European long-term investment funds

2013/0214(COD) - 29/04/2015 - Final act

PURPOSE: to stimulate long-term investment in the real economy through a new form of fund vehicle - the EU Long Term Investment Funds or ELTIFs.

LEGISLATIVE ACT: Regulation (EU) 2015/760 of the European Parliament and of the Council of 29 April 2015 on European long-term investment funds.

CONTENT: this Regulation lays down **uniform rules on the authorisation, investment policies and operating conditions** of EU alternative investment funds (EU AIFs) or compartments of EU AIFs that are marketed in the Union as European long- term investment funds (ELTIFs).

Objective: European long- term investment funds (ELTIFs) provide **finance of lasting duration** to various infrastructure projects, unlisted companies, or listed small and medium-sized enterprises (SMEs) that issue equity or debt instruments for which there is no readily identifiable buyer. **By providing finance to such projects, ELTIFs contribute to the financing of the Union's real economy and the implementation of its policies**. Given their focus on categories of long-term assets, ELTIFs can 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.

On the demand side, **ELTIFs can provide a steady income stream** for pension administrators, insurance companies, foundations, municipalities and other entities that face regular and recurrent liabilities and are seeking long-term returns within well-regulated structures. While providing less liquidity than investments in transferable securities, ELTIFs can provide a steady income stream for individual investors that rely on the regular cash flow that an ELTIF can produce. ELTIFs can also offer good opportunities for capital appreciation over time for those investors not receiving a steady income stream.

Authorisation and central public register: an ELTIF may only be marketed in the Union when it has been authorised in accordance with this Regulation. **Authorisation as an ELTIF shall be valid for all Member States**. Only an EU AIFM authorised under Directive 2011/61/EU shall be eligible to apply for and to be granted authorisation as an ELTIF. ESMA shall keep a central public register identifying each ELTIF authorised under this Regulation, the manager of the ELTIF and the competent authority of the ELTIF.

Liability: the manager of the ELTIF shall be responsible for ensuring compliance with this Regulation and for any infringements of this Regulation. The manager of the ELTIF shall also be liable for losses or damages resulting from non-compliance with this Regulation.

Investment policy: ELTIFs will be subject to additional rules requiring them, inter alia, to invest at **least 70% of their capital** in clearly-defined categories of eligible assets. Trading in assets other than long-term investments will only be permitted up to a maximum of **30% of their capital**.

Eligible investment assets: these should include real assets with **a value of more than EUR 10 000 000 that generate an economic and social benefit** (e.g. 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. This Regulation is **not seeking to promote speculative investments**.

Conflicts of interest: to avoid such a conflict of interests, and to ensure sound corporate governance, an ELTIF should only invest in assets that are **unrelated to the manager of the ELTIF**, unless the ELTIF invests in units or shares of other ELTIFs, European Venture Capital Funds (EuVECAs), or European Social Entrepreneurship Funds (EuSEFs) that are managed by the manager of the ELTIF.

Protection of investors: this Regulation provides for measures to strengthen the protection of investors, in particular retail investors.

- **For retail investors whose portfolio does not exceed EUR 500 000**, the manager of the ELTIF or any distributor, **after having performed a suitability test** and having provided appropriate investment advice, 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.
- 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.
- **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.

Review: no later than 9 June 2019, the Commission shall start a review of the application of this Regulation and assess the contribution of this Regulation and of ELTIFs to the completion of the Capital Markets Union. The report shall be accompanied, where appropriate, by a legislative proposal.

ENTRY INTO FORCE: 8.6.2015.