

European Long-Term Investment Funds (ELTIFs) regulation: European Commission proposal

The European Commission has published its proposal to revise the European Long-Term Investment Funds (ELTIFs) Regulation as part of the EU Capital Markets Union package.

The review of the ELTIF regulatory framework seeks to accelerate the acceptance and improve the attractiveness of ELTIFs as a 'go to' fund structure for long-term investments.

The proposal is intended to include changes to the scope of eligible assets and investments, the portfolio composition and diversification requirements, the borrowing of cash and other fund rules. It also includes changes to the requirements pertaining to the authorisation, investment policies and operating conditions of ELTIFs.

There are currently 57 ELTIFs authorised in the European Union, with particular concentration in certain Member States and limited cross-border marketing within the European Union. As of October 2021, total assets under management are estimated at approximately €2.4 billion. The authorised ELTIFs are domiciled in Luxembourg, France, Italy and Spain.

AIF vs ELTIF

- ELTIF framework is a fully harmonised European label for financial products, which allows for an EU-wide, passport-based distribution to both professional and retail investors.
- AIFs can only be marketed to professional investors, while the marketing of AIFs to retail investors is subject to national rules.
- ELTIF rules can also provide the capacity to withstand market volatility due to their close-ended nature and long-term orientation.
- In certain cases, the ELTIF may imply preferential national tax treatments for ELTIF investors depending on the applicable national tax laws.
- ELTIFs can represent a safer pathway for investors interested in private equity investments but present a lower risk profile than pure private equity funds.

The new rules will ensure:



Retail investors will have greater access to ELTIF investments allowing them to meet their long-term investment and savings needs.



ELTIFs will provide a **vital source of non-bank financing** to the real economy, supporting economic growth, job creation and furthering the objectives of the CMU including SME funding, as well as the green and digital transitions.



ELTIFs will remain a **well-regulated product** suitable for both retail and professional investors.



Fund managers will be able to invest in a **broader range of eligible assets**, including other funds which have similar characteristics to ELTIFs, and will have **greater flexibility in designing the mix of their portfolios**, making it more economical and financially viable to design and implement ELTIF strategies and to meet the needs of their investors.

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