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European Securities and Markets Authority
103 rue de Grenelle
75007 Paris
France

Re: Consultation document on the draft RTS under Article 25 of the ELTIF Regulation.

Dear ESMA,

CFA Institute appreciates the opportunity to comment on ESMA's consultation paper on the draft regulatory technical standards (RTS) under Article 25 of the ELTIF Regulation.

CFA Institute is the global association of investment professionals that sets the standard for professional excellence and credentials. The organization is a champion for ethical behaviour in investment markets and a respected source of knowledge in the global financial community. The end goal: to create an environment where investors' interests come first, markets function at their best, and economies grow. CFA Institute has more than 140,000 members in 150 countries and territories, including 133,000 Chartered Financial Analyst® charterholders, and 147 member societies.

General comments

CFA Institute believes that convergence and harmonisation, as much as possible, should be the driving principles of the EU's rules and directives on investment funds reporting requirements. This standardisation will greatly help firms implement these requirements and should help foster a common understanding of the information that is being provided, which should in turn help fulfil cross-distribution and cross-marketing of the products.

This comment is made irrespective of the potential review to the PRIIPs delegated regulations and accompanying appendices dedicated to the calculation method and interpretation rules.

ELTIF products are in principle very similar to other forms of private equity funds, which are classed as Alternative Investment Funds (AIFs) and subject to the AIFMD. We believe there should be only minimal differences in how these two types of AIFs are treated from a reporting perspective (including Key Information Documents).

We also believe that great care should be taken in allowing ELTIFs to be distributed to retail investors. There should be significant burden of disclosure to retail investors, specifically about the investment horizon and illiquidity of the underlying assets.

ELTIFs are by nature complex and illiquid and it will be important for any information or report on these to be done with the level of transparency and education that would be required, as part of any marketing campaign or initiative targeting retail investors.

Specific comments

Q1 Taking into account the new cost disclosure framework introduced by the PRIIPs Regulation, 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?

CFA Institute agrees that the abovementioned pieces of legislation are relevant; we are not aware of additional pieces of regulatory material that are relevant.

Q2: Taking into account the new cost disclosure framework introduced by the PRIIPs Regulation, do you agree with the abovementioned assumptions? In particular, do you agree with the proposal included in paragraph 21 above? With respect to the overall cost indicator, would you see merit in aligning the level 1 framework on cost disclosure under the ELTIF Regulation with the PRIIPs level 2 framework on cost disclosure?

CFA Institute agrees with the abovementioned assumptions and the proposal in paragraph 21.

Q3: Taking into account the new cost disclosure framework introduced by the PRIIPs Regulation, do you agree that they types of cost mentioned in the present paragraph are annual costs that could be expressed as a percentage of the capital?

CFA Institute notes that performance fees are not a 'fixed' or an 'annual' cost; they are, by definition based on the performance of the vehicle which varies and therefore may not apply annually.

Performance fees are specifically mentioned in the paragraphs prior to paragraph referred to by this question, so they should <u>not</u> be included as a type of cost that is an annual cost. Most of the time a performance fee is generated over a period greater than a single year (typically they can apply after first 36 months). There are clawbacks and other aspects of performance fees that could distort the annual percentage of capital methodology; for clarity, performance fees should be expressed separately.

We would also suggest that there should be a better distinction between one-off costs, fixed costs (repeating but unchanging; those which are *x* basis points of total assets or a flat fee) and variable costs. These appear to be mixed up in Article 25 (1) - management could be a fixed basis point whereas performance fees are variable..

Q4: Taking into account the new cost disclosure framework introduced by the PRIIPs Regulation, do you agree that the types of cost mentioned in paragraph 24 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 ratio mentioned in Article 25(2), provided that this overall ratio is a yearly ratio?

CFA Institute agrees that the types of costs mentioned in paragraph 24 are fixed costs, with some caveats. Distribution costs can be considered in the world of private investments as placement and introduction fees. Under the new rules related to inducements, these fees should in most cases be fixed and/or eventually calculated as a percentage of commitments, but payment may be made in instalments over the life of the fund.

Q5: Taking into account the new cost disclosure framework introduced by the PRIIPs Regulation, do you agree that the types of costs mentioned in paragraph 27 may be considered as fixed costs in the case of an ELTIF?

CFA Institute does not agree that the types of costs mentioned in paragraph 27 may be considered as fixed costs in the case of an ELTIF. We believe that ELTIFs, like private equity funds, have significant transaction costs as part of their nature. This should be reflected as such,and acquisition costs should be treated as transaction costs and calculated as prescribred under PRIIPs in a harmonised manner)

Q6: Do you agree with the views expressed in paragraph 28 on the presentation formats of the costs in the context of the ELTIF cost disclosure?

CFA Institute believes that while no specific presentation format should be indicated, we would support ensuring all cost related information necessary for the investor to make comparisons between investment products and to make an informed decision regarding fees and costs are presented in a 'costs section'. This belief is reflected in our own Global Investment Performance Standards.

Q7: Given that the RTS enter into force after the date of application of the ELTIF Regulation and authorisations have been granted between the date of application of the ELTIF Regulation and the date of application of the proposed RTS, do you see a need for specific transitional/grandfathering provisions for the proposed RTS?

CFA Institute generally supports the use of limited and reasonable grandfathering provisions for cases of highly-prescriptive and technical regulations that require significant firm resources to implement.

Concluding Remarks

We welcome this opportunity to comment on draft RTS for the ELTIF Regulation. In summary, CFA Institute believes that:

- ELTIFs are complex instruments not to be taken lightly when it comes to marketing to retail investors;
- We support harmonisation across reporting standards where possible; and
- PRIIPs could be adapted to better reflect the nature of ELTIFs.

Please do not hesitate to contact us should you wish further elaboration of the points raised.

Yours faithfully,

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