

MARCH / APRIL 2016

# LEO

THE FINANCIAL CENTRE'S MAG

## CAPITAL MARKETS UNION

UNLOCKING  
GROWTH IN  
THE EU



CLIMATE FINANCE

LUXEMBOURG  
ART WEEK



NICOLAS MACKEL,  
CEO, LUXEMBOURG  
FOR FINANCE

## BOOSTING GROWTH IN THE EU

**A**s you can see, we have decided to give our magazine a new, modern look as well as a name, LEO. This was quite an obvious and easy choice given the lion is Luxembourg's national symbol and its head is part of the visual identity of Luxembourg for Finance.

LEO will be the flag carrier for the Luxembourg financial community and, more importantly, it will be a window into Luxembourg's pool of expertise on financial services.

We have chosen as the theme for LEO's maiden edition the developments around the Capital Markets Union. At a moment when the fundamentals of Europe are being questioned, either under the pressure of the refugee crisis or the debate around a possible Brexit, we deem it necessary to showcase the benefits that more economic integration would bring about. Indeed, our companies operate across multiple national markets and have very well integrated the economic reality of the borderless mar-

ket. A well functioning Single Market also needs pan-European access to financing sources. It is ultimately about the financing of the real economy in our countries. The CMU plays to a number of strengths of Luxembourg, starting with its unique cross-border expertise and the fact that it has a very European vision of the financial services business.

Various aspects of the Capital Markets Union are being addressed in the following pages by industry-leading experts and renowned academics, such as access to finance for smaller companies, in particular start-ups, the potential of CMU for the insurance industry, securitisation, increased transparency in investor information...

LEO features another issue dear to us, climate finance. With the Paris agreement sealed, the question of the financing of the fight against climate change takes centre stage. Our interviewees have done pioneering work in this area and lay out for us key elements in this relatively new area as well as its perspectives of future development.

Finally, in a different field, we highlight a very laudable initiative, Luxembourg's first contemporary art fair, an event bringing together galleries from across Europe and drawing large crowds of art lovers.

As ever, comments and questions are welcome, both on the new format as well as on the substance.

Enjoy the read!

A handwritten signature in black ink, which appears to read 'N. Mackel', with a long horizontal line underneath it.

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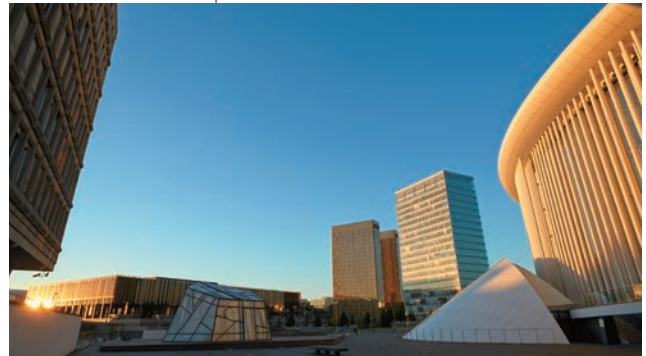
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**GET IN TOUCH: ANY QUESTIONS?  
SEND YOUR QUESTIONS  
ON TWITTER TO @LUXFINANCE**

## 100<sup>TH</sup>

The Luxembourg Stock Exchange reached a milestone in climate finance with the listing of its 100<sup>th</sup> Green Bond, issued by the EIB. Luxembourg has a 50% market share of global Green Bonds listings.



“The Luxembourg government is obviously committed to being involved and to supporting a FinTech innovation hub in Luxembourg.”

CHRIS SKINNER, CHAIRMAN AT THE FINANCIAL SERVICES CLUB, COMMENTING ON LUXEMBOURG'S COMMITMENT TO FINTECH DURING THE CONFERENCE FINTECHSTAGE ORGANISED IN LUXEMBOURG.

## A FIRST GRAMMY FOR LUXEMBOURG!

ANGELIQUE KIDJO, ONE OF AFRICA'S MOST PROMINENT MUSICIANS, HAS BEEN AWARDED A GRAMMY IN THE CATEGORY “BEST WORLD MUSIC ALBUM” FOR THE ALBUM “SINGS”, ENTIRELY PRODUCED WITH THE LUXEMBOURG PHILHARMONIC ORCHESTRA UNDER THE DIRECTION OF LUXEMBOURG COMPOSER GAST WALTZING.



## 2<sup>ND</sup>

THE UNIVERSITY OF LUXEMBOURG HAS BEEN RANKED 2<sup>ND</sup> MOST INTERNATIONAL UNIVERSITY WORLDWIDE OUT OF 200, IN THE LATEST TIMES HIGHER EDUCATION WORLD UNIVERSITY RANKINGS.

## 9<sup>TH</sup>

The ranking of Luxembourg in the latest “European City of the future” published by fDi Magazine. The ranking measures the attractiveness of European cities and regions for foreign investors.

MARC BICHLER,  
LUXEMBOURG'S  
AMBASSADOR FOR  
CLIMATE CHANGE

## NO SUSTAINABLE CLIMATE ACTION WITHOUT SUSTAINABLE CLIMATE FINANCE

IN DECEMBER, WORLD LEADERS CAME TOGETHER IN PARIS TO FINALISE A HISTORIC AGREEMENT TO CURB CARBON POLLUTION AND IMPROVE RESILIENCE IN THE FACE OF CLIMATE CHANGE. BUT DELIVERING ON THE NEW PARIS AGREEMENT REQUIRES A KEY ITEM: FINANCE.

**T**he Cop21 Paris Agreement, adopted by 195 countries and the European Union, marks a turning point in tackling climate change. For the first time in history, all the world's nations reached a consensus to cut greenhouse gas emissions with a view to keeping global warming below 2 °C and to drive efforts to limit it to 1.5 °C.

*"The Paris Agreement sends a strong signal that the poorest and most vulnerable countries will be supported, and that investors need to align portfolios for a low carbon and climate resilient development,"* says Marc Bichler, Luxembourg's Ambassador for Climate Change.

More than ever, transition from fossil fuel to renewable energies is becoming a new global reality. As of 2020, at least 100 billion USD a year will be mobilised from public and private sources to help developing countries mitigate the effects of climate change and adapt to already existing impacts of climate change.

The government's decision to dedicate 35 million EUR between 2014 and 2020 (5 million EUR per year) to climate mitigation and adaptation activities in developing countries, has set the tone of Luxembourg's commitment.

### SCALING UP INVESTMENTS

Governments, investors and businesses now have to translate this agreement into actions.

*"Over the next five years we must begin to unlock the investments needed to deliver on the promises all countries made this year on both climate and development. Successfully confronting climate change will require very important new financial flows,"* comments Marc Bichler.

Already now, the agreed 100 billion USD is considered to be underestimated.

*"Full implementation of the unconditional pledges made by countries to reduce their greenhouse gas emissions would require cumulative investments of 13.5 trillion USD in low*



**"Successfully confronting climate change will require very important new financial flows."**

*carbon technologies and energy efficiency until 2030,"* Bichler adds.

Climate Finance cannot flow from public budget sources alone, but needs the indispensable buy-in from institutional and private sector investors.

*"The future of climate finance depends on its ability to leverage sufficient resources from capital markets. Funding is needed from a variety of sources, public and private, bilateral and multilateral, and the financial tools to access that funding will reach across the board from donations to investments and even loans,"* adds Anouk Agnes, Deputy Director General at the Association of the Luxembourg Fund Industry (ALFI).

### CONNECTING INVESTORS EAGER TO JOIN THE FIGHT

Investment funds are one of the tools that allow the combination of public and private resources, connecting investors eager to participate in the fight against climate change with the various investment op-





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ROBERT SCHARFE,  
CEO, LUXEMBOURG STOCK  
EXCHANGE

ANOUK AGNES,  
DEPUTY DIRECTOR GENERAL,  
ALFI

ANNEMARIE ARENS,  
GENERAL MANAGER,  
LuxFLAG

opportunities that the climate challenge represent.

*“The effect of COP21 is that more investors – both institutional and retail – are interested in investing in funds with a direct impact on the environment. There is, in parallel, an increasing pressure on the investment fund community to apply environmental criteria in their other, more mainstream, investment strategies”,* highlights Anouk Agnes.

Today, there are already a large number of investment funds in Luxembourg investing in the environmental sector. With a 35% market share, Luxembourg is the leading European domicile for funds with a responsible investment strategy, that is impact funds such as climate funds and more broadly invested traditional funds applying environmental, social and governance (ESG) screening techniques. In addition, 67% of global AuM in European impact funds are domiciled in Luxembourg.

*“The ability to design a Luxembourg investment fund in such a way that its capital structure and the distribution of its income accommodates requests by public, private and institutional investors alike is extremely useful in the context of climate finance. Luxembourg’s track-record in microfinance funds and the expertise acquired over the years in setting up structured investment funds proves to be very valuable. This success could be repeated in climate finance”,* adds Agnes.

In addition, the new ‘Reserved Alternative Investment Fund’ (RAIF), with its reduced time-to-market, is also likely to appeal to Alternative Investment Fund Managers looking to launch a specific climate finance product.

### GREEN BONDS IN HIGH DEMAND

The 100 trillion USD global debt market, and green bonds in particular, are expected to become a dominant source of green capital. In this context, the Luxembourg Stock Exchange (LuxSE) intends to encourage new issuances and is committed to invest

in promoting high quality standards specific to the asset class. Today, only a limited number of green bonds fully commit to all four pillars of the GBP (Green Bond Principles) that is use of proceeds, project eligibility, management of proceeds, reporting and third party assurance.

LuxSE recently hit a milestone on the path to mobilising investments with the listing of its 100<sup>th</sup> Green Bond. Driven by appetite among institutional, high net worth and retail investors, the global Green Bond market is set to raise somewhere between 50 and 80 billion USD this year. Luxembourg has already a 50% market share of global Green Bonds listings.

*“LuxSE understands that exchanges increasingly play a role beyond connecting issuers and investors, which is to help capital markets bring social and economic benefits to the economy and society as a whole. Green Bonds are a good example of this direction,”* comments Robert Scharfe, CEO of the Luxembourg Stock Exchange (LuxSE).

The 250 million EUR new issue from the European Investment Bank (EIB), the world’s largest issuer of Green Bonds, increased the size of the EIB’s benchmark 2026 bond to a total of 1.5 billion.

The EIB, which has currently 95% of its bonds listed in Luxembourg, kick-started the market in 2007 with the listing of the first Green Bond on the Luxembourg Stock Exchange.

*“The greening of the bond market is vital for the future of climate finance. We sell a lot of bonds because we need to refine everything on the capital markets and LuxSE was at the avant-garde when it came to green bonds”,* says EIB President Werner Hoyer.

### MEETING TRANSPARENCY REQUIREMENTS

The credibility of climate finance is crucial for the effective involvement of capital markets in the delivery of climate policy



BY SCANNING THE QR CODE BELOW,  
WATCH HOW LUXEMBOURG IS PIONEERING  
CLIMATE FINANCE EFFORTS.



“The effect  
of COP21 is that  
most investors  
are interested in  
investing in funds  
with a direct  
impact on the  
environment.”

ANOUK AGNES,  
DEPUTY DIRECTOR GENERAL, ALFI

goals, bringing transparency, accountability and compliance into the spotlight.

In this context, Green Bonds allow investors and rating agencies to engage in the assessment and improvement of climate finance. This process needs to be taken forward with the development of consistent and widely accepted standards for the classification, prioritisation and assessment of climate finance. Definitions of “green” are based on a complex and fragmented taxonomy that will need urgent harmonisation to ensure a safe and thriving market, where trust is based on transparency.

“We have a fundamental role of ensuring the highest transparency of green bonds and the

## WHAT YOU NEED TO KNOW:

100 BILLION USD A YEAR

WILL BE MOBILISED TO HELP  
MITIGATION OF CLIMATE CHANGE  
BY 2020

13.5 TRILLION USD

CUMULATIVE  
INVESTMENTS  
NEEDED UNTIL 2030  
TO ENSURE FULL  
IMPLEMENTATION  
OF THE PLEDGES  
MADE AT COP21

35 MILLION EUR

AMOUNT THAT THE LUXEMBOURG  
GOVERNMENT HAS COMMITTED  
TO DEDICATE FOR MITIGATION  
AND ADAPTATION ACTIVITIES  
IN DEVELOPING COUNTRIES  
BETWEEN 2014 AND 2020

50%

LUXEMBOURG'S MARKET  
SHARE OF GLOBAL  
GREEN BONDS LISTINGS

67%

OF GLOBAL AUM IN EUROPEAN  
IMPACT FUNDS ARE DOMICILED  
IN LUXEMBOURG

*alignment between disclosure and investors' expectations. In a non-regulated environment, we are committing to contribute to the further standardisation of green bond criteria via the endorsement of best practice for green bonds to be listed on our market”, comments Robert Scharfe.*

The need for transparency is also true for investment funds such as climate change funds, impact and ESG funds.

“Today, investment funds are putting more emphasis on extra-financial reporting and in communicating to their investors what impact the projects in their portfolio have achieved”, comments Anouk Agnes.

### QUALITY LABELLING

In Luxembourg, the fund labelling institution LuxFLAG, launched in 2006, contributes to reassure investors about the purpose of their investment. Labels are awarded to funds that meet specific criteria in the areas of microfinance, environment and ESG (Environment, Social, Governance).

The labelling agency is planning to launch a climate finance label by summer.

“Investors recognise the need to shift their focus, moving forward. This label will put a set of quality standards on funds that have a climate finance strategy, mitigating climate risks and measuring their impact. We will be the first in Europe, if not the first in the world. Each of our labels is awarded on factual results. For the ESG label, we require applicants investment funds to screen 100% of their portfolio, we look at its investment and its outcome on the ground,” says Annemarie Arens, General Manager of LuxFLAG.

The agility of the Luxembourg's financial centre, including the alignment of institutions and industry participants and the ability to attract skilled staff and engage in emerging business sectors, will certainly translate into a valuable climate finance toolkit as the market matures.

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# CAPITAL MARKETS UNION

THE EUROPEAN COMMISSION'S PLAN TO INTRODUCE A EUROPEAN CAPITAL MARKETS UNION BY 2019 WILL PRESENT SIGNIFICANT OPPORTUNITIES TO BANKS, ASSET MANAGERS, INSURERS AS WELL AS OFFERING IMPROVED ACCESS TO CAPITAL MARKETS FOR SMALLER AND MEDIUM-SIZED COMPANIES. IN THIS EDITION OF "FOCUS", WE TELL YOU EVERYTHING YOU NEED TO KNOW ABOUT THIS MUCH ANTICIPATED PROJECT.





EUROPEAN COURT  
OF JUSTICE AND  
PHILHARMONIE  
LUXEMBOURG

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DR DAVID HOWARTH,  
PROFESSOR OF  
EUROPEAN POLITICAL  
ECONOMY, UNIVERSITY  
OF LUXEMBOURG

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## Capital Markets Union: Quo Vadis?

THE CAPITAL MARKETS UNION AIMS TO TACKLE INVESTMENT SHORTAGES HEAD-ON BY INCREASING AND DIVERSIFYING THE FUNDING SOURCES FOR EUROPE'S BUSINESSES AND LONG-TERM PROJECTS. DR DAVID HOWARTH, PROFESSOR OF EUROPEAN POLITICAL ECONOMY, AT THE UNIVERSITY OF LUXEMBOURG OUTLINES THE KEY CHALLENGES AND PRIORITIES FACED IN THE CREATION OF AN EU CAPITAL MARKETS UNION.





**T**he 'Five Presidents report' of June 2015 presented Capital Markets Union (CMU) as a necessary complement to Banking Union and a necessary step to complete Economic and Monetary Union (EMU). In September 2015, the European Commission put forward an Action Plan for CMU by 2019, with the objective of strengthening cross-border capital flows and thus reversing the fragmentation of the European financial market that had resulted from the international financial and euro area sovereign debt crises. The Commission seeks to improve access to finance for businesses, particularly SMEs, and to diversify financing sources, notably by expanding the non-bank part of Europe's financial system. The EU's financial system (measured by assets) is approximately 80% banking and 20% other, while the US financial system is the reverse.

Presenting the September 2015 Action Plan on CMU, Commissioner Jonathan Hill listed his top six priorities, some of which have an obvious 'flavour' of deregulation. These are: 'Supporting long-term infrastructure investment', notably by lowering the solvency requirements for insurers investing in long-term infrastructural projects; 'Unlocking bank lending', notably through the promotion of securitisation; 'Supporting SMEs' by simplifying and streamlining the Prospectus directive; supporting venture capital and equity financing across Europe; an examination of the cumulative impact of rules in the financial services sector, with a view to streamlining; and increasing cross-border supply of retail financial services with the specific aim of increasing choice for consumers.

### LIBERALISING EU FINANCIAL SERVICES

Luxembourg is well-positioned to gain from future efforts to liberalise EU financial services given its concentration of financial expertise. The Grand Duchy will attract additional hedge fund managers,

private equity firms and venture capital operations. However, the largest element of the country's financial sector is the fund industry which already benefits from long-standing European legislation ensuring an open EU market (the UCITS directive, 1985, amended most recently in 2014). The Grand Duchy's fund industry is also already the EU's most open, with a third of investment in Luxembourg-based funds from customers located in non-EU countries.

