

Luxembourg:  
your pro-business country in the EU

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**The Regulation and Structure of Collective Investment  
Vehicles in Luxembourg**

**AEI Seminar  
18th May 2006**

*Robert Hoffmann  
Director General  
ALFI*



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your pro-business country in the EU

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1. Origin of the Luxembourg Financial Centre
2. Recent Industry Developments
3. CIS available (UCITS – UCIs)
4. Role of the Promoter and of the Depositary
5. Questions

# 1. The Luxembourg Financial Centre

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## Part I

### Introduction

A U.S. federal tax which became effective in 1963, the **Interest Equalization Tax (IET)** of 15% on interest received from foreign borrowers was designed to restrict foreign debt issues sold into the United States market. Its actual effect was to stimulate development of the Euromarkets and drive dollar-based financing activity to Luxembourg and London. The tax was removed in 1974.

# 1. The Luxembourg Financial Centre (ctd)

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## *The 60s and 70s*

Birth and development of the Euromarket

## *The 80s*

Loan restructuring and Discovering a new private customer

## *since mid 80s*

Rise of investment funds

## 2. The Luxembourg Fund Centre

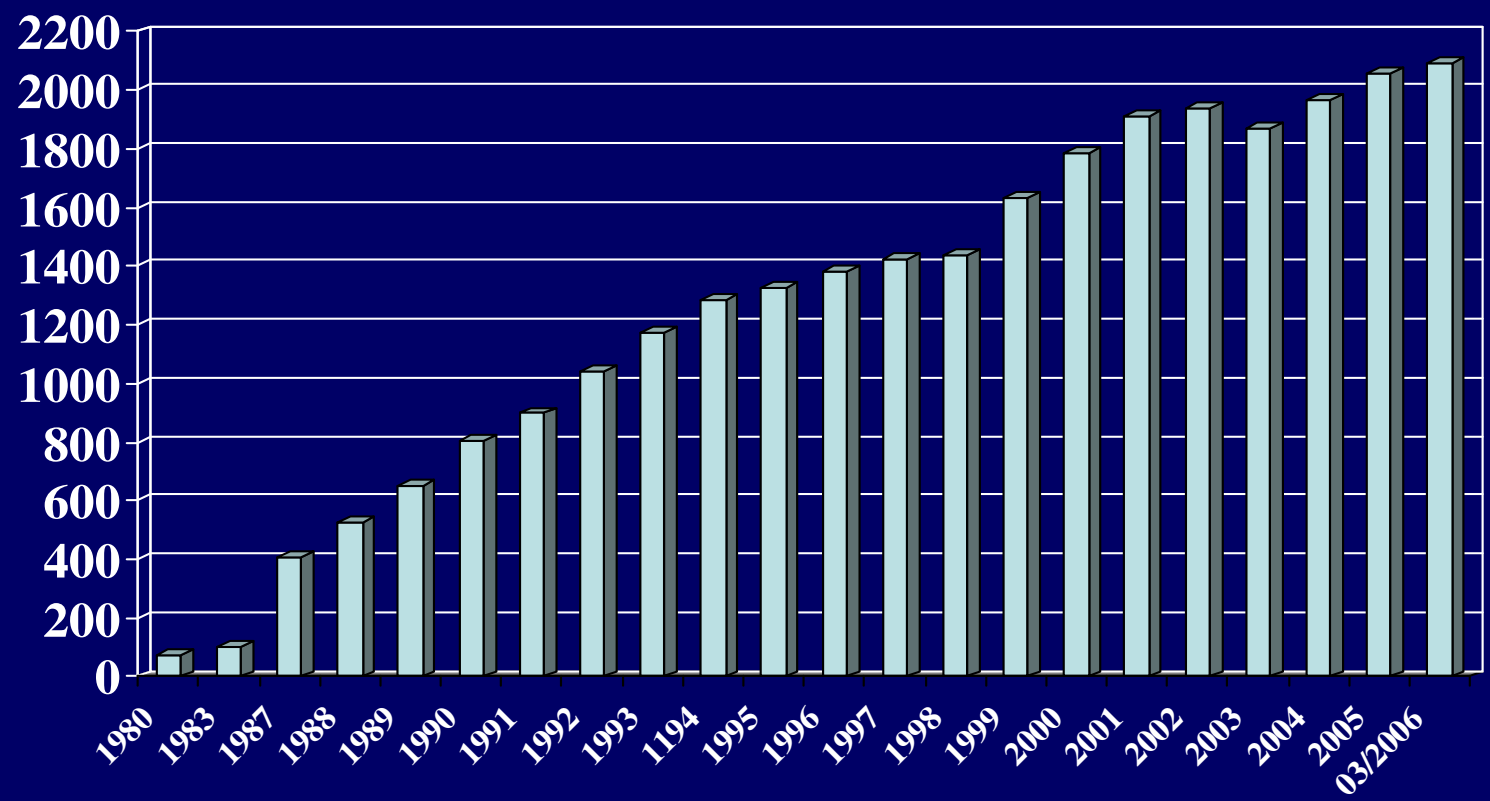
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### Part II

### Recent developments

# Europe's Number one Fund Center

## Number of Luxembourg Investment Funds

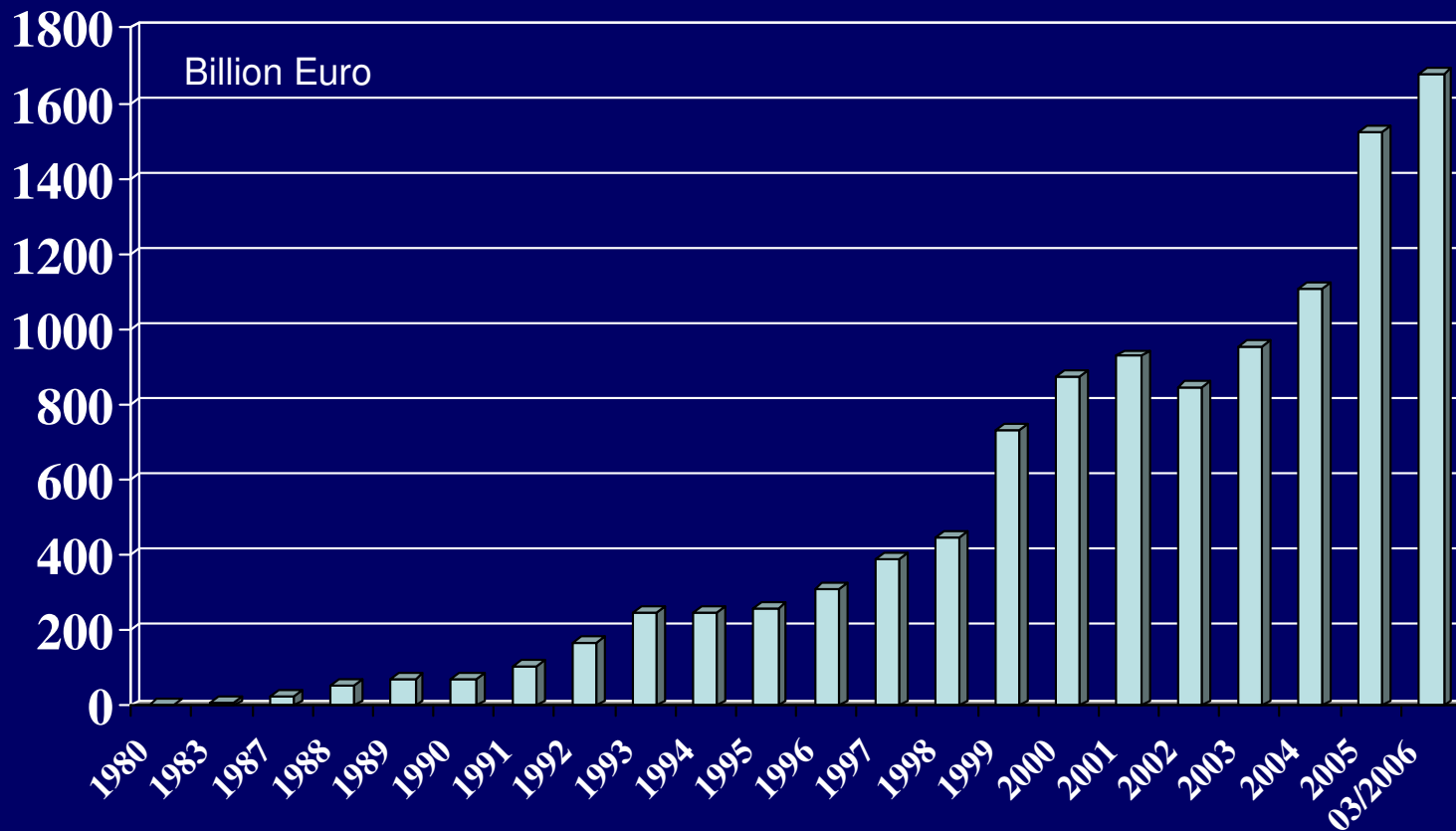


Source: CSSF 03/2006



# Europe's Number one Fund Center

## Net Assets of Luxembourg Investment Funds



Source: CSSF 03/2006



# The Luxembourg Fund Center at a glance

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2,091 Investment funds

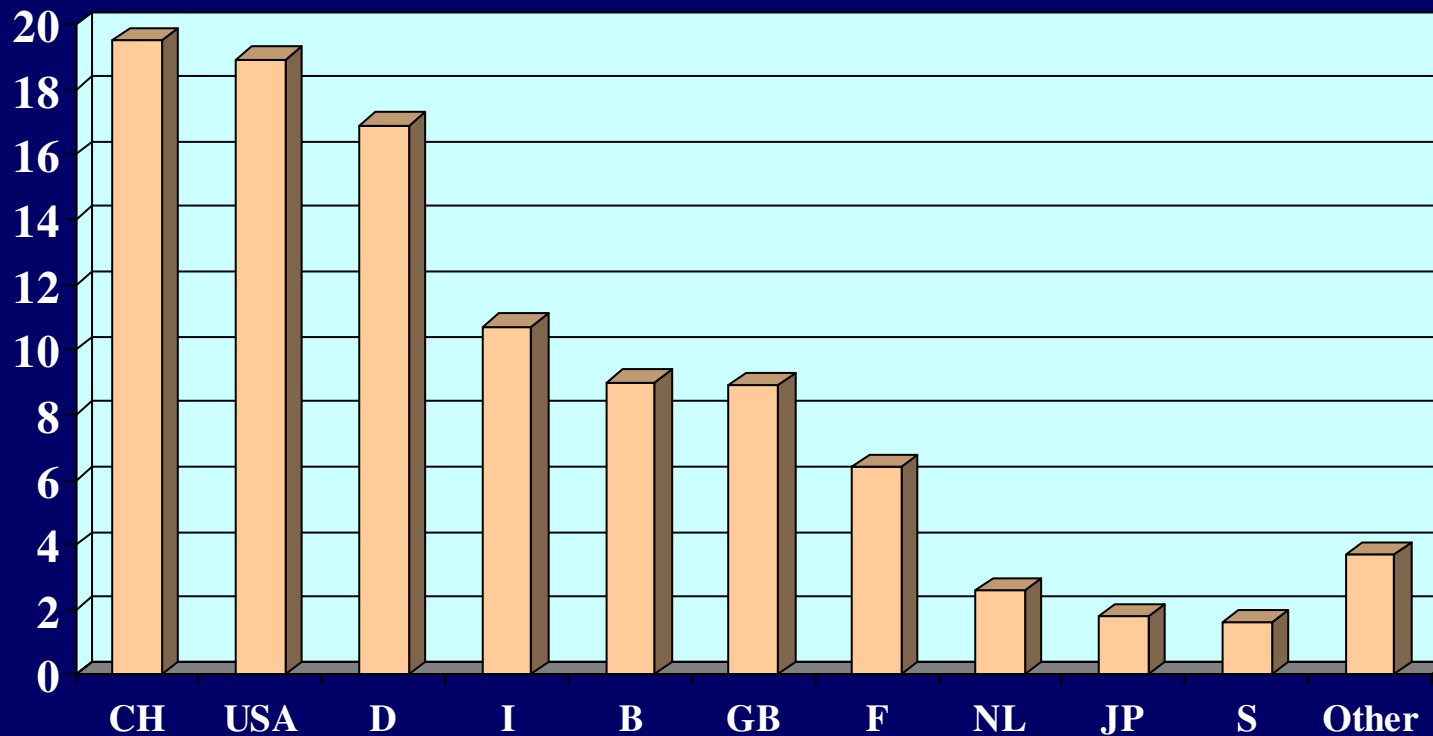
8,724 Funds and Sub Funds

1.675 Trillion Euros (\$ 2.12 Trillion)

Distributed in more than 150 countries  
world wide

# Swiss and US Players are now the Largest Country Groups

➤ Market share % of Luxembourg Fund Industry



Source: CSSF, 31 December 05



