



NATASHA CAZENEVE

Managing Director, Head of Policy
and International Affairs,
Autorité des Marchés Financiers
(AMF)

Revamp ELTIF to direct more long- term financing towards European companies?

The persistence of low interest rates and the necessity to finance a quick economic recovery has reignited the debate around the ability for retail investors to access riskier investments than those currently offered through UCITS funds.

The AMF supports the democratisation of investments in private markets, provided that a sufficiently protective framework is in place. Yet, striking a balance between retail access and retail protection is not an easy task. Alternative investment funds (AIFs) differ considerably in nature, risk profile, and authorisation and regulatory requirements, thus making the creation of an EU one-size-fits-all regime for retail AIFs hazardous. Instead, the AMF considers that the ELTIF is the right vehicle to foster retail participation in AIFs. The forthcoming review is the opportunity to consider broadening the scope of the eligible portfolio assets for such funds and recalibrating some of the features of the current framework in order to make it more attractive and facilitate the access of retail investors to private markets.

At a time of an unprecedented pandemic crisis, the ELTIF review may bring many benefits to the overall EU economy: investors would gain from a more diversified pool of assets with potentially higher returns and savings could be channelled more efficiently towards the financing of non-listed companies and small and medium enterprises. Nevertheless, apart from the inherent investment risk from investing in non-listed or small businesses, ELTIFs display certain characteristics – namely the intrinsic illiquidity of their portfolio assets and their restricted redemption policy – which need to be carefully assessed and calibrated.

According to IOSCO's 2018 recommendations on liquidity management, funds should offer a redemption policy consistent with the liquidity profile of their underlying assets to avoid the so-called liquidity mismatch. Another challenge to consider is the difficulty of valuing non-listed assets in the absence of a secondary market that supports the price discovery process.

In order to address such risks and adequately protect investors, the **AMF advocates for ELTIFs to offer certain features and safeguards when they target retail investors**. Importantly, their closed-ended nature should be maintained. Nevertheless, to take into account the fact that retail investors

may need to access their savings before an ELTIF reaches maturity, liquidity could be organised through the development of a secondary market for example. Another possibility would be to foresee occasional and limited liquidity windows. In any event, the distribution of ELTIFs to retail investors should be conditional on the performance of suitability assessments and the provision of investment advice. Investing in non-liquid assets demands a long-term investment horizon, certain risk tolerance and capacity to bear losses that not all retail investors are able to withstand. This is a major difference with most UCITS funds available to retail investors. It is essential that retail investors understand this distinction in order to adjust their investment expectations, accordingly.