



LuxembourgforFinance

Relying on Expertise, Building on Innovation

## Why choose Luxembourg?

- Political and social stability
- Legislative agility: a close working relationship between the business community, the Government and the Legislator underpins the innovative legal framework of the Grand Duchy
- A knowledgeable and responsive regulator
- Strong culture of investor protection
- Tradition of financial expertise across all related professions
- Thorough client understanding across borders
- Multilingual and multicultural staff
- Unique concentration of investment fund industry experts in all aspects of product development, administration and distribution
- Extensive experience in technical investment fund solutions such as multiple share classes and pooling
- Fund lawyers and audit firms experienced at handling the cross-border registration of both UCITS and non-UCITS funds
- Location in the centre of Europe
- Pleasant working and living environment

## **Banking and financial activities in Luxembourg**

In Luxembourg, banks are allowed to operate as “universal banks”, spanning the full range of banking activities in the home market and abroad. Luxembourg banks are world renowned for their sophisticated know-how, the top quality of their multilingual, multinational workforce, and their strict adherence to rules and regulations, overseen by the financial supervisory authority.

### **Private banking**

Private banking developed in Luxembourg many years ago and is a mature and well established industry. Historically this business has consisted of the provision of services to a broad spectrum of international private customers with a focus on wealth preservation. These individuals often require highly qualified professional guidance from their bankers and many banks and wealth managers in Luxembourg have a long and proud tradition of private banking services. Their hallmark is a global understanding of their customer's needs, a quick response time, quality delivery, personal attention and discretion. Furthermore, this traditional private banking expertise is available on highly competitive terms relative to other financial centres.

#### **• Discretionary portfolio management**

Portfolio management is an important element in the spectrum of services available in Luxembourg.

Experienced account officers assist customers with portfolio structuring and investment decisions. Discretionary portfolio management is offered at moderate fees generally linked to the value of the assets managed. Portfolios are kept under continuous review on the basis of research by investment specialists, who can often draw on research conducted at group level. Services include sophisticated technical support, custody, record-keeping and, if required, nominee functions.

#### **• Wealth structuring**

For high net worth individuals a number of banks apply a global approach to structuring a customer's wealth over the longer term, incorporating financial and professional assets, life assurance and real estate, with a view to optimal long term tax planning and ultimate devolution. In this respect, the Luxembourg financial centre offers several vehicles to assist in the planning and implementation of wealth preservation schemes. Advisory services in this regard are available not only from banks, but also from the many consultancy companies of international repute based here. Wealth preservation and estate planning mostly involve family wealth management companies, trusts and fiduciary arrangements.

#### **• The family wealth management company (SPF<sup>1</sup>)**

The Law of 11 May 2007 created a new vehicle for the management of individuals' family wealth. This vehicle is designed as an investment company intended solely for individuals managing their private wealth. The SPF must take the form of a capital company the sole purpose of which is the acquisition, holding, management and sale of financial assets, to the exclusion of any commercial activity.

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<sup>1</sup> *Société de gestion de patrimoine familial*

Eligible investors comprise, first and foremost, any individual acting within the framework of the management of his/her private wealth. Secondly, the SPF is open to wealth management entities acting exclusively in the interest of the private wealth of individuals. Finally, intermediaries acting on a fiduciary basis or in a similar capacity, on behalf of investors who are themselves eligible may also hold shares in a SPF.

The Law introduces a subjective or personal fiscal exemption regime for most direct taxes. This subjective exemption is justified by the fact that the SPF does not have a commercial activity but an activity that is similar to that of an investment fund. Also, being the extension of the private transferable wealth of individuals, the method of subjective exemption appeared to the legislator to be the most appropriate and the most neutral way to avoid double taxation (investor income and capital gains from an SPF being taxed under the conditions of ordinary law as applied to the investors).