**Luxembourg's "domestic market" is the EU...**

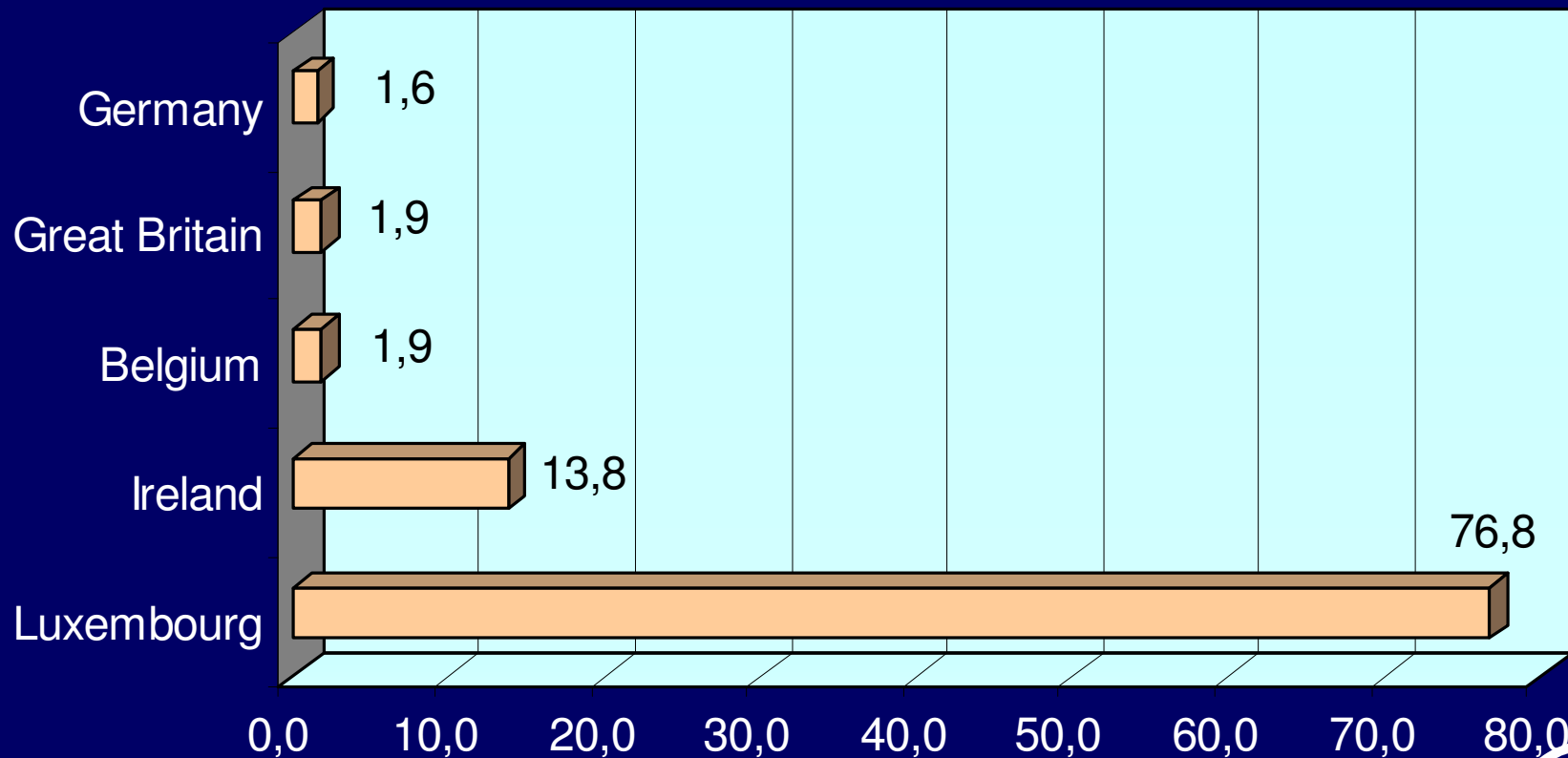


**... Our export market is the World**



# Luxembourg: Your hub for International Distribution

➤ Market share % of EU Fund Registrations



Source: PWC/Lipper 2005



# Luxembourg today : Home of largest Fund Flagships

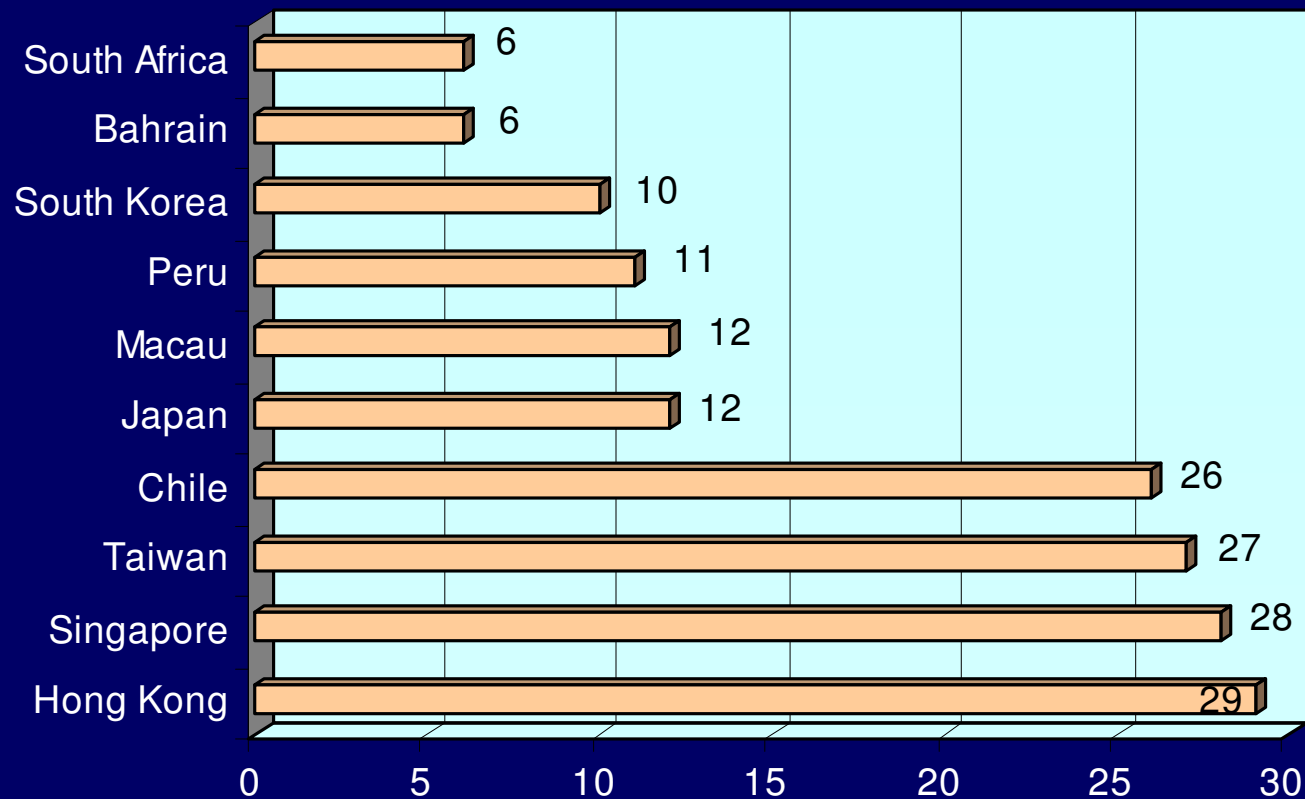
Management group name	Domicile	Countries of sale	Number of funds
Franklin Templeton Investments	Luxembourg	32	44
UBS AG	Luxembourg	28	198
Fidelity Investments Luxembourg S.A.	Luxembourg	28	100
Merrill Lynch Investment Managers Ltd.	Luxembourg	27	51
HSBC Investment Funds Luxembourg S.A.	Luxembourg	26	40
BNP Paribas	Luxembourg	25	63
Crédit Suisse Asset Management Fund Service (Luxembourg) S.A.	Luxembourg	23	114
JP Morgan Asset Management (Europe) s.à r.l.	Luxembourg	23	103
ABN AMRO Luxembourg Management S.A.	Luxembourg	22	115
INVESCO GT Management S.A.	Luxembourg	22	24
Allianz Global Investors Luxembourg S.A.	Luxembourg	21	97
Schroder Investment Management (Luxembourg) S.A.	Luxembourg	21	68
Mellon Global Investments Limited	Dublin	21	28
Janus International Limited	Dublin	21	28
Aviva Fund Services S.A.	Luxembourg	20	28
Société Générale (France) S.A.	Luxembourg	19	58
Alliance Capital (Luxembourg) S.A.	Luxembourg	19	33
Baring International Fund Managers (Ireland) Ltd	Dublin	19	27
Gartmore Investment Limited	Luxembourg	18	22

