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Citation for published version:
Troisi, A & McFarlane, J 2016, 'Financial stability and economic growth in the new European regulatory framework: an analysis of European long-term investment funds', *Law and Economics Yearly Review*, vol. 5, no. 1, pp. 82-97.

Published In:
Law and Economics Yearly Review

FINANCIAL STABILITY AND ECONOMIC GROWTH IN THE NEW EUROPEAN REGULATORY FRAMEWORK: AN ANALYSIS OF EUROPEAN LONG-TERM INVESTMENT FUNDS

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ABSTRACT: *The aftermath of the recent financial crisis has introduced several regulative challenges within the European Union (EU). One of these relates to the rules applicable to banking and financial markets, including the renewal of European banking supervisory and resolution systems, which in turn has meant a new approach to the relationship between the financial sector and the real economy.*

The aim of the paper is to provide the reader with a precise review of the most important regulatory reforms in the EU that could address the need for financing sources available to industrial markets. At the same time, the analysis takes into account the most problematic issues currently concerning the European banking system, and the significant ineffectiveness of the ECB's monetary policies.

Specific attention is paid to European long-term investment funds and the new regulations applicable to them. The analysis provides evaluations of future development opportunities among European mid-tier enterprises. The paper concludes by highlighting some general concerns that may influence market stability, as well as the need for speedier economic growth.

SUMMARY: 1. Introduction - 2. European integration and financial markets: new rules for market stability and regional development- 3. The role of alternative financing sources in the SMEs system: a brief overview - 4. The introduction of European long term investment funds – 5. Concluding remarks.

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Although this paper is the result of a joint reflection of the authors, Angela Troisi wrote the paragraphs 2 - 3 - 4 and Julia McFarlane wrote the paragraphs 1 and 5.

1. In the aftermath of the recent financial crisis the European authorities focused their attention on ensuring long-term financial stability and avoiding new global threats that could jeopardise regional integrity, financial stability, and economic growth. In this respect, a new regulative framework has been introduced, which aims to set up rules for a European supervisory system, a European resolution and recovery system, and common standards for depositors' funds. Moreover, a new Investment Plan for Europe has been adopted in order to provide deeper bases for sustainable growth and resources for European economic markets.

Over the past few years, some European States (namely Spain, Ireland and Greece) have experienced severe difficulties in their financial markets, their economic basics have become very fragile, and banking instability has caused general turmoil in these nations. That unstable framework was quickly transmitted across the entire European Union, prompting several questions about long-term European resilience and sustainability.

Those national collapses and consequent threats were the symptoms of deeper diseases that are still affecting economic and financial markets to this day. In fact, as the European Banking Authority has recently declared, the EU is actually characterized by an unprepared banking system that is suffering setbacks stemming from exposures to risky assets and poor management strategies[1]. Furthermore, fragility continues to affect financial markets, and is turning into volatility in banks' funding spreads and elevated conduct risks[2].

With regard to the banking system, European banks and national authorities have shown inadequate approaches to Banking Union and supranational banking regulation that in some European Member States have become deeply

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[1]See EUROPEAN BANKING AUTHORITY, *Risk Assessment of the European banking system*, January 2016.
[2]See CCP RESEARCH FOUNDATION, *Conduct Cost Project Report 2015*, July 2016.

exacerbated by national political instability and social criticism[3]. The underlying reason for this is that over-reliance on banks is a widespread phenomenon among European countries; in fact, some economic scholars recently pointed out that the European economic system is more strongly focused on banks than the USA's system is. As a result, the 2008 financial crisis caused a deeper long-term impact on the European market than the USA's; hence, the former is experiencing a very low economic growth rate.[4]

Despite expectations, the overall effects of recent banking and financial reforms have been strictly limited, with the result that the current banking system actually resembles that of 2006, especially concerning the problematic aspects of institutions deemed "too big to fail" (e.g. in the case of Italian banks generally and Monte Paschi di Siena in particular), and their spillover effects for the rest of the financial system and for the real economy.[5]

The reminder of this paper is structured as follows. Section 2 analyses the European financial markets, some relevant problems affecting the banking and industrial system, and finally, some financial intermediaries that might boost economic growth and financing opportunities for European enterprises (especially SMEs). Section 3 undertakes a brief overview of alternative financing sources for SMEs, largely introduced by recent European regulations. Section 4 briefly analyses Long-term Investments Funds, before section 5 concludes the paper.

