



## Dossier AIFMD

### LUXEMBOURG'S EXPERTISE IN AIFMD

Doubling the size of Luxembourg's  
Alternative Funds Industry

Regulating AIFMD

Big Four view on AIFMD

How new rules affect Private Equity firms

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PSF support: taking the burden out of regulation

ATTF celebrates 15 years

**LUXEMBOURG PLEDGES FURTHER  
SUPPORT FOR DEVELOPING COUNTRIES  
WITH FINANCIAL KNOWLEDGE TRANSFER**

The Luxembourg Experience  
**INSIGHT INTO EXPAT LIFE**



Nicolas **MACKEL**,  
CEO,  
*Luxembourg for Finance*

Dear readers,

The impact of the Alternative Investment Fund Managers Directive (AIFMD), is the main topic of this issue. Its introduction will have a significant effect on the alternative investment fund sector. Since July 2013, when Luxembourg implemented the Directive into national law, Luxembourg alternative fund managers who opt to comply with the Directive have to reinforce their reporting and control infrastructures.

The impact of AIFMD on fund managers will undoubtedly open up new possibilities, but also challenges in terms of management of the fund, investment strategy and marketing.

Similar to UCITS, the AIFMD will open and unify a market of 28 EU member states for alternative managers. For some, especially newly set up alternative funds, it will offer opportunities, for others, the challenges will prevail.

Benefitting from a worldwide renowned track record in the cross-border distribution of UCITS, Luxembourg is a unique gateway to the European market. I am confident that in the future, we will make alternative funds a label equally successful as the UCITS by offering the perfect location for domiciliation and an extensive toolbox of fund structures.

Developing a sustainable financial industry is a target Luxembourg not only pursues at home, but also actively supports with partner countries. The ATTF, the Financial Technology Transfer Agency, offers transfer of knowledge in the form of technical assistance and training to professionals of the financial sector in these countries. This year it celebrates its 15<sup>th</sup> birthday. The agency has taken on the task to strengthen existing financial structures in order to achieve a sustainable development of the financial industry.

Assistance, yet not necessarily technical, is a keyword when it comes to the relocation of expatriates to Luxembourg. We are proud to introduce to you expatriates active in the financial sector and its support industry who make Luxembourg what it is known for: a multilingual melting pot in the heart of Europe. In this magazine, they share their impression of the country and, should you consider moving, will hopefully convince you of Luxembourg's advantages.

Enjoy the read.

# ATTF CELEBRATES 15 YEARS

With the support of the Luxembourg government, ATTF ( Agence de Transfert de Technologie financière) offers training programmes and internationally recognised certifications in financial matters to more than 30 partner countries. The aim is to help strengthen the financial structure in developing and in transition countries and to support sustainable development and fight against poverty. Leading professionals from across the Luxembourg Financial Centre actively volunteer to lead the training which takes place across the globe enabling close contacts to develop and the knowledge transfer to continue.

LFF talked to ATTF Directors, Josée Thyès and Patrick Wallerand to look back on what has been achieved up to now and the challenges and opportunities ahead for the agency.



*ATTF Seminar, People's Bank of China, Zhengzhou.*

► **LFF: ATTF IS PROVIDING TRAINING IN AFRICA, CENTRAL AMERICA, ASIA AND IN EUROPE. HOW DO YOU DECIDE ON THE COUNTRIES TO ASSIST?**

► **JT:** The Luxembourg government began in the early nineties to provide technical assistance and knowledge development with regards to financial matters to Eastern European countries with economies in transition and in development. ATTF, continued with this work, when it was founded in 1999 and that group of countries has enlarged year by year. The selection is made by the Ministry of Finance and Foreign Affairs of Luxembourg which has focused on countries in Africa, Central America, Asia and in Europe.

► **LFF: WHY IS THE TRANSFER OF KNOW-HOW IMPORTANT IN THESE COUNTRIES?**

► **PW:** Financial stability is an important factor of global stability across the world and therefore this kind of transfer of know-how is important. The further opening up of the financial sector in emerging economies and developing countries will depend also on the presence of competent professionals. Luxembourg is one of the few countries that decided to embark on financial knowledge transfer and we are able to offer an important pool of talent and expertise.

► *LuxembourgforFinance*

CAN YOU GIVE US AN  
EXAMPLE OF A COUNTRY  
YOU HAVE SUPPORTED?

► *Patrick WALLERAND*

Since 2004, ATTF has provided training programmes and seminars in Vietnam. Each year we deliver a training package to a group of high potential bankers on the operational aspects of bank management. This programme is run over 5 weeks across the year and is aimed at developing the skills and competences of middle management bankers. We know that quite a number of participants, who benefitted from our programmes, have moved to senior management positions in their banks.

*Patrick WALLERAND,*  
*Director,*  
*ATTF*



*Mongolia, "Bank Management" certification*

► **LFF: CAN YOU DESCRIBE THE DIVERSITY OF TRAINING ON OFFER: HOW YOU TAILOR TRAINING AND WHAT CERTIFICATION IS AVAILABLE?**

► **JT:** ATTF focuses on providing training sessions to prepare participants to take international certifications in the banking area. We aim to give the participants the opportunity to take the respective exams whenever it is possible (such as for example the "Certified Anti-Money Laundering Specialists-CAMS®" certification, the Financial Risk Manager-FRM® certification of GARP or preparing the ACI Dealing Certificate). An ATTF training catalogue has been developed over the past years covering a wide range of common subjects, varying from technical banking subjects such as risk management to more soft skills, such as human resources management. Tailor made programs are developed in order to address specific needs of a partner country subject to the condition that the required expertise/professionalism can be provided by the professionals of the Luxembourg Financial Centre. Occasionally, ATTF relies on expertise from abroad, mainly from our neighbouring countries.

► **LFF: HOW HAVE YOU BEEN ABLE TO MEASURE SUCCESS FOR EXAMPLE IN YOUR TRAINING PROGRAMMES AND HOW DO YOU CONTINUE TO MAINTAIN THE LINKS BETWEEN FORMER PARTICIPANTS AND LUXEMBOURG?**

► **PW:** The seminar "Preparation to the ACI (Financial Markets Association) Dealing Certificate" prepares participants for international certification by ACI. We organise a mock exam so that the participants know where they stand with their studying before sitting the exam with ACI. As the candidates will take the exam in their country some time after having taken part in our programme, they inform us about the result and we continue to offer professional support through our team of experts. As well as our active website, we are launching a LinkedIn group and an Alumni-club for former participants to maintain the link with Luxembourg and to encourage them to act as "Goodwill Ambassadors" for Luxembourg.





## ► *LuxembourgforFinance*

### WHY IS THE KNOWLEDGE TRANSFER BOTH BENEFICIAL TO THE PARTNER COUNTRY AND TO LUXEMBOURG?

Josée **THYES**,  
Director,  
ATTF



## ► *Josée THYES*

The on-going bilateral collaboration between China and Luxembourg demonstrates the transfer of know-how and the promotion of the Luxembourg financial centre. ATTF has been providing high-level training sessions to the Chinese banking world for over ten years.

Our professionals have provided training in a diversity of cities, from Beijing to Shanghai and we have worked closely with the People's Bank of China. Transfer of technology and know-how creates trust and trust is at the basis of banking business. Luxembourg has developed a friendly cooperation with Chinese financial institutions and is now the most important hub for cross-border renminbi business in the Eurozone.

China's Bank of Communications is also expected to open a major office in Luxembourg before the end of the year, marking the sixth Chinese bank to do so.

## ► **LFF: WHAT ARE THE CHALLENGES YOU FACE WHEN WORKING IN DEVELOPING COUNTRIES AND THE LESSONS LEARNT OVER THE PAST 15 YEARS?**

- **PW:** One of the biggest challenges is the difference of culture and level of knowledge. By applying the main guiding principles such as professionalism, deep respect for the values, aims and dignity of the partner countries and a sincere empathy towards its beneficiaries, the ATTF team and its experts strive to overcome these cultural differences and adapt.

Within the ATTF, we are convinced that no lessons should be given. Indeed, sharing knowledge with regard to Luxembourg best practice and the way the Luxembourg financial services industry is organised on a basis of equality rather than applying classical

teaching concepts, is the preferred way to establish a strong relationship between Luxembourg and the partner countries. This approach and state of mind have been a proven concept and one of the key success factors over the past years.