The Commission has also designed CMU to appeal to euro area periphery countries, which have been hit hard by the sovereign debt crisis. In southern European economies, the relative economic importance of SMEs — which CMU specifically targets — is greater. More importantly, the European Long Term Investment Funds (ELTIFs), which would bring together investors and enterprises in need of 'patient' long-term capital for major infrastructural projects in the context of the European Fund for Strategic Investments are of particular interest to periphery countries facing years of under-investment due to high public debt burdens and forced cuts to public spending.

The impact of CMU will likely be different among EU stock exchanges. Despite significant consolidation over the past two decades, there remain sixteen exchanges in the EU in comparison to only two in the United States. Consolidated exchanges that operate in more than one country are subject to harmonised EU rules — notably the Markets in Financial Instruments Directive (MiFID) — and non-harmonised national rules — often, due to gold-plating (that is, the addition of national rules not required under EU legislation). The aim of CMU is to harmonise these national rules, to reduce operational costs and encourage consolidation among stock exchanges. The Luxembourg Stock Exchange, with its efficient specialisation in specific areas notably international bonds (the most listed of all Europe's exchanges), is very well placed to expand and attract business from other exchanges. Crucially, CMU is intended to



## WHAT YOU NEED TO KNOW: GOALS OF CAPITAL MARKETS UNION

**CREATE A SINGLE MARKET FOR CAPITAL BY REMOVING BARRIERS TO CROSS-BORDER INVESTMENT.**

**IMPROVE ACCESS TO FINANCING FOR ALL BUSINESSES AROUND EUROPE.**

**DIVERSIFY THE FUNDING OF THE ECONOMY AND REDUCE THE COST OF RAISING CAPITAL.**

**MAXIMISE THE BENEFITS OF CAPITAL MARKETS SO THEY CAN SUPPORT ECONOMIC GROWTH AND JOB CREATION.**

**HELP SMEs RAISE FINANCE EASILY.**

**HELP THE EU TO ATTRACT INVESTMENTS FROM ALL OVER THE WORLD AND BECOME MORE COMPETITIVE.**

boost the global competitiveness of the largest and most efficient European exchanges, which over the past decade have dropped in international rankings.

### REVIVING SECURITISATION

It is revealing that the first legislative proposals officially put forward by the Commission in September 2015 concern securitisation: a draft Regulation sets out criteria for Simple, Transparent and Standardised Securitisations; and a draft amendment to the Capital Requirements Regulation seeks to make the capital treatment of securitisations more risk-sensitive (and thus, effectively, to lower capital requirements). This push reflects both ongoing international, Commission and European Central Bank efforts but also the reality of Europe's bank-dominated financial systems, which can increase lending through securitisation. The Commission has been keen to assuage market and public concerns about securitisation, which has a bad reputation as a consequence of the crisis. Securitisation issuance in the EU dropped from 594 billion EUR in 2007 to 216 billion EUR in 2014. SME securitisation issuance

also dropped from 77 billion EUR in 2007 to 36 billion EUR in 2014. The Commission has emphasised securitisation as an important route to improved SME financing.

To date, CMU has involved a great deal of rhetoric but has resulted principally in facilitating securitisation which was already a Commission and ECB priority. In the medium-term, however CMU, promises to be a mechanism to re-start the flow of credit to the real economy in the EU, even if the benefits — especially the provision of credit to SMEs or for European Long Term Investment Funds — are far from certain. CMU-related measures have potential winners and losers. The main winners would be the internationally active banks engaged in securitisation, non-bank financial institutions and competitive stock exchanges benefitting from new listings and increased trading. The main losers would be the less competitive domestically-oriented financial services — notably, smaller savings and retail banks, already hit hard by record low real interest rates — and a number of national stock exchanges.



**THE GRAND DUCHY'S FUND INDUSTRY  
IS ALSO ALREADY THE EU'S MOST OPEN,  
WITH A THIRD OF INVESTMENT IN  
LUXEMBOURG-BASED FUNDS FROM  
CUSTOMERS LOCATED IN NON-EU  
COUNTRIES.**

EUROPEAN INVESTMENT BANK,  
LUXEMBOURG



A full-page portrait of Jérôme Wittamer, a middle-aged man with short grey hair and black-rimmed glasses. He is wearing a grey V-neck cardigan over a white button-down shirt and dark blue jeans. He is standing with his hands in his pockets, smiling slightly at the camera. The background is a wall made of large, square tiles with a crumpled paper texture.

JÉRÔME WITTAMER,  
CHAIRMAN OF THE  
LUXEMBOURG PRIVATE  
EQUITY & VENTURE  
CAPITAL ASSOCIATION AND  
MANAGING PARTNER  
OF EXPON CAPITAL



# Building new channels of finance

START-UPS AND SMALL AND MEDIUM ENTERPRISES PLAY A PIVOTAL ROLE IN THE EUROPEAN UNION'S ECONOMIC DEVELOPMENT, YET MANY OF THEM FIND IT DIFFICULT TO ACCESS FUNDING TO BOOST THEIR GROWTH. LFF LOOKED AT THE INVESTMENT CLIMATE, THE CHALLENGES FACING ENTREPRENEURS IN EUROPE AND THE KIND OF OPTIONS AVAILABLE TO HELP THEM ACCESS FINANCING.

“Even if the decision makers in Brussels water down the CMU proposals, Europe is likely to be better off than it is today, from a cross-border capital markets perspective, once it is introduced.”

JERÔME WITTAMER

**W**ith bank lending having become increasingly expensive since the global financial crisis, entrepreneurs have had to take risks and look for new sources of money. This has often meant dipping into their own personal resources, relying on friends and family or using crowdfunding platforms, venture capitalists, business angels or public money when it comes to raising money.

## HOW CAN EUROPE CONNECT THE DOTS?

According to Jérôme Wittamer, Chairman of the Luxembourg Private Equity & Venture Capital Association and Managing Partner of Expon Capital, the EU's decision to create a Capital Markets Union - which it hopes will mobilise capital across the region - means that Europe is now ready to address the regional competitiveness, growth and jobs. The Commission's Green paper is asking the right questions about the financing of growth and innovation. How-



ever, what Europe still needs is fewer regulations, an EU-wide harmonisation of capital markets rules, and the suppression of local and national barriers, fees and requirements that are all impeding the whole continent's growth.

*"Even if the decision makers in Brussels water down the CMU proposals, Europe is likely to be better off than it is today, from a cross-border capital markets perspective, once it is introduced,"* he says.

Wittamer adds that the main hurdle to the introduction of the CMU is educating Members of Parliament about the problems facing start-ups and SMEs as well as convincing member states that markets are now global and that their firms will gain tremendously from accessing a common pan-European capital market. But, what should the CMU include to make it possible for start-ups and SMEs to raise financing?

*"Common legislation on equity and debt crowdsourcing and fund raising would go a long way to solving part of the problem,"* he continues. *"These are mostly governed by local and national rules at a time where ideas, people, money and goods are mobile and move rapidly. The disconnect has never been so great."*

Some encouragement is also needed, says Wittamer.

European venture capital needs access to more institutional money, yet US institutional limited partners are increasingly among the largest investors into European venture capital funds and fastest growing European tech firms. This proves that, once again, Europe is lagging behind, but this time on its own turf.

*"Dynamics have changed on the global tech scene and the smartest limited partners know it. Silicon Valley no longer rules alone. European venture performance is there, many European post crisis funds showing returns above many of their US peers,"* he added.

When asked about the European Venture Capital Funds Regulation, Wittamer warns that it still falls short of delivering its expected results.

*"One just needs to look at the very small number of applications since its enactment to realise that EuVECA is not a success. The speed with which the text was produced has exposed a number of issues, including a lack of knowledge and understanding of the way the venture capital industry operates. The European Commission has proved incapable or unwilling to enforce provisions in the text barring member states from implementing new national barriers,"* concludes Wittamer. The industry is now working on proposals to improve the framework.

## LUXEMBOURG: INCREASING DEAL FLOW

Mario Grotz, Director-General for Innovation at the Luxembourg Ministry of Economy, also understands the importance of providing access to finance and explains that the Luxembourg government is working hard to attract investors.

*"Ten years ago, we had 50-60 start-ups per year. Today, we support around 400 projects per year. The flow has increased a lot,"* says Grotz. The pre-seed and seed phases are often the most critical phases when funding is needed. In order to support companies at these stages, Luxembourg offers a mix of public and private financing. More and more funds are setting up in the country. *"The private fund industry for the start-up phase is gaining critical mass in Luxembourg. The interest is increasing,"* Grotz adds.