2. During the past few years, policies of European integration have implied new legislative initiatives concerning with regard to (i) European banking supervision, (ii) economic growth, and (iii) the minimization of systematic risks across countries. Firstly, it is worth noting that we benefit nowadays from supranational

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[3]See CAPRIGLIONE – SACCO GINEVRI, *Politics and Finance in the European Union. The reason for a difficult encounter*, Torino, 2016, Chapter I.
[4]See LANGFIELD – PAGANO, *Bank Bias in Europe:Effects on Systemic Risk and Growth*, ECB Working Papers Series, no. 1797, May 2015.
[5]See JOHNSON, *The End of Big Banks*, February 29 2016, available on *Project Syndicate*; ID., *Failure at the Financial Stability Board*, November 30 2015, on *Project Syndicate*.

regulation of bankruptcy, in line with the introduction of cross-border services, international banking institutions, and globalization. In fact, bankruptcy seems to be one of the most important parts of banking regulation; also, former Italian banking regulation from 1936 provides a huge legislative framework concerned with banking crises as the banking business was (and still is) inherently risky and, above all, it involves savings from depositors and naïve investors.

A new approach to bankruptcy and financial stresses was adopted by the EU in order to implement new recovery and resolution rules for banking crises; thus, a more consistent framework for banking regulation became the optimal choice for solving a large set of problems relating to financial instability and a non-homogeneous playing field. And, in fact, the Bank Recovery and Resolution Directive (2014/59/EU) forms part of the EBU's second pillar as long as it represents one of the major goals of the ambitious Banking Union. Nevertheless, the BRRD results in a minimal harmonisation of bank resolution rules, perhaps because the European regulator has taken into account the effective need for a gradual reconstruction of the entire banking and resolution system in place of radical and unexpected reforms. However, innovative rules for financial markets and banking crises seem to be insufficient to boost growth and economic recovery across the EU. Additionally, a vicious circle involving sovereign debt and bank debt has been created, especially in some European countries such as Spain, Greece and Ireland whose governments had to bail banks out at enormous cost to the entire population.

What also seems relevant here is that institutional players such as the Basel Committee and the International Monetary Fund highlighted that national authorities should have the tools to activate an orderly resolution of all types of financial institutions, as the possession of these might contribute to the minimization of systemic risk, the protection of consumers, the limitation of moral hazard, and overall, the promotion of market efficiency.

Secondly, European economic growth is not sustained by the banking system. Banks do not adequately meet the financial expectations of the real economy and SMEs (small and medium-sized enterprises). This is because banks do not have adequate incentives to offer new forms of financial resources to businesses, despite the monetary policies pursued to date by the ECB and the political-institutional efforts made by institutional parties[6]. On the other hand, in fact, banking intermediaries are unable to carry out a re-composition of their assets, clear their portfolios from government bonds and use the available sums to provide credit to businesses and families; indeed, this operation could prove to be detrimental in terms of capital reserves (and possibly also in asset quality reviews), since the latter are very low (if not absent) when the bank holds government bonds, while they are more conspicuous when the bank holds private client loans.

The relationship between banking institutions and SMEs is of vital importance, especially for those enterprises lacking direct access to capital markets (and which are not mini-bond issuers); for instance, Italian companies can essentially only count on self-financing and on bank lending, thus suffering the effects of business cycles, as well as being vulnerable to fluctuations in interest rates. In addition, they mostly have access to short-term debt (instead of long/medium term loans), and are therefore largely discouraged from implementing new long-term business projects and from planning new production initiatives.

For this reason, financial disintermediation is becoming an increasingly common phenomenon across the EU and the USA, and is substantially encouraging the gradual transition to non-bank-centric markets specifically advocated by the European Commission in Capital Markets Union Action Plan on the 30th September 2015[7]. Not surprisingly, EU institutions underlined the role of direct lending and the multiple forms of peer-to-peer lending available in international markets: a good example is crowdfunding, which has become extremely popular and

[6] See VAROUFAKIS, *The Politics of Negative Interest Rates*, available at *Project Syndicate*, August 22nd 2016.

[7] http://ec.europa.eu/finance/capital-markets-union/docs/building-cmu-action-plan_en.pdf

effective among innovative start-ups and high tech business projects[8].