## **Investment funds**

### **• UCITS**

Undertakings for collective investment in transferable securities (UCITS) are collective investment schemes that comply with rules laid down in European directives on this subject and benefit from a passport which enables them to be sold cross-border into any EU Member State. Luxembourg is the leading domicile for UCITS funds and promoters have at their disposal a unique concentration of product development experts, lawyers, accountants and service providers to assist them in designing, launching and marketing their funds. UCITS benefit from an excellent reputation for investor protection and are widely accepted by regulatory authorities around the world for distribution in their markets.

### **• Hedge funds**

The Luxembourg hedge fund sector is growing very rapidly and has enjoyed particular success as a hedge fund domicile. As at 30 June 2007, the financial centre had 77.1 billion euros in hedge funds under administration, of which 76% were domiciled in Luxembourg. Another 109.7 billion euros was under administration in funds of hedge funds, bringing the total market to 186.8 billion euros.

### **• Private equity and venture capital funds**

The Law of 15 June 2004, which created a specific legal framework for venture capital investment vehicles (SICARs), reflected the increasing strategic importance of this type of investment to the Grand Duchy. The SICAR has enabled the Luxembourg fund industry to play a role in the convergence of a fragmented European market where no single structure was widely recognised as offering the ideal legal or fiscal platform for promoters and investors.

As at February 2008 there were 183 SICARs registered in Luxembourg.

### **• Real estate investment funds**

Real estate investment funds (REIFs) are becoming increasingly attractive for investors across Europe as real estate assets represent a diversification of assets from equities and bonds. Luxembourg has played a part in the resurgence of the REIF market, due to the range of legal structures available and flexible regulatory requirements. These include flexible rules concerning profit and capital distributions (including

no obligation to distribute dividends), negotiable leverage levels (50% - 75%), multiple accounting standards available and freedom to change service providers during the life of the fund.

#### • **Specialised investment funds**

Created by the Law of 13 February 2007, specialised investment funds (SIFs) are not open to retail investors but to both professional and private “well-informed” investors who either invest a minimum of 125,000 euros or have been the subject of an assessment made by a financial institution certifying that they have the knowledge and expertise to appraise an investment in the specialised investment fund.

The SIF regime provides the fund industry with greater flexibility in terms of investment policy, lighter disclosure requirements, simplified rules of functioning and no requirement for a promoter. SIFs are allowed to invest in all types of assets and therefore provide a suitable legal framework for, inter alia, transferable security funds, money market funds, real estate funds, hedge funds and private equity funds. The principle of risk spreading is maintained, but there are no quantitative investment restrictions.

#### • **Microfinance investment funds**

Luxembourg is developing into a centre for microfinance investment vehicles (MIV), over 20 of which have been set up in the Grand Duchy with combined assets of over 1.2 billion euros. Microfinance fund managers have been able to use several regulated fund structures to meet their very specific investment needs. MIV have been set up as part II funds under the 2002 law, as SICARs, as SIFs and there is also a trend towards securitisation vehicles and structured products.

In July 2006, a group of Luxembourg institutions created the Luxembourg Fund Labeling Agency asbl (LuxFLAG). The purpose of this non-profit making association is to promote the raising of capital for microfinance from private and institutional investors by awarding a distinctive label to microfinance investment funds, based on defined and publicly available criteria. The criteria are designed to ensure that the fund is really invested in microfinance.

#### **Securitisation vehicles**

The Law of 22 March 2004 produced wider potential for the creation of securitisation vehicles in the form of regulated or unregulated securitisation companies and securitisation funds. These vehicles can be used to securitise any type of asset or risk and can be set up as an umbrella structure enabling the same vehicle to be securely used for multiple and separate securitisation transactions. The law offers statutory protection on a number of standard securitisation issues such as true sale, ring fencing, non petition and limited recourse. The law has led to a range of vehicles being set up for a variety of different types of securitisation.

