Luxembourg, 24 August 2023

ALFI response to ESMA Consultation Paper on the draft regulatory technical standards under the revised ELTIF Regulation.

The Association of the Luxembourg Fund Industry (ALFI) represents the face and voice of the Luxembourg asset management and investment fund community. The Association is committed to the development of the Luxembourg fund industry by striving to create new business opportunities, and through the exchange of information and knowledge.

Created in 1988, the Association today represents over 1,500 Luxembourg domiciled investment funds, asset management companies and a wide range of business that serve the sector. These include depositary banks, fund administrators, transfer agents, distributors, legal firms, consultants, tax advisory firms, auditors and accountants, specialised IT and communication companies. Luxembourg is the largest fund domicile in Europe and a worldwide leader in cross-border distribution of funds. Luxembourg domiciled investment funds are distributed in more than 70 countries around the world.

We thank ESMA for the opportunity to participate to the consultation paper on the draft regulatory technical standards under the revised ELTIF Regulation. ALFI’s response to the questions in the consultation paper can be found below. In addition, ALFI suggested a redrafting proposal for the matching process in respect of articles 7, 8, 9 ELTIF RTS, which has been appended in a separate document.

Annex I - ALFI redraft proposal matching process ELTIF RTS 24 08 2023
Q1: Do you agree with the proposed approach in relation to the RTS under the abovementioned Articles 9(3), 21, and 26(2) of the ELTIF Regulation?

ALFI welcomes ESMA’s initiative to consolidate under the single act all RTS in relation to the ELTIF Regulation, including the proposed changes to the framework existing under the previous version of the Regulation. In the view of ALFI, such approach will facilitate the implementation and understanding of the rules both for the industry and the investors.

Q2: Do you agree that the abovementioned pieces of legislation and regulatory material are relevant for the purpose of the RTS on Article 25(3) of the ELTIF Regulation? Which other pieces of legislation and regulatory material do you consider relevant for that purpose?)

ALFI agrees that the referenced pieces of legislation are indeed useful and the PRIIPS KID delegated regulation must be considered under the ELTIF Regulation (article 25(3) of the ELTIF Regulation).

While more detailed rules are necessary to ensure a level playing field in the implementation of the ELTIF Regulation, a one-size-fits-all approach to cost disclosure may prove challenging in practice considering the variety in ELTIFs.

Acquisition costs of an ELTIF are not easy to estimate or to anticipate and vary between asset classes.

ALFI suggests that acquisition costs (article 25(1)(b) of the ELTIF Regulation) should include both due diligence and transaction costs.

Acquisition costs include typically due diligence, advisory, consulting, transaction, monitoring, underwriting fees and any other fees (including legal, accounting, fees of finders or sourcing partners, and travel and accommodation expenses), agreed upon at the time of, and attributable a potential or actual investment by the ELTIF.

Furthermore, the acquisition cost structure may differ between a closed-ended fixed-term fund and a semi-open evergreen fund, as outlined in our response to Q3.

Finally, ALFI believes that the description and calculation methods set out in paragraphs 7 to 10 of Annex VI of the PRIIPS Delegated Regulation are not relevant to ELTIFs.

As regards other pieces of legislation and regulatory material, ALFI would like to point out that the AIFMD review and the Retail Investor Strategy proposals would have a significant impact on ELTIF. Careful consideration by regulators needs to be given to ensure that managers of ELTIF will be able to build products that are future proof and that will not need to be amended materially with any changes to the AIFMD and the Retail Investor Strategy.
Q3: Do you agree with the abovementioned assumptions? In relation to the ELTIF cost ratio figures to be expressed as yearly percentages (of the capital of the ELTIF), would you see merit in expressing it instead in terms of maximum percentages (and, in the prospectus, only refer to the corresponding yearly figures included in the KID, or in the annual report of the ELTIF)?

ALFI believes that the cost assumptions, as outlined under the response to question 2, will need to be carefully reworked to consider the specificities of the alternative asset classes in which ELTIFs invest.

ALFI would also like to stress that cost ratio figures may easily turn out to be confusing for investors, especially in the initial investment phase of the ELTIF. Closed-ended ELTIFs typically acquire assets over a period of years. Open-ended ELTIF may acquire and sell assets during the life of the ELTIF.

In the opinion of ALFI allowing for explanatory disclosures rather than fixed conditions of cost (especially acquisition cost) presentation could enhance transparency.