More generally, it is worth mentioning that according to the Italian legislative decree no. 91 of June 24, 2014, the so-called "Decreto Competitività", converted with amendments by Law no. 116 of 11 August 2014, in addition to banks and traditional financial intermediaries, the issue of borrowing financial resources is currently also allowed in relation to insurance companies[9] and securitization companies[10], as well as to SICAVs and SICAFs and some categories of investment funds[11].

Lastly, the current financial and banking market is affected by the monetary policies adopted by the ECB and their poor expected results[12]. In fact, two categories of problems are related to negative rates in the financial markets: the first is due to the complete disconnection between the financial market and the banking market, where the former is characterized by very low rates (which are basically intended to stimulate the circulation of money), while the banking system is still unable to give credit, except to large enterprises (which have no need for relief on credit, because they are stable enough to operate autonomously). In this respect, SMEs are still excluded from efficient banking channels, hence the investment funds might have a relevant role and cooperate with the banking system creating

[8]See MOLLICK, *The dynamics of crowdfunding: an explanatory study*, Journal of Business Venturing, vol. 29, no. 1, 2014; KUPPUSWAMY – BAYUS, *Crowdfunding Creative Ideas: the Dynamics of Project Backers in Kickstarter*, SSRN Electronic Journal, March 2013; CORDOVA – DOLCI – GIANFRATE, *The Determinants of Crowdfunding Success: Evidence from Technology Projects*, Procedia – Social and Behavioral Sciences, vol. 181, 2015.

[9]See IVASS document no. 22, October 2014, which modifies ISVAP REgulation no. 36 of January 31st 2011. In addition, see new consultation document available at www.ivass.it/ivass_cms/docs/F19655/Documento_per_la_consultazione_n_26_2015.pdf

[10]Decreto Competitività has modified the past law no. 130/1999 concerning with securitization, allowing to special purpose vehicles to borrow financial resources to large enterprises and SMEs.

[11]See PELLEGRINI – TROISI, *Gli operatori del mercato finanziario: regolazione e supervisione*, *Corso di diritto pubblico dell'economia*, ed. by Pellegrini, Padova, 2016

[12]See SZCZERBOWICZ, *The ECB unconventional monetary policies: have they lowered market borrowing costs for banks and governments?*, International Journal of Central Banking, vol. 11.4, 2015; BARIGOZZI – CONTI – LUCIANI, *Do euro area countries respond asymmetrically to the common monetary policy?*, Oxford bulletin of economics and statistics, vol. 76.5, 2014; ESER – SCHWAAB, *Evaluating the impact of unconventional monetary policy measures: Empirical evidence from the ECB′ s Securities Markets Programme*, Journal of Financial Economics, vol. 119.1, 2016.

a smooth support network to the entrepreneurial system. The second category of problems related to the negative rate policy relates to the unplanned effects of the ECB's monetary policy; more specifically, in the presence of low rates companies prefer to invest in technologies rather than in specialised human resources, thus increasing the unemployment rate over the longer term. In addition, investors opt for riskier investments in looking for higher returns, and increase the overall systemic instability; finally, older generations tend to spend less because they receive more meagre remuneration from their savings, thus decreasing the levels of general consumption[13].

3. As was previously mentioned, the current economic situation in Italy is characterized by the deadlock which has been established due to the combined effect of multiple factors, among which are the credit crunch (which damaged bank-business relationships), the scarcity of public instruments in support of the economy (mainly related to the compliance of the well-known Maastricht limitations), and the uncertainty which can be directly to the structure of the banking system. It is therefore necessary to look for valid tools that might help to untangle the current knots and increase the strength of Italian and European companies. More specifically, it is necessary to identify the operators who are able to finance national businesses and the strategic economic sectors. The intervention of these entities (mainly mutual funds and investment entities) would have particular positive effects not only on the performance of the economic system, but also on the stability of the financial market; the latter, in fact, could indirectly benefit from the economic recovery and support the gradual absorption of so-called non-performing loans (NPLs)[14].

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[13]See STIGLITZ, *What's Wrong with Negative Rates?*, available on *Project Syindicate*, April 13rd 2016.

[14]See MAKRI - TSAGKANOS – BELLAS, *Determinants of non-performing loans: The case of Eurozone*, Panoeconomicus, vol. 61.2, 2014; HALE – SANDERSON, *How do you solve a problem like Italy's non-performing loans?*, Financial Times, July 27th 2016.