## ► **LFF: LOOKING AHEAD, WHAT COUNTRIES WILL YOU BE REACHING OUT TO IN THE FUTURE?**

- **JT:** We plan to launch collaboration with Myanmar next year and will lead a study visit to an African country at the request of the Ministry of Foreign Affairs. Our mission will remain the same: transferring knowledge but we will focus more on how that transfer can develop into opportunities for our marketplace. We believe that for our future activities, we can continue to rely on the professional expertise available in Luxembourg. **GM**



*Central Bank, Azerbaijan*

## Dossier AIFMD

### AIMFD ONE YEAR ON

#### DOUBLING THE SIZE OF LUXEMBOURG'S ALTERNATIVE FUNDS INDUSTRY

Luxembourg has built its international reputation in the UCITS area and regards the Alternative Investment Fund Managers Directive ("AIFMD") which came into force last year, as a huge opportunity.

As with UCITS, one key measure of the AIFMD is the introduction of a European passport for alternative investment fund managers who wish to access the entire European market. Given Luxembourg's position as the European leader in the cross-border space, the AIFMD will further enhance Luxembourg as a leading domicile for funds and management companies in the alternative sector.



Marc **SALUZZI**,  
Chairman,  
ALFI

Luxembourg was one of the first EU member states to transpose the AIFMD to ensure a first-mover advantage over other fund domiciles. The Association of the Luxembourg Fund Industry, (ALFI), has been supporting alternative fund managers and institutional investors to leverage the concept of a regulated alternative investment fund ("AIF"). Their aim is not only to attract alternative investment funds managers ("AIFM") in Luxembourg but to double alternative assets under management ("AUM") from E250billion to E500billion. Marc Saluzzi, ALFI Chairman, gives his insight into the opportunities that AIFMD can bring, and explains why Luxembourg is fast becoming the preferred domicile for alternative investment fund managers in Europe.

#### ► LFF: ONE YEAR ON, CAN YOU EXPLAIN HOW AIFMD HAS FUNDAMENTALLY CHANGED THE EUROPEAN REGULATORY ENVIRONMENT?

► **MS:** AIFMD is pushing the European alternative asset management industry towards a model which we know well: high level of regulation in exchange for a passport. This is more or less the UCITS model.

AIFMD is quite unusual because it has a very large scope and because of its "big bang" nature. In this directive you are going from virtually no regulation to fully-fledged regulation, more or less equivalent to the one that you have to comply with when you are a UCITS fund manager. Essentially, any bigger European non-UCITS fund is indirectly (via its manager) in the scope of the directive. The big difference is that between UCITS I and UCTIS V we had 29 years to adapt.

With this new piece of regulation, AIF managers had only a couple of years to go from an unregulated status to a fully regulated status. This is a significant challenge for all players concerned and some are still not convinced it is worth the pain, particularly in the US and in Asia in view of a possible future extension of the passport also to non-EU countries. In this context, it is too early to state that AIFMD will become the next successful global brand in Asset Management but ALFI will do whatever it takes to make it happen.

► **LFF: WHAT HAVE BEEN THE INITIAL CHALLENGES AND HURDLES OF AIFMD?**

- **MS:** The first and most significant challenge with AIFMD has been to translate the Directive Level 1 into concrete and practical requirements. This directive was hastily written, and replicates most of the regulations applicable to UCITS managers. ESMA and the European Commission took quite a long time to come up with proper Level 2 measures and some provisions can be difficult to interpret.

► **LFF: HOW HAS LUXEMBOURG BEEN ABLE TO USE ITS EXTENSIVE DOUBLE TAX TREATY NETWORK TO WIN MORE BUSINESS?**

- **MS:** In alternatives, proper tax structuring is important for international investors who do not want to pay more tax than local or direct investors. This is the concept of tax neutrality. Up to now, our network of 74 double tax treaties has been a competitive advantage and has helped us to provide efficient and tailor made solutions to international investors. That being said, the OECD discussions on base erosion and profit shifting (BEPS), might create some turbulence in the near future when it comes to the application of non-double taxation treaties to cross-border funds. ALFI will be extremely vigilant about the implementation of BEPS and will try to avoid any negative side effects for our industry.

We will monitor the side effects of BEPS on cross border funds and their managers to make sure it will not create an un-level playing field for us.

► **LFF: IS LUXEMBOURG SHOWING SIGNS OF WINNING IN THIS COMPETITIVE MARKETPLACE?**

- **MS:** Luxembourg wants to replicate the success we have experienced under UCITS in alternative investment funds. It took us 30 years to build the UCITS fund management industry here, so AIFMD is not going to materialise in just a few months. The only quantitative data we have to qualify our success is the number of AIFM authorisation and registration files the CSSF has received since July 2013. On that count, with 215 authorisation files and more than 500 registration files submitted to the CSSF, AIFMD is proving quite a success for our Luxembourg fund centre. We believe that Luxembourg will end up being the biggest AIFM centre in Europe and this is a great result.

Beyond attracting fund managers our second objective is to attract the funds themselves, the AIFs. We have, according to the CSSF, more or less E500Billion of UCITS assets in Luxembourg, E250Billion of which are invested in what we call real alternative investment products, like hedge, private equity and real estate, and so the objective for us is to double that amount to E500Billion over the next 5 years following the implementation of this directive. **GM**

► *LuxembourgforFinance*

**LOOKING AHEAD TO THE FUTURE, WHAT ARE THE CHALLENGES AND HOW CAN LUXEMBOURG FURTHER DEVELOP AND BOOST THE SUCCESS OF AIFMD?**

► *Marc SALUZZI*

More and more stakeholders in alternative investment funds are sophisticated investors. They obviously want and need a proper level of protection but they want it for the right price and without any significant impact on their investment returns. This means that if the industry cannot design and manage AIFs for a reasonable cost, investors will not consider regulated products to get exposure to some asset classes such as RE, infrastructure, and commodities. We have set up a working group to review our achievements in alternatives following the introduction of AIFMD into national law. The group has identified a number of ideas to further boost our global market share and our impact in this business.



## Dossier AIFMD

### REGULATING AIFMD

The success of the Luxembourg financial centre, as well as the development of new market opportunities, requires constant change, including at the financial regulator, the CSSF.

AIFMD has been anything but an easy task for the regulator, who has had to adapt and react quickly to the challenges and opportunities that AIFMD presents.

The readiness and openness of the CSSF towards engaging in a healthy and necessary dialogue with the industry, apart from being key to the integrity of the markets and of the actors on those markets, is central to the prosperity of the Luxembourg funds centre. With 773 AIFMD applications within the first twelve months, the CSSF was not afraid to take up the challenge and meet the deadline.

LFF spoke to CSSF Director, Simone Delcourt, who manages the AIFMD team and CSSF Director General, Jean Guill.



*Simone DELCOURT,*  
Director,  
CSSF

#### ► LFF: WHAT ARE THE CHALLENGES THE CSSF FACED TO GET READY FOR AIFMD?

- **SD:** The implementation of UCITS has given us a certain amount of experience in the field of investment funds and the industry was already comfortable as the UCITS Management companies (MANCO) had to comply over time with an evolving EU regulation. This was a step-by-step process which permitted MANCOs to comply quite rapidly to the new AIFMD.

The experience with UCITS whose legislation has developed substantially over the last 10 years helped us to transpose and to put all the files in order for AIFMD. We were able to quickly reach out to MANCOs to ensure that the industry was comfortable. In addition, we knew what we would intend to ask of those managers who wanted to become active in this field.

- **JG:** When you look at the figures from the companies who have an AIFMD license, a large percentage of those are UCITS management companies. They already comply with the substance requirements, so adding AIFMD and complying with the new legislation in that field was only a little step. The big challenge then was for those that were not in the field of AIFMD.
- **SD:** People in the industry initially worried about whether the CSSF would be fast enough, and whether it would succeed. There have been files which have taken a lot of time, but normally for a good reason. Our staff have



been motivated, and the files were treated in a way that permitted rapid responses. We aim to deliver in a short time frame but the most important point is quality. The figures published on 22 July showed we did the job in time, and are a testament to our dedicated staff and our excellent interplay with the industry.

► **LFF: WHAT ARE THE KEY DIFFERENCES BETWEEN UCITS AND AIFMD?**

- **SD:** With AIFMD there are more obligations in the field of risk management where you must define your strategy, and adapt your risk management procedures accordingly. There are significant features concerning depository banks, which need to define more clearly what its tasks and missions are. The depository has responsibility for safekeeping a fund's assets and monitoring its cash flows.

Another important feature of AIFMD is that alternative investment fund managers and management companies must comply with a certain number of requirements. The most significant impact has been the MoUs required. These co-operation agreements allow the exchange of information between EU and non-EU supervisors, enabling non-EU fund managers to market alternative funds within the EU. We are the only regulatory authority to have signed all the MoUs that have been negotiated.

