increase the accessibility of environmental, social and governance (ESG) and financial data, particularly through the European Single Access Point (ESAP) project and, importantly, the needed regulation and supervision of data providers.

1.5 The European Commission's "ELTIFs 2" proposal contains targeted improvements in eligible investments. This will enlarge the investment universe of ELTIFs and support economic growth and competitiveness. It will also allow them to cover a larger geographical scope of investments within Europe.

1.6 The EESC supports the adaptation of previous dissuasive barriers to accessing ELTIFs for retail investors, who currently cannot benefit from the returns on long-term investments. ELTIFs would thus complement the current success of Undertakings for Collective Investment in Transferable Securities (UCITS) funds. It is an important move, all the more so since investor protection is strengthened by the new strong link with the mandatory "suitability assessments" under the Market in Financial Instruments Directive (MiFID II) and the clarification of the rules on conflicts of interest. The EESC also strongly reiterates its numerous previous calls for investor education to be developed everywhere in Europe.

1.7 The EESC would be open to "partially open-ended" ELTIFs (alongside "closed-ended" ones) – i.e. ELTIFs that may be large and diversified and may permit redemptions (and subscriptions) after a notice period, provided of course that these possibilities are clearly set out in the documentation given to clients and overseen by the competent national authority. To help make them more "liquid", these ELTIFs should be able to invest up to 50% (and possibly even more) in diversified assets respecting UCITS rules. Further increasing the possible level of investment in other funds would also help significantly.

1.8 Given that ELTIFs are required to strictly follow rules set out in a European Regulation, an additional positive action would be for the European Commission to assess the merit and feasibility of permitting them to use a ".eu" International Securities Identification Number (ISIN) code, improving their availability and visibility across borders. A strong role for European Securities and Markets Authority (ESMA) in adopting regulatory technical standards (RTSs), promoting supervisory convergence and coordinating the supervisory work, alongside active national regulators, is welcome.

1.9 It is important to facilitate the eligibility of ELTIFs for saving accounts, for unit-linked life insurance contracts, for employee savings schemes and, naturally, for retirement mechanisms such as the Pan European Pension Product. Concurrently, the current proposal for a recast of the Solvency 2 Directive and the future revision of the Directive on the activities and supervision of institutions for occupational retirement provision (IORP) could include an incentive for insurance and pensions undertakings to invest in ELTIFs.

1.10 Last but not least, European investors in ELTIFs should be able to benefit from the "best tax treatment" on their savings granted by their country of residence. Long-term investors should benefit everywhere in Europe from stable and incentivising tax rules.

2. Summary of the Commission proposal

2.1 The 'ELTIF Regulation' is a European framework for alternative investment funds (AIFs) that invest in long-term investments, such as social and transport infrastructure projects, real estate and small and medium-sized enterprises (SMEs). The ELTIF Regulation establishes uniform rules on the authorisation, investment policies and operating conditions and marketing of ELTIFs.

2.2 The ELTIF regulatory framework is intended to facilitate long-term investments in these types of assets by institutional and retail investors and to provide an alternative, non-bank source of finance to the real economy.

2.3 This review aims to increase the uptake of ELTIFs across the EU for the benefit of the European economy and investors. This, in turn, would support the continued development of the Capital Markets Union (CMU), which also aims to facilitate EU companies' access to more stable, sustainable and diverse long-term financing.

2.4 Since the adoption of the original ELTIF legal framework in April 2015, only 67 ELTIFs (as of February 2022) have been authorised, with a relatively small amount of net assets under management (estimated at approximately EUR 2.4 billion in 2021). Such authorised ELTIFs are domiciled in only four Member States (Luxembourg, France, Italy and Spain), and the other Member States had no domestic ELTIFs.

2.5 While the ELTIF is still a relatively new framework, the available market data indicates that the market's development has not scaled up as expected.

2.6 Based on the evaluation of the functioning of the ELTIF legal framework and stakeholder feedback, the advantages of ELTIFs are diminished by the restrictive fund rules and barriers to entry for retail investors, the combined effect of which reduce the utility, effectiveness and attractiveness of the ELTIF legal framework for managers and investors. These restrictions are the key drivers of the ELTIFs' failure to scale up significantly and reach their full potential to channel investments to the real economy.

2.7 In this connection, the review of the ELTIF regulatory framework seeks to accelerate the acceptance and improve the attractiveness of ELTIFs by making targeted changes in the fund rules. This especially means broadening the scope of eligible assets and investments, allowing more flexible fund rules that include the facilitation of fund-of-fund strategies, and reducing the unjustified barriers preventing retail investors from accessing ELTIFs, in particular the EUR 10 000 initial investment requirement and the maximum 10% aggregate threshold requirement for those retail investors whose financial portfolios are below EUR 500 000.

2.8 Furthermore, the proposal aims to make the ELTIF structure more attractive by easing selected fund rules for ELTIFs distributed solely to professional investors. The review of the ELTIF legal framework also introduces an optional liquidity window mechanism to provide extra liquidity to ELTIF investors and newly subscribing investors without requiring a drawdown from the capital of ELTIFs. The proposal also seeks to ensure appropriate investor protection safeguards are in place.

3. General comments

3.1 The EESC strongly supports the proposed balanced review of the ELTIF Regulation, as its previous format did not achieve its well-intended goals. This welcome review was already hailed in the EESC's opinion on the Capital Markets Union[1] as a cornerstone of the new CMU action plan.

3.2 Indeed, beyond improving the efficiency and safety of European capital markets, a shift in financial resources and savings towards long-term investments is particularly necessary for the socially inclusive "post"-COVID recovery and for the twin digital and climate transitions. In this perspective an in-depth review of the ELTIF regulation is indeed essential. The EESC consequently hopes that the adoption process will not lead to the addition of new regulatory requirements that would weaken the drive towards more simplicity rightly proposed by the Commission.

