Opinion of the Committee of Regions — European Long-term Investment Funds

(2014/C 126/03)

I. POLICY RECOMMENDATIONS

THE COMMITTEE OF THE REGIONS

General comments on the regulation

1. welcomes the proposed regulation as a positive step towards the funding of the future economy. European Long-term Investment Funds (ELTIFs) have the potential to contribute to an increase in the capital available for long-term projects which support sustainable economic growth;

2. draws attention to the fact that during the economic crisis public investment at the sub-national level has been drastically cut in Europe and therefore highlights the need to ensure that ELTIFs are not seen as a source of funding that could replace the transfer of national government funding to sub-national authorities;

3. refers to the Committee of the Regions opinion on recommendations for better spending ([1]), which stresses the importance of local and regional budgets as a proportion of public spending in the European Union, which represented 16,7% of GDP in 2011, making up 34% of total public spending in the European Union, with direct investment playing a major part in these budgets, which is a key factor in rapid economic recovery;

4. stresses the importance of understanding ELTIFs in the context of the Europe 2020 strategy, in particular how smart, sustainable and inclusive growth can be promoted by investment in long-term assets. Similarly, by making progress towards the Europe 2020 targets, more capital can become available and long-term investment could develop into a more attractive prospect;

5. highlights that the draft regulation does not introduce any substantial new obligations and that it potentially could provide clear benefits, and for that reason considers the draft regulation to be in compliance with the subsidiarity principle;

6. underlines that the draft regulation seeks to create a common product label for which there is hopefully a strong public interest and which would lay down a foundation for a common, competitive and cost-efficient market for ELTIFs and therefore considers that the draft regulation does not go beyond what is necessary to achieve a common legal framework for ELTIF;

7. underlines that localities and regions are potential beneficiaries of long-term investment in tangible assets (such as energy, transport and communication infrastructures, industrial and service facilities, housing and climate change and eco-innovation technologies) as well as intangible assets (such as education and research and development);

8. points to the EU Commission's impact assessment ([2]) relating to the proposal, which highlighted the existing regimes in some European countries. There is currently a fragmented European market for investment in long-term assets which is both a reason in support of the creation of ELTIFs and an obstacle to their efficient implementation. ELTIFs must strike the balance of attracting and generating demand of long-term investment while ensuring choice among investors. (ELTIFs favouring cross-border long-term investment);

9. highlights the need for monitoring of the implementation of the regulation as it is another instrument that may help to make long-term capital available, and also because of the current fragmented European market investment in long-term assets;

10. considers that the proposal for a regulation on ELTIF should be accompanied by proposals to be put forward by the Commission with regard to mutual recognition by Member States of disclosure and trade document requirements for the marketing of funds;

11. warns that differing tax regimes among Member States, in particular with regard to different fiscal incentives and the risk of double taxation when investors are based in a Member State different from the one of the fund manager, could be an obstacle to pooling capital into ELTIFs and constitute a barrier to their development, especially where cross-border projects are concerned;

([1]) CdR(2013) 3609.
([2]) SWD(2013) 231 final.

12. supports the need for a degree of flexibility in holding periods and believes that it should be up to individual ELTIF asset managers to assess the need to define the potential life cycle of the fund or the terms under which (early) redemptions can be performed. Believes that imposing the upfront determination of the life-cycle of the fund could be contrary to the fund's, the investor's and/or the target investments' best interests;

13. believes that in order to encourage the appetite of investors and asset managers for ELTIFs, certain structuring techniques, such as the use of SPVs ([3]) should be permitted. It is important to ensure that the fund is attractive to investors (including local and regional authorities) and that it can compete with other investments.

II. **RECOMMENDATIONS FOR AMENDMENTS**

Amendment 1

Recital 2

Reason

Self-explanatory.

Amendment 2

Article 20

Text proposed by the Commission	CoR amendment
Distribution of income	*Distributions ~~of income~~*
1. An ELTIF may regularly distribute to investors the income generated by the assets contained in the portfolio. This income shall be composed of:	1. An ELTIF may ~~regularly~~ distribute to investors the income generated by the assets contained in the portfolio. ~~This income shall be composed of:~~
a) any income that the assets are regularly producing;	~~a) any income that the assets are regularly producing;~~
b) the capital appreciation realized after the disposal of an asset, but excluding the original capital commitments made.	~~b) the capital appreciation realized after the disposal of an asset, but excluding the original capital commitments made.~~
2. The income shall not be distributed to the extent that it is required for future commitments of the ELTIF.	2. ~~The income~~Such distributions shall not be ~~distributed~~made to the extent that it is required for future commitments of the ELTIF.
3. The ELTIF shall state in its fund rules or instruments of incorporation the distribution policy that it will adopt during the life of the fund.	3. The ELTIF shall state in its fund rules or instruments of incorporation the distribution policy that it will adopt during the life of the fund.

Reason

Asset managers should have a certain flexibility regarding (early) redemption and life-cycle in the interest of investors and the underlying investments.

Amendment 3

Article 21(3)

Text proposed by the Commission	CoR amendment
e) any other information considered by the competent authorities to be relevant for the purpose of paragraph 2.	~~e) any other information considered by the competent authorities to be relevant for the purpose of paragraph 2.~~

Reason

Experiences in UCITS have shown that such paragraphs were often used to prevent the internal market from functioning in an appropriate manner.

([3]) *Special Purpose Vehicles.*

Amendment 4

Article 28

Text proposed by the Commission	CoR amendment
Article 28	Article 28
Powers and competences of ESMA	*Powers and competences of ESMA*
1. ESMA shall have the powers necessary to carry out the tasks attributed to it by this Regulation.	1. ESMA shall have the powers and resources necessary to carry out the tasks attributed to it by this Regulation.

Brussels, 30 January 2014

The President
of the Committee of the Regions

Ramón Luis VALCÁRCEL SISO