ALFI believes that yearly percentages make sense if these are for illustrative purposes only. Maximum percentages are more likely to lead to inconsistencies, particularly in the earlier years of an ELTIF, during the investment period. Costs over a lifecycle of the fund could be annual percentages for a certain duration of an ELTIF fund (e.g. presenting expected costs during the investment period/holding period, etc.).

ALFI agrees that it is necessary that the cost information in the KID and the cost information in the ELTIF prospectus are consistent and that the rationale for these different methods of calculating and presenting costs is clearly explained to investors so that they can compare and understand all the cost information provided to them, with clear and distinct statements in the prospectus of the ELTIF.

Q4: Do you agree that the types of cost mentioned in the present paragraph are annual costs that could be expressed as a percentage of the capital? What are your views on the list of “other costs” referred to above in paragraph 31(b) which are suggested to be added, as compared to the list of “other costs” referred to in Article 25(1)(e) of the ELTIF Regulation?

ALFI would like to point out that the reference to “capital” has proven difficult in the past and will likely continue to create difficulties for ELTIF Managers. This is because the reference size is the net asset value rather than capital.

As we have outlined previously, the costs and expenses (e.g. acquisition costs) cannot be anticipated with certainty and can only be an estimate.

Furthermore, the size of a fund depends on the success of fundraising and cannot be predicted. In

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1 The so called “ramp-up phase” (capital raising and investment)
addition, open-ended ELTIFs will likely have continuous fund raising and outflows, which will make the cost anticipation difficult.

ALFI would recommend estimated annual cost forecasts in normal circumstances, emphasising that such costs are only estimates.

ALFI is of the opinion that transactional costs and, in general, any costs related to investments should be excluded from this category (please refer to our previous comment in relation to the acquisition costs).

In order to enhance transparency, ESMA could consider that indicating estimates per category of cost (rather than a cumulative amount on all other costs) in the prospectus, with a clear reference to the annual reporting which is more accurate to investors.

Q5: Do you agree that the types of cost mentioned in paragraph 33 are fixed costs and that an assumption on the duration of the investment is necessary to calculate these costs in the numerator of the overall cost ratio mentioned in Article 25(2), provided that this overall ratio is a yearly ratio? Would you see merit in specifying what is to be meant by the “setting-up” of the ELTIF, as referred to in Article 25(1)(a) of the ELTIF Regulation? If yes, could you indicate which elements of the “setting-up” of the ELTIF should be clarified?

ALFI does not agree that costs mentioned in paragraph 33 are fixed costs. In addition, as open-ended ELTIFs may keep assets over different life cycles, assumptions on the duration of an investment in relation to cost calculations are also misleading. In addition, market movements (e.g. rising interest rates, changes in strategies as regards specific assets in the portfolio due to adverse changes that could not have been anticipated at the outset of the investment…) may lead to ELTIF managers invested in real assets to prolong lifecycles etc. which will have an impact on costs.

For this reason, ALFI believes that it will be important to differentiate between open-ended and closed-ended ELTIFs.

In relation to distribution costs, these costs are not always ascertainable from the start of an ELTIF project; there could be unforeseen costs. For example, additional costs related to distribution - e.g. opening of marketing in a new jurisdiction, which involves new marketing submissions, could occur over the life of the ELTIF, or changes distribution costs such as taxes in specific markets.

ALFI suggests to clarify the notion of “costs of setting up” the ELTIF, as follows:

“the costs of setting up the ELTIF comprises all fees, expenses and costs incurred by the ELTIF, the AIFM, or any of their affiliates for the ELTIF or on its behalf or otherwise fairly allocable to the ELTIF in connection with organising and establishing the ELTIF and the marketing and offering of shares in the ELTIF (including commissions, costs, fees and expenses for legal, notary, accounting, filing, tax, raising of capital, printing expenses and other similar costs, fees and expenses but excluding rebates paid to distributors/placement agents).”
Q6: Do you agree that the types of costs mentioned in paragraph 35 may be considered as fixed costs in the case of an ELTIF?

Costs related to acquisition of assets are not fixed, as they depend heavily on the underlying asset class, the market conditions and particular circumstances of the given asset. It is important to note that acquisition costs of illiquid asset funds (e.g. private equity/real estate funds) cannot be calculated in the same way as for UCITS.

While it is impossible to describe them as fixed costs, it may be possible to include in the disclosure table “ex-ante estimated costs” with a reference to actual costs being disclosed ex post in the ELTIF’s annual report.