3.3 ELTIFs are long-term funds that can be marketed and subscribed to on a cross-border basis across the Union, as they benefit from a "European passport". They will be able to play a significant role in building up infrastructure (such as transport and energy), in updating housing,

1 OJ C 155, 30.4.2021, p.20

in financing research and development and, of course, in financing small and mid-size European companies and start-ups (investments that do not generally benefit from the liquidity provided by a listing on financial markets), thus promoting job creation.

3.4 Crucially, the EESC also strongly emphasises the importance of funding the essential transition towards an inclusive and much less carbon-intensive (and ultimately carbon-neutral) European economy, and of the European "Strategy for financing the transition to a sustainable economy", in particular the proposed Corporate Sustainability Reporting Directive and the envisaged social "taxonomy". It is also necessary to increase the accessibility of ESG and financial data, particularly through the European Single Access Point (ESAP) project and, importantly, the needed regulation and supervision of data providers. The work on ESG labels should also be speeded up to provide guidance to ELTIF investors.

3.5 The European Commission's well-calibrated and proportionate "ELTIFs 2" proposal rightly contains targeted improvements in eligible investments that will allow for stronger support for growth and competitiveness through ELTIFs. A significant number of them will be thus more diversified, as the investment universe of ELTIFs will be broadened, increasing the number of opportunities. Others will be more concentrated, focusing on key investments. The changes will also allow ELTIFs to cover a larger geographical scope of investments within Europe.

3.6 The EESC supports the adaptation of previous dissuasive barriers to accessing ELTIFs for retail investors. Given the huge amount of savings which cannot today benefit from the returns on long-term investments, it is an important move, especially in a context of low (although in some cases rising) interest rates and of inflationary pressures. In terms of protection of investors, providing a broader spectrum of eligible assets and investment strategies is of great importance and will be more efficient than the detailed restrictions from 2015, which had the drawback of severely limiting the offer of funds to investors, both institutional and retail. The EESC welcomes the new strong link with the mandatory "suitability assessments" under the MiFID II Directive as well as the clarification of the rules on conflicts of interest. The EESC also strongly reiterates its numerous previous calls for investor education to be developed everywhere in Europe.

3.7 One type of ELTIFs has characteristics that make them similar to "closed-ended" funds. For them the classic way to provide liquidity to investors is, as proposed, optional "window mechanisms" via secondary trading mechanisms, but these mechanisms are often difficult or even in practice impossible to implement, in particular when "market makers" are scarce (a risk highlighted in the EESC opinion of 16 October 2013 that has unfortunately materialised).

3.8 This is why, alongside these "closed-ended ELTIFs", the EESC would also be open to "partially open-ended" ELTIFs[2], i.e. ELTIFs that may be large and diversified and may periodically (for instance twice a year) permit redemptions (and also subscriptions) after a notice period (for instance 90 days), provided of course these possibilities are clearly set out by the ELTIF manager in the documentation given to the clients and overseen by the competent national

2 As it is currently envisaged in the forthcoming Long Term Asset Fund (LTAF) scheme in the UK. The majority of respondents to the Commission's impact assessment report had the same view (see p.73)

authority. The Commission proposal to provide additional clarity in Regulatory Technical Standards with regard to the withdrawal percentage of redemption is a positive first step in the right direction that should be followed by others. To help make them more "liquid", the partially open-ended ELTIFs should be able to invest up to 50% (and possibly even more) in diversified assets respecting UCITS rules. Further increases in the possible level of investment in other funds would also help significantly.

3.9 The EESC would like to see funds raised through ELTIFs being essentially invested in the EU economy, in the context of harsh competition at global level and of the need to finance the twin transitions. A sufficiently accurate estimate of the shortfall in long-term financing is unfortunately not available at this stage. Work is thus still needed at European level for a better estimate, but the financing need is undoubtedly large, amounting to several trillion euro (low single digit percent of the EU's gross domestic product (GDP) if one adds up the needs for climate and sustainability, for equity and innovative SMEs and start-ups, for transport infrastructure and, importantly, for social infrastructure.

3.10 Given that ELTIFs are required to strictly follow rules set out in a European Regulation, an additional positive action would be for the European Commission to assess the merit and feasibility of permitting them to use a ".eu" ISIN code, improving their availability and visibility across borders. The EESC welcomes, in this regard, the strengthening of the ELTIFs register proposed by the Commission. The EESC calls for establishing and enforcing clear EU-wide rules, under an effective leadership role for ESMA and with due cooperation from active national regulators. The rules must, in particular, ensure that ELTIF managers incorporate proper liquidity management tools (LMTs) in the funds they launch and also provide clear and accurate information on fees and risks, as already provided by the Regulation on key information documents for packaged retail and insurance-based investment products (PRIIPs) and MiFID legislations.

3.11 It is important to facilitate the eligibility of ELTIFs for saving accounts, for unit-linked life insurance contracts, for employee savings schemes and, naturally, for retirement mechanisms such as the Pan European Pension Product. Concurrently, the current proposal for a recast of the Solvency 2 Directive and the future revision of the IORP Directive could include an incentive for insurance and pensions undertakings to invest in ELTIFs.

3.12 Last but not least, European investors in ELTIFs should be able to benefit from the "best tax treatment" on their savings granted by their country of residence. Unfortunately, in many European countries, short-term saving in liquid assets is currently very often fiscally favoured, sending investors the wrong message that it is better to "prefer liquidity" even when they could be more oriented towards the long term. At any rate, long-term investors should benefit from stable and incentivising tax rules.

Brussels, 23 March 2022

Christa SCHWENG
The president of the European Economic and Social Committee

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