Examples of this include the Luxembourg Future Fund; a 150 million EUR fund, which was launched last spring and will be deployed over a five-year period, backing innovative European SMEs. The fund aims to boost Luxembourg's economy by attracting foreign entrepreneurs and early-to-late-stage innovative businesses into the country. The Luxembourg Future Fund invests directly or indirectly in Venture Cap-

**"Ten years ago, we had 50-60 start-ups per year. Today, we support around 400 projects, per year."**

MARIO GROTZ

ital funds and SMEs to foster the sustainable development of Luxembourg strategic sectors. These include companies active in the ICT, cleantech and other technology sectors outside of the health technology and life science sectors.

*"On the public funding side we have tried to fill the gaps where private funds do not intervene. Especially in the pre-seed phase,"* continues Grotz. *"We are also about to launch a seed fund that will soon be operational".*

The seed capital fund is designed to finance companies in their start-up phase. The fund will be managed by a specialised team with all the skills required to identify projects with the highest potential for growth in Luxembourg. It will invest venture capital into projects that have reached the "proof of concept" stage, such as those in the fields of cyber-security, FinTech, Big Data, Digital Health, telecommunications or satellite services.



MARIO GROTZ,  
DIRECTOR-GENERAL FOR  
INNOVATION  
LUXEMBOURG MINISTRY  
OF ECONOMY

“In social investment,  
we talk about ‘patient  
capital’... which speaks  
for itself.”

HEDDA PAHLSON-MOLLER



HEDDA PAHLSON-MOLLER,  
BUSINESS ANGEL AND  
BOARD MEMBER OF THE  
EUROPEAN AND  
LUXEMBOURG BUSINESS  
ANGEL NETWORKS

## BUSINESS ANGELS AND THE VALUE OF PATIENCE

Hedda Pahlson-Moller, Business Angel, focused on Social Investing and board member of the European and Luxembourg Business Angel networks, says it is important for Luxembourg's government to create a supportive tax environment for Business Angels that help businesses to thrive.

*"If investments in start-ups that fail could be used as tax credits, this would not only act as a powerful incentive for early stage investors, but also considerably reduce the real downside of an investment,"* adds the board member of the European and Luxembourg Business Angel Networks (EBAN and LBAN). *"However, in order for this to work, I would like to underline that these tax credits should only have the objective to encourage investment and change the risk profile of start-ups and are not meant to be a tool to reduce the tax burden of wealthy individuals."*

According to Pahlson-Moller, it is imperative that public-private partnerships are allowed to flourish. For social impact investing, more flexible legal structures are needed that accommodate the hybrid nature of the social enterprise (some are for profit and not-for-profit all rolled into one) and the matching blended financing that goes with it (grant and investment).

*"Investment value chains are not always properly mapped nor linked across borders,"* adds the Business Angel.

Although associations like the European Business Angel Network association (EBAN) are committed to connecting the early-stage ecosystem for start-ups and SMEs, gaps remain. *"The next step is building the bridges to secondary markets,"* she adds. *"Crowdfunding, for example, is a terribly exciting development for start-up capital – but again, without secondary markets, there is no exit and that means value gets... stuck."*

Other hurdles include inefficient match-making platforms, between projects and

investors. On-boarding more investors (both early-stage and impact) requires better training and support.

*"There is a lot of work to be done. Specifically in the impact investing space, which is younger and still finding its footing, where we have even greater lags and discontinuities in the investment value chain. But if I am bold enough to point out a tendency towards convergence of traditional and impact investing, it suggests that it won't take long before the 'impact' capital markets catch up and follow the trends of the 'traditional' markets."*

Pahlson-Moller also believes that investors in this space need to think longer-term, rather than expecting short-term returns. *"In social investment, we talk about 'patient capital'... which speaks for itself."*

In Luxembourg there is a growing body of alternative investment structures, including some attractive impact investing options.

*"The Luxembourg Microfinance and Development Fund is a good example. With six years of stable returns and an attractive share class structure where the Luxembourg government buffers first-loss, there is ample reason to start looking at impact investments as viable investment strategies."*

If we look at small cap investments such as venture capital, private equity and angel investing, there are some interesting trends for Europe. Early stage capital was estimated by Invest Europe to be around 7.5 billion EUR in 2014 (of which Business angels were a large majority with 5.5 billion) – and growing.

*"Even without a true single market, young companies are expanding rapidly into neighbouring countries to create economies of scale and hit growth targets. This brings the need for more investments,"* continues Pahlson-Moller. With the stock market being volatile and the safe-haven of bonds disappearing (with 0 to negative returns),

**"As soon as a FinTech company is reaching the moment of growth it becomes more difficult to attract investors."**

GORDANA ADOLF

alternative investments become a more attractive and necessary option – small cap investments have become an interesting diversification technique.

*“To tie things up, quoted companies are focused on short-term returns, which means paying out a dividend and meeting earnings expectations, as opposed to investing for the long-term”* she concludes. It looks now as if the preferred way to access innovation is by acquisition (for large caps). Therefore the acquisition of small companies, entirely focused on innovation, disruptive technologies (and why not positive social impact) will become a likely growth engine for listed companies, who are unable to replicate this internally.

### LISTING FOR TRUST AND TRANSPARENCY

One example of an innovative company that needed to raise finance is Cashcloud, a company that turns smartphones into wallets. The mobile wallet application it developed spans all of the key functions needed for shopping, payments, transferring money between friends, collecting bonus points, receiving coupons and social messaging – both online and offline. Cashcloud operates an open, neutral and integrated platform that is totally independent of banks, mobile network operators, and device manufacturers. The company's operational headquarters is based in Luxembourg.

Since June 2015, Cashcloud's shares have been listed for trading on the General Standard of the Frankfurt Stock Exchange (Deutsche Börse AG). In the coming months the company is planning to raise more capital.

*“We are in the fortunate position that, right from the early stages of the business in 2011, our founder could engage a few family offices to provide sufficient seed investment and first growth funding rounds, which enabled us to develop and grow as a successful company providing the most featured mobile wallet solution in the market,”* explains Gordana Adolf, Head of Marketing at Cashcloud.

She says transparency was key for the company. *“We are working in the financial industry and nothing is more important than security and transparency to be successful. Therefore we have chosen this approach because it is for us the most transparent way to present our business. Being listed on the General Standard of the stock exchange ensures we can become a trusted investment for small and as well big venture capital and institutional investors.”*

Cashcloud already has more than 185,000 registered users in Germany, France, Spain and the Netherlands. An expansion further into the Euro area and other currencies is planned.

In the FinTech market most companies enter the market with a catalytic idea which is going to change the current financial market. There is a lot of potential behind many good ideas and investors are, in general, very interested in financing some of these ideas. Reflecting on the lessons learnt, Adolf adds: *“Most investors are interested to step in at a very early stage when seed funding is needed. As soon as a FinTech company is reaching the moment of growth it becomes more difficult to attract investors”.*

Adolf believes that the FinTech sector needs the support of vision-driven investments, just like in the US. *“It needs investors who are not only looking at today's businesses and revenues but rather someone who really understands the potential of Fintech investments.”*

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GORDANA ADOLF,  
HEAD OF MARKETING,  
CASHCLOUD



# SOURCES OF FUNDING: WHAT CAN INVESTORS EXPECT FROM CMU?

## THE HUNT FOR YIELD AND DIVERSITY STILL COMES WITH RISK

THERE ARE GREATER INVESTMENT OPPORTUNITIES AROUND THE CORNER. INVESTORS SHOULD PROCEED WITH CAUTION THOUGH WHEN CONSIDERING INVESTING IN LESS LIQUID ASSETS.

**S**ince the financial crisis, investors have sought to compensate for falling yields, increased volatility and correlation in traditional asset classes. The EU's Capital Markets Union should expand the universe of investible assets and the pool of potential investors. Global institutional demand may outpace retail investor and retail product provider interest.

From an investor perspective, it is easier to start with what CMU is not. The project will not deliver a Big Bang, akin to the deregulation of UK financial markets in 1986. In reality, says Freddy Brausch, Vice President of ALFI, the Luxembourg Fund Industry Association and managing partner at Linklaters Luxembourg, the changes will take place through 33 separate initiatives introduced over an extended period of time.

*"What is important is the change in perspective to looking at it from the investor viewpoint of easier and more secure access to long-term assets,"* he says.

Key building blocks are already in place. The Luxembourg presidency of the EU Council has made good progress toward developing the framework for revitalising and standardising the securitisation market. Reworking of interest rate benchmarks such as Libor and Euribor should further boost clarity and investor confidence.

