



FINANCIAL SERVICES

ELTIF 2.0: Welcome Developments

by **David Naughton, Katrina Smyth**

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The revised European Long Term Investment Funds (ELTIF) framework, ELTIF 2.0, has applied from **10 January 2024** and provides enhancements to the existing ELTIF framework. This has resulted in an increased interest in the use of ELTIFs for investment purposes.

The key advantage of ELTIFs is that they enable private capital to be raised from investors for long-term investment in the real economy and enable cross-border distribution to both professional and retail investors, via their EU-wide product passport.

In a welcome move, the Central Bank of Ireland (Central Bank) recently published an updated version of its AIF Rulebook, ensuring that Ireland closes the gap and is ELTIF-ready. This will promote Ireland as an attractive location for the authorisation of ELTIFs as a regulated product by the Central Bank.

The European Commission's response on ESMA's draft regulatory technical standards (RTS) under the revised ELTIF regulation is awaited.

Background: European Level

ELTIF 2.0 entered into force on 9 April 2023 pursuant to [EU Regulation 2023/606](#), and amends the existing [2015 ELTIF Regulation](#) (together, ELTIF Regulation).

Key enhancements aim to address perceived deficiencies of the existing ELTIF framework, for example:

- expanding the scope of eligible assets and investments
- amending portfolio composition and diversification requirements and borrowing restrictions
- removing an initial minimum investment threshold for retail investors

On 23 May 2023, ESMA published a [consultation paper](#) on the draft RTS under the revised ELTIF Regulation. The Irish Funds Industry Association (Irish Funds), which is the representative body for the international investment fund community in Ireland responded to this consultation paper on 24 August 2023. ESMA issued its [final report](#), which outlines the draft RTS, on 19 December 2023.

The European Commission issued a [Communication to the Commission](#), on 6 March 2024, on its intention to adopt (with amendments) the RTS and summarised the main reasons for doing so in a letter to ESMA contained in an [Annex to the Communication](#). The Commission invited ESMA to amend and submit a new draft RTS to it reflecting those amendments.

On 19 April 2024, ESMA issued an [opinion](#) to the Commission (with copies to the European Parliament and the Council) suggesting only a limited number of changes to the amendments proposed by the Commission, including: updates regarding minimum notice periods and liquidity requirements (including changes to the tables in the Annex, liquidity management tools (LMTs) and redemption gates), along with notification of material changes to national competent authorities (NCAs). The Commission may adopt the RTS with the

amendments it considers relevant or reject it. The Parliament and the Council may object to an RTS adopted within a period of three months.

Domestic Perspective: Key Changes

Irish Funds, in the organisation's Key Policy Messages in August 2023, indicated that in the light of increased interest in ELTIFs, Ireland needs to have a viable ELTIF offering in 2024, which resulted in constructive engagement between Irish Funds and the Central Bank.

This culminated in the Central Bank issuing [CP155 \(Consultation on ELTIF chapter in the AIF Rulebook\)](#) in November 2023. On 7 March 2024, the Central Bank published a [Feedback Statement](#) on CP155, along with an updated version of its [AIF Rulebook](#) (the Central Bank rulebook relating to alternative investment funds (AIFs)) to reflect specific requirements for ELTIFs as a regulated AIF product.

The AIF Rulebook now includes a new chapter 6 on ELTIF requirements, which provides firms with a framework to facilitate the establishment of Irish ELTIFs (the ELTIF Chapter) and in which the Central Bank has included some changes to its original proposals. The ELTIF Chapter allows for the use of existing regulated fund structures in the establishment of ELTIFs in Ireland; via Irish collective asset-management vehicles (ICAVs), investment limited partnerships (ILPs), public limited companies, unit trusts and common contractual funds.

The Central Bank has not gold-plated the ELTIF Regulation, ensuring that the applicable product-specific rules are those contained in the ELTIF Regulation and delegated acts.

Some of the key elements of the ELTIF Chapter to note are that:

- The Central Bank has provided definitions for three categories of ELTIF; namely "professional investor ELTIFs", "qualified investor ELTIFs" and "retail investor ELTIFs". Professional investors are those who meet the MIFID II definition of a "professional client". ELTIFs must meet additional conditions to market to retail investors.
- The use of umbrella structures to establish ELTIF sub-funds is permitted, with it being possible to establish ELTIF and non-ELTIF sub-funds in the same umbrella. Professional investor and qualified investor ELTIF sub-funds may be created within existing qualifying investor alternative investment fund (QIAIF) umbrella structures. Retail investor ELTIF sub-funds may be created within existing retail investor alternative investors fund (RIAIF) umbrella structures.
- Where the relevant provisions of the AIF Rulebook are complied with, "professional investor ELTIFs" and "qualified investor ELTIFs" may avail of the Central Bank's 24-hour authorisation process.
- The applicable tax regime will be determined by reference to the legal structure used.

Ultimately, the ELTIF Chapter will facilitate the authorisation of regulated ELTIFs in Ireland, under either the existing 2015 ELTIF framework or the new ELTIF 2.0 framework.

Views have been expressed in some quarters that ELTIFs may not be as attractive, in terms of liquidity and the extent to which they may be classified as open-ended, as other available structures in the EU. However, such other structures do not have an EU-wide product passport and are available to a smaller pool of investors, unlike ELTIFs which benefit from a far greater marketing reach.

Next Steps

It remains to be seen if the European Commission will adopt the RTS with the amendments it considers relevant, or if the European Parliament and the Council will object to any RTS adopted within a period of three months.

Further Information

Please contact [David Naughton](#) or [Katrina Smyth](#), from our Financial Services team, if you require further information on ELTIFs or ELTIF 2.0.

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