- **JG:** It is also important to highlight the major changes to remuneration policy which have had to be put in place. AIFMD requires EU authorised AIFMs to adopt remuneration policies which are 'consistent with and promote sound and effective risk management' and which do not 'encourage risk-taking'. Many managers outside of the EU do not have a remuneration policy, but they still have to be in line with the AIFMD, so this is an issue which we are still working on. We still have some open points and hope that the European Securities and Markets Authority (ESMA) will help to solve these issues.



► *LuxembourgforFinance*

**HAS THE CSSF HAD TO EMPLOY MORE STAFF AND PUT IN ADDITIONAL RESOURCES TO DEAL WITH THE DEMAND?**

► *Simone DELCOURT*

We were involved in the negotiations with ESMA, and so we knew what was coming, but in addition to the extra resources, and training, our staff worked extra hours, weekends and evenings to deal with priority files to meet the July deadline. This was a big challenge for us, because it was a lot of work compressed into a relatively short period of time. There are more and more layers of regulation being added, as well as technical details, so I don't think it will become easier but we are equipped to take on the challenge.

► *Jean GUILL*

As the deadline drew closer, we had to deal with an avalanche of requests by management companies to become either registered or authorised under the new law. Of course, you get many frequently asked questions which ESMA and the CSSF try to answer. There are also the revised texts which are coming from ESMA as part of the evolution of this legislation, and this is still being worked out. Some have already been agreed, some are still under agreement, so that is a whole lot of technical work which comes after the law has been published.



Jean **GUILL**,  
Director General,  
CSSF

## ► *LuxembourgforFinance*

### HOW DO YOU WORK WITH OTHER AUTHORITIES AND COUNTRIES?

#### ► *Simone DELCOURT*

We discuss bilaterally and also in the context of ESMA, where these things are usually discussed. It is ESMA which has published a lot of frequently asked questions to answer very technical questions where the industry has needed clarifications. The frequently asked questions are also discussed in our expert committee with the industry and we seek to answer the questions where they have previously gone unanswered. There are new additions being added to our FAQs all the time, so I would urge the industry to keep checking our website.

<http://www.cssf.lu/en/supervision/ivm/aifm/faq/>

#### ► **LFF: WHAT WOULD YOU SAY TO MANAGERS WHO HAVE NOT APPLIED AND PERHAPS SMALLER FUNDS PUT OFF BY THE REGULATORY BURDEN?**

► **JG:** More regulation is a feature of the world since the crisis but indeed, it is not just restricted to alternative investment funds. If you look at regulation in the US, it is as detailed and complex as EU regulation. Luxembourg aspires to give the smaller players the chance to grow and for this reason there are specialists in our PSF sector, who can enable smaller players to outsource and make efficiencies.

#### ► **LFF: WHAT IS THE FUTURE OF AIFMD AND DO YOU EXPECT DEMAND TO GROW?**

► **SD:** When all the files started coming in, I was astonished that we had so many and I am also quite surprised that those who are in the UCITS field have taken the opportunity to go into that field, and that was something we didn't see before because UCITS management companies had previously preferred to use UCITS, using little in the alternative investment field. The industry are building on the technical know how they have acquired through UCITS, but also the networking and distribution channels which had been set up over the years.

► **JG:** We have also seen that a certain number of big players have preferred to bring alternative investment funds to Luxembourg, in order to have a regulated environment, as opposed to unregulated funds from third countries. We will continue to gain experience in this field, to see how the market will regulate itself, but it is now up to the industry to sell their products and spread the word. **GM**

## Dossier AIFMD

### BIG FOUR AND AIFMD

The Financial Times reported in August that "with the hedge fund industry predicted to grow from \$2.6tn to \$3tn during 2014, according to Deutsche Bank prime brokerage's annual investor survey, accountancy firms can see the raft of global regulations that hedge funds are facing."

Big four accountancy firms are stepping up their services and helping alternative investment funds to deal with increasingly complex and interlinked global regulation.

Michael Ferguson, EMEIA Regulated Funds & Asset Management Leader at Ernst & Young Luxembourg, explains the benefits and challenges of the AIFMD for the hedge fund industry.



*Michael **FERGUSON**,  
EMEIA Regulated Funds & Asset  
Management Leader,  
Ernst & Young Luxembourg*

## HEDGE FUNDS

- ▶ **LFF: ENTITIES WITHIN SCOPE HAD TO START COMPLYING AS FROM MID-2013. ONE YEAR LATER, COULD YOU SUMMARIZE HOW THE PROCESS HAS BEEN IMPLEMENTED AND WHETHER IT WENT SMOOTHLY?**
- ▶ **MF:** In common with the implementation of any new set of regulations – there was a learning curve for all parties concerned, including the Regulator, the Service Providers and the Alternative Asset Managers themselves. Initially there was a "working-through" phase on the practical application of the critical provisions on such issues as substance, delegation, risk management and remuneration rules. Direct engagement with the CSSF along with their AIFMD Series of Q&A greatly helped with such matters.
- ▶ **LFF: HAS REGULATION IMPACTED THE GROWTH OF THE INDUSTRY?**
- ▶ **MF:** The raft of regulations including the AIFMD that the asset management has had to deal with post 2008, has without doubt increased costs for all segments of the asset management industry including the hedge fund sector. Of course one hopes that this regulation will bring real value-added benefits and that these will materialize over the medium to longer term. Such benefits would include first and foremost greater investor protection – and thus creating greater confidence in the overall alternative sector resulting in higher asset flows into the sector. Another one would be greater standardization, resulting in lower operating costs.



► **LFF: HOW HAVE HEDGE FUND MANAGERS DEALT WITH THESE CHANGES? WHAT HAS BEEN THE FEEDBACK SO FAR?**

► **MF:** The larger EU based hedge fund managers and those who are head-quartered in the so-called 3<sup>rd</sup> countries (i.e. primarily non EU) which have significant distribution in the EU are in the process of embracing and dealing with the implementation of the AIFMD. A number of 3<sup>rd</sup> country hedge fund managers have decided to create EU domiciled product for EU and wider international distribution, through the passport offered by the AIFMD. Many of these will initially leverage existing third party AIFMD Management Company infrastructure, with a view of creating their own in the future such their assets under management grow strongly. The smaller hedge fund managers especially those head-quartered in 3<sup>rd</sup> countries will play a "wait and see game", and possibly rely upon private placement and reverse solicitation for distribution over the medium time.

► **LFF: IS THE AIFMD BENEFICIAL FOR THE HEDGE FUND INDUSTRY?**

► **MF:** The big potential benefits to the Hedge Fund industry would be the passport, thus enabling the distribution of hedge funds to a wider geography universe and to a broader investor base (including to retail), and creating greater investor confidence in the industry, resulting in investors making higher asset allocations to the sector. The price for these benefits is the investment cost in implementing and complying with the AIFMD. It's much too early to assess whether the benefits will out-weigh the cost – this would need to be assessed over a 3 – 5 year period. **LR**

► *LuxembourgforFinance*

**WHAT HAVE BEEN THE MOST IMPORTANT CHALLENGES? HOW WELL PREPARED IS THE LUXEMBOURG PROFESSIONAL SERVICES COMMUNITY?**

► **Michael FERGUSON**

The most important challenge has been time and resources – and not necessarily dealing with the technical content of the directive.

As the AIFMD is one of many regulations impacting the asset management industry, in many cases it comes down to having appropriate and sufficient resources to deal with the application and implementation process.

Given that Luxembourg has substantial experience in dealing with implementation of various UCITS and other EU Directives over the last 25 years – the professional services community were well placed to deal with the AIFMD.



## Dossier AIFMD

HOW NEW RULES  
AFFECT PRIVATE  
EQUITY FIRMS

LFF spoke with Olivier Carré who assists clients in implementing UCITS and AIFMD requirements at Management Company as well as fund product level. He is the co-chairman of the ALFI risk management committee.



Olivier **CARRÉ**,  
Regulatory Compliance  
Advisory Services Leader,  
PwC

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► **LFF: WHAT TYPE OF AIFM'S DO WE CURRENTLY SEE IN LUXEMBOURG?**

- **OC:** By and large, I'd say there are two types of Private Equity AIFMs: private equity houses and larger financial groups holding two licences (i.e. AIFM and UCITS), the so-called Super Management Companies. A Super-Manco allows investment managers to consolidate their operations into one entity for both UCITS funds and AIFMD-compliant funds. We currently see few traditional equity houses on the CSSF AIFM list in Luxembourg. The majority are Super-Manco's, including a variety of strategies such as private equity or real estate structures.

► **LFF: WHAT IS THE MOST IMPORTANT QUESTION THAT IS RAISED BY YOUR CLIENTS?**

- **OC:** Do we want to set up an AIFM in Luxembourg, or do we go for a different solution such as third-party AIFM or the passporting of an AIFM from another EU Member State?