### CHANNELLING PUBLIC MONEY INTO THE REAL ECONOMY

The cross-border nature of passporting for European Long-Term Investment Funds (ELTIFs) and the revised European Venture Capital Funds and European Social Entrepreneurship Funds should play an important role in their take-up, following hopefully the example of Ucits retail funds, which have become a powerful brand not only across Europe but in regions including Latin America and Asia. From the moment the necessary safeguards are in place, a broadened and deepened investment base for such products can only be welcomed. The market, and beyond the economy, will benefit, as will the investor.

*"The interest for the investor is in easier access to assets that would not otherwise be available, and for promoters to raise capital more easily from a larger investor base,"* says Brausch.

Asset managers will also need the right tools to create the offerings that meet investor demand. Reforms to the EU Prospectus Directive, as well as retail financial services sales practices, go into the right direction toward properly balancing the need for protection with ease of access.

*"The key words are greater choice, transparency and informed decisions,"* Brausch says.

### INCREASING THE CHOICE FOR INVESTORS

But in a post-crisis world, control and oversight do not come cheap. If heavy-handed regulation brings industry consolidation, the result may be fewer market players – rather than a wider choice of assets for a broader range of investors. Noel Fessey, global head of fund services at Schroder Investment Management in Luxembourg,



FREDDY BRAUSCH,  
MANAGING PARTNER,  
LINKLATERS LUXEMBOURG



“The interest for the investor is in easier access to assets that would not otherwise be available, and for promoters to raise capital more easily.”

FREDDY BRAUSCH

points to the failure of the Key Investor Information Document as an example of how Europe’s three-way legislative process can undermine good intentions. But he argues that there are also plenty of areas that Europe has got right, such as the commercial paper and corporate credit markets.

Those steering the CMU strategy should be mindful of the impact of other European projects, particularly those designed to shore up the financial system, Fessey notes. The impact of bank capital rules on bond market liquidity is the most pressing example.

At an institutional level, larger managers such as Schroder are already meeting increased demand for a broader range of asset classes. The firm is currently setting up an infrastructure securitisation vehicle in France, a task that once would have fallen to the banks. But moves to offer access to smaller investors need careful handling. Encouraging retail investors to allocate part of their pension allocation to ELTIFs may not be a good idea. *“Investing in fixed asset infrastructure is an inherently illiquid*

*investment and is something you should introduce to a retail investor with the utmost caution,”* Fessey says. *“Their liquidity demands are likely to be much higher than the asset class can bear.”*

## RESTORING INVESTOR CONFIDENCE

If the European Commission is serious about engaging the end-investor in the CMU plan, other front-end initiatives may have better results. Fessey says there are huge differences in know-your-customer requirements that hinder cross-border sales. Steps to introduce standardised digital KYC procedures could boost retail investor confidence, he argues.

The perspective of insurance companies is somewhat different. For life companies, investment is not the main purpose of the business, notes Claude Wirion, director of Luxembourg’s insurance regulator, the Commissariat aux Assurances, but security for policy holders over the long-term. The EU’s original Solvency Directive of 1973

set out a catalogue of assets that insurers could hold in order to manage their risks and deliver on their long-term promises. Solvency II, in force since January this year, does away with that prescriptive list but introduces capital requirements for buffers to protect clients from losses at a collective and individual asset level.

*“Investment is only allowed where we can identify and monitor the risk,”* Wirion says.

Lower capital charges for qualifying infrastructure investments are welcome (and apply to ELTIFs too). Even so, risk measurement is easier said than done. Wirion points out that smaller insurers have fewer resources to draw on, thus limiting their choice of assets. ELTIFs may eventually prove a useful vehicle, but smaller institutions will tread cautiously until more is known about the quality of the funds’ promised returns, risk and transparency.

### A CONNECTED APPROACH TO RISK

Risk is always relative, too. There are many equity and bond market benchmarks against which individual holdings and portfolios can be measured and a suitable capital charge applied. With infrastructure and other, more esoteric assets, indices and market data are less developed. Without data – and lots of it – insurers may not invest, even if they are allowed to. *“Even if there is no specific capital charge, insurers need to remove unnecessary risk,”* Wirion says. *“Data will be an issue.”*

He also points to another hurdle: a liquidity mismatch. The European Commission is pinning its hope on CMU matchmaking between long-term investors and long-term financing needs. Those investors are generally assumed to be life insurers and pension funds with liabilities stretching over decades, but the reality is more complicated.

*“In most jurisdictions, life contracts may be cancelled at any time, so the situation is not so simple,”* Wirion says. Lawmakers may find that including a ‘right to withdraw’ in

**“Investment is only allowed where we can identify and monitor the risk.”**

CLAUDE WIRION

promised pan-European pensions structures to be made available as an alternative to national regimes may directly impact institutional demand for long-dated assets created under the aegis of CMU.

Wirion says other steps can be taken to boost institutional demand for various CMU-linked initiatives. Infrastructure bonds would look more attractive with defined annuity tranches to meet different liability timeframes, and with first line losses taken by the state. That would boost their credit ratings and reduce capital requirements that might otherwise render them unviable from a solvency perspective.

As yet, Solvency II has not resulted in any major shifts in investment policy by Luxembourg’s insurance sector. Wirion believes it may be some time before the full effect of CMU will be felt either.

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“Investing in fixed asset infrastructure is an inherently illiquid investment and is something you should introduce to a retail investor with the utmost caution.”

NOEL FESSEY,  
GLOBAL HEAD OF FUND SERVICES,  
SCHRODER INVESTMENT MANAGEMENT LUXEMBOURG



CLAUDE WIRION,  
DIRECTOR OF  
LUXEMBOURG'S  
INSURANCE REGULATOR,  
COMMISSARIAT AUX  
ASSURANCES



**INTERVIEW WITH**  
**MARC ROBERT-NICOUD**

# Boosting the securitisation market

LFF TALKS WITH MARC ROBERT-NICOUD, CEO OF CLEARSTREAM, A GLOBAL LEADER IN POST-TRADE SECURITIES SERVICES HEADQUARTERED IN LUXEMBOURG. AS AN INTERNATIONAL CENTRAL SECURITIES DEPOSITORY (ICSD), CLEARSTREAM PROVIDES THE POST-TRADE INFRASTRUCTURE FOR THE EUROBOND MARKET AND SERVICES FOR SECURITIES FROM 54 DOMESTIC MARKETS WORLDWIDE – FOR MORE THAN 2,500 FINANCIAL INSTITUTIONS IN MORE THAN 110 COUNTRIES.

**LFF: WHAT IS THE MAIN THRUST OF THE EU COMMISSION'S DRAFT LEGISLATION ON SECURITISATION?**

**MRN:** Securitisation is one quick and easy way to boost bank lending in Europe. This is especially true when it comes to loans to small and medium-sized companies. A securitisation market enables banks to refinance loans by converting them into securities. If done right, these securities can be attractive to investors both in terms of return and transparency. Therefore this is a top priority for the Capital Markets Union.

**LFF: SECURITISATION HAS HAD A BAD WRAP AFTER THE FINANCIAL CRISIS IN THE US. IN EUROPE, WHAT CAN THE PUBLIC SECTOR DO TO CONVINCE PEOPLE THAT IT IS NOT AS DANGEROUS AS IT USED TO BE?**

**MRN:** The securitisation market of the past was allowed to develop without proper safeguards. Since 2008 the European securitisation market has declined by 30% and, as you said, still suffers from public distrust

and a lack of market confidence. Revitalisation will therefore likely present a challenge.

**LFF: WHAT NEEDS TO BE DONE?**


**MRN:** The Commission is aiming to develop a differentiation of “high-quality” securitisation products with transparent and easy-to-understand structures. This is done with a view to possible preferential regulatory treatment across financial sectors, backed by the recommendations of the European Central Bank and the Bank of England. These securitisations could benefit from being traded on regulated and supervised markets with a high level of transparency and risk management systems allowing investors to manage risk-return.

**LFF: IS THAT ALL?**

**MRN:** Not quite. Also, pooling and standardisation of loans is needed to ensure transparency and comparability. This would likely require the creation of an institutional framework, and greater willingness on the part of banks to develop the securiti-

“We support initiatives to harmonise corporate laws in Europe.”



A full-page portrait of Marc Robert-Nicoud, CEO of Clearstream. He is a middle-aged man with dark hair, wearing a dark blue suit, a white shirt, and a maroon tie. He is standing on a modern balcony with a glass railing, leaning his right hand on the railing. The background consists of large glass windows reflecting the city skyline. The overall tone is professional and modern.

