



**ISLA Response to the European Commission's  
Legislative Proposal, amending Regulation  
(EU) 2015/760 on European Long Term  
Investment Funds**

### About ISLA

The International Securities Lending Association (ISLA) welcomes the opportunity to respond to this consultation on behalf of our membership of over 170 firms, including institutional investors, asset managers, custodial banks, prime brokers, and service providers. ISLA represents the common interests of securities lending and financing market participants across Europe, the Middle East and Africa.

More information on ISLA and its members can be found [here](#).

### ISLA Consultation Response

A link to the consultation can be found [here](#).

ISLA would like to raise concern pertaining to the rules around eligible assets. Under the current regulation, an ELTIF must not enter into a securities lending or borrowing transaction if thereby more than 10 % of the assets of the ELTIF are affected.

ISLA believe that to effectively promote the attractiveness of investing in ELTIFs, the use of these investment tools must be permitted in order to increase liquidity in long-term investments, such as social and transport infrastructure projects, real estate and SMEs.

ISLA supports the Commission's adjustment to Article 13, regarding the portfolio composition, reducing the percentage of investment in eligible assets from 70-60% and ISLA concur, that this lower threshold is a step towards improving the liquidity profile of ELTIFs.

ISLA welcomes the view of the Commission, that the advantages provided by the framework are somewhat diminished by the restrictive nature of the requirements for investments to qualify as eligible. This is further limited by the restrictions that continue to be placed on securities lending activity.

ISLA also supports the introduction of an optional liquidity window redemption mechanism, which may help to ensure greater participation from retail investors, where historically the intrinsic illiquid nature of the ELTIFs limited their appeal.

ISLA is also in favour of the proposal to make the ELTIF structure more attractive by easing selected fund rules for ELTIFs distributed solely to professional investors. The current regulation does not effectively distinguish between the risk profile of retail investors and professional investors, who do not necessarily require the same levels of investor protection. ISLA consequently support the proposed modifications to certain fund rules, including the scope of eligible assets to increase the flexibility and attractiveness to professional investors with advanced trading strategies.

ISLA understands that the nature of securities lending activity is often misconceived as a short-term transaction and hence against the spirit and objective of a long-term investment fund however, ISLA wishes to highlight that in an ESMA report issued in 2019<sup>1</sup> on undue short termism in the real economy, the regulator states

*“ESMA has considered the general arguments in relation to the impact of short-selling and securities lending practices and their potential link with short-termism. ESMA points out that short-selling and securities lending are key for price discovery and market liquidity.”*

ISLA strongly believes that increasing the levels of securities lending that an ELTIF can engage in, can directly address the challenges associated with the low take-up of ELTIFs and engagement in this activity, should not be seen as a contradiction of an ELTIFs overall objectives, as securities lending can generate additional income for long-term holders of securities. In the aforementioned report,

*“The SMSG acknowledges that securities lending, if done in a controlled way, is an opportunity to add value for fund investors and compatible with long-term investment strategies.”*

It is important to note that asset managers of alternative collective investment vehicles such as UCITs and AIFs also utilise securities lending as part of their efficient portfolio management techniques. ISLA advocate that securities lending can play an important role in the Commission’s endeavours to improve the scalability of ELTIFs and maintain that limiting this activity, is a barrier to improving the efficiency and development of these fund types.

<sup>1</sup> [https://www.esma.europa.eu/sites/default/files/library/esma30-22-762\\_report\\_on\\_undue\\_short-term\\_pressure\\_on\\_corporations\\_from\\_the\\_financial\\_sector.pdf](https://www.esma.europa.eu/sites/default/files/library/esma30-22-762_report_on_undue_short-term_pressure_on_corporations_from_the_financial_sector.pdf)