As indicated previously, ALFI believes that the approach to the acquisition costs should be carefully reworked to allow asset class specific divergence and reflect the different categories of ELTIFs under the revised framework, considering the specificities of open-ended and closed-ended ELTIFs. As outlined previously, for alternative products this is not possible under the current proposed rules, as the acquisition costs of an ELTIF are not easy to estimate nor to anticipate.

In the opinion of ALFI, explanatory disclosures rather than fixed cost disclosures (especially acquisition cost) could enhance transparency towards investors.

ALFI is of the opinion that ELTIF managers would struggle to assess acquisition costs as a fixed and pre-determined amount and such rules would result in them artificially increasing these numbers to make sure there is a sufficient margin that they are not exceeded. This could make ELTIFs less attractive to the investors and put the objective of a successful ELTIF brand at risk.

Q7. Would you see merit in including a specific grand-fathering clause (in relation to the RTS under Article 25(3) of the ELTIF Regulation) for ELTIFs benefitting from the grand-fathering clause provided for in Article 2 of Regulation 2023/606?

ALFI believes that a specific grandfathering and a suitable ‘grace period’ for compliance with the Level II measures (once adopted) should be considered.

For ELTIFs already in the market and which have been sold to investors based on different features, the grandfathering should be indefinite. The Level II requirements on redemption frequencies would have an adverse impact on some existing ELTIF offering more regular dealing than what may be ultimately proposed by the Level II rules. For this reason, a technical solution should be found to ensure that existing ELTIF are not penalised by more stringent new Level 2 rules.

Q8: Do you agree with the proposed amendment to the existing RTS under the first paragraph of Article 18(6) of the ELTIF Regulation?

ALFI agrees with the proposed amendments to the first paragraph under article 18 (6) of the ELTIF Regulation. We would take the view that the words “on a weighted basis” in art 2 (a) are not necessary since the term is not defined and the reference to the liquidity profile of the ELTIF’s portfolio should be sufficient.
In point (f) ALFI takes the view that it should be sufficient to refer to a reliable and sound valuation. An updated valuation might be difficult to conduct e.g. in a fund of funds scenario.

Q9: Do you agree with the proposed criteria to determine the minimum holding period (referred to in point (a) of paragraph 2 - Article 18(6)(a)) of the ELTIF Regulation? What are your views on the setting of a minimum of X years for all ELTIFs, irrespective of their individual specificities (with X equal to 3, for example), with respect to the abovementioned minimum holding period?

ALFI fully supports the approach to use qualitative criteria (rather than quantitative criteria) for the RTS relating to the second subparagraph of art 18 (6) ELTIF Regulation since the large variety of eligible asset classes, investment strategies, regional focuses, durations, strategies, etc. that are conceivable under the ELTIF Regulation does logically not allow for a “one size fits all” approach to defining the context of redemptions.

However, ALFI has strong concerns with some of the proposals which in our view have the potential to seriously affect the attractiveness of ELTIFs and to put the ELTIF as an investment product for the future at risk. In our view, some of the proposals go beyond the Level I text or are inconsistent with its direction, and very concerningly some of the proposals will exclude important investor categories from being able to invest in ELTIFs. We would therefore kindly request that the draft RTS be carefully reviewed in order to achieve the aims pursued with the ELTIF revision.

In further detail (in chronological order):

ALFI generally agrees with the elements mentioned in art 3 (1) of the draft RTS, with the exception of Article 3 (1) b) of the draft RTS. Point (b) requires an ELTIF manager to consider the nature of investors and their concentration when determining the minimum holding period. Such features are, however, not foreseeable prior to the launch of an ELTIF when a product is structured and when prospectus terms are drafted. While managers may clearly have target investors and sales objectives, they cannot predict the outcome and success of their marketing activities. ALFI takes the view that it is not appropriate to make the redemption policy dependent on the expected/desired community of investors. Rather, we take the view that the redemption policy should be aligned with and designed according to the investment strategy and investment universe of the ELTIF, together with the defined liquidity management tools that are disclosed in the ELTIF prospectus.