#### **Pension funds**

Luxembourg is the largest financial centre in the European Union for cross-border distribution of individual and collective savings and pension products. Luxembourg also has the ambition of positioning itself as a leading domicile for cross-border pension vehicles, as it believes in the future development of pan European pension funds.

The Law of 8 June 1999 on international pension funds provides the market with instruments that are highly flexible but nevertheless regulated by a highly regarded supervisory authority in a safe and stable jurisdiction.

Two vehicles have been designed to serve the international market for expatriate workers as well as the local domestic market:

- the SEPCAV (*société d'épargne-pension à capital variable*), which is comparable to an investment fund (of the SICAV type) and which is appropriate for defined contribution pension plans;
- the ASSEP (*association d'épargne-pension*), which is suitable for either defined contribution or defined benefit plans, and can accommodate both types of plans in a single legal structure by adopting a multi-compartment structure. An ASSEP can also fund death and disablement benefits. In this case, appropriate reserves need to be set aside.

To date, 13 pension funds have been set up under this legislation.

### **Pension fund pooling vehicles**

Pension fund pooling vehicles can take two different forms. They can be launched for example by an asset management company or a custodian to bundle assets for a certain asset class (for example US equities, emerging market fixed income, etc.). The promoter offers this pooling vehicle to its customers. A pension fund pooling vehicle can be operated by a multinational company that is interested in pooling pension assets of its affiliate companies in throughout Europe or even beyond.

Pension fund pooling vehicles can legally be organised either as a transparent structure (FCP or "*fonds commun de placement*") or as a corporate structure (SICAV or SICAF).

Large international groups such as Electrabel and Unilever have set up pooling vehicles in Luxembourg.

### **Structured finance**

A number of Luxembourg banks have developed considerable expertise in structuring international transactions for large and medium size companies. These deals require an ability to organise complex market transactions and related facilities, private placement capacity and experience in setting up and administering vehicles in various jurisdictions.

### **Banks issuing covered bonds**

In addition to the status of "universal bank", the Law of 21 November 1997 offers the opportunity to set up banks for the purpose of issuing covered bonds. These banks benefit from a derogation in the bankruptcy legislation to the extent that creditors have direct access to the bank's assets in case of insolvency. Due to the high level of investor protection, securities issued by this type of bank generally benefit from a AAA credit rating, enabling a refunding at very competitive rates. Bonds issued by these institutions are highly attractive to institutional investors.

Two types of covered bonds can be distinguished:

- "*Lettres de gage hypothécaires*" (or mortgage-loan backed bonds) for the financing of real estate loan portfolios;
- "*Lettres de gage publiques*" (or public sector-loan backed bonds) for the financing of loans to the state sector and to public local entities.

Given the very international orientation of Luxembourg law on exposure towards OECD countries, banks established in Luxembourg issuing covered bonds can apply a real policy of diversification of their assets.

This means that Luxembourg covered bonds are less vulnerable to the risk of downgrading of sovereign ratings, since issuing banks may adapt their portfolio structure at any time.

Consequently, the Luxembourg covered bond makes an excellent investment product for private as well as institutional investors and for the proprietary portfolios of banks. Luxembourg covered bonds are risk weighted very favourably at 10% for regulatory capital purposes.

### **Bancassurance**

A number of banks with broad private customer bases have created specialised affiliates and joint ventures with large international insurers to market life assurance products which incorporate the most recent European legal developments. Luxembourg institutions specialise in unit linked life assurance, which enables clients to combine insurance cover with a return on investment, notably in unit-linked policies tied to dedicated funds, an instrument that is increasingly used in wealth management.

This has also led to the development of new and enlarged distribution networks on a pan-European basis.

### **Reinsurance companies**

Luxembourg has attracted some 260 primarily continental European companies to set up reinsurance subsidiaries in the Grand Duchy. The vast majority of these are "captives", which underwrite all or part of the risk insured by an industrial or commercial group at a direct insurance company. Captive reinsurance companies benefit from a first class regulatory framework and can take advantage of a large network of anti-double taxation treaties.

