European long-term investment funds

2013/0214(COD) - 17/04/2014 - Text adopted by Parliament, partial vote at 1st reading/single reading

Parliament adopted **amendments** on the proposal for a regulation of the European Parliament and of the Council on European Long-Term Investment Funds (ELTIF).

The proposal was **sent back to the competent committee for reconsideration**. The vote was postponed to a future plenary.

The main amendments adopted in plenary dealt with the following points:

Purpose: Parliament specified that the aim of the regulation was to raise and channel capital towards the real economy, **in line with the objectives of a smart, sustainable and inclusive growth.**

In order for ELTIF to contribute effectively to a sustainable, smart and inclusive growth in the Union, each ELTIF should take into account the **social impact** of eligible investments, taking into account its environmental, social and governance characteristics.

Authorisation: only EU alternative investment funds (AIFs) should be eligible to apply for and to be granted authorisation as an ELTIF. An ELTIF **may be marketed in the whole Union or in any Member State.**

The application for authorisation as an ELTIF shall include information on the identity of the proposed ELTIF manager, **its current and previous fund management history** and experience relevant to long term investment. For retail ELTIFs, the application should include a description of the procedures and arrangements in place **to deal with retail investors' complaints**.

An applicant ELTIF shall be authorised only where its competent authority:

- has approved the fund rules or instruments of incorporation and the choice of the depositary;
- was satisfied that the proposed ELTIF manager or a person exercising a management function within the proposed ELTIF **has not previously been the subject of penalties** for infringements of national or Union law governing fund management.

Eligible investment assets: in accordance with the objectives of a smart, sustainable and inclusive growth or with the Union regional policy, Members demanded that, when examining an application, the competent authorities give priority to projects financed by **a public-private partnership**.

Qualifying portfolio undertaking: to be eligible, an undertaking must, inter alia:

- be admitted to trading on a regulated market or on a multilateral trading facility and has a market capitalisation of no more than EUR 1 billion;
- be admitted to trading on a regulated market or on a multilateral trading facility and is considered to be an SME;
- have signed an agreement with the home Member State of the ELTIF manager and with every other Member State in which the units or shares of the ELTIF are intended to be marketed which

provided that the **third country** was not a country: (i) where there are no or nominal taxes, (ii) where there was a lack of effective exchange of information with foreign tax authorities, (iii) where there is a lack of transparency in legislative, judicial or administrative provisions, (iv) which acted as an offshore financial centre.

Conflicts of interest: it is stipulated that an ELTIF should not invest in an eligible investment asset in which the manager has or takes a direct or indirect interest, other than by holding units or shares of the ELTIFs, EUSEFs or EuVECAs or collective investment undertakings it manages.

Portfolio composition and diversification: according to the amended text, an ELTIF should invest **at least 70%** of its capital in eligible investment assets and **at least 60%** of its capital in assets listed in the Regulation, issued by qualifying portfolio undertakings established within the territory of a Member State

In circumstances where **the ELTIF breaches the diversification requirements** and the contravention is beyond the control of the ELTIF manager, competent authorities shall provide a period of six months to take such measures as are necessary to rectify the position.

Redemption policy: given that retail investors may not have the necessary resources or a sufficiently diversified portfolio that would allow them to lock-up their capital for a long period of time, an ELTIF should **be able to offer redemption rights to its investors**.

Therefore, the ELTIF manager should be given discretion to decide whether to establish ELTIFs with or without redemption rights according to the ELTIF's investment strategy. When a redemption rights regime is in place, those rights and their main features should be **clearly predefined and disclosed** in the rules or instruments of incorporation of the ELTIF.

When the ELTIF manager decides to let retail investors participate in the ELTIF, all investors shall be able to ask for redemption of their units or shares before the end of life of the ELTIF. However, redemption of units and shares by institutional or retail investors can only take place after the life of ELTIF is halfway and for a total maximum of **20 %** of the total amount of the fund.

If no redemption rights are foreseen in the rules or instruments of incorporation of the ELTIF, redemption to investors shall be possible as of the day following the date defining the end of life of the ELTIF.

Lastly, Parliament recognised that it was crucial to encourage **a number of semi-professional investors in the Union**, such as mid-tier pension schemes, insurance companies, municipalities, churches, charities and foundations, that may have sufficient capital and certain expertise, to invest in ELTIFs.