Source : PwC, Lipper, Pan-European UCITS Distribution 2005



# Distribution countries of the 50 top funds

- The top 10 countries of investment outside of Europe



Source : PwC, Lipper, Pan-European UCITS Distribution 2005

# Luxembourg Today : Luxembourg Competitive Advantages

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- fund legislation and regulation
- fund set up and structuring
- fund domiciliation and reporting
- fund administration and transfer agency
- compliance and risk management
- depositary and custodian banking
- cross border distribution support

**Mature Industry with 10 000 professionals**



# The Luxembourg Fund Centre

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## Part III CIS available

## CIS available

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European Passported Funds: **UCITS**

**Undertakings for Collective Investment  
in Transferable Securities** (Law of 20.12.2002, Part I)

Other **UCIs**

(Law of 20.12.2002, Part II) Innovative products: Hedge funds, venture capital & private equity and real estate investment funds

**Institutional funds** (Law of 19.7.1991)

**The Investment Company in Risk Capital**

(Société d'Investissement en Capital à Risque (SICAR))

(Law of 15.6.2004)



# UCITS Directive

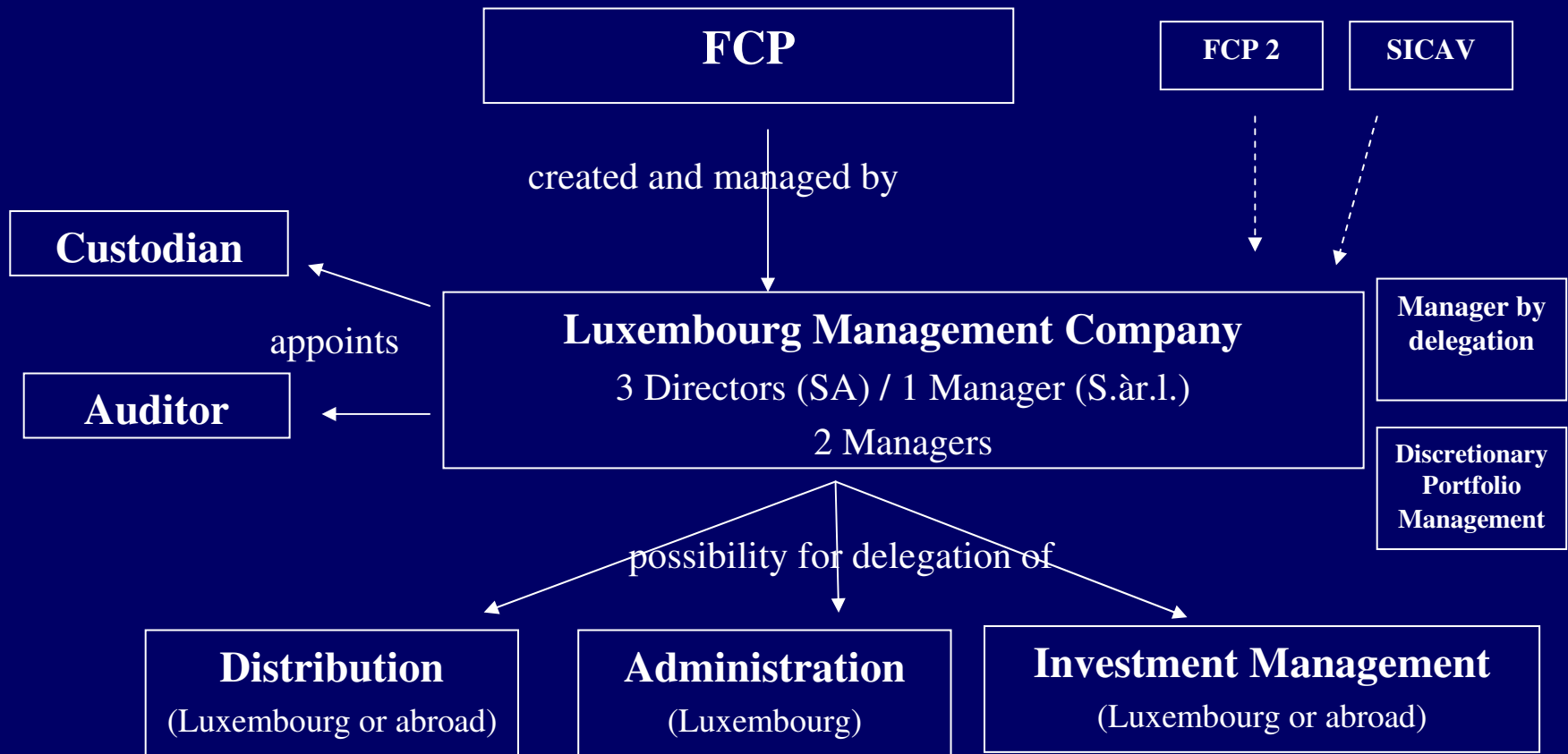
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**SICAVs**