ALFI disagrees with the proposals in article 3 (2) which in our view are inconsistent with the structuring possibilities ELTIFs can endorse. Article 3 (2) a) refers to the “time necessary to complete the investment of the ELTIF’s capital contributions” and “covering the initial investment phase”. Such references seems to relate to closed-ended ELTIFs with an upfront payment structure, however it is clearly not adapted to (quasi-) open ended ELTIFs with a regular in and outflow of capital. Also, depending on the
investment strategy and investment universe an ELTIF may have very regular, predictable inflow of income (e.g. certain infrastructure strategies), while other strategies may depend on the realization of assets at irregular intervals which depend on how the asset manager selects the assets. We strongly believe that the redemption policy chosen for a specific ELTIF should be adapted to the precise portfolio and investment strategy (as proposed in relation to art 3 (1), see above). It is in our view the manager’s responsibility to responsibly define and explain to the competent NCA the approach taken in view of redemptions, and to demonstrate that the chosen liquidity management tools will in normal market circumstances allow them to satisfy redemptions in the given windows.

Article 3 (2) (b) refers to the valuation procedures, which in ALFI’s view is a duplication of the rules under AIFMD / AIFMR on valuations relating to redemptions. We see no merit in creating an additional requirement under the ELTIF Regulation where AIFMD/R already apply. ALFI suggests to delete art 3 (2) since the underlying principles proposed in this paragraph are inadequate for certain ELTIF strategies and are better captured by the criteria set forth in art 3 (1).

Article 3 (3) of the draft RTS seems to propose a minimum quantitative holding period for all asset classes and strategies in a one-size-fits all approach without making any differentiation. ALFI strongly objects to such an approach which in our view is very harmful and will affect the attractiveness of ELTIFs as a whole. Our concerns are as follows:

- Firstly, such mandatory quantitative minimum period is not foreseen in Level I of the ELTIF regulation (see article 18 (2) a) “or”).
- A one-size-fits all approach does not allow any differentiation or adjustment according to different investment strategies, structures, liquidity profiles etc. For instance, there are ELTIFs in the market which have a constant regular income (e.g. infrastructure assets with a public supply arrangement). These ELTIFs have in the past allowed redemptions almost from day one and could demonstrate to regulators that this was a viable strategy (which has indeed proven to work well). Another example we have seen in the past are ELTIFs that use a warehousing set-up where assets are brought into the fund very quickly after launch, which allows them to avoid a j-curve. They also can allow redemptions early on and a mandatory lock-up is not required to protect investors.
- In ALFI’s view, the proposal of a mandatory lock-up / minimum holding period is duplicating the protection mechanics built into the ELTIF framework by the EU legislators. Indeed, the nature and construct of the ELTIF itself is designed to already protect investors. The Level I legislation requires that any redemption be always defined as a percentage of a dedicated liquid assets bucket (45% max) that an ELTIF shall build. Therefore, a strong investor safeguard is already hard-wired into the Level I framework and an additional lock-up period is in our view not justified.
- Finally and very importantly, imposing a strict lock-up for redemptions would have the effect of preventing certain investors (e.g. French unit-linked insurance products) from investing into ELTIFs. And even where investors are not legally prohibited from investing, they may well shy away from ELTIFs as investment products if they see a mandatory lock-up being imposed.

ALFI notes that ESMA themselves acknowledge that a “minimum holding period referred to above could be different from one type of ELTIF to another.”

Based upon the above, ALFI therefore suggest to either remove Article 3(3) in its entirety or that it be rephrased in order to give NCAs the authority to review and approve the manager’s approach to a minimum holding period in the light of the concrete portfolio and investment strategy. NCAs would then approve the minimum holding period (if any) and would assess such approval based upon the criteria presented by the ELTIF manager, as mentioned in Article 3(1).
Q10: Do you agree with the proposed approach in relation to the minimum information to be provided to the competent authority of the ELTIF (referred to in point (b) of paragraph 2 - Article 18(6)(b) of the ELTIF Regulation)?

ALFI agrees with the proposed approach to provide NCAs with an adequate set of information to enable them to assess the redemption possibilities in light of the asset class and liquidity management tools.

ALFI is however of the view that the proposed standards go beyond what should be required. We would take the view that the information to be provided should be aligned to AIF standards in comparable funds and should by no means go beyond the requirements that apply to UCITS. To give a few examples, we believe that the name(s) of the person(s) in charge of applying redemptions is part of the information that should not be disclosed (one may even wonder whether this in compliance with GDPR), and that the software used should not be of relevance.