MARC ROBERT-NICOUD,  
CEO, CLEARSTREAM

sation markets and to underwrite the issues they placed. From what we hear, the Commission will work with international organisations, such as the Basel Committee and the International Organisation of Securities Commissions, to develop global standards for “high-quality” structures.

**LFF: WHAT SPECIFIC MEASURES CAN BE ADOPTED TO STREAMLINE AND CONSOLIDATE CURRENT EU FINANCIAL SERVICES LEGISLATION?**

**MRN:** The European Commission already consulted on possible conflicts or barriers as a consequence of new legislation. This is part of its work on the Capital Markets Union and a very important step. Furthermore, the Commission has established the European Post-Trade Forum that undertakes a broader review of progress in removing barriers to cross-border clearing and settlement. Europe has reached a crossroad. We have to decide if we have achieved a sufficient level of regulation and are now ready to mobilise financial markets to foster economic growth. The Financial Transaction Tax is a good example of a piece of legislation that runs counter to a growth agenda. If we decide to tax financial transactions we will reduce incentives for investments and thus damage economic growth.

**LFF: CAN YOU SUMMARISE THE MOST IMPORTANT NEEDED REFORMS TO IMPROVE THE CROSS-BORDER INVESTMENT ENVIRONMENT?**

**MRN:** In general we need legal certainty for all cross-border investment activities. Therefore we support initiatives to harmonise corporate laws in Europe. The revision of the prospectus directive is a step in the right direction. I would not expect that insolvency laws, taxation and fiscal policy will be harmonised soon. But it is essential that we start to look for smart ways of making cross-border investments easier. We could, for example, change some processes like tax reclaims. Why are they different in all member states? We could at least create one

“It is essential that we start to look for smart ways of making cross-border investments easier.”

European form for tax reclaims. This would make life easier for everybody.

**LFF: HOW VITAL IS THE DEVELOPMENT OF EUROPEAN NATIONAL BOND AND EQUITY MARKETS TO CLEARSTREAM?**

**MRN:** First and foremost it could foster economic growth and therefore help the Eurozone as a whole. Clearstream and its customers benefit from growth in the capital markets, not only when it comes to our settlement volume but also with regard to our collateral management services. The European Market Infrastructure Regulation (EMIR) and the Capital Requirements Directive 4 are increasing the need for collateral in the market. Growing financial markets are both the prerequisite and the outcome of economic growth. Our services are designed to support the financial sector in creating growth but initiatives like the Capital Markets Union are essential to make it happen.

GM

## WHAT YOU NEED TO KNOW: LUXEMBOURG MARKET INFRASTRUCTURE

- » COMPREHENSIVE ECOSYSTEM OF LISTING, TRADING AND POST-TRADE SERVICES
- » 4 CENTRAL SECURITIES DEPOSITORIES
- » HQ OF CLEARSTREAM, GLOBAL LEADER IN POST-TRADE SERVICES
- » IN SEPTEMBER 2015, SECURITIES HELD UNDER CUSTODY IN CLEARSTREAM'S INTERNATIONAL BUSINESS AS INTERNATIONAL CENTRAL SECURITIES DEPOSITORY (ICSD) TOTALLED 7.1 TRILLION EURO
- » LUXEMBOURG STOCK EXCHANGE: MORE THAN 4,700 ECB COLLATERAL ELIGIBLE SECURITIES



INTERVIEW WITH  
PHILIPPE DUPONT

# LEGAL INSIGHT

PHILIPPE DUPONT, FOUNDING PARTNER OF LUXEMBOURG LAW FIRM ARENDT & MEDERNACH AND HEAD OF ITS BANKING AND FINANCE BUSINESS UNIT GIVES HIS INSIGHT INTO THE ANTICIPATED LEGAL CHANGES THAT LIE AHEAD.

**LFF: CAN YOU SUMMARISE THE TWO LEGISLATIVE PROPOSALS PUT FORWARD IN SEPTEMBER 2015 AND THE NEW LEGAL REQUIREMENTS?**

**PD:** The Securitisation Regulation will include due diligence, risk retention and transparency rules applying to all securitisation transactions and will establish the criteria for Simple, Transparent and Standardised (“STS”) Securitisations. Given that this initiative has also implications for the overall prudential framework of credit institutions and investment firms, the Commission proposed to amend the Capital Requirements Regulation. It is proposed to make the capital treatment of securitisations for banks and investment firms more risk-sensitive and allow these institutions to reflect properly the specific features of STS securitisations. The most significant changes are a new hierarchy of risk calculation methods and lower capital requirements for STS.

**LFF: WHAT DOES THE EUROPEAN COMMISSIONS’ DRAFT LEGISLATION ON SECURITISATION ENTAIL?**

**PD:** The draft Regulation first sets a definition of securitisation which is taken from the Capital Requirements Regulation which is very broad and built around the concept of tranching. The draft Regulation then

“It is proposed to make the capital treatment of securitisations for banks and investment firms more risk-sensitive.”

imposes a direct risk retention requirement, on originators, sponsors and original lenders. This means that contrary to the current situation, originators would have to satisfy the retention requirements even where all the investors in a securitisation are unreg-

ulated or non-EU entities. Due diligence requirements applicable to institutional investors are also foreseen. The proposed Regulation also aims at improving transparency and lists information which the originator, sponsor or securitisation special purpose entity of any securitisation will have to disclose. Finally, the Regulation establishes a new sub-category of securitisation transaction, Simple, Transparent, Standardised which will be eligible for a marginally lower regulatory capital charge.

**LFF: WHAT ARE YOUR THOUGHTS ON HOW BEST TO IMPLEMENT HIGH-QUALITY SECURITISATION IN EU LEGISLATION? WHAT REQUIREMENTS SHOULD APPLY TO IT, IN TERMS OF CAPITAL AND SOLVENCY REQUIREMENTS, DUE DILIGENCE AND TRANSPARENCY OBLIGATIONS?**

**PD:** According to the draft Regulation itself, a high-quality EU securitisation framework will promote further integration of EU financial markets, help diversify funding sources and unlock capital, making it easier for lenders to lend to households and businesses.



PHILIPPE DUPONT,  
FOUNDING PARTNER,  
ARENDT & MEDERNACH

## “Harmonised criteria and reduced complexity are key for the further development of high-quality securitisation.”

Harmonised criteria and reduced complexity are key for the further development of high-quality securitisation. Even if it is not the way which is currently followed, it is precisely because such transactions will be simple, transparent and standardised that it would have been a good signal that no risk retention requirements apply to qualifying instruments. Harmonised transparency is an element to restore confidence in securitised products. However, given notably that SME's are targeted by the CMU generally and by the securitisation plan specifically one should keep in mind that the potential by positive impact of transparency needs to be balanced against the costs that are triggered by the new requirements and which might render a number of transactions unviable.

**LFF: CAN YOU SUMMARISE THE MAIN CHANGES INTRODUCED BY THE PROPOSED PROSPECTUS REGULATION?**

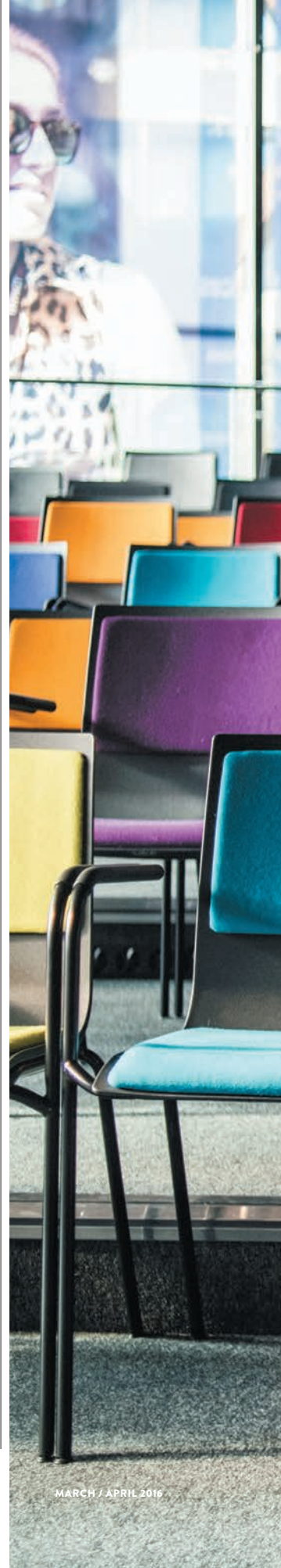
**PD:** The Commission has always been struggling to find a compromise between

an acceptable level of administrative burden for issuers and effective investor protection and this struggle is expected to continue. The proposed Prospectus Regulation sets out new thresholds for the exemption of the publication of a prospectus; any offer below 500 000 EUR should be exempted from the requirement to publish a prospectus and Member States have discretion to exempt all offers of securities with a total consideration between 500 000 EUR and 10 million EUR where no 'passport' notification to host Member States is sought. Furthermore, under the proposed Prospectus Regulation the threshold for characterising SMEs should be increased from 100 million to 200 million EUR of 'market capitalisation'. Other proposed amendments relate to a specific regime and 'fast track approval' for frequent issuers.