There are numerous factors that need to be considered about the functioning and strategy of the fund. A PE structure is by definition a multi-layered structure. These layers can make the AIFMD very complex because everything needs to be formalised and documented to a level of regulation never experienced before.

The most sensitive topics include the governance model, especially risk - and portfolio management, as well as the formalisation of the conduct of business.

#### ► LFF: DO AIFM'S NEED TO HIRE ADDITIONAL PEOPLE?

- **OC:** Setting up the AIFM in Luxembourg doesn't necessarily mean having more people. However, the mix of expertise to deal with administrative, risk and portfolio management procedures is usually changing.

The most searched job profiles in this segment are compliance, risk management and out-sourcing or delegation control.

#### ► LFF: WHAT HAS BEEN THE AVERAGE TIME OF THE AIFMD COMPLIANCE PROCEDURE?

- **OC:** Based on the files we have worked on for traditional PE houses, clients must wait between three and six months. Getting involved in such a process implies questioning the future model, i.e. who will be the AIFM, where it will be domiciled, how duties will be split up, and who will be responsible for risk management. The entire target modelling needs some time and is filed afterwards with the CSSF.

In terms of workload, Luxembourg was one of the busiest domiciles during the first half of 2014. But the CSSF has been very committed, i.e. we even received comments and feedback from them on the weekends.

In the statistics, you will see that Luxembourg authorised a high number of AIFMs. Our clients were satisfied and obtained their licence within the required timeframe.

#### ► LFF: IS LUXEMBOURG BECOMING MORE AND MORE COMPETITIVE IN THIS FIELD?

- **OC:** Certainly. And, there are various dimensions to competitiveness. While implementing the AIFMD, Luxembourg seized the opportunity presented by the preparation of this law to include provisions not related to the AIFMD. Among these provisions, there's the new Luxembourg tax regime on carried interest and the enhancement of the SCS, the existing limited partnership with legal personality, and the introduction of a new partnership form without legal personality ('*société en commandite speciale*' or SCSp and hereafter referred to as "Lux SLP" or special limited partnership).

The new legal framework applying to the Lux LP and the Lux SLP allows for high flexibility while providing for greater legal certainty. It also caters for an extended Luxembourg tax transparency treatment for non-regulated Lux LP and Lux SLP. By improving the existing Lux LP regime and adding the Lux SLP to its legal arsenal of investment vehicles dedicated to the alternative investment industry (including the PE industry), Luxembourg offers a new solution as alternative investment fund jurisdiction to PE and Venture Capital operations and to alternative investment funds managers and promoters in general. The Lux LP and the Lux SLP may be used as fund vehicle (master fund or feeder fund), joint venture, co-investment vehicle, carry vehicle, acquisition vehicle... **LR**

#### ► *LuxembourgforFinance*

#### WHAT ARE THE CHALLENGES FOR PE HOUSES ON A MORE TECHNICAL OPERATIONAL BUSINESS LEVEL?

► *Olivier CARRÉ*

Most importantly is the change in culture and the level of transparency: periodic reporting, disclosures, prospectuses, etc. PE houses have now to deal with specific requirements that have to be endorsed for the first time. By definition, it has always been a very private industry.

Another point is the remuneration disclosure. We need to work with the limited rules and guidelines that currently exist. The industry will need to find a common practice.



## Dossier AIFMD

PRIVATE EQUITY  
INVESTMENT  
VALUATION UNDER  
AIFMD – A PRACTICAL  
IMPACT GUIDE

LFF spoke with Manuel Baldauff about private equity investment valuation. After a career in banking and the Big Four industry, Mr Baldauff founded Value Associates S.A., a professional services firm providing corporate strategy, M&A, due diligence, transaction structuring, valuation and capital raising services.



## ► LFF: PERHAPS WE SHOULD FIRST TAKE A STEP BACK TO THE GOOD OLD TIMES...

► **MB:** Relatively speaking, life was simple in the early days of private equity: buy a company paying low while using maximum leverage, optimise value, sell high, repay your debt, cash in your profit and, after doing this a few times, become immensely rich. Over time, others understood the concept and wanted to become immensely rich too, and when an increasing number of them joined bidding processes, buying cheap became more difficult. Also, lenders wanted their share of profit, rightfully claiming adequate compensation for default risks. Banks reduced Debt/EBITDA ratios, capping leverage and, as a consequence, financial returns.

But overall, the private equity business remained acceptably simple. Investors and general partners cared about return multiples and IRR, and that was it. Valuation mattered at the moment of acquisition and at exit, not so much in between. Managers were focused on creating value and kept administrative matters to a minimum.

## ► LFF: WHAT HAPPENED THEN?

► **MB:** Unpleasant events such as the 2008 financial crisis uncovered significant valuation issues, as loans had been granted with insufficient loan-to-value ratios, and collateral values way below what banks needed to recover in the event of default. Plus, criminal schemes like the Madoff Ponzi scheme were uncovered. At this point, regulators concluded that



valuations of unlisted investments required higher attention. In the USA, the Private Fund Investment Advisers Registration Act of 2010 was enacted, and investments now needed to be valued according to Fair Market Value (FMV) principles, i.e. private equity firms must, at each closing date, value their holdings at the price at which they could be sold, even if there are no plans for an immediate sale.

This concept is also reflected in the AIFMD, where the AIFM must ensure appropriate and consistent procedures for a proper and independent valuation of the assets of each AIF. And because the AIFMD encompasses virtually all non-UCIT funds, this means that the valuation requirements for unlisted equity investments have changed in an unprecedented and probably irreversible manner, even for those funds benefitting from an AIFMD exemption. The AIFM will have to present regular, coherent and consistent valuations for all investments. In order to avoid conflicts of interest, valuations must be performed either by an external valuation specialist, or department of the AIFM that is independent from portfolio management. For smaller AIFMs, this will mean in most cases to either seek an external valuation specialist, or to appoint a consultant to provide the technical expertise to an internal resource disconnected from the investment process. In practice, this means more procedures, and more costs.

#### ► *LuxembourgforFinance*

### WHAT IS THE BEST METHOD TO UNAMBIGUOUSLY DETERMINE FAIR VALUE AT FINANCIAL CLOSING DATES?

#### ► *Manuel BALDAUFF*

Fair value sounds straightforward on paper, but can, for an unlisted equity investment, only be measured through a sale in the open market, at the point in time where value is to be assessed. This is obviously not helpful, as AIFMs now need to report in detail between acquisition and sale. Because AIFMs need to provide a value, they have to open Pandora's box of theoretical valuation methods, and face interesting discussions with their auditors, and possibly regulators.



## ► LFF: WHY IS THAT?

- **MB:** Take comparable multiples, the simplest valuation method. As a simplified example, let's assume that your company has an EBITDA of 100, and a comparable listed company has a multiple of 6. Then your company is worth 600 according to this technique. But is it really? Is the reference company really comparable? Does it sell exactly the same products? Does it have the same key performance metrics? Is its management of identical quality? Did you properly account for liquidity risk? Would a control premium apply? The list goes on, and it's long. Of course, one can build a sample group of companies instead of comparing just to one comparable company. And one can use regressions to correct for disparities in terms of size, profitability and leverage. But all this is complex and subjective, while we were looking for something simple and objective.

Auditors will challenge you heavily on all your assumptions, much more than in the past – and this is understandable, as they are regulated by local financial services authorities, which in turn are supervised by the European Central Bank. Which means that both auditors and national regulators will be very careful in the application of the AIFMD and – the subject of this article – valuation documentation for unlisted equities. Auditors, being the first in the line, will require significant substance backing the valuation, to make sure it is coherent and meaningful, and they can demonstrate to their regulator that they have done their job well. If they don't, they risk fines and unpleasant media coverage, which is likely to be even more expensive.

Now assume that the company to be valued is still in its early growth stage and does not yet have positive EBITDA. That will lead you to discounted cash flow valuation, a more complex method, with even more subjectivity and even more discussions with your auditors. What are the underlying assumptions (in particular revenue growth and EBITDA margins) of the financial projections? Are they realistic? Which discount rate did you use? How has it been determined? A sheer endless list of questions will come up. And just like in the first example, the AIFM will have to demonstrate to its auditors (who will have to stand up for it in front of the regulator) that all measures have been taken to render the assumptions as objective and as verifiable as possible. This includes e.g. regular monitoring of management forecasting accuracy: if management has systematically overstated growth by 30% over the last few quarters, it is reasonable to apply a 30% discount to forecast figures. Auditors may also request a table with the implied IRR since the initial investment, and will challenge IRR up- or downward swings against objective facts (e.g. new product launch, CEO dismissal etc.) to add substance to the valuation analysis. **LR**



Manuel **BALDAUFF**,  
Value Associates S.A.

## ► *LuxembourgforFinance*

### SO HOW TO COPE WITH AIFMD VALUATIONS IN PRACTICE?

#### ► Manuel **BALDAUFF**

Approximate valuations limited to simple or even more complex financial models are no longer an option. As illustrated by our two examples, documentation and coherence of relevant information is key. All AIFMs, and also managers of exempt funds, must keep detailed files with valuation assumptions and documented changes in parameters to provide quantitative and qualitative context to the valuations. The required effort is significant, and calls for a material improvement in terms of procedures and workflow that may at first seem unnecessary, unproductive and even annoying. But over time, the deeper focus on value will prove healthy, as it will allow AIFMs to better understand value, and how to build it. And to provide the material to be able to stand up at any time, to demonstrate that the AIFM has a detailed understanding of its investments, and cares about their value in a professional way.

## Dossier AIFMD

### LUXEMBOURG REMAINS A PRIME LOCATION FOR REAL ESTATE INVESTMENT PLATFORMS

Major players on the market anticipate that the global direct commercial real estate investment volume in 2014 might exceed US\$700 billion. As per the latest survey conducted by the Association of the Luxembourg Fund Industry, net assets under management in Luxembourg real estate funds amounted to approx. €30 billion at the end of the 3<sup>rd</sup> quarter of 2013, out of which approx. €28 billion are managed by institutional funds/SIF.

Limited stock is driving continued yield compression, which is pushing institutional and private investors into more secondary markets. This is particularly true in European countries such as the UK and Germany. Value-added and opportunistic investments are becoming more tempting. We are currently seeing a shift to other geographical areas such as Spain, Central Europe and secondary cities of major markets.

An increasing number of managers also include debt investments in their portfolios. Luxembourg is well positioned and offers many opportunities and flexibility in terms of structuring debt funds. Loan origination is usually performed by the banking sector, which has been the subject of increasingly stringent regulations. Such constraints are an opportunity for Luxembourg to attract debt funds looking to originate loans in a safe and efficient regulated framework, without being

subject to banking regulations. Indeed, contrary to Ireland where only banks can enter into loan origination activities, the Luxembourg supervisory body has adopted a proactive approach and clarified the scope of the banking law with regard to alternative investors.

In addition to the broad offer of alternative vehicles for loan origination and real estate investments, the transposition of the AIFMD into Luxembourg law is also bringing new opportunities.

There is a clear trend showing that alternative fund managers looking to market products in Europe and driven by AIFMD's substance requirements, are setting up entities in selected EU member states and Luxembourg has emerged as a key domicile. Luxembourg has indeed built capacity in terms of structuration and asset servicing, thanks to its long-standing fund industry.

By the end of July, the Luxembourg regulator had received a total of 773 applications submitted under AIFM with a total of 215 requests for authorisation and 558 requests for registration only. Amongst the 61 AIFMs requesting a single asset class license, 33 are pure RE licensed.

The constant efforts made by the Luxembourg authorities to offer a modern regulatory, legal and tax framework adapted to the development of the fund sector can also be seen in the wider context of the BEPS initiative.

Indeed, while some countries have implemented unilateral measures to limit interest deduction and the EU has amended its parent subsidiary directive, these initiatives should however have limited consequences for Luxembourg based real estate players.

At OECD level, a few actions (e.g. actions 2, 4, 6) launched in the context of the BEPS initiative should have a direct impact on the real estate fund industry.

Also, the Luxembourg authorities have already announced a measure to face the upcoming challenges. The creation of a new Luxembourg REIT is currently being discussed. Such REIT would bring visibility, transparency and security for investors and should allow multi-countries investment in real estate and distressed RE debt (i.e. not limited to Luxembourg unlike most foreign REIT).

By **David CAPOCCI**  
Partner Tax  
Deloitte



David **CAPOCCI**,  
Partner Tax,  
Deloitte

*"The constant efforts made by the Luxembourg authorities to offer a modern regulatory, legal and tax framework adapted to the development of the fund sector can also be seen in the wider context of the BEPS initiative."*

## Dossier AIFMD

BIG BOYS  
IN REAL ESTATE

LFF spoke with Dominique Moerenhout, CEO of BNP Paribas Real Estate Investment Management Luxembourg and Belgium.

AIFMD turns out to be a great opportunity for Luxembourg to attract the 'Big Boys' to town.

Dominique is one of them.

Previously based in London, he is back in Luxembourg and now leads a local real estate investment management team.

► *LuxembourgforFinance*

ARE MOST OF THE PORTFOLIOS  
INTERNATIONALLY INVESTED?

► *Dominique MOERENHOUT*

Yes. In the structures that we set up in Luxembourg, we have more or less 20% properties, mostly residential, that are located in Luxembourg City. The other 80 % are properties located in Eurozone countries such as Belgium, France, the Netherlands, Portugal, Germany and Switzerland.

We are facing a massive interest from Asian and Middle East clients who want to invest in the UK, France and Germany through Luxembourg regulated vehicles.



Dominique **MOERENHOUT**,  
CEO,

BNP Paribas Real Estate  
Investment Management  
Luxembourg and Belgium

► **LFF: DO YOU HAVE A DEDICATED REIF TEAM  
IN LUXEMBOURG?**

- **DM:** Yes. We are proud to perform the portfolio management in Luxembourg. All competences are concentrated here: expertise in the real estate sector, financial services, corporate services, legal, business development, marketing & communication.

► **LFF: WHO ARE USUALLY THE CLIENTS?**

- **DM:** Historically, our client base in Luxembourg was mainly driven by family offices and UHNWIs.

During the last 3 to 4 years, we have rebalanced the client base, going more and more towards institutional investors. Out of Luxembourg, we manage structures for a total real estate value of around EUR 2 billion. Half of them is held by UHNWIs & family offices and the other half by institutional investors.

For the time being, our key target is to set up and manage regulated vehicles and not to deal with unregulated structures. We are mostly dealing with institutional investors, such as insurance companies, large family offices, pension funds, banks, etc.

► **LFF: HOW ABOUT SECTOR DIVERSIFICATION?**

- **DM:** We are mainly focused on office buildings, but we also have structures investing in logistics, retail, residential and the healthcare sector. Demand for investment in the healthcare (elderly homes, residence services, nursing homes...) is increasing significantly.

► **LFF: YOU USED TO WORK IN LONDON BEFORE. DO YOU  
STILL FEEL ON TOP OF THE GAME IN LUXEMBOURG?**

- **DM:** Luxembourg is certainly still capable of attracting financial professionals as it has already been doing for years. Compare and show the figures; people in other large financial centres will realize that they should never ignore the attractiveness of Luxembourg. More and more people from London, other European countries and beyond tend to relocate to Luxembourg.



Even in London, I have always been a strong defender of Luxembourg. Luxembourg has all the necessary expertise available to promote the country as a top financial services competence centre.

The stability from a political and economic perspective has been remarkable as well.

#### ► LFF: WHICH COUNTRIES ARE MOST ATTRACTIVE TO INVESTORS?

- **DM:** In every country or city you can have good and bad properties. Overall, UK, France and Germany will always attract large capitals for investment in real estate assets.

The cash comes from booming economies in Asia and the Middle East where investors want to capitalize in cities they know such as London, Frankfurt, Paris and Milan. London and Paris are very highly valued while residential assets in Brussels are more competitive.

#### ► LFF: WHAT ARE THE MOST COMMON USED STRUCTURES?

- **DM:** UCIs part II and SIFs; The SIF structure standing as the most popular for institutional investors.

The way a real estate investment vehicle is structured is certainly important for the investor, but more important is the added-value created for the investor from the daily management of the real estate assets.

#### ► LFF: HOW MANY BUILDINGS ARE IN ONE FUND?

- **DM:** It depends on the structure and its size. A vehicle of office buildings with an investment value of EUR 100 to 150 million will comprise about 4 to 6 assets on average.

The EUR 500-800 million vehicles usually include one large asset (EUR 100 million), while the average of the other assets will be around EUR 50-75 million per building.

#### ► LFF: ARE YOUR REIF'S THIRD PARTY MANDATE?

- **DM:** Yes. They are only third party mandates. BNP Paribas might inject a stake of confidence in some cases.

#### ► LFF: 25 YEARS AGO, REAL ESTATE WAS THE BASIC HOLDING OF AN AVERAGE FRENCH UPPER-CLASS FAMILY. IS IT STILL THE CASE TODAY?

