

Circular addressed to the financial services industry regarding the European Commission proposal for a new investment fund framework

On the 28th June, 2013, the European Commission proposed a new investment fund framework designed for investors who want to invest money into companies and projects for the long term. These private European Long-Term Investment Funds (ELTIFs) would only invest in businesses that need money to be committed to them for long periods of time. The proposal will be presented to the Heads of State and Government at the upcoming European Council of 27th/28th June, where long-term financing of the real economy is on the agenda.

The ELTIFs would be available to all types of investor across Europe subject to certain requirements set out in EU law. The ELTIFs are allowed to invest in certain defined types of long-term assets and firms, have to spread their money to reduce risks and have to provide certain stipulated information to investors. Any ELTIF manager would also have to comply fully with the requirements of the Alternative Investment Fund Managers Directive (“the AIFMD”) to provide adequate protection for its investors.

According to the proposal, ELTIFs would have to meet a set of common rules so that they:

- Always have a depositary to keep assets safe;
- Comply with the rules on spreading assets to prevent too much money going into one asset;
- Only use derivatives to manage currency risks in relation to the assets they hold, and not for speculation; and
- Obey limits on the amount they can borrow.

ELTIFs would invest in illiquid assets which are difficult to buy and sell. In addition, firms need to be confident the money invested in them will be committed for as long as they have told investors they will need it. Therefore, investors will only be able to withdraw money after the specified end date of their investment, which must be clearly disclosed upfront.

The proposal is in the legal form of a regulation, which is directly applicable to EU Member States.

More information about the proposal can be viewed on the following website:

http://europa.eu/rapid/press-release_IP-13-605_en.htm

Should you have any queries regarding the above, please do not hesitate to contact Mr Christopher Buttigieg, Deputy Director, Securities and Markets Supervision Unit [email: cbuttigieg@mfsa.com.mt, Tel: 25485229] or Mr Christopher Micallef, Analyst, Securities and Markets Supervision Unit [email: cmicallef@mfsa.com.mt, Tel: 25485381]