Regarding items (b) and (c) these are in our view duplications of requirements also set forth elsewhere and we would strongly advocate against creating duplication of requirements which lead to confusion and overlaps. For instance, point (b) refers to the adequate balance of assets and liabilities, which seems unnecessary to us given the ELTIF Level 1 requirement to only allow redemptions if a liquid assets bucket of max 45% is constituted and redemptions are limited to a percentage of such liquid assets bucket. The percentage of such liquid assets bucket is controlled by the NCA as part of the ELTIF approval process (see art 3 (1)) and needs to be demonstrated towards the NCA. Likewise, item (c) seems to be a duplication of the AIFMD requirements on valuation in case of redemptions.

In point (d) liquidity stress tests are required, however it would appear to us that these should be aligned with AIFMD rules and should not go beyond the requirements under AIFMD.

As a general comment, we take the view that the ELTIF manager’s internal redemption policy itself should not be part of the documents that are required to obtain approval as an ELTIF, but only a description thereof. The redemption policy is not listed as one of the documents required for the ELTIF approval in the ELTIF Level I regulation. ALFI believes that a description or confirmation of the applicable redemption policy should be sufficient. We do not think that for ELTIFs higher standards than applicable under AIFMD and UCITS should be required.

Regarding article 4 (2) of the draft RTS, we would generally agree that the NCA should be informed of any material changes to the general redemption policy as part of a prospectus change that would anyway be subject to regulatory approval. However, we disagree with a 10 days period within which changes need to be notified to NCAs. ALFI believes this requirement to be disproportionate and not necessary as any material change to the redemption policy (as described in the prospectus of an ELTIF) will need to undergo a regulatory approval process before being applicable. We suggest deleting such 10 days notice period.

Finally, as regards para (3) of article 4, we would wish to stress that a distinction should be made between “normal” situations (e.g. a normal deferral of redemptions as part of business as usual) and extraordinary circumstances such as a financial crisis giving rise to exceptional measures. Indeed, a healthy standard application of Liquidity Management Tools (LMTs) in the normal running of business should in our view not require notification to regulators, but these should be limited to extraordinary situations.
Q11: a) Do you agree with the proposed approach in relation to the requirements to be fulfilled by the ELTIF in relation to its redemption policy and liquidity management tools, referred to in points (b) and (c) of Article 18(2) - Article 18(6)(c) of the ELTIF Regulation?

We disagree with some of the proposals, see our detailed previous comments and reasoning.

b) What are your views on the setting of a maximum redemption frequency on a quarterly basis, for all ELTIFs, irrespective of their individual specificities, as suggested in paragraph 83?

ALFI therefore strongly disagrees with this proposal. We strongly believe that the redemption frequency and the use of Liquidity Management Tools (LMTs) should be in the responsibility of the ELTIF manager who shall design a product that is viable in the light of the target assets, investment strategy, geographic specificities, frequency and reliability of income, etc. As under question 9, the variety of available asset strategies of profiles of ELTIFs does in our view not allow for a one-size-fits all approach which will necessarily be misaligned with some ELTIFs and their profiles. Furthermore, we do not see a legal basis for imposing a maximum redemption frequency in the Level I text.

Experience has shown that some ELTIFs currently existing on the market have a higher than quarterly redemption and have not encountered any liquidity issues. We fail to see the need for such provision since, as previously mentioned, the Level I regulation expressly includes safeguards into the conception itself of an ELTIF, where any redemptions are always limited to a liquid assets bucket as defined in ELTIF level I.

ALFI believes that the decision on redemption frequencies must be left to the discretion of the manager of an ELTIF in line with the liquidity risk management framework the fund has, and shall be approved by the competent NCA in light of the specific profile and circumstances of that precise ELTIF.

c) What are your views on the setting of a notice period of Y months for all ELTIFs (with Y equal to 12, for example)? What are your views on the options 1 and 2, set out in paragraphs 87 to 90, in relation to the specific requirements/circumstances where the notice period could be less than one year, and the numerical values of the parameters Z(1) to Z(4), under option 1, and Y, under option 2?

ALFI has the same concerns as under point b), for exactly the same reasons. As stated previously, the proposal for setting a mandatory one-size-fits all notice period does not take into account the variety of investment strategies, liquidity profiles, income frequency, etc. which ELTIFs may pursue and will necessarily be misaligned with the profile of certain ELTIFs. We strongly suggest deleting
the minimum notice period, which will also be harmful for certain investor categories who will shy away from investing into ELTIFs.