With regard to this last issue, it is worth mentioning that the sale strategies of non-performing loans are particularly relevant for banking intermediaries and, in general, to the entire national economy. In fact, the sale of NPLs allows banks to activate so-called "leverage-effects"; thus decreasing balance sheet exposures (derived from the sale of these bad credits) and increasing the cash flow which can then be granted to families and businesses.

The introduction of mutual funds that can invest in loans originated by third parties or issue them directly is one of the major EU initiatives forming part of the restructuring plan for the morphology of the European financial system. Loan funds are a potentially valuable tool for European financial efficiency, as well as a credible solution to the funding gap faced by SMEs, which actually contribute 58% of added value and 67% of employment at the European level. In addition, investment funds could cooperate with banks in financing particularly expensive projects, covering credit needs and different risk levels (in line with the strategic criteria of the fund itself).

In general, the activity of loan funds requires adequate analysis to verify that the implemented strategies are conducted in accordance with cost-efficiency criteria; this is in order to avoid the creation of adverse selection phenomena and an overall deterioration in the quality of financial instruments available in the market. In this regard, it must be ensured that the securitization of NPLs reflect the real credit rating associated with these instruments, and at the same time that the assessments made available by rating agencies are reliable and transparent. This is to ensure that the information provided to the public is conveyed in a clear and direct way, and is therefore able to facilitate an *ex-ante* selection of the type of investors (retail and professional) to which the potential placement of complex financial products is intended.

The availability of investment funds able to finance the economy and support economic growth is not limited to loan funds, and includes certain other types of funds, all kept together by the high level of specialization and the strong inclination towards productive investments. Some of these are therefore included among the EUVECA funds (European venture capital funds, regulated by Regulation (EU) No. 345/2013), the EUSEF funds (European Social Entrepreneurship Funds, regulated by Regulation (EU) No. 346/2013) and the ELTIF funds (European Long-term investment funds) that encourage the raising of the necessary financial resources for specific business projects[15].

More specifically, the European legislator has decided to strengthen the access to finance of SMEs by creating an "identity passport" (EU-wide passport) for EUVECA funds, and for the EUSEF funds managed by fund managers which are subject to the AIFM directive (Alternative Investment Fund managers, directive 2011/61/EU). On the one hand this delimits the range of action of EU funds (which are specifically targeted towards sole innovative projects), but on the other hand it ensures the creation of a level playing field throughout EU member States.

4. The European Long term investment fund (ELTIF) is a Pan-European regime for alternative investment funds which raises capital and makes it available for loeng term investments in the real economy, in line with the European Union objective of smart, sustainable and inclusive growth, as mentioned by the European Commission in its Work Programme for 2016[16]. In this respect, specific attention is paid to efforts by the European regulator to introduce a “New Skills Agenda” for Europe involving measures for adopting a circular economy package, and long-term financing for European enterprises[17].

[15]See ASSOGESTIONI, *Response to the EU Commission’s Consultation Document – Review of the European Venture Capital Funds (EuVECA) and European Social Entrepreneurship Funds (EuSEF) Regulations*, 5th January 2016, where it is highlighted the main role of these funds. In fact, «diversification of sources of financing, by levereging on, amongst others, already existing EU invesment products, such as EuVECAs, EuSEFs and ELTIFs, can have the potential, if appropriately calibrated, to attract investments of both professional and retail investors, and reach eligible investment targets that are crucial for the growth of the EU economy, such as SME fundings and infrastructure projects».
[16]See European Commission Work Programme 2016 and the new agenda about growth, youth and the real economy.
[17]See Green Paper Long-Term Financing Of The European Economy, March 2013, available at http://eur-lex.europa.eu/resource.html?uri=cellar:9df9914f-6c89-48da-9c53-

With regard to new financing opportunities for SMEs and the real economy, the European regulator introduced a specific ELTIF Regulation (no. 2015/760 of the European Parliament and of the Council) that lays down the minimum requirements which must be met by long-term funds in order to be authorized as a European long-term investment fund. However, in line with the rules provided for EUVECA and EUSEF, ELTIF must be managed by authorized Alternative Investment Fund Managers (regulated by the aforementioned AIFM Directive), and must meet minimum eligible asset and diversification requirements.