**LFF: WHAT OPPORTUNITIES CAN THESE TWO LEGISLATIVE CHANGES BRING TO THE LUXEMBOURG FINANCIAL CENTRE?**

**PD:** Probably due to the small size of the country, the Luxembourg capital market is clearly an international market and this will certainly not change going forward. However, the strength of the Luxembourg financial centre always was to find pragmatic and flexible ways to implement European legislation and, by doing so, make Luxembourg and its financial centre an attractive venue for many global players. This ability will however be restricted because of the direct effect of a Regulation. It should be noted that the Luxembourg law of 10 July 2005 on prospectuses for securities provides for a simplified prospectus regime e.g. for offers of securities with a total consideration of less than 1,500,000 EUR. However, as far as we know, no issuer has ever made use of this possibility.

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PHILIPPE DUPONT,  
FOUNDING PARTNER,  
ARENDET & MEDERNACH



INTERVIEW WITH  
HUBERT GRIGNON DUMOULIN

# Improving cross-border investment

HUBERT GRIGNON DUMOULIN, EXECUTIVE COMMITTEE MEMBER OF THE LUXEMBOURG STOCK EXCHANGE DISCUSSES HOW CMU COULD IMPROVE CROSS-BORDER INVESTMENT AND HELP SIMPLIFY THE PROCESS FOR COMPANIES SEEKING FINANCE.

**LFF: WILL THE CMU ACTION PLAN ADDRESS SOME OF THE CURRENT CHALLENGES WITHIN THE EU CAPITAL MARKETS?**

**HGD:** The EU Commission action plan is still too high level and lacking substance. It misses some important regulatory considerations from recently adopted EU legislative texts, such as MiFID II, CRR, CRDIV. A successful CMU action plan should encompass measures that go way beyond purely regulatory considerations to ensure broad public embracement of the project. That said, it is still early days and we would recommend the European Commission to give due consideration to the results from the past consultation on the current obstacles hindering the development of EU capital markets.

We would also favour non-regulatory initiatives that might change the mind-set of public opinion towards capital markets. Some issues, such as financial literacy and education could be addressed in a more proactive way. Promoting green bonds

issuance, digital banking or blockchain are also areas where European Institutions could contribute, either through funding of research initiatives or by building awareness.

**LFF: WHAT IMPACT WILL THE CMU PROPOSAL FOR A PROSPECTUS REGULATION HAVE ON THOSE WHO CHOOSE TO LIST AT LUXSE?**

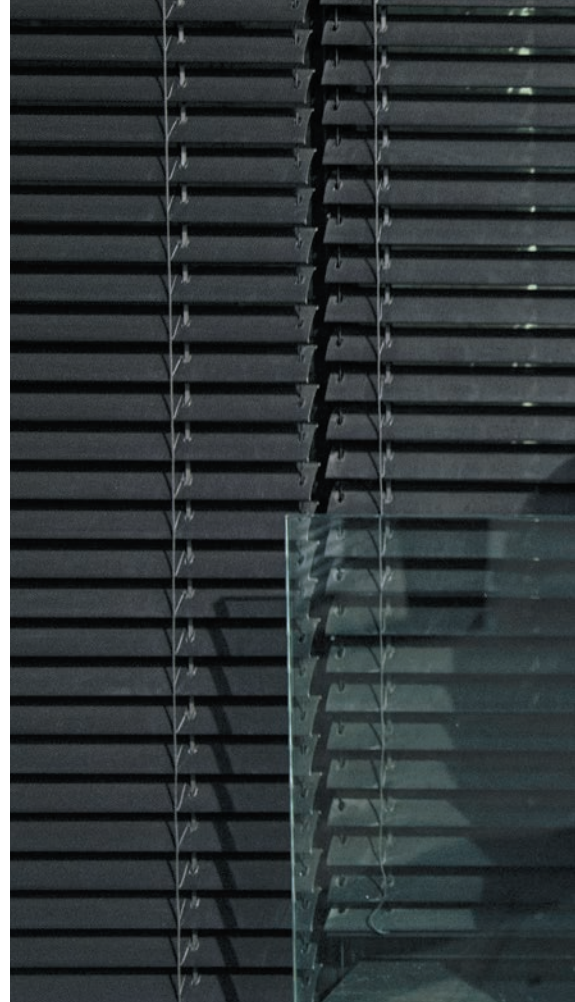
**HGD:** The LuxSE generally supports this simplification initiative, however we have some concerns specific to our listing activities of international debt securities. We are in particular advocating that the ability to choose, under certain criteria, the home competent authority for non-equity issuers should be maintained in order to avoid market fragmentation and protectionism. In parallel the wholesale prospectus regime should also be maintained and prospectuses for listing securities on Multilateral Trading Facilities (MTF) should continue to be kept outside of the scope of the proposed regulation.

These measures allow for a simplified documentation set to the attention of institutional (wholesale) investors and keep the European market place attractive for frequent and also non-European issuers.

**“We support these efforts to rehabilitate the asset backed securities market in Europe.”**

**LFF: WHAT IS THE LUXSE VIEW ON THE TWO LEGISLATIVE PROPOSALS AIMED AT REVIVING SECURITISATION?**

**HGD:** The LuxSE has a long standing history in listing securitised structures,





notably for US agencies providing real estate mortgages. We support these efforts to rehabilitate the asset backed securities market in Europe as this asset class has been wrongly condemned as one of the main culprits of the financial crisis. We believe that such an objective can be achieved more efficiently through a modification of capital requirements as there is no real economic reason for differentiating between covered bonds and mortgage backed securities in capital requirements terms. A revival of the ABS market would likely lead to a broader product offering and additional listings.

**LFF: HOW IS LUXSE POSITIONING ITSELF TO BENEFIT FROM CMU?**

**HGD:** Our understanding is that CMU will have a minor impact on stock exchanges across Europe. MiFID II implementation and continuing competition between exchanges and banks for order flows, trading and post trade activities are much more important for the future capital markets landscape. For these reasons, a further consolidation process between listed

exchanges may not be excluded. The recent announcement of a possible merger between Deutsche Börse and London Stock Exchange Group is a striking example.

The current regulatory agenda within the CMU action plan may provide for some additional incentives for listing bond private placements, boosting the resurgence in the flow of asset backed securities and promote increased efficiencies and cost savings for the documentation to be produced prior to a listing.

Europe benefits from significant infrastructures for serving global capital markets. However, we have also to face competition from big local markets outside of our region. The US and China are large and liquid markets that also provide solutions for issuers at global level. EU financial services providers as well as policy makers have to be vigilant to maintain a competitive edge.

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## WHAT YOU NEED TO KNOW:

- » 40,000 LISTINGS, 55 CURRENCIES, 3,000 ISSUERS FROM MORE THAN 100 COUNTRIES
  - » IN 2014, THE LUXSE HAD A MARKET SHARE OF 40% OF INTERNATIONAL SECURITIES LISTED IN EUROPE
  - » 1,105 BILLION EUROS WAS RAISED IN 2014 BY THE ISSUANCE OF NEWLY LISTED BONDS AND TAPE ISSUES IN ALREADY LISTED BONDS
  - » HALF OF ALL EU MEMBER STATES' GOVERNMENTS ISSUED DEBT THROUGH THE LUXEMBOURG STOCK EXCHANGE
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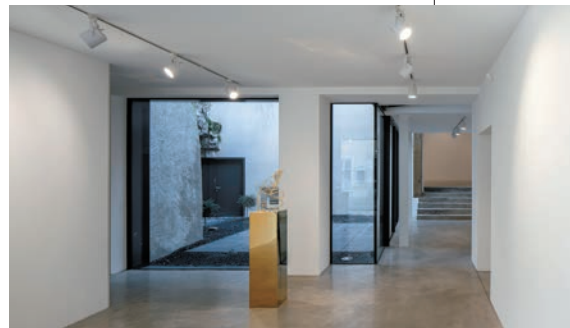
ALEX REDING,  
NOSBAUM-REDING GALLERY,  
LUXEMBOURG





# LUXEMBOURG ART WEEK: GEARING UP FOR A SECOND EDITION

LUXEMBOURG HOSTED THE FIRST LUXEMBOURG ART WEEK IN NOVEMBER 2015. FOLLOWING ITS SUCCESSFUL LAUNCH, THE COUNTRY HAS ALREADY BEGUN PREPARATIONS FOR A SECOND EDITION. LFF SPOKE WITH ITS ORGANISER AND TWO PARTICIPATING GALLERISTS ABOUT ITS CREATION, THE STRATEGY BEHIND SUCCESSFUL ART FAIRS AND THE LATEST TRENDS IN THE CONTEMPORARY ART MARKET.