In our view it should be the ELTIF manager’s responsibility to determine and explain the approach and any applicable notice period to the NCA which will assess and approve such notice periods.

d) In your view, how do these requirements on the redemption policy and liquidity management tools of the ELTIF would compare to those applying to existing long-term investment AIFs which would be similar to ELTIFs (e.g. in terms of eligible assets)?

Where possible, please support your answers by providing examples of current liquidity set-up for similar long-term funds marketed to retail investors, analyses of the data available to assess the value of ELTIF long term assets and the length of the valuation process.

ALFI does not believe that the new ELTIF rules would be a useful measure to compare existing non-ELTIF products with. ELTIFs are a specific framework designed with retail investors in mind; such investors require specific safeguards. ALFI strongly feels that in both frameworks (AIFMD and ELTIF), the ultimate responsibility for product design and accuracy of liquidity management lies with the manager and shall be demonstrated to the relevant NCA for supervisory assessment. ALFI believes that strict rules in a one-size-fits all approach will not be able to replace such manager’s responsibility and NCA assessment.

Q12: Do you agree with the proposed criteria to assess the percentage referred to in point (d) of Article 18(2) - Article 18(6)(d))?

In our view the definition of the percentage should be under the responsibility of the manager, for the reasons already explained in further detail previously.

Q13: Do you agree with the principle-based approach suggested above, in relation to the ESMA RTS under Article 19(2a)?

ALFI agrees in principle. ALFI proposed drafting amendments to Articles 7-9 of the RTS to implement proposed changes and attaches it to this response. Please refer to the proposed drafting changes (see further below) together with the explanatory comments to the proposed changes.

Q14: Do you agree with the proposals suggested above and corresponding draft RTS, in relation to the transfer process for both exiting and potential investors, and the role of the manager of the ELTIF or the fund administrator in conducting transfers, and the matching of respective requests?

ALFI supports ESMA’s proposal to apply a principle-based approach which will allow a certain level of flexibility for the industry when designing their matching policy. However, in doing so, we believe that ESMA is going further than specifying the circumstances for the use of matching, as required by its mandate under Article 19(5) of the ELTIF Regulation.
ALFI would like to stress that while the availability of a matching mechanism is welcome and helpful, it should be clarified that such a matching process organised by the ELTIF manager does not preclude, in any way, the possibility to conduct private transfers between investors and third parties outside the matching process (transfers by investors to third parties or intragroup transfers). We would suggest that this be clarified in the RTS.

ALFI welcomes and supports ESMA’s confirmation that both matching and redemptions can apply during same period i.e. they are not mutually exclusive.

ALFI takes the view that, from a regulatory perspective, meeting an investor subscription request through matching shall not constitute marketing. In our view, a matching mechanism organised by the ELTIF manager under the ELTIF Regulation should not be considered as a separate regulated activity.

Additional comment on draft RTS Articles 7, 8 and 9:

- ALFI is of the opinion that the detailed matching policy should be a separate document (outside the prospectus which would contain a summary description thereof), as it is likely that the procedures for matching would be quite complex and could involve operational details, which could be subject to ongoing changes. The manager of the ELTIF should make such policy or a comprehensive summary thereof available to the investors free of charge.

- ALFI believes that there should be a clear separation of the procedures governing redemptions under Article 18(2) and the rules governing matching. The RTS delineates that the differences should be set out in, e.g., the prospectus; however, in line with our previous comment, the prospectus is a more appropriate document to govern the redemptions (core to the valuation and fundamental to the fund) while the matching can be in a separate policy. Therefore, we propose including a prominent disclosure in the prospectus or instruments of incorporation in the event both mechanisms are in place, accompanied with a cross reference to the matching policy for details.

- The RTS – and indeed, Article 19(2a)(a)(ii) points out the role of the manager of the ELTIF or the fund administrator in conducting transfers. Noting that many managers and even fund administrators are not currently equipped to run a matching program, ALFI recommends ESMA consider extending this, by way of a delegation or engagement, to other service providers in the ecosystem, especially those with technology platforms that can practically support running the matching program.

Q15: Do you agree with the proposed approach and corresponding draft RTS, in relation to the periods of time during which exiting and potential investors may request transfer of shares or units of the ELTIF? If both systems under Article 18(2) and 19(2a) coexist, how could the risk of arbitrage between different prices in the primary and the secondary markets be, in your view, mitigated? How could (retail) investors be ensured that the purchase or sale of shares on the secondary market will be executed at prices that reflect the value of the ELTIF?