ELTIFs may invest (for minimum 70% of its capital) in long term assets such as small and medium sized businesses, social infrastructure, transport, sustainable energy and communications infrastructure. Moreover, they can raise capital from institutional and retail investors across Member States and other European Economic Area (EEA). And in fact, pursuant to Regulation Whereas no. 41, given the specific characteristics of retail and professional investors, «it is important that sound transparency requirements be put in place that are capable of allowing prospective investors to make an informed judgement and be fully aware of the risks involved»; furthermore, European regulator addresses some specific requirements in terms of cross-border marketing policies, hence naïve investors could be coherently informed about risks, redemption rights, future financial returns, and, above all, investment strategies performed by ELTIFs.

More specifically, the allocation of ELTIF shares requires a deep knowledge about the nature of retail investors and their past experience in the investment field relevant to the fund; in this respect, ELTIF managers have to clarify retail investors' financial situations (including their ability to bear relevant losses), and their investment objectives, in terms of time horizon and financial expectations.

It is worth noting that retail investors suited for ELTIF are characterized by

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d9d6be7099fb.0009.03/DOC_1&format=PDF, where the European regulator underlines that «the capacity of the economy to make such long-term financing available depends on the ability of the financial system to channel the savings of governments, corporations and households effectively and efficiently to the right users and uses through open and competitive markets».

such inclination towards long term exposures and illiquid assets to hold in their portfolios. 1At the same time, ELTIF could rise money from professional investors, which are investor which is considered to be a professional client, or may, on request, be treated as a professional client in accordance with Annex II to Directive 2014/65/EU (art. 2). This category typically includes small and medium sized investors who look for long term investment opportunities and sustainable financial returns in line with a moderate risk level. As was previously mentioned, also in this case an ELTIF manager could make investments across European countries, on a cross-border basis and in line with the legislative framework provided by AIFM Directive. However, specific attention is paid to applicable investment rules and permitted activities, including portfolio diversification rules and a list of prohibited activities. In fact, in order to ensure the integrity of ELTIF, it is recommended to prohibit an ELTIF from adopting certain investment strategies that involve risky transactions and illiquidity financial products. Specific rules are required for investing in derivatives (that are substantially permitted just for hedging purposes) and over-the-counter contracts (such as OTC derivatives) that must be subject to Regulation (EU) no. 648/2012[18] of the European Parliament and of the Council[19]. In fact, as deeply analysed by economical and doctrinal studies, financial derivatives are «cloistered and complex» products, which captured the world's attention as they were born in the flowing stream of globalization; and the development of the international financial markets allowed their gradual diffusion among professional operators and intermediaries[20]. As a consequence of historical absence of

[18]See TROISI – ENGST, *ESMA supervision. Specificity of the intervention in the derivatives market*, Law and Economics Yearly Review, 2013.

[19]See MOLONEY, *EU Securities and Financial Markets* Regulation, third edition, Oxford University Press, 2014. p. 479, where the Author identifies the main issues concerning OTC markets, supervision, and transparency; see also LUETTRINGHAUS, *Regulating Over-The-Counter Derivatives In The European Union -- Transatlantic (Dis)Harmony After Emir And Dodd-Frank: The Impact On (Re)Insurance Companies And Occupational Pension Funds*, Columbia Journal of European Law, 2012. For an extensive of the legal and regulatory principles underlying OTC markets and financial derivatives, see HUDSON, *The law on financial* derivatives, 5th edition, London, Sweet & Maxwell, 2012.

[20]See LIPUMA – LEE, *Financial Derivatives and the Globalization of Risk*, Duke University Press, London, 2004; MACKENZIE – MILLO, *Negotiating a market, performing theory: The*

transparency and structural principles ruling counterparties and contractual aspects, OTC derivatives are characterised by an enormous volatility that induces investors to lead with short term fluctuations, and uncontrolled oscillations in exchange and interest rates[21]. It is clear that such a situation is not suitable for ELTIFs and, above all, there is no adherence between the former and the financial objectives of the latter, also given the long-term strategic orientation that distinguishes ELTIFs from other forms of investment funds.

