55 The European Commission launched the proposal for a Regulation on ELTIFs in June 2013, create a new brand of fund available for both retail and professional investors to invest in long-illiquid assets. The European Council and Parliament agreed on the legal text in December 20 following which the ELTIF Regulation was published in the Official Journal on 19 May 2015. It entered into force on 9 June 2015 and has applied since six months later, ie from 9 December notwithstanding that the associated Delegated Regulation with regard to regulatory techn standards Á • v } š ( ] v o o Ç %o Official Journal until 23 March 2018.

56 The ELTIF rules are designed to be closely linked to o š Œ v š] À / v À • š u v š & Directive (AIFMD), with ELTIFs being AIFs that are managed by AIFMs duly authorised according to AIFMD framework. The Commission justified the need for a European framework for these kinds funds on the grounds that different existing fund structures already exist at national level, which to diverging levels of investor protection, different legal certainty and differing redemption a holding period rules. By seeking to create a new harmonised fund structure, which would be %o • • %o } Œ š o Œ market, the Commission hoped to ensure that ELTIFs would display a coherent and stable product profile for investors to invest in; but a number of natio considerations, not least among which is tax, continue to impinge on this.

57 The final ELTIF text notes that, while individual investors may be interested in investing in ELTIF, the illiquid nature of most investments in long-term projects precludes an ELTIF from offe redemptions to its investors. For this reason, the default structure of these funds should be n offer any redemption before the end of the life of the ELTIF. However, given the importance redemptions for retail investors, the ELTIF manager is given discretion in the legislation to dec whether to grant early redemptions to investors under certain conditions. Furthermore, while EL are not by default designed to offer redemptions, there is nothing preventing an ELTIF from see admission of its shares or units to a regulated market or a multilateral trading facility. In other w there will still be the possibility of secondary market liquidity if investors want to sell their units

58 There are also minimum ticket restrictions on retail investors. A retail investor whose portf composed of cash deposits and financial instruments is smaller ñ ì ì U ì ì ì] • v } š o o } Á an aggregate amount exceeding 10% of his portfolio in ELTIFs, provided that the initial amou invested in one or more ELTIF are no less than í ì U ì ì ì ~ investing in more than one ELTIF the minimum in any v > d / & } µ š } (š Z The relevance of establishing limits is easy to appreciate, yet the way these are structured leads to a requirement which is challengin apply tas it is far from straightforward to be able to monitor compliance with these limits.

59 The portfolio rules for ELTIFs state that at least 70% > d / & [• %o] š o • Z } µ ^ o] P] À o • š u v š ie long-term assets. These long-term assets are generally illiquid assets which are not transferable and therefore do not have access to liquidity in secondary markets. T eligible investments must be in equity, debt or loan instruments issued by what are known ^ ‹ µ o] (Ç] v P %o } Œ š (} o] } µ v Œ š l] v P • _ U ‰ Á Z] Z µ ‰ o } o] • %o] š o] million. o] P] o • • š • o • }] v o µ • • š Œ _ U š • Z } o] v P • (} Œ š Z ^ Œ predictable stream (• Z (o } Á • v Z À million, eg infrastructure or í property. Investment in other ELTIFs, or in European Venture Capital Funds (EuVECAs) or Europea Social Entrepreneurship Funds (EuSEFs), is allowed up to 20% of the capital of the fund or up to of the total units in this other fund. This has been criticised by the fund industry, as it restricts e fund of funds solutions in these illiquid assets.

60 While remaining respectful of the need to provide the right degree of control to satisfy legitimate concerns, such as investor protection, more work to better facilitate take-up of ELTIFS, and other similar longer-term investment vehicles, could significantly boost their contribution towards the financing of much needed longer-term investment – to the benefit of the real economy.

The search for a euro safe asset

61 The idea of a public “safe asset” attracted attention in the wake of the euro sovereign crises, where a safe asset could not only provide emergency funding for stressed euro member economies but would also help to break the “doom loop” of the sovereign-bank nexus. More recently the discourse has begun to focus on the increasing demand for high-quality liquid assets in a more collateralised financial system. From a central bank perspective, the potential for a safe asset is seen as helping to make the euro a more investable currency while also facilitating the execution of monetary policy.

62 There has been much discussion around what should be the defining characteristics of a safe asset. The starting point is perhaps to distinguish safe assets from the broader class of high-quality liquid assets (HQLA). Generally it is held that a safe asset should not only be of the highest perceived credit quality, be deeply liquid, and have benchmark status (providing for a yield curve), but that it should be counter-cyclical in the sense that it should increase in value in stressed market conditions; importantly this should be due to a perception of quality and safety, rather than as a result of scarcity.

63 Other features considered essential include the capacity to create a deep, liquid derivatives market, the best treatment under regulatory capital and liquidity requirements, as well as central bank eligibility with the lowest possible haircuts. The US treasury market provides the archetypal safe asset, while in the euro area German government bonds currently serve the role – but this is a relatively limited pool of assets and one that is set to become even smaller.

64 While there may be broad agreement on the need for and desired characteristics of a euro safe asset, creating one is a lot more challenging. The first hurdle is that the possibility of a common, jointly guaranteed “eurobond” market has been roundly rejected on the grounds that this would reduce the incentive for “weak” economies to undertake necessary structural reforms and would undermine the stability and fiscal credibility of the euro area. Other considerations include not increasing the overall issuance stock of euro area sovereign debt and ensuring that there is not a detrimental shift in relative demand away from some domestic markets.

65 Despite these potential limitations, a number of possible solutions have been put forward that continue to engage academics, policy makers, and regulators, as well as market participants. These various proposals can be grouped into four main approaches: tranching and pooling existing sovereign debt; pooling with preferred intermediary creditor status (“E-bonds”); pooling of existing sovereign debt, followed by tranching (“ESBies”); and issuance backed by a euro area budget (supranational issuance).

66 While there are a range of alternative proposals under consideration, and a series of challenges and limitations to circumnavigate, it would seem that there is broad consensus among public and private stakeholders of the benefits, and even the need, to create a euro safe asset. In doing so, a number of questions still need to be answered. These include whether issuance should be demand or supply led, the involvement of the private sector in its creation, and whether a safe asset market should be developed gradually or if a “big bang” approach should be taken.

67 Variations on the four main proposals also deserve consideration, such as a proposed “temporary eurobill fund” (TEF). Effectively the pooling of short-term euro area issuance, this might not only be a manageable means of testing the water for safe assets, but it could also ease some of the strain being borne by the repo market in intermediating collateral flows, as well as creating a term risk-free reference rate for the euro area.