European long-term investment funds

2013/0214(COD) - 17/02/2015 - Committee report tabled for plenary, 1st reading/single reading

The Committee on Economic and Monetary Affairs adopted a supplementary report by Alain LAMASSOURE (EPP, FR) on the proposal for a regulation of the European Parliament and of the Council on European Long-term Investment Funds.

The matter had been referred back to the competent committee for reconsideration during the plenary sitting of 17.4.2014.

The committee recommended that Parliament's position adopted in first reading following the ordinary legislative procedure should amend the Commission proposal as follows :

Objective: Members specified that the Regulation should aim raise and channel capital towards European **long-term investments in the real economy**, in line with the Union objective of smart, sustainable and inclusive growth.

ELTIFs were a first step towards creating an integrated internal market for raising capital that could be channelled towards long-term investments in the European economy. Given their focus on categories of long-term assets, ELTIFs could fulfil their designated role as a priority tool to accomplish the **Investment Plan for Europe** set out in the Commission communication of 26 November 2014.

Authorisation: only EU AIFs would be eligible to apply for and to be granted authorisation as an ELTIF. The application for authorisation as an ELTIF would include:

- information on the identity of the proposed manager of the ELTIF and its **current and previous fund management experience** and history;

- a description of the information to be made available to investors, including a description of the arrangements for **dealing with complaints** submitted by retail investors.

A specific authorisation procedure should apply where the ELTIF is **internally managed** and no external AIFM is appointed.

Liability: the manager of the ELTIF shall be responsible for ensuring compliance with the Regulation and shall also be liable for any infringements. He would be liable for losses arising from breach of the Regulation.

Eligible assets: these should be understood to include participations, such as equity or quasi-equity instruments, debt instruments in qualifying portfolio undertakings, and loans provided to them. Members stated that those assets could indicatively include **social infrastructure** that yields a predictable return, such as energy, transport and communication infrastructure, as well as **education, health, or industrial facilities**.

Eligible investment assets should include real assets with a value of **more than EUR 10 000 000** that generate an economic and social benefit. Such assets include infrastructure, intellectual property, vessels, equipment, machinery, aircraft or rolling stock, and immovable property.

Investments in commercial property or housing should be permitted to the extent that they serve the purpose of contributing to smart, sustainable and inclusive growth or to the Union's energy, regional and

cohesion policies. Investments in such immovable property should be clearly documented so as to demonstrate the long-term commitment in the property.

The Regulation was **not seeking to promote speculative investments**.

Eligible portfolio investment: **SMEs** may face problems of liquidity and access to the secondary market, they should also be considered to be qualifying portfolio undertakings.

Categories of long-term assets within the meaning of the Regulation should therefore comprise unlisted undertakings that issue equity or debt instruments for which there might not be a readily identifiable buyer, and listed undertakings with a **maximum capitalisation of EUR 500 000 000.**

Conflicts of interest: it was specified that an ELTIF should not invest in an eligible investment asset in which the manager of the ELTIF had or taken a direct or indirect interest, other than by holding units or shares of the ELTIFs, EuSEFs or EuVECAs that it managed.

Protection of retail investors: in order to incentivise investors, in particular retail investors, who might not be willing to lock their capital up for a long period of time, an ELTIF should be able to offer, under certain conditions, **early redemption rights to its investors**.

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.

Investors, such as municipalities, churches, charities and foundations, which should be able to request to be treated as professional clients in circumstances where they meet certain conditions.

The manager of the ELTIF should assess whether the **ELTIF is suitable for marketing to a retail investor**. In addition, where the life of an ELTIF that is offered or placed to retail investors exceeds 10 years, the manager of the ELTIF or the distributor should indicate clearly and in written form that this product may not be suitable for those retail investors unable to sustain such a long-term and illiquid commitment.

After having performed a suitability test and having provided appropriate investment advice, the manager of the ELTIF or any distributor, should ensure that the retail investor does not invest an aggregate amount exceeding **10% of the investor's portfolio in ELTIFs** and the initial amount invested in one or more ELTIFs is **not less than EUR 10 000.**

Transparency requirements: these have been strengthened. the prospectus should: (i) contain a prominent indication of the jurisdictions in which the ELTIF is allowed to invest; (ii) inform investors about the end of the life of the ELTIF as well as the option to extend the life of the ELTIF (iii) explain the rights of investors to redeem their investment; (iv) inform investors about the risks related to investing in real assets, including infrastructure; (v) inform investors regularly, at least once a year, of the jurisdictions in which the ELTIF has invested.

The annual report of an ELTIF shall contain the following: (i) a cash flow statement; (ii) information on any participation in instruments involving Union budgetary funds; (iii) information on the value of the individual qualifying portfolio undertakings and the value of other assets in which the ELTIF has invested, including the value of financial derivative instruments used; (iv) information on the jurisdictions in which the assets of the ELTIF are located.