Frankfurt am Main,
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BVI reply to the inception impact assessment on the Regulation (EU) 2015/760 on European long-term investment funds (ELTIF)

The BVI[1] gladly takes the opportunity to contribute to the inception impact assessment by sharing its views on the current ELTIF regime considering the upcoming review of the Regulation.

So far, the ELTIF is conceptionally more of a generalist in terms of eligible asset classes, targeting UCITS assets as well as non-listed qualifying portfolio companies (smaller companies (SMEs)) and alternative investments such as real assets. At the same time, the restrictions on the specific portfolio composition, the combination of liquid and illiquid assets, as well as the requirements regarding the distribution to retail investors are perceived as a hindrance. Therefore, the ELTIF has not prevailed over already existing, long standing and market accepted national fund products of the EU Member States that either invest more specifically in a particular asset class or provide the flexibility required by institutional investors.

However, we are not convinced that a copying of existing fund concepts into the ELTIF, e.g., through further broadening the investment universe, would provide economic or regulatory added value. The aim of the ELTIF review should not be to improve the competitiveness of the ELTIF vis-à-vis alternative investment funds (AIFs) regulated on national level within EU Member States. Rather, the *raison d'être* of the ELTIF Regulation should be to address specific areas for which there are not yet sufficiently specialised fund products in the EU to achieve the desired objectives.

We see the review of the ELTIF regime as an opportunity to develop the Regulation in a sensible way, that serves both the intention of the legislator as well as market demands. In this regard, we support a revision of the rules for the distribution of ELTIF shares to retail investors. In contrast, as mentioned above, we have reservations against suggestions that would puff up the ELTIF regime, e.g. introducing generous leverage financing, an expansion of the investment universe partially mirroring UCITS and demands for tax incentives, neglecting the tax sovereignty of EU member states. Such proposals would overstretch the intention of the ELTIF regime and instead blur the essence of the ELTIF brand.

Instead, we have developed the following ideas which are in line with the original goals of the ELTIF Regulation, i.e., long-term infrastructure financing by the private sector and financing of SMEs. Those goals are also, inter alia, reflected in the CMU New Action Plan of the European Commission:

- **Investments in EU project bonds**: The possibility of participating in infrastructure projects is very limited at present, partly because of the favourable conditions of state financing via sovereign bonds. We suggest that in the future part of the EU infrastructure funds (e.g. from the Cohesion or Covid-19 Recovery Funds) should be reserved for projects to be co-financed by project bonds eligible inter alia for ELTIFs. As far as those projects qualify as sustainable, such

[1] BVI represents the interests of the German fund industry at national and international level. The association promotes sensible regulation of the fund business as well as fair competition vis-à-vis policy makers and regulators. Asset Managers act as trustees in the sole interest of the investor and are subject to strict regulation. Funds match funding investors and the capital demands of companies and governments, thus fulfilling an important macro-economic function. BVI's 114 members manage assets more than 3 trillion euros for retail investors, insurance companies, pension and retirement schemes, banks, churches and foundations. With a share of 23%, Germany represents the largest fund market in the EU. BVI's ID number in the EU Transparency Register is 96816064173-47. For more information, please visit www.bvi.de/en.

BVI
Bundesverband Investment und Asset Management e.V.
Contact
Phone +49 69 15 40 90 0
www.bvi.de
BVI Berlin
Unter den Linden 42
10117 Berlin
BVI Brussels
Rue du Trône 14–16
1000 Bruxelles
BVI Frankfurt
Bockenheimer Anlage 15
60322 Frankfurt am Main

project bonds might also meet the requirements currently developed as “green bonds standards”. Bonds financing sustainable projects, such as European infrastructure, would be interesting assets not only for ELTIFs, but also as ESG investments for UCITS. This proposal thus serves the sustainable finance strategy as well as the capital markets union.

- **New ways of micro-financing**: In order to overcome the financing crunch of SMEs, ELTIFs could serve as an alternative form of financing by broadening the understanding of micro-financing to include typical small-volume lending to EU SMEs. Banks which are not able to provide SME loans (e.g. for regulatory reasons such as shrinking their balance sheets) could still act as fronting banks and pass on the SME loans to ELTIFs dedicated as "EU SME finance funds".[2]

- **The development of a new financial market infrastructure based on distributed-ledger-technology (DLT), which has just been proposed by the European Commission, should be incorporated in the considerations of the ELTIF review**. An SME DLT market segment could represent a funding level between traditional stock exchange listing and small-scale crowdfunding. The proposed DLT-multi trading facilities (DLT-MTF) could be the access point for SME equity financing and would be eligible for ELTIFs.[3]

- **Impact-oriented debt funds**: ELTIFs could be structed as debt funds designed to have a sustainable impact. Unlike banks, those ELTIFs would be fully equity-financed.

Instead of incorporating all of these options in one ELTIF, we believe that an ELTIF should rather focus on one strategy (e.g. EU SME financing or impact-oriented debt investments). In this regard, the ELTIF regulation should be the legal framework that foresees a subset of dedicated strategies. A stronger focus on a specific strategy – among a number of options – would further shape the brand of the ELTIF and provide more clarity for the investors.

[2] see CMU New Action Plan (Action 3: Supporting vehicles for long-term investment; Action 5: Directing SMEs to alternative providers of funding).
[3] see CMU New Action Plan (Action 2: Supporting access to public markets).