Position paper

Response to EC ELTIF Regulation review proposal

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The European insurance industry welcomes the European Commission's proposal to review the European Long-Term Investment Funds (ELTIF) Regulation. As the insurance industry needs access to a wide range of assets that provide attractive returns and portfolio diversification, improvements made to the ELTIF framework to make it more appealing to institutional investors are supported.

In particular, the industry supports the following:

- The proposed refinements to the framework to reduce barriers to the issuance of ELTIFs will improve its attractiveness, notably the introduction of an optional liquidity window redemption mechanism and more flexibility in fund rules. The removal of access restrictions will make the framework more appealing, particularly for retail investors.
- Numerous restrictions in the ELTIF framework were exclusively established to protect retail investors and are not necessary designed for professional and institutional investors, who are less in need of protection. Therefore, the proposed adjustments of selected fund rules for ELTIFs distributed solely to professional investors are welcome. In particular, the increased flexibility in portfolio composition and diversification requirements (including the broader scope of eligible assets) and concentration limits should also increase the attractiveness of ELTIFs for professional investors since the simplifications of the selected fund rules facilitate the implementation of more attractive strategies.

Nonetheless, from the perspective of institutional investors, the attractiveness of ELTIFs is likely to remain limited. In many cases, the strictly regulated ELTIF design is less likely to meet individual investment needs than traditional alternative investment funds (AIFs), which can be implemented in a more flexible and tailored way. In particular, the ELTIF maintains its closed-end nature which limits its flexibility and attractiveness, which is why institutional investors, including insurers, will tend to opt for traditional AIFs in the future.

The Solvency II Directive was amended by Commission Delegated Regulation 2016/467 when the ELTIF framework was set up to allow investments in ELTIFs to benefit from the same capital charges as equities traded on regulated markets, ie, lower than that for other equities (39% capital charge instead of 49%).

Insurers are disappointed that the EC's proposal does not include any changes to the equity capital charge under Solvency II to reflect ELTIFs' long term nature and to allow companies to classify them as "long-term equity"

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and benefit from a 22% capital charge. Insurance Europe notes, however, that this would not preclude companies from using the look-through approach to the underlying investments.