Position Paper

Comments on the revision of the European Long-Term Investment Funds Regulation

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Summary

The European insurance industry supports the European Commission's intention to make improvements to the European Long-Term Investment Funds Regulation (ELTIF) framework, as indicated in its Capital Markets Union (CMU) Action Plan (Action 3).

The insurance industry needs access to a wide range of assets that provide attractive returns and portfolio diversification, for the benefit of its policyholders. Therefore, it welcomes a revision of the ELTIF framework that has the objective of making these investments more attractive for institutional investors**.**

Because the ELTIF legal framework was designed for a wide range of investors, ELTIFs offer institutional investors less flexibility and their design is less likely to meet individual investment needs than other alternative investment funds. Therefore, the industry supports the Commission's proposals to reduce barriers in the ELTIFs legal framework and to widen the retail investor base in line with the objectives of the CMU. Specifically, the industry encourages the Commission to make refinements to the framework to remove restrictions that prevent any significant interest from the insurance industry.

Key improvements are needed for the ELTIF to become attractive to institutional investors, while at the same time offering attractive long-term investment opportunities to retail investors in line with the objectives of the CMU Action Plan. A way to increase the attractiveness of ELTIFs for institutional investors could be to introduce different rules for ELTIFs tailored to institutional investors on the one hand and private investors on the other. This would require revisions to:

- Fund design: ELTIFs should not be limited to closed-end funds. They should be able to offer regular subscription and redemption possibilities at appropriate frequencies.
- Portfolio composition and diversification: A refinement of the framework is needed to provide more flexibility and targeted investor protection, in particular for thresholds on portfolios of financial instruments and in regard to the strict and restrictive diversification requirements.
- Eligibility of investment assets: The scope of eligible assets must be expanded to allow for better diversification and liquidity of the fund.

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In practice, the ELTIF must be sufficiently flexible to allow fund managers to design a structure and, in particular, investment strategies suitable for the needs of its targeted investors.

Flexibility in fund design

The current closed-end nature of ELTIF funds does not offer possibilities of redemptions, meaning that investors need to wait until the end of the life of the fund to request the redemption of their shares.

Recommendation: The ELTIF should provide for the **possibility for the fund to offer regular subscription and redemptions possibilities at appropriate frequencies.** This would:

- Make it possible to increase the size of the fund (with diversification benefits).
- Meet investors' needs, who, thanks to the redemption possibilities, would be more willing to invest in this type of instrument.

It is not expected that this will lead to a risk for ELTIFs that only allow institutional investors, as they, like insurers, are usually long-term investors. Nevertheless, institutional investors also prefer open fund structures for their fund investments for various reasons.

Portfolio composition and diversification

Numerous restrictions in the ELTIF-framework were exclusively established to protect retail investors and are not necessary in the same way for institutional investors. Therefore, a refinement of the framework to provide more flexibility and targeted investor protection is needed, in particular for thresholds on portfolio of financial instruments. In particular, this concerns Article 13.

Recommendation: The industry encourages **the Commission to refine the framework to provide more flexibility and targeted investor protection**. In particular:

- The strict and restrictive diversification requirements for ELTIFs that only admit institutional investors should be abolished. An ELTIF must diversify its investment capital, both in terms of long-term and liquid assets. Maximum rates apply here, eg a maximum of 10% may be invested in a single qualified portfolio company or a tangible asset. These serve in particular to protect retail investors. Institutional investors are in this regard less in need of protection than retail investors, because they control their risk/return requirements via their overall portfolio.

Eligibility of investment assets

Article 10 of ELTIF regulation sets a number of restrictions on the eligibility of investment assets that have proved to be too strict to meet investors' expectations.

Recommendation: The **scope of eligible assets for the ELTIF should be broadened and allow for better diversification and liquidity**. For example:

- The minimum investment threshold of 70 percent for eligible investment assets should be decreased in order to offer better diversification and liquidity of the fund.
- The ELTIF should be allowed to invest in financial undertakings, provided they are in line with the investment strategy of ELTIFs.
- Investments in funds other than ELTIFs, EuVECAs or EuSEFs should be admitted as eligible assets, provided their investment strategy obliges them to invest in the same asset classes as these funds.
- The necessary threshold of €10 million for the eligibility of physical assets should be removed as it results in a minimum fund size and acts as an additional barrier to create ELTIFs.
- The investment threshold on market capitalisation for companies trading on a regulated market or in a multilateral trading facility should be increased, while the ten-percent quota for single qualifying portfolio undertakings, single assets or single funds should also be more flexible for easier management during the life of the fund.