- **DM:** Yes, it is still the case in main European countries where people live with a brick in their stomach. Real estate assets have always been part of a well-diversified portfolio. Investors are eager to invest in and hold tangible assets. **LR**



#### ► *LuxembourgforFinance*

#### IS THE MARKET OF REAL ESTATE INVESTMENT VEHICLES GROWING?

##### ► *Dominique MOERENHOUT*

Yes, absolutely. Since the beginning of June, we have onboarded 4 new structures in Luxembourg, 3 of which were started from scratch. All of these structures are Luxembourg real estate vehicles investing in European real estate assets for an institutional client base. We also use Luxembourg to create feeder vehicles, allowing international investors to participate in real estate structures incorporated in other countries.

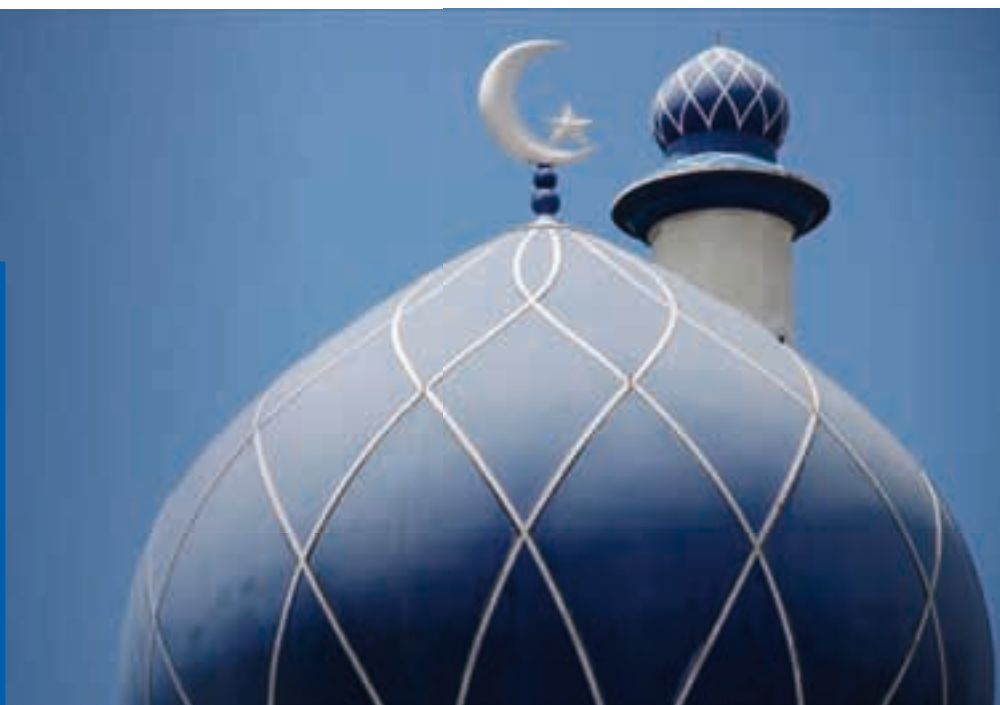
The success of real estate funds is partly linked to the fact that investors want to understand the assets underlying the fund. Real estate is tangible. You can't touch a stock or a bond when you are walking down the street. With real estate, people are proud to pass a building and say that they somehow own it.

## Dossier AIFMD

**EVERYTHING YOU NEED  
TO KNOW ABOUT  
SHARIA-COMPLIANT  
ALTERNATIVE INVEST-  
MENTS AND AIFMD IN  
LUXEMBOURG**

Luxembourg has a strong track record with respect to Islamic finance as host country for the first establishment of an Islamic finance institution in 1978 and the first Sharia compliant insurance company in Europe in 1983. Further, Luxembourg has become a leading European center for Sharia compliant investment funds, Sharia compliant investment structures and the go-to stock exchange as regards the listing of Sukuks.

LFF spoke with Andreas Heinzmann and Marcus Peter of Bonn & Schmitt.

**► LFF: HAS THERE BEEN AN INCREASE IN ISLAMIC ALTERNATIVE INVESTMENT FUNDS? IF YES, WHY?**

- The current legal framework in Luxembourg offers to investors the benefit of equity or debt related Islamic finance techniques such as Mudaraba, Murabaha and the issue of Sukuks, which may be implemented while using the wide range of regulated or unregulated investment vehicles available in Luxembourg. A Sharia board may be appointed to any of these vehicles to ensure the compliance of the investment activity with the Sharia precepts. Luxembourg as a fully diversified financial center has attracted a number of projects in relation to Islamic finance over the last decade, which has also led to an increase in the set up of Islamic Alternative Investment Funds.

**► LFF: WHY STRUCTURE A SHARIA-COMPLIANT AIF VIA LUXEMBOURG?**

- The Sharia-compliant fund industry worldwide (and also in Luxembourg) remains relatively small. Only a few Sharia compliant funds exist in Luxembourg and compared with the global figure of assets under management in Luxembourg (around EUR 2.6 billion) they only represent a tiny percentage. Luxembourg offers all the opportunities to grow this market share. First, a start has been made seeing Muslim investors creating platforms in Luxembourg. Service providers are able to apply their expertise in fund structuring to the specific needs of Muslim fund promoters and investors. Secondly, due to its flexibility the Luxembourg legal framework allows taking into consideration elements that are key to Sharia compliant products. The product range was even enlarged by introduction of the AIFM legislation.

Andreas **HEINZMANN**,  
Partner in the banking  
& capital markets group,  
Bonn & Schmitt



Thirdly, Luxembourg is a well-known fund center when it comes to distribution channels. Such distribution channels would also be accessible to Sharia compliant products as need be. This does not only apply to UCITS funds but now also to alternative investment funds benefitting from the new European AIFM passport regime. Last but not least, the CSSF as regulator in Luxembourg is open to new ideas and business development. The CSSF has been supporting and will support ongoing efforts to foster Luxembourg as a diversified investment fund center including offering Sharia compliant fund structures.

► **LFF: BASED ON YOUR EXPERIENCE, WHAT WOULD YOU AS LEGAL COUNSEL ADVISE TO SOMEONE WHO WISHES TO STRUCTURE SUCH AN AIF VIA LUXEMBOURG?**

- It is of key importance to understand the contemplated structure of the fund right from the start. Every need of the promoter and possibly existing seed investors pertaining to Sharia compliance and other rules driven by religious aspects must be assessed and understood. Once this is done you need to find the appropriate service providers to develop the product. Luxembourg offers a good range of such service providers. Also, it might be of comfort to contact the regulator before launching the filing for the product to assess and eliminate initial stumbling blocks.

► **LFF: WHAT ARE THE CHALLENGES?**

- Challenges are mainly threefold. The investment policy needs to be adapted to Sharia requirements. Furthermore, experts need to be appointed as advisors to the fund, which will assess the Sharia compliance pertaining to the investment targets and income derived from acquired assets. Finally, it must be ensured that the depositary of the fund also is able to ensure Sharia compliance when acting for the fund. Other smaller challenges exist however Luxembourg offers a suitable environment to address such concerns in a satisfactory manner.

► **LuxembourgforFinance**

**WHAT IS THE DIFFERENCE IN A SHARIA COMPLIANT REAL ESTATE FUND AND A REGULAR REAL ESTATE AIF?**

► **Andreas HEINZMANN**

There isn't a great difference regarding the documentation pertaining to a Sharia compliant real estate fund and a regular real estate fund. The documentation, e.g. for a SIF, will mainly be the same as for a regular SIF without Sharia compliance. With a view to a Sharia compliant real estate SIF the prospectus needs however to mention certain particularities pertaining to above mentioned challenges (investment policy, income characteristics / depositary tasks). The prospectus for example must explain the role of the Sharia advisory board. Pertaining to Sharia compliant real estate funds the flow of income deriving from lease contracts in relation with the real estate property must be structured differently. Any references to payment of interest or non Sharia-compliant activities must be avoided in the fund documentation. Also, the issue document of a real estate SIF must include specific risk warnings in relation to Sharia compliant elements of the Fund. The concept of sharing risk between a person providing money and the one taking may be utilized to compensate for interest payments. Many of these elements are not only important for real estate funds but for any Sharia compliant investment fund in general.

## ► LFF: IS THERE AN ALTERNATIVE VEHICLE TO A SHARIA COMPLIANT AIF?

- A securitization vehicle governed by the Luxembourg Securitization Law of 22 March 2004, as amended, is, in principle, outside the scope of the Luxembourg AIFM Law and can therefore be used for the set-up of innovative Sukuk structures bringing together traditional structured finance techniques and the principles of Sharia compliant Islamic finance. Like in a traditional ABS transaction, the Sukuks issued by the Luxembourg securitization vehicle will reflect the performance of the underlying assets. However, the proceeds derived from the underlying assets, which are paid to the holders of the Sukuks, will be in line with the Sharia principles of making investment in lawful activities and the sharing of risk and rewards in connection therewith.

Depending on whether the Sukuks will be marketed to investors by an offer including a listing on the regulated market or the Euro MTF market of the Luxembourg Stock Exchange or by way of private placement, the disclosure in the offer documents in relation to the securitization vehicle and the underlying assets may need to comply with the provisions of the Luxembourg Prospectus Law, the Prospectus Regulation or the rules and regulations of the Luxembourg Stock Exchange. Further, a Sukuk could qualify as asset backed security or, subject to certain conditions, as guaranteed debt security for the purpose of the Prospectus Regulation, which will trigger different disclosure regimes. In addition, a Sukuk could, under certain circumstances, also qualify as a structured finance instrument within the meaning of the CRR triggering further disclosure requirements in accordance with CRA 3. **LR**

*"A securitization vehicle governed by the Luxembourg Securitization Law of 22 March 2004, as amended, is, in principle, outside the scope of the Luxembourg AIFM Law and can therefore be used for the set-up of innovative Sukuk structures bringing together traditional structured finance techniques and the principles of Sharia compliant Islamic finance."*

Marcus **PETER**,  
Partner in the investment management  
& private equity group,  
Bonn & Schmitt

## ► LuxembourgforFinance

### HOW CAN LUXEMBOURG FURTHER BOOST THIS SECTOR?

#### ► Marcus **PETER**

Islamic finance is a growing sector and Luxembourg has made considerable efforts to adapt its legal and tax system to these type of transactions and to enable Islamic banks, sovereign funds and high net worth individuals to structure their alternative investments via Luxembourg. Furthermore, the planned issue by the Luxembourg government of EUR200 million sovereign Sukuk will help to foster Luxembourg's position as a leading European hub for Islamic finance.







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## Dossier AIFMD

### TAKING THE BURDEN OUT OF REGULATION

The Grand Duchy was the first country to adopt UCITS back in 1985 and since then Luxembourg has built itself up as one of the leading regulatory service centres in the world.

The professionals of the financial sector status (PSF) is an official business status set out under Luxembourg law. This status, regulated by the financial sector supervisory authority, the CSSF, underlines an expertise as a professional in the Finance Sector and guarantees a secure and confidential processing of data.

Historically any regulated Luxembourg investment fund had to appoint a depositary, which had to be a bank established in Luxembourg. AIFMD introduces the possibility for Member States to allow the depositary of certain Alternative Investment Funds ("AIFs") to be a regulated investment firm entity, which does not necessarily qualify as a bank.

#### PSF SUPPORTING AIFMD COMPLIANT FUNDS

Luxembourg has exercised this right by introducing a new category of specialised PSF named 'professional custodian of assets other than financial instruments' in the AIFMD implementation law. The PSF (Special Depositary) will be able to be appointed as a depositary by AIFs mainly investing in other assets.

The main area for PSF to offer Special Depositary services is related to oversight, record keeping and ownership verification activities for non-financial assets, primarily held by investment schemes falling under the AIFM regime.

KNEIP, a leading service and software provider to the global investment fund industry, is one such company where AIFMD has enabled them to take their systems, workflows, and knowledge of fund reporting, and apply that expertise to the alternative fund market. CEO Bob Kneip explains:

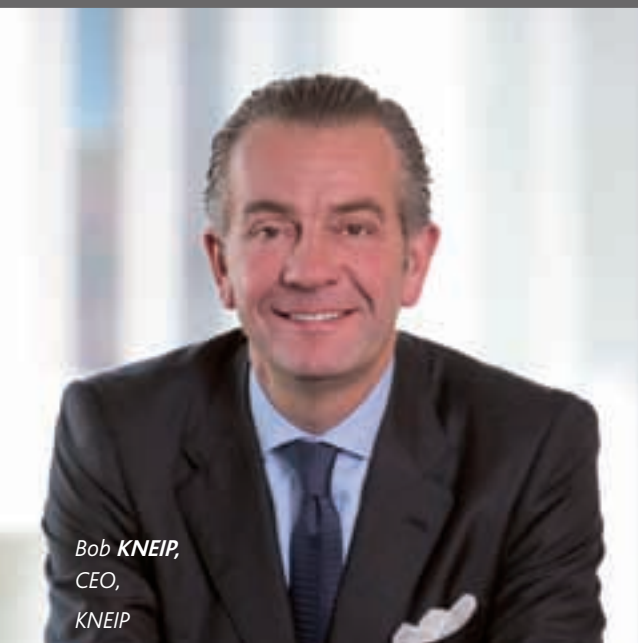
*"Alternatives can benefit from the whole scope of services that the Annex IV Transparency Reporting and filing requirements call for, but the core services of fund data management and financial reporting that we have historically offered to the UCITS market, can also benefit new AIFMD-compliant funds."*



Edith **MAGYARICS**,  
General director,  
Victor Buck Services

► **Bob KNEIP**

*"One of our clients has  
to collect data from 70 different  
contributors, just for its  
AIFMD reporting"*



Bob **KNEIP**,  
CEO,  
KNEIP

## MAKING BIG DATA MANAGEMENT EASIER

The Luxembourg PSF providers work closely with fund companies to help them adapt their data structures to be able to tackle the data management challenges they face when gathering data from multiple contributors—one of AIFMD's particular challenges.

*"The biggest challenge facing asset managers is to gather data from multiple channels within their own organisation. For example, one of our clients, a management company, has to collect data from 70 different contributors, just for its AIFMD reporting. That adds to the complexity. None of the individual building blocks of the reporting process is particularly complicated. The complexity comes from managing the processes, and from internal organisation."*

Every AIFM must report individually to each jurisdiction where they market their funds, which could potentially become a huge regulatory burden. The PSF providers in Luxembourg aim to alleviate this pressure and have active relationships with multiple home and host countries, and can serve all EEA countries. Victor Buck Services (VBS), was the first company in Luxembourg to be given a PSF status in 2003. It operates a global platform of document production and distribution as CEO, Edith Magyarics explains.

*"VBS specialises in dealing with data, in any shape or form. We don't ask the fund to make their IT department comply with our format and standards. Instead we work with them to develop a process for collecting and dispatching data. The web based application allows funds to follow the process of collecting the data, through the entire value chain to delivery to the relevant party, so that at any point of time our client can go on-line to check whether 100% of the report is completed and can review the report before it is sent to the regulator."*

## COST EFFECTIVE SOLUTIONS FOR SMALL FUNDS

Internationally there is a growing consensus that the regulatory agenda is killing smaller fund managers but experience in Luxembourg shows that this is not the case and the CSSF figures back this up.

*"Small funds still come to us today, as many of them want to market their funds cross-border. One of the great features of AIFMD is the passporting feature that directly benefits smaller funds by enabling them to market much more easily to other markets that they did not have access to before AIFMD", Bob Kneip explains.*

Massive planning and investment in IT have gone into this across the PSF sector and service providers have been running tests with regulators since the end of last year. Much of the regulation is based on the goal that a jurisdiction controls its data. This framework is unique in the world. Luxembourg embraces this and has used accessibility, storage, and protection of data as fundamental drivers for the fund sector in building its infrastructure over the past 20 years.

*"There are companies in Luxembourg working 24 hours to deliver services overnight in Singapore and this is made possible not only by our cross-border expertise but by our first-class infrastructure and telecommunication networks. Luxembourg is located in the middle of the so-called "Golden ring", which shapes the Internet hubs of Europe: London, Amsterdam, Frankfurt and Paris and 25% of the highest level of Tier 4 data centres in the world are here in Luxembourg,"* points out Thierry Seignert, Chairman of PSFS, the association which supports and promotes the PSF sector.

### SERVICING JURISDICTIONS ACROSS THE WORLD

PSFs have become Luxembourg's second-largest employer in the financial industry, ahead of insurance and management companies, and the sector is continuing to expand, offering its services across the globe. Two years ago, VBS employed 153 staff, but now with offices in Europe and Asia servicing various jurisdictions across the Globe, that figure has risen to 192. Edith Magyarics is confident about the future.

*"The staff in Luxembourg and Singapore are multi-lingual and we produce documents in 18 different languages. The PSF status gives the guarantee of controls, timeliness, and of the quality of the business. This is very important because of the risks inherent to the process and for making sure that from the time a prospect wants to start interacting with us, to the time that we deliver the last report, that everything is done within acceptable parameters of quality and governance, and within a controlled framework."* **GM**



Thierry **SEIGNERT**,  
Chairman,  
PSFS



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# EXPATS IN LUXEMBOURG

## INSIGHT INTO EXPAT LIFE

The number of highly skilled expatriates working in Luxembourg has grown continually over the last couple of decades. For all of them, this meant making a new home in Luxembourg far away from their roots. LFF spoke with expats from a range of backgrounds and nationalities about their new life in the country.

Denise **VOSS**,  
Director,

Franklin Templeton Luxembourg



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### THE LUXEMBOURG EXPERIENCE

"There are many of us in Luxembourg who have lived the 'come to Luxembourg for two years, stay forever experience'", says Denise Voss, born in Los Angeles and now Director of Franklin Templeton Luxembourg. That is how the Luxembourg experience can be best described.

Settled in Luxembourg for almost 25 years, Denise Voss's experience in the Grand Duchy started for professional reasons, as it is the case for many other expatriates. "Like so many expats in Luxembourg, I came for a two-year exchange between the Boston and Luxembourg offices of the audit firm

Coopers & Lybrand, now PwC. My exchange partner returned to Luxembourg after his two years in Boston but I knew early on that I wouldn't go back to the States!", she says with a smile.

"Professionally, Luxembourg has been a great experience; being part of a community, which helps and continues to help Luxembourg become the second largest fund centre in the world and the world's largest global fund distribution centre. I strongly believe I wouldn't have had the same opportunities in the US I've had here, in part because of the possibility of being directly involved in developing the fund industry. There is a common goal to work





Rives de Clausen, Luxembourg City

© Ministère de l'économie / ONT



Philharmonie, Luxembourg

towards making the Luxembourg fund industry the best centre for funds", she adds.

The career path of Sweden-native Tonika Hirdman, CEO of the Fondation de Luxembourg, led to the Grand-Duchy in August 2006 when she and her family were considering to move to Asia for a few years. *"When I asked about the opportunities within the bank where I was working at that time, the reaction was that at the moment there were no vacancies at my level. However, that same evening, I received a call from our headquarters in Amsterdam asking me if I would consider Luxembourg as an alternative."* Having made a few calls to people she knew who had an experience from Luxembourg, she quickly accepted the offer and decided to give it a try for two years. *"The two years passed very quickly, and now it has already been over eight years and we are still there"*, enthuses she.

While previously living in France, Jeff Hicks and his wife Margaret from California, now both partners at the communication agency Optimize Interactive in Luxembourg, had the plan of starting a business in Europe but were unable to obtain permits and visas there. *"By chance, our first client in Europe when we started our business was in Luxembourg. We came to service them, and found the country to be very desirable"*, Jeff points out. *This made the trick and convinced them to settle in Luxembourg. "Ultimately we decided to center our European business operations from Luxembourg obtaining banking and licensing requirements. And very importantly, we are able to participate in the social system and have health care coverage"*, he adds.

Luxembourg is definitely a buzzing international place to work but there is more to it. *"It is also one of the few places where you can have an interesting job, and at the same time enjoy the quality of life"*, points out Tonika.

A trend that is confirmed by relocation agencies. Sylvie Schmit-Verbrugghen is Managing Director of the relocation agency European Relocation Services. *"The primary reason for people coming to Luxembourg is for work but they stay because of the quality of life, the rich cultural scene and the multi-lingual environment"*, she says.

The increasing presence of relocation agencies in Luxembourg reflects the change triggered by the growing influx of foreigners to Luxembourg. *"There is a trend for companies to outsource relocation services, because their human resources departments have neither the time nor the expertise to manage the workload"*, confirms Sylvie.

## FEELING THE INTERNATIONAL VIBE

With 71% of its active population being foreigners, Luxembourg is perceived as a true melting-pot where daily life has a genuine European feel.

*"I met my future husband through work via connection with the French expats in Luxembourg – so two expats of different nationalities meeting in Luxembourg— another occurrence that is so common here and almost banal!"*, points out Denise.

► Tonika HIRDMAN

*"It is also one of the few places where you can have an interesting job, and at the same time enjoy the quality of life"*



Grand Ducal Palace, Luxembourg City

© Claudine Bosseler / ONT

► Denise VOSS

*"I don't believe that expats realise how much support the Luxembourg government gives to private schools."*



Tonika **HIRDMAN**,  
Director General,  
Fondation de Luxembourg

More importantly, Luxembourg's international aspect is considered as an integral part of the country's identity. *"As a foreigner you feel really welcome and it is easy to integrate. There was no sense of being 'the new kid on the block'",* explains Jeff.

*"Living, working and dealing with people from different countries and experiences is invigorating and once you experience it, it is difficult to give up",* adds Denise.

Describing the move to Luxembourg as a "expat light-experience", Tonika emphasises how much the international mentality is reflected in Luxembourg authorities' attitudes. *"There is none of the typical 'them and us' mentality and they are even discussing the possibility of non-Lux citizens to vote in the parliament after five years in Luxembourg",* says she.

A feeling also shared by Jeff who confides that *"because of Luxembourg's compact size, the government is doing a much better job of interacting with their constituent's and managing the infrastructure"*.

To all of them, living in the heart of Europe has many advantages. Multilingualism is being one of the most cherished one, and especially how it enables children to thrive.

### SPEAKING YOUR LANGUAGE

*"Another plus is raising a child for whom speaking a number of languages and having friends of many nationalities and cultures is 'normal' – I believe it's an enormous advantage to give to a child",* explains Denise.

The pluralistic tradition has taken an important place in the Luxembourg school system while language learning over the entire school career accounts for 50% of the curriculum.

For relocation agencies, schooling represents an important part of their services. *"Schooling is the priority number one for expats coming to Luxembourg",* points out Sylvie.

The large and growing number of expatriates has generated the demand for post-primary schools mirroring the multinational background. While offering day-care, fundamental education and post-primary education, the schools' curricula, taught by international staff, are adapted to the multilingual backgrounds and needs of their pupils.

*"I don't believe that expats realise how much support the Luxembourg government gives to private schools. It doesn't mean that private school fees in Luxembourg are low or aren't a big line in a household budget but they are significantly less than in most other countries",* points out Denise.

### EXPERIENCING BOTH WORLDS

Sandwiched between France, Germany and Belgium, Luxembourg is ideally located with easy access to major cities like Brussels, Paris and Frankfurt within two hours. *"In terms of travel possibilities, Luxembourg's central location makes it ideal for travel anywhere on the European continent",* says Jeff enthusiastically.



© Andreas Kern / ONT

Cycling in Luxembourg City



# DIARY

## UPCOMING LFF EVENTS



### EUROPEAN CAPTIVE FORUM

► 11-12 NOVEMBER - LUXEMBOURG

Luxembourg for Finance is represented at this two-day captive insurance event with a booth. The forum affords participants a platform to debate and shape the industry's future.

### FINANCE AVENUE

► 15 NOVEMBER 2014 - BRUSSELS

Luxembourg for Finance will partner with the conference Finance Avenue. In this context, Alain Hondequin, Secretary General of the ABBL, will participate in the panel "Private Banking in Luxembourg, quo vadis".

### FINANCIAL MISSION TO BRAZIL

► 16-21 NOVEMBER - SAO PAULO / RIO DE JANEIRO

Luxembourg for Finance will head to Brazil for a financial mission, honored by the presence of TRH the Crown Prince and the Crown Princess and led by HE Minister of Finance, Pierre Gramegna.

### WORLD ISLAMIC BANKING CONFERENCE

► 1-3 DECEMBER - BAHRAIN

Luxembourg for Finance is joining the world's largest gathering of Islamic banking and finance industry leaders and will participate at the event with a booth.

### FINANCIAL MISSION MILAN 2014

► 02 DECEMBER 2014 - MILAN

Luxembourg for Finance will organise a financial seminar in Milan in the presence of HE Minister of Finance, Pierre Gramegna. The conference will promote various aspects of Luxembourg's financial centre.

> For further information, please contact [events@lff.lu](mailto:events@lff.lu)

Lake of the Upper Sûre, Ardennes

All these factors add to the country's high quality of life where safety is a key asset. In 2011, Luxembourg City was found to be the safest out of 221 cities worldwide in a Mercer study on personal safety and quality of living.

The regular presence of Luxembourg in international surveys dedicated to life standards reflects well what expats love most about the country. *"Our clients love Luxembourg's high standard of living as it is a great place for raising a family and experience the best of both worlds: the buzzing life of the city while being a few miles away from the quiet life of the countryside. You live in a small country with all the advantages of a cosmopolite city"*, points out Sylvie.

*"My husband and I are always amazed at the ease with which one can go from the bustling city environment into deep forested areas. Natural beauty is Luxembourg's jewel and contributes greatly to the quality of life found here"*, points out Jeff's wife Margaret.

*"When I arrived in Luxembourg, being a daily biker, I was positively surprised by the extensive national network of cycling paths available in Luxembourg"*, says Tonika.

So what is missing in Luxembourg? *"Well, for a Swede, I would say the sea and big lakes. But on the other hand, I am sure that the government will solve this too sooner or later"*, concludes Tonika with a smile. **OB**



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