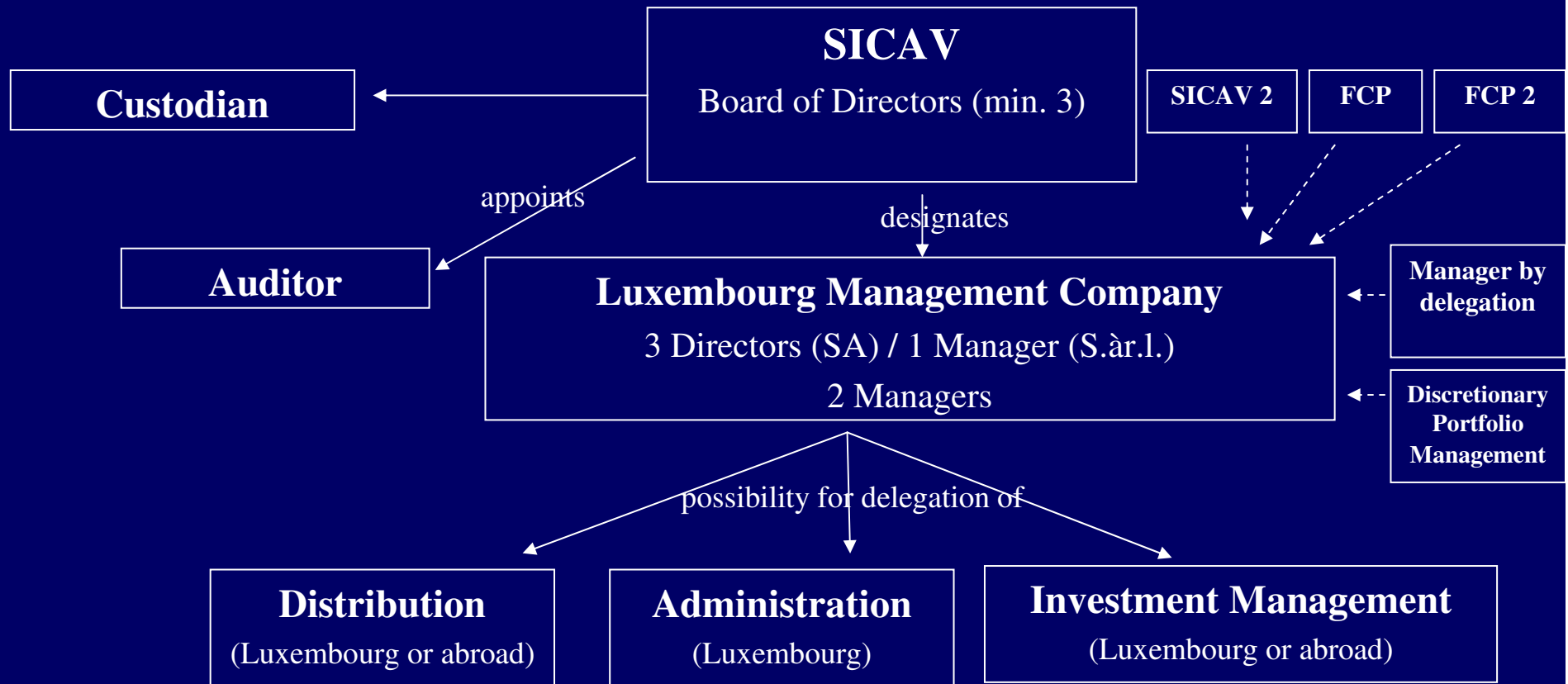
**FCPs**

The EU Management Company Directive: Implications on UCITS structures

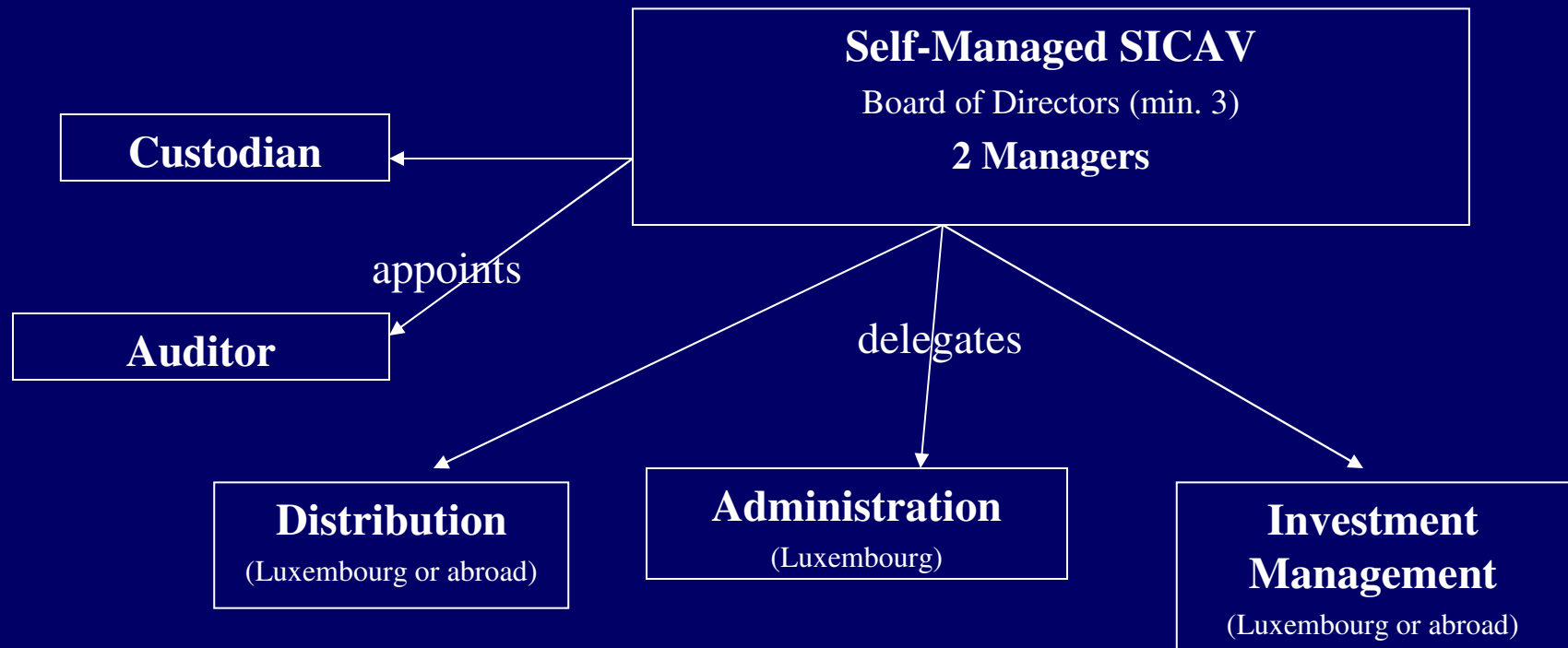
# The FCP under UCITS III



# The SICAV designating a Management Company under UCITS III



# The self-managed SICAV under UCITS III



## Specific requirements for setting up a Luxembourg Management Company

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- Luxembourg incorporated company
- Must be authorized by the CSSF (Activity program to be filed)
- Minimum capital and additional own funds requirements
- CSSF must approve shareholders, directors and managers (repute and professional experience)
- Promoter concept

## Common requirements (for Management Company and Self-Managed SICAV)

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- The Management Company and the Self-Managed SICAV may delegate investment management, administration and distribution functions to third party service providers (see structure graphs)
- The role of the 2 Managers of the Management Company or the Self-Managed SICAV is to conduct the activities and supervise delegates (investment managers, administrators, distributors)
- The Management Company and the Self-Managed SICAV must have sound administrative and accounting procedures. In terms of human resources (including the 2 Managers) and IT resources they can receive support from third parties
- Further details in CSSF Circulars 03/108 and 05/185

# EU Commission

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Evolution of UCITS:

The Green paper of the EU Commission and the Luxembourg  
Position

# Enhancing the UCITS framework – proposed steps

Topic	Action	Proposed dates
UCITS review process	Consultation process (EU Commission Green paper) Feedback report on the public consultation; COM statement on follow-up actions	July / November 2005 February / March 2006

## 1. Priority actions

1.1	CESR guidelines on transitional provisions	Interim report on national implementation	Autumn 2005
1.2	Notification procedures	CESR guidelines for the notification procedure	Autumn 2005
1.3	Recommendations on derivatives and simplified prospectus	Publication of definitive assessment of Member State implementation (CESR and COM)	Autumn 2005
1.4	Clarification of UCITS eligible assets	Adoption of implementing legislation	March / April 2006

## 2. Building on the current framework

2.1	Management company passport	Analysis of conditions needed to facilitate effective functioning of management company passport (for corporates)	Early 2006
2.2	Fund distribution, sales, promotion	Assessment of the articulation between UCITS and MiFID Gap analysis of MiFID level 2 measures	Early 2006 Mid 2006

# Enhancing the UCITS framework – proposed steps (ctd)

## 3. Long-term challenges

<p><b>3.1</b> Towards a cost-efficient industry</p> <ul style="list-style-type: none"> <li>• Cross-border mergers/pooling</li> <li>• Review of fund custody and depositary services</li> <li>• Review of infrastructures for processing share subscriptions / redemptions</li> </ul>	<p>Work of specialist forum group</p> <p>COM review</p> <p>Industry lead</p>	<p>Winter 2005 – Summer 2006</p>
<p><b>3.2</b> Maintaining high levels of investor protection</p>	<p>Analysis of risk and risk controls in European investment fund industry (CESR and COM):</p> <p>Monitoring of IOSCO work; launch and publication of Commission studies</p>	
<p><b>3.3</b> Competition from substitute products</p>	<p>Impact study ?</p>	
<p><b>3.4</b> Europe's alternative investment market (hedge funds, private equity funds)</p>	<p>Work of specialist group</p>	<p>Winter 2005 – Summer 2006</p>