With regard to the investors and their need of protection, Regulation 2015/760 provides also rules concerning with fund's lifetime, redemptions and shares' distribution on secondary markets. In fact, pursuant to art. 18, a specific linkage between life of an ELTIF and the shares' (or units') redemption, thus investors in an ELTIF are forced to wait the day following the date of the end of ELTIF's life in order to request the redemption of their shares or units. Derogations from this main rule are allowed if specific conditions are fulfilled, such as in case of a clear, fairly and time-constrained redemption policy that is initially defined by managers and disclosed to investors[22]. The reason for this is certainly due to the need for maintaining a stable fund platform up to the ELTIF's lifetime in order to

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historical sociology of a financial derivatives exchange, 2001, available at ssrn.com; WALDMAN, *OTC Derivatives and Systemic: Innovative Finance or the Dance into the Abyss?*, Am. UL. Review, vol. 43, 1993.

[21]See BARTRAM - BROWN – FEHLE, *International evidence on financial derivatives usage*, Financial management, vol. 38.1, 2009; BINGHAM – KIESEL, *Risk-neutral valuation: Pricing and hedging of financial derivatives*, Springer Science & Business Media, 2013.

[22]Pursuant to art. 18.2, the conditions under which derogation are allowed are: «(a) redemptions are not granted before the date specified in point (a) of Article 17(1); (b) at the time of authorisation and throughout the life of the ELTIF, the manager of the ELTIF is able to demonstrate to the competent authorities that an appropriate liquidity management system and effective procedures for monitoring the liquidity risk of the ELTIF are in place, which are compatible with the long-term investment strategy of the ELTIF and the proposed redemption policy; (c) the manager of the ELTIF sets out a defined redemption policy, which clearly indicates the periods of time during which investors may request redemptions; (d) the redemption policy of the ELTIF ensures that the overall amount of redemptions within any given period is limited to a percentage of those assets of the ELTIF which are referred to in point (b) of Article 9(1). This percentage shall be aligned to the liquidity management and investment strategy disclosed by the manager of the ELTIF; (e) the redemption policy of the ELTIF ensures that investors are treated fairly and redemptions are granted on a pro rata basis if the total amount of requests for redemptions within any given period of time exceed the percentage referred to in point (d) of this paragraph».

engage investments as safer as possible; this in turn means that ELTIF's lifetime has to be necessary coherent with the life-cycle of each asset included in its investment portfolio, hence ensuring that assets are chosen in the light of their time-frame and financial returns.

And in fact, pursuant to art. 13, an ELTIF's investment portfolio can be divided as follows: 10% of its capital in instruments issued by any single portfolio undertaking; 10% of its capital directly in a single real asset; 10% of its capital in units of a single ELTIF, EuVeca or EuSEF[23]; 5% of its capital in eligible assets for UCITS, where those assets have been issued by any single body. These diversification requirements seem to be the optimal way to satisfy the interest of the investors, and, at the same time, it permits to concentrate the ELTIF's investment policy towards industrial projects, SMEs businesses, and undertakings from real economy[24].

Furthermore, an ELTIF can also operate as loan originator. In this respect, some requirements are provided by art. 16: the borrowing of cash is, in fact, permitted by the European regulator only if it represents no more than 30% of the value of the capital of the ELTIF; it serves the purpose of investing in eligible investment assets (except for loans to qualifying portfolio undertakings) provided that the holdings in cash or cash equivalents of the ELTIF are not sufficient to make the investment concerned; it is contracted in the same currency as the assets to be acquired with the borrower cash; it has a maturity no longer than the life of the ELTIF; and finally it encumbers assets that represent no more than 30% of the value of the capital of the ELTIF.

In this way, ELTIFs could concentrate their investment strategies towards

[23]In this respect, it is worth noting that The aggregate value of units of ELTIFs, EuvECAs and EuSEFs in an ELTIF portfolio must not exceed 20% of the value of the capital of the ELTIF. An ELTIF cannot acquire more than 25% of the units or shares of a single ELTIF, EuVECA, or EuSEF.

[24]In fact, an ELTIF is prohibited from short selling of assets, taking direct or indirect exposure to commodities, and entering into securities lending, securities borrowing, repurchase transactions, or any other agreement which has an equivalent economic effect and poses similar risks, if thereby more than 10% of the assets of the ELTIF are affected.

economically and socially valuable investments, hence contributing to the European economic growth and obtaining political and institutional supports from Capital Markets Union and other European institutional initiatives[25].