Luxembourg is amongst the world leaders in the domiciliation of captive insurance companies, with annual premiums of three billion euros. Thanks to the extensive experience of the insurance supervisory authority combined with its pro-business attitude, captives are able to satisfy the requirements of a financial sector that is in constant evolution. The exceptional pace of development of this sector over the last twenty years has resulted in the creation of a broad range of specialist service providers supporting the activity of reinsurance captives.

The rules for incorporating a reinsurance company include requirements regarding minimum capital, minimum net worth in relation to premium income, the solvency margin and the professional qualifications and personal integrity of the management. Reinsurance companies are allowed to set up special catastrophe provisions.

### **Supporting services**

All the big international consulting firms offer tax and management consultancy services in Luxembourg.

Domestic law firms have become highly skilled in analysing and drafting international contracts, bond and loan agreements, and assisting in tax planning.

### **The Luxembourg Stock Exchange**

The Luxembourg Stock Exchange is the main centre for the listing of international securities. It currently lists around 31,500 bond issues by 4,200 issuers based in over 100 different countries. The second segment in order of importance is that of undertakings for collective investment, with more than 7,400 different instruments. This is followed by Global Depositary Receipts issued by companies based in countries moving towards industrialisation.

The Luxembourg Stock Exchange offers two markets to issuers: a market regulated by European rules and the Euro MTF market which enables non-European issuers who do not require a European passport nevertheless to obtain a listing in a recognised financial centre in Europe.

Finally, the Luxembourg Stock Exchange offers specialised resale agents a range of information products covering all 39,000 listed securities. Its website ([www.bourse.lu](http://www.bourse.lu)) gives private investors easy access to market information about Luxembourg securities. This information is supplemented by CCLux ([www.cclux.lu](http://www.cclux.lu)), a company specialising in information about Luxembourg investment funds which has been an integral part of the Luxembourg Stock Exchange since May 2002.

## Key figures

### The Luxembourg fund centre

Since the creation of a single European market for investment funds in 1985, Luxembourg has specialised in the domiciliation, administration and cross-border distribution of undertakings for collective investment (UCIs) that comply with European legislation in this field. Indeed, Luxembourg is the leading centre for cross-border distribution of investment funds with over 75% of the European market.

As at 31 December 2007, net assets under management in Luxembourg UCIs amounted to over 2,000 billion euros in 11,115 fund units.

The three countries with the largest market share of assets under management in Luxembourg are the USA, Germany and Switzerland.

Companies from all over the world are using Luxembourg as their gateway to Europe and the rest of the world, distributing their funds into more than 150 countries and regions around the globe.

No less than 34 of the 40 largest asset managers in Europe that distribute investment funds into more than 15 countries have chosen Luxembourg as their global distribution platform.

### Number of banks established in Luxembourg by country of origin

Germany	43
Belgium/Luxembourg	21
France	15
Italy	13
Switzerland	13
Sweden	6
United Kingdom	6
Japan	5
United States	5
Other countries	29
TOTAL	156

Source: CSSF, 29 February 2008

Over 155 banks, subsidiaries or branches of major banking institutions from 25 different countries, are established in Luxembourg and focus their activities on the international markets.

In the financial service areas, this multinational character of Luxembourg plays a particularly decisive role. Each bank, through its own market specificities and related know-how, contributes to the success of Luxembourg as a financial centre.

## Cross-border finance: the example of life assurance

**Total premiums: 11.61 billion euros**

Non life Luxembourg	4.8%
Non life cross-border	6.4%
Life Luxembourg	3.9%
Life cross-border	84.9%

*Source: Commissariat aux Assurances, Annual report 2006*

The Luxembourg insurance sector is dominated by life assurance which represents some 89% of total premiums written by the sector. More than 95% of life insurance premiums are issued abroad, primarily within the framework of the free provision of services in the EU.