# Non UCIs

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Innovative products



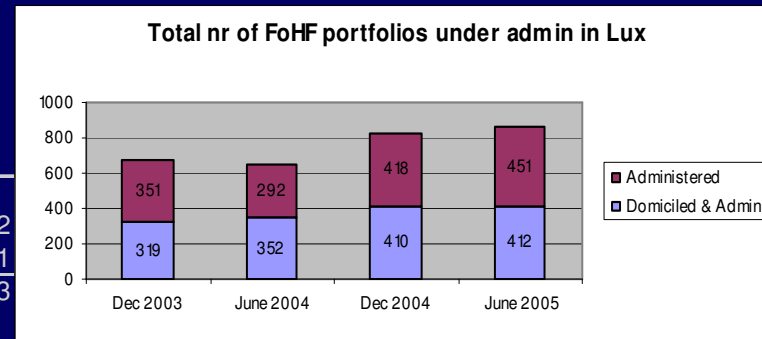
# Hedge Funds

## 1. Recent growth figures Funds of hedge funds

**Total number of FoHF portfolios under administration\*\***

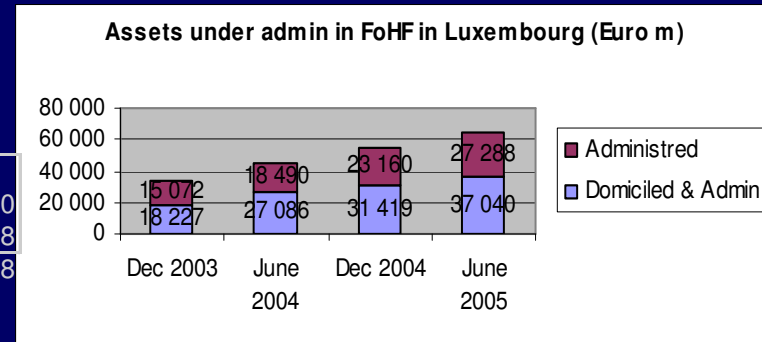
	Dec 2003	June 2004	Dec 2004	June 2005
Domiciled & Admin	319	352	410	412
Administered	351	292	418	451
	670	644	828	863

\*\* single funds plus umbrella sub-funds except for Dec 03 where single funds are not included in the figure



**Assets under administration in FoHF (Euro millions)**

	Dec 2003	June 2004	Dec 2004	June 2005
Domiciled & Admin	18 227	27 086	31 419	37 040
Administred	15 072	18 490	23 160	27 288
	33 299	45 576	54 579	64 328



[Source ALFI – September 2005]



## Hedge Funds (ctd)

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### 2. Key features

Funds open to retail and institutional investors

No investment minimum

Umbrella structures / protected cell regulation

Flexible risk diversification rules / investment restrictions for both hedge funds and funds of hedge funds

Use of a prime-broker

Listing opportunities

### 3. Potential growth of the alternative investment in Luxembourg

Development and streamlining of the existing regulatory framework for hedge funds in Luxembourg

Promoting Luxembourg as a centre of competence for hedge fund administration

Promoting Luxembourg as a centre of competence for hedge fund management

## The Investment Company in Risk Capital (Société d'Investissement en Capital à Risque (SICAR))

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Regulatory Framework: Law of 15 June 2004 regarding the investment company in risk capital (SICAR)

Eligible investments: assets representing risk capital, i.e. direct or indirect contribution of assets to entities in view of their launch, their development or their listing on a stock exchange (capital, debt, mezzanine financing, subordinated debt)

Investment rules: no investment rules in the law, no requirement for risk spreading

Flexible distribution/repayment features: no restrictions on repayments and the distribution of dividends

Restricted to “well-informed” investors



## The Investment Company in Risk Capital (Société d'Investissement en Capital à Risque (SICAR)) (ctd)

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Supervision by the Commission for the Supervision of the Financial Sector (“CSSF”) but lighter regulatory regime than for UCIs: no requirement for a “promoter”

Requirement for a Depositary and Auditor

The registered office and the head office (central administration) must be based in Luxembourg

Different legal forms available: limited partnership, partnership limited by shares, public limited company, and others

Different tax regime than UCITS and other UCIs: fully taxable company (except for limited partnership) but revenues from private equity exempted, possibility of benefiting of double tax treaties, no capital duty, no wealth tax, management and administration services exempt from VAT, no taxation of non-Luxembourg resident investors



## « NEWLA »

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- ALFI initiative: proposed new legislation for funds which are designed for « qualified » and institutional or « professional » investors

Withdrawal of the requirement of a promoter

Replacement of detailed investment rules and restrictions by principles based regulation

Simplified content of periodic financial information

## 4. Role of the Promoter and of the Depositary

- The promoter concept
- Responsibility of the depositary

# ALFI Publications

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Annual Report (GB) / Rapport Annuel (F)

•Leaflets:

- “Centre of Excellence for the Investment Fund Industry” (GB)
  - “Real Estate Investment Funds” (GB)
    - “Hedge Funds” (GB)
      - “SICAR” (GB)
    - “ Pension Pooling Vehicles” (GB)
  - Reports & Guidelines:
    - “Regulated Real Estate Investment Vehicles”(GB)
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# Thank-you



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