## ART FAIRS NEED A LONG-TERM STRATEGY

In 1967, two Cologne-based gallerists, Hein Stünke and Rudolf Zwirner, decided to set up a trade fair to breathe new life into West Germany's art market. This idea was exported to Basel, where it was opened up to international galleries, and today - almost half a century later - hundreds of art fairs are held all over the world, with Art Basel, Miami and TEFAF Maastricht as the flagship events.

**“Our aim is not to be among the biggest, but to focus on the highest quality.”**

ALEX REDING

Last year, Luxembourg decided to create its own art fair, but with a difference. Alex Reding developed a strategy that would attract both local and international galleries and encourage them to return in the future.

*“The Luxembourg Art Week is not just an art fair, it is an annual artistic ‘rendez-vous’. We want to be different. Our aim is not to be among the biggest, but to focus on the highest quality,” he said. “The size of the fair will slowly be increased but we won’t double it. Feedback of the public and visiting galleries will be closely monitored to make sure the art fair grows qualitatively.”*

Audrey Bossuyt and Guy Pieters both agree with Reding's approach. *“In Luxembourg, you can discover in just a few hours what is happening across the international art scene. Although fairs such as Basel or TEFAF will not easily be beaten by any city, you can still observe the emergence and increasing attractiveness of smaller art fairs. People tend to get exhausted at large art fairs with hundreds of galleries because they cannot absorb everything,”* explains Bossuyt.

Pieters has participated in a number of new art fairs in the past. Reflecting on the first Luxembourg Art Week, he said: *“It was an excellent start, with a very good selection of galleries, good sales and a lot of media coverage. It*

ZIDOUN-BOSSUYT GALLERY,  
LUXEMBOURG

*was a wise decision to keep the size of the event limited.”*

Strategies for art fairs have to be carefully developed for the long-term, depending on budget and in coordination with museums, art institutions and the local government. It is the programme around an art fair that attracts the international jet set and leading collectors. The success also depends on whether there is a willingness to show local art collections to the public.

*“When starting up an art fair it is key to analyse accurately the potential volume of the market. Many art fairs run into trouble after 4-5 years of existence because of a sharp increase of participants,”* Pieters continues. The Luxembourg art market benefits from the country’s international character. The Grand Duchy counts a large number of art collectors and galleries that have the expertise to serve both local and international clients. Although the number of residents in Luxembourg is relatively small, a high proportion of the population is interested in contemporary art. *“People are looking forward to the next edition of Luxembourg Art Week. In 2016, we aim to go international with our media communication,”* adds Reding.

Over the last years, Guy Pieters has lent art pieces from his private collection to the Casino and Mudam in Luxembourg. There were two main reasons why the Belgian gallerist decided to participate in the Luxembourg Art Week. *“First, Luxembourg has a good number of international collectors, which reflects the importance of the Luxembourg art market. Secondly, since the eighties, Luxembourg has introduced a large number of world-class sculptures all over the city. Sculptures from international artists such as Niki de Saint Phalle and Bernar Venet were placed at beautiful locations in the city landscape. Luxembourg has always stood out because of the unique combination of the international scope of its financial centre and the strong will and vision of the government to build a cultural image”* explains Pieters.

## IS THERE A BUBBLE?

In the beginning of 2016, several media outlets reported that the art world is set for a challenging year ahead. International newspapers such as the New York Times referred to a research paper *Is There a Bubble in the Art Market?* by Roman Kraussl, an associate professor of finance at the University of Luxembourg, which was published in January in the Journal of Empirical Finance. The paper, which tracked prices from 1970 through 2013, identified the segments of post-war and contemporary, as well as American art, as being in a bubble *“still in the mania phase of its formation”*.

*“We should not always generalise this phenomenon for the entire art market. The art market has democratised and serious gallerists do not create bubbles with their artists,”* explains Reding. *“This type of research is limited in scope and only looks at publicly available information of very specific segments of the art market. The data that is analysed is often related to record results from auction houses in London and New York.”*

Nevertheless, auction houses can give a strong signal about trends and the health of the market. *“In finance, you can follow the stock market every day. In art, you can only follow the prices only a few times every year,”* adds Bossuyt. *“This explains the strong focus on these auction results.”*

There are young artists whose pieces are too expensive from the start, often due to unreasonable pressure and short-term strategies of investors. *“This gets immediately corrected in the auction rooms. Some people expect to double their investment in 2-3 years. They are over-excited and think they have bought a piece of work by the next big star. This kind of investor behaviour can be dangerous,”* she adds.

**“In finance, you can follow the stock market every day. In art, you can follow the prices only a few times every year.”**

AUDREY BOSSUYT





GUY PIETERS GALLERY,  
KNOKKE, BELGIUM

The advantage of Luxembourg is that gallerists make time for the clients. *“The price of a piece is always important. You want to make a good investment. In New York, London or Paris, a young receptionist gives you a price list. If she has the feeling that you don’t buy a piece within two minutes you won’t even get a coffee. We are different. Here we make time to speak to our clients.”*

Looking ahead to the future trends in the art market, Pieters concludes: *“Trends in the world of art can change and today there is such change. More and more collectors are again looking back in time and rediscover Picasso, Asger Jörn, Karel Appel, Jean Dubuffet. There is also a great interest in artists of the 50’s and 60’s such as Günther Uecker, Enrico Castellani, or Lucio Fontana. In less than four years’ time we have seen the prices of these pieces going to the top.”*

#### UP-COMING

If you have 15 minutes to spend after lunch or before catching a flight, you can get a world-class cultural experience in

Luxembourg. From 4 May until 5 June, Zidoun & Bossuyt will hold a show with 20 pieces of the American artist, Jean-Michel Basquiat. The paintings and drawings are not for sale and come from Belgian, French and Luxembourg collections. The Basquiat show will be a premiere in Luxembourg.

In March, Luxembourg was also present at TEFAF with a stand for Le Freeport.

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# UPCOMING EVENTS



**2016**  
**4-7.04**

## **MONEY20/20 EUROPE**

Luxembourg for Finance will take part as an exhibitor in Money 20/20 Europe, the world's largest payments and financial services innovation event.

Register and visit the Luxembourg for Finance booth!

[www.money2020europe.com](http://www.money2020europe.com)

**2016**  
**21.04**

## **IFN EUROPE 2016, LUXEMBOURG**

For the third time, the IFN Europe Forum, the most important Islamic finance event in Europe, sponsored by LFF, will take place in Luxembourg at the Chamber of Commerce.

**2016**  
**10-12.05**

## **OFFICIAL MISSION TO FINLAND**

An official mission, led by the Deputy Prime Minister, Minister of the Economy, HE Etienne Schneider, the Minister of Finance, HE Pierre Gramegna and the Minister for the Environment, HE Carole Dieschbourg will head to Finland to further develop business ties between the two countries. Luxembourg for Finance will host a panel to give insights into various aspects of Luxembourg's financial centre.



**2016**  
**10-11.05**

## **ICT SPRING EUROPE, LUXEMBOURG**

Luxembourg for Finance will be present at ICT Spring Europe 2016, a two-day event showcasing the latest ICT technologies and FinTech solutions available on the market. The growing abundance of data, innovation and regulation is reshuffling the cards for fast growing and increasingly interrelated markets. ICT SPRING 2016 unveils new frontiers for humanity and technologies. Come and visit our booth!

**2016**  
**31.05 & 1.06**

## **BRAZIL 2016**

Luxembourg for Finance will head to Brazil and will hold seminars in São Paulo on 31 May and in Rio de Janeiro on 1 June. These events will be the opportunity to gain insights into Luxembourg know-how regarding asset and wealth management. Be part of our delegation!



**2016**  
**15.06**

## **LUXEMBOURG RENMINBI FORUM 2016**

Luxembourg for Finance will organise the third edition of the Luxembourg Renminbi Forum, a full-day event bringing together a European audience of high-level practitioners, major political figures, and key decision-makers to share their views on the latest developments on the internationalisation of the Chinese currency. For more information: [www.rmb-forum.com](http://www.rmb-forum.com)

BY SCANNING THE  
QR CODE BELOW,  
VIEW THE FULL  
EVENTS PROGRAMME.



#### IMPRESSUM

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# GLOBAL.



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