The matching mechanism is another liquidity tool in the management of semi-liquid ELTIFs. It
provides investors with another possibility to exit their investments in ELTIFs in a manner that does not entail any separate liquidity considerations at the level of the ELTIF itself. Criteria envisaged in the matching policy would be objective and equal for all investors. In the view of ALFI, RTS should not restrict the use of the matching mechanism during certain windows of time – this should be part of the matching policy that the manager needs to develop.

In the opinion of ALFI, leaving discretion to the ELTIF Manager (by means of the matching policy) to ensure that the price for the incoming and exiting investor would be based on a fair and accurate value (reflecting the value of the ELTIF) would be sufficient to ensure appropriate protection to investors.

**Q16: Do you agree with the proposals above and the corresponding draft RTS, in relation to the determination of the execution price and the proration conditions and the level of the fees, costs and charge, if any, related to the transfer process?**

ALFI in principle agrees with the proposed approach but suggests certain clarifications in the proposed text to ensure that the rules around applicable charges are more transparent and fit for purpose. Please refer to the proposed drafting changes and explanatory notes.

ALFI does not believe that the matching rules need to be included in the instruments of incorporation of the ELTIF – instead it could be in an accompanying policy document that is easier to adapt so long as it is disclosable to the investors.

**Q17: Do you agree with the proposals above, and the corresponding draft RTS, in relation to the timing and the nature of the disclosure of information with respect to the transfer process conditions?**

ALFI does not believe that the matching rules need to be included in the instruments of incorporation of the ELTIF – instead it could be in an accompanying policy document that is easier to adapt so long as it is disclosable to the investors.

**Q18: Are you of the view that any of the requirements of the draft RTS under the amending ELTIF Regulation should be adjusted to take into account the specificities of listed ELTIF? If yes, could you specify which requirement should, in your view, be amended?**

ALFI has not identified the need for any such adjustments. ALFI takes the view that it could be beneficial for stock exchanges to run platforms facilitating matching process and welcomes initiatives in this respect.

**Q19: Do you agree with the above-mentioned reasoning in relation to the possible costs and benefits of the option taken by ESMA as regards the redemption policy of ELTIF under Article 18(2) of the ELTIF Regulation? Which other types of costs or benefits would you consider in this context?**

ALFI is of the view that the redemption rules currently proposed by ESMA could be difficult for the industry to implement. While there are clear benefits in allowing redemptions more widely in ELTIFs,
thus attracting a larger base of retail investors, strict rules envisaged in the ESMA proposal would likely make it difficult for many ELTIF managers to apply them. ALFI is of the view that more flexibility should be allowed for the ELTIF managers to determine appropriate rules adapted to the strategy and features of the particular ELTIF. NCAs could monitor whether such rules are in line with the general guidelines applicable to redemption rules. Please refer to our considerations raised previously.

Q20: Do you agree with the above-mentioned reasoning in relation to the possible costs and benefits of the option taken by ESMA as regards the matching mechanism of ELTIF under Article 19(2a) of the ELTIF Regulation? Which other types of costs or benefits would you consider in this context?

ALFI is of the view that the matching mechanism is an attractive alternative for investors to exit the ELTIF in the course of its life without creating any liquidity concerns. ALFI is of the view that the current framework proposed by ESMA could make it cumbersome for ELTIF managers to implement this mechanism on a larger scale and hence, would see benefit in allowing external actors specialized in this field to also offer matching services. ALFI suggests clarifying normal transfers by investors to third parties or intragroup transfers – that are agreed between them outside of the ELTIF and without ELTIF’s active participation - are not captured by the matching rules.

Q21: Do you agree with the above-mentioned reasoning in relation to the possible costs and benefits of the option taken by ESMA as regards common definitions, calculation methodologies and presentation formats of costs of ELTIFs? Which other types of costs or benefits would you consider in this context?

ALFI is of the view, that the framework around cost definitions, calculation and presentation proposed by ESMA could be difficult for the industry to implement and creates a risk of misunderstanding by investors or confusion. In particular, ALFI is of the view that the one size fits all approach is not appropriate for ELTIFs taking into account their variety and different strategies. ALFI is of the view that – while key guidelines should be set in the RTS – certain level of flexibility should be left for ELTIF managers to adapt the disclosures to the particular product. ALFI is of the view that a unified disclosure would actually lead to ambiguities in approaches and could be confusing for investors. Please refer to our considerations raised previously.