AMF'S PROPOSALS TO REVITALISE EUROPEAN LONG TERM INVESTMENT FUNDS

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This paper reflects the position of the Autorité des Marchés Financiers (AMF) on how to improve the European Long Term Investment Funds (ELTIF) Regulation in order to promote the adoption of investment products that meet the long term needs of both professional investors and retail investors and incorporate adequate safeguards.

ELTIFs can contribute to providing small and non-listed companies with an alternative source of funding and channelling capital into long-term projects and assets. They also have the potential to provide a welcome source of diversification and enhanced returns for European retail investors wishing to allocate savings to long-term assets, provided their regulatory framework is sufficiently secure.

The AMF acknowledges that with regard to professional investors, certain investor protection safeguards, such as concentration thresholds or investment restrictions, may weigh on demand. Existing national fund vehicles with more flexible structures often offer a better investment solution for this type of investors.

The review of the ELTIF Regulation provides an opportunity to re-shape ELTIFs to make them an attractive European financial product for investors. On the one hand, it should address the fact that retail and professional investors have different approaches to risk. On the other hand, the framework should make less liquid assets accessible to retail investors, while offering them a certain degree of flexibility to exit their investment without creating a mismatch between redemption terms and the liquidity of underlying assets.

The AMF's preferred policy options are set out below. They consist of targeted amendments to the scope of eligible portfolio assets, a two-pronged regulatory framework that distinguishes between ELTIFs reserved for professional investors and ELTIFs available to retail investors, a system of periodic liquidity windows to allow for early redemptions, and an encouragement to list ELTIFs on trading venues.

How does the AMF propose to boost ELTIFs' attractiveness?

↗ Eligible assets and qualifying portfolio undertakings

The AMF supports the current **minimum proportion of long-term assets** in ELTIFs' portfolios, since it is conducive to both the financing of non-listed companies and SMEs and enhanced returns for investors.

Likewise, the AMF would encourage allowing ELTIFs to invest in equity, debt instruments and loans of listed undertakings with a market capitalisation **up to 1 billion €** (versus the current ceiling of 500M€). We also suggest clarifying that the maximum market capitalization for a listed undertaking to become a qualifying portfolio undertaking should only be verified at the time the ELTIF makes its initial investment. Once an ELTIF has invested in securities of a listed undertaking, it should not be forced to sell these securities if the undertaking's market capitalization subsequently exceeds 500M€ or any future ceiling.

In order to make the deployment of certain private equity investment strategies possible, the AMF supports making **financial undertakings**, such as holding companies and special purpose vehicles (SPVs), more clearly eligible as 'qualifying portfolio undertakings' for ELTIFs[1].

Lastly, we support allowing investments in **EU AIFs other than ELTIFs, EuVECAs and EuSEFs** provided that they are managed by an EU AIFM and that they comply with the portfolio composition, diversification, concentration and investment restriction rules applying to ELTIFs, thereby offering a risk profile similar to that of ELTIFs.

↗ Lighter requirements for ELTIFs intended solely to professional investors

With the aim of attracting interest from professional investors, the AMF supports the creation of ELTIFs dedicated to professional investors only. Such funds could be allowed to operate within a more flexible structure. This could include *inter alia* a relaxation of some of the investment restrictions involving the use of derivatives and a targeted exemption from some of the diversification and concentration limits in order to enable fund-of-funds and master-feeder structures.

↗ Minimum investment for retail investors

To boost retail investor participation, the AMF supports the removal of the **minimum entry threshold** of 10,000 € under the condition that the distribution of ELTIFs remains subject to the prior performance of a suitability assessment and provision of investment advice. Only investors for whom ELTIFs are deemed suitable should invest in them. The absence of minimum entry threshold would allow retail investors to invest smaller amounts in ELTIFs according to their personal financial circumstances, while ensuring their holdings of ELTIF units remain below 10% of their investment portfolio.

↗ Closed-ended nature of ELTIFs and early redemption policy

Keeping ELTIFs closed-ended remains the best way to ensure consistency between the redemption policy of ELTIFs and the liquidity profile of the assets held in portfolio.

Notwithstanding the above, we acknowledge that, once invested, retail investors may need to access their savings before an ELTIF reaches maturity, either because they experience unforeseen events or because they are approaching retirement age and become more risk-averse. It could be achieved by developing secondary market liquidity.

Facilitating the listing of ELTIFs on trading venues could be encouraged but it mainly depends on trading venue operators developing adequate solutions and protocols. Solutions have been developed in recent years (e.g. Borsa Italiana's Market for Investment Vehicles, Euronext Fund Service), some of them requiring the fund manager to designate a market specialist tasked to provide liquidity. It is outside the scope of the ELTIF Regulation to mandate operators of trading venues to amend their market rules to introduce listing solutions for funds. However, the ELTIF Regulation could require ESMA to identify all EU trading venues that are fit for hosting the listing of ELTIFs, and publish a list thereof alongside the ELTIF register.

Some flexibility could also be introduced taking the form of a **periodic 'liquidity window'** which the manager could organise at regular intervals, for instance at the end of each quarter. Redemption and subscription orders would be collected in advance and the money raised from new subscriptions would fund redemption requests. Should redemption requests exceed subscriptions, they would be reduced on a pro-rata basis, and vice versa, to ensure that the overall number of units remains the same. Orders would be executed at the NAV calculated at the end of each quarter. Due to the illiquid nature of an ELTIF's underlying assets and the difficulty to value these, such liquidity window should not open more than once every quarter.

[1] The derogation in Art. 11(2) allowing financial undertakings as qualifying portfolio undertakings for ELTIF does not sufficiently accommodate market practices as company buyouts are often financed via up to three SPVs due to tax requirements, deal size and banks' requirement to segregate junior and senior debt in different SPVs.

Alternatively, should it be decided to eventually allow ELTIFs to offer more frequent redemptions, strict **liquidity management requirements** should be introduced in the Regulation to mitigate the risk of creating liquidity mismatch between redemption terms and the liquidity of portfolio assets. Under that option, the AMF would strongly support empowering ESMA with the authorisation and supervision of all ELTIFs. Actually, should an ELTIF become open-ended, only its **centralised supervision** would ensure a uniform interpretation of such liquidity requirements, the same level of investor protection regardless of the domicile of the ELTIF and a level playing field for all ELTIF managers throughout the EU.