Finally, European regulator pays specific attention to transparency and to provide punctual requirements for the financial prospectus issued for retail investors in order to prevent them from bearing unjustified losses and unreasonable fund misallocations. Pursuant to artt. 23 and 24, units or shares of an ELTIF must be marketed in concomitance of the disclosure of key information about their risks, returns, investors' rights, and lifecycle. These pieces of information have to be kept up to date, hence in case of relevant changes investors would be able to evaluate the level of risks and any potential future disadvantage on the elected investments.

As a matter of fact, the prospectus has been playing a key role in financial market since its gradual introduction. And in fact, it provides the investors with a mandatory disclosure of the issuer's characteristics and its instruments allocated on markets, thus improving also standards of corporate governance and the effectiveness of the implemented financial strategies. Moreover, the prospectus contributes to make available more information on markets, hence ensuring that more knowledge is available and «the closer to fairness the prices of securities are»[26].

In order to make investors conscious of all potential risks related to an ELTIF, the prospectus shall include specific warnings about some relevant aspects of the nature of the ELTIF. In this respect, the European regulator highlights the key importance of sharing information about the illiquid nature of the ELTIF, the long term nature of the performed investments, the redemption rights, the characteristics of investors which the ELTIF is marketed. This latter information is per-

[25]See EUROPEAN COMMISSION, *Green Paper - Building a Capital Markets Union*, COM(2015) 63 final, 18th February 2015, p. 3.
[26]See HAENTJENS - DE GIOIA CARABELLESE, *European Banking and Financial Law*, Routledge, 2015, pp. 30 - 31.

fectly in line with the principles of “know your customer” and “know the security”, introduced by MiFID directive (2004/39/EC), which should ensure the maximum investor protection on financial markets[27].

In a nutshell, ELTIFs might provide a solution for current European financial and economic issues. In fact, they could create a mutually beneficial cooperation between the real economy and the financial markets, thus allowing European investors to participate in the re-building of the regional economy. Moreover, ELTIFs aim at representing an innovative form of European investment funds that will focus on assets designed to foster social and economic benefit. In fact, the underlying essence of ELTIFs is to facilitate the funding opportunities for SMEs and, at the same time, to create a level playing field between operators and undertakings from all European countries. Finally, this framework will be able to avoid any regulatory arbitrage among funds, enterprises and investors in EU, thus the EU integration could be encouraged and supported by innovative and homogeneous financial opportunities.

5. This paper sheds light on the aftermath of the recent EU financial crisis which has impacted upon both the banking sector and the financial market in Italy. It addresses the most problematic issues arising from the ineffectiveness of the ECB’s monetary policies and the pressing need to identify private funding bodies who are willing to help to finance national businesses, and to support strategic economic growth. In reality, access to funding from mutual funds and investment entities can be difficult to obtain when a venture has limited legitimacy, or has suffered a fall in reputation or status, thus ultimately affecting the types of funders willing to invest[28]. Often, companies will use bootstrapping and bricolage techniques to ensure their ability to respond to changes in the environment and,

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[27]See CAPRIGLIONE, *Intermediari finanziari, investitori, mercati*, Padova, 2008, Chapter 3; DE MANUEL ARAMENDIA – VALIANTE, *A Life-cycle Approach to Investor Protection*, ECMI Working Paper, No. 1, September 2014.

[28]See BAKER – NELSON, *Creating Something from Nothing: Resource Construction through Entrepreneurial Bricolage*, Administrative Science Quarterly**,** 2005, vol. 50 no. 3, p. 329.

therefore, to contribute to growth [29]. Yet as Baum and Oliver suggest, an organisation's chances of success are significantly improved when it is able to develop ties with more established organisations[30]. Therefore, while these EU reforms may make access to funding a little more difficult for many, as Singh, House and Tucker observed, there is more than one way to create legitimacy and to access resources[31].

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[29]See JONES - MACPHERSON - JAYAWARNA, *Learning to grow: dynamic capabilities in new technology-based firms.* OLKC 2011, Conference for Organisational Learning, Knowledge and Capabilities, "Making Waves", University of Hull, 12th -14th April, 2011, p. 13.
[30]See BAUM – OLIVER, *Institutional Linkages and Organizational Mortality*, Administrative Science Quarterly, vol. 36, no. 2, 1991, pp. 187-218.
[31]See SINGH – HOUSE – TUCKER, *Organizational Change and Organizational Mortality*, Administrative Science Quarterly, vol. 31, no. 4, 1986, pp. 587-61.