FESE position paper on the ELTIF proposal

Brussels, February 2022

FESE supports the European Commission's proposal to revise the European Long-Term Investment Fund (ELTIF) Regulation. With its aim to facilitate investment by institutional and retail investors in long-term projects including social, infrastructure and SMEs, it has the potential to benefit the real economy and contribute to achieving a true Capital Markets Union (CMU).

We believe that the CMU has to look after the savings of households and integrate investors into capital markets. To incentivise active retail participation, investors must be able to benefit from a variety of products available to them, in particular of simple and cost-efficient instruments. **The goal of the revision proposal to broaden the current scope of eligible assets is a positive step toward creating such wider investment opportunities for (retail) investors.**

With their fully harmonised European label for financial products, allowing an EU-wide, passport-based distribution to professional and retail investors, ELTIFs contribute to the core aim of creating a true European single market for capital. At this point, FESE would like to highlight that the diverging definitions of semi-professional investors across the EU may disincentivise cross-border marketing by promoters of Alternative Investment Funds (AIFs) to knowledgeable and high-net-worth retail and semi-professional investors.[1] To fully realise the benefits this would bring, **we would like to encourage a harmonisation of the different approaches used by the various pieces of legislation**, including the ELTIF, European venture capital funds (EuVECA), and European social entrepreneurship funds (EuSEF) regulations.

Further, to ensure the success of the CMU, FESE believes that it is key to facilitate access to markets for companies, in particular small and medium-sized enterprises (SMEs), which are the backbone of the European economy. It is crucial that smaller capital markets are bolstered, which is where most companies are SMEs and where a significant investment gap remains present.[2] Dialogue among the participants in SME Growth Markets (SME GMs) show a need for an improvement of the regime. One of the identified shortcomings is the vast variety of SME definitions across the financial regulatory framework, as well as the existing market capitalisation thresholds. Thus, FESE welcomes the conclusions of the CMU High-level Forum (HLF) to adjust the concept of Small and Medium Capitalisation Companies (SMCs) to those that do not exceed a market capitalisation threshold of EUR 1 billion over 12 months.[3] **Similarly, FESE supports the proposed revision of the ELTIF Regulation that follows this recommendation and increases the upper threshold for SMCs from EUR 500 million to EUR 1 billion.** This not only provides a first step towards a harmonisation of the SME definition across legislative pieces, but in practical terms an increase of the threshold will

[1] See also FESE (2021). Response to retail investment strategy consultation. Available at: https://www.fese.eu/blog/response-to-retail-investment-strategy-consultation/

[2] See for example European Commission (2020). SMEs, start-ups, scale-ups and entrepreneurship (Flash Eurobarometer 486). Available at: https://op.europa.eu/en/publication-detail/-/publication/0ede5668-0850-11eb-a511-01aa75ed71a1/language-en/format-PDF/source-search

[3] See FESE (2021). Views on the TESG report on SMEs. Available at: https://www.fese.eu/blog/views-on-the-tesg-report-on-smes/

allow a larger number of small companies to benefit from SME-targeted policies and the GMs regime, and it could lead to more liquidity in the market.

We note that, in order to promote the secondary trading of ELTIF units or shares, the ELTIF proposal allows ELTIF managers to include the possibility for an optional liquidity window mechanism in the rules or instruments of incorporation of the ELTIF. This secondary market liquidity mechanism aims to - fully or partially – match, before the end of the ELTIF's life, the requests of exiting ELTIF investors to transfer units or shares with new investors' subscription requests. To ensure an effective functioning of the mechanism, this type of early exit should only be possible when the manager of the ELTIF has put in place a policy for matching exit and potential new investors' requests. This policy should comply with certain information requirements. It should, inter alia, provide a description of the transfer process for both exiting and potential new investors, the role of the ELTIF administrator, the duration of the liquidity window during which the units or shares of the ELTIF could be exchanged, and the execution price.

In our view, **the listing of ELTIFs could act as alternative to the described redemption mechanism of the Funds** before their maturity, to improve the secondary liquidity of ELTIFs. We believe that the listing would also ensure the satisfaction of the several conditions to be met under the new Article 19(2)(a). We therefore invite the Commission to explicitly state that, in the case of listed ELTIFs, the conditions outlined under Article 19(2)(a) are considered to be satisfied.

Finally, FESE supports the European Commission's Consumer Financial Services Action Plan (2017) to empower consumers when buying services at home or from other Member States. Nevertheless, remaining obstacles such as diverging rules, regulatory barriers and legal requirements hinder the creation of and access of (retail) investors to pan-European products. EU regulatory harmonisation underpins cross-border business and competition. **Therefore, FESE welcomes the ELTIF review proposal to remove the partial duplication of suitability assessment referred to in the ELTIF Regulation and in MiFID II.** We believe that an alignment of the suitability test with that of MiFID II is important to remove the current barriers to access for retail investors.