Dear readers,

As all of you from the financial services community will know only too well, regulation has increased exponentially since the financial crisis. At a recent conference we organised in Luxembourg, Anna Bennett from Fiserve illustrated the enormity of regulation today by showing that if we printed out the regulation applicable to the financial industry it would be a stack of paper taller than the world’s tallest building: the Burj-Khalifa in Dubai (built by the way with steel beams and glass made in Luxembourg!).

This edition focuses on the EU regulatory agenda. Regulation is making the financial profession ever more complex. While obviously nobody is suggesting that there should be anything but full compliance with the existing regulation, it is becoming increasingly clear that this burden is making it very difficult for banks to focus on their primary role, i.e. provide the financing that our companies need to go about their economic activities.

We are not claiming to bring clarity to this regulatory jungle but rather provide an overview on the main issues, of what to expect this year, and how banks, asset managers and insurers are dealing with these regulatory changes. Indeed, 2018 has seen the entry into of force of three major pieces of European legislation that will have a long-lasting impact on the financial industry – and not just in Europe. MiFID 2, PSD 2 and GDPR are acronyms that many in the financial industry have spent sleepless nights over. So who better placed than Minister of Finance Pierre Gramegna and Claude Marx, the head of Luxembourg’s financial sector supervisor CSSF, to share some of their insights into these and other regulatory developments.

We also take great pride in featuring Véronique de la Bachelerie, the CEO of Société Général Bank & Trust, in our “Why we chose Luxembourg” series. Socgen is indeed the oldest non-domestic financial institution in Luxembourg, having set up its first operations here 125 years ago. It is thus particularly interesting to hear from its country head how the business of Socgen in Luxembourg has evolved and what makes Luxembourg an important hub for this truly global player.

Finally, we would like to introduce you to another product Luxembourg is rightly proud of: its white wines. I strongly encourage you to set aside, if not half a day, then at least an evening during your next business trip to Luxembourg to visit the Moselle valley and indulge in some wine tasting, ideally around a nice meal in some of the many excellent restaurants.

Cheers!
FOCUS
CUTTING THROUGH THE REGULATORY JUNGLE

REVOLUTION IN REGULATION
We talked to key figures across the financial industry to find out what impact these changes will have and how to manage them.

NEWS IN BRIEF
Latest facts and figures about Luxembourg.

SOCIÉTÉ GÉNÉRALE: WHY WE CHOSE LUXEMBOURG
Véronique de la Bachelerie, CEO, Société Générale Bank & Trust, explains why the oldest banking institution in Luxembourg is continuing to expand and develop in the Grand Duchy.

LOOKING AHEAD AT THE EU FINANCIAL SERVICES AGENDA
Luxembourg's Finance Minister, Pierre Gramegna, gives an insight into what's in store for 2018.

EXPLORING SOLUTIONS FOR REGULATORY CHALLENGES
Claude Marx, director general of the Luxembourg financial regulator, the Commission de Surveillance du Sector Financier (CSSF), outlines the regulatory priorities for the year ahead.

INFOGRAPHICS
Overview of the regulations coming into force in 2018

LIFESTYLE
Small country, great wines
Luxembourg wine growers have developed exceptional still and sparkling wines that enjoy an excellent reputation amongst wine connoisseurs.

UPCOMING EVENTS

ANY QUESTIONS?
GET IN TOUCH ON TWITTER - @LUXFINANCE
LUXEMBOURG RANKS AMONG TOP GREEN FINANCIAL CENTRES GLOBALLY

Luxembourg ranks 2nd in Green Finance penetration and 6th in Green Finance quality according to the Global Green Finance Index (GGFI) published by Finance Watch AISBL and Z/Yen Group LimitedZ. It measures how financial centers contribute to the creation of a more sustainable global economy and demonstrates Luxembourg’s long track record of innovation in sustainable finance.

SCHRODERS COMMITS TO LUXEMBOURG AS EUROPEAN HUB

UK FUND MANAGER SCHRODERS HAS CONFIRMED LUXEMBOURG WILL REMAIN ITS EUROPEAN HUB AFTER BRITAIN’S DEPARTURE FROM THE EUROPEAN UNION. FROM THE GRAND DUCHY, THE ASSET MANAGER DISTRIBUTES FUNDS NOT JUST ACROSS BORDERS WITHIN THE EU BUT INTERNATIONALLY.

AGRICULTURAL DEVELOPMENT BANK OF CHINA CHOSES LUXEMBOURG IN PIONEERING GREEN BOND MOVE

The green bond is registered on the Luxembourg Stock Exchange’s SOL market and displayed on the Luxembourg Green Exchange (LGX). It marks the first time a Chinese green bond is registered and displayed on an international exchange. The aim of the agreement between ADBC and LuxSE is to bridge the Chinese interbank market with international investors and facilitate the acquisition of ADBC domestic green bonds by investors located outside China.

STANDARD & POOR’S AFFIRMS LUXEMBOURG TRIPLE A RATING

RATING AGENCY STANDARD AND POOR’S HAS ANNOUNCED LUXEMBOURG WILL MAINTAIN ITS AAA RATING. LUXEMBOURG CONTINUES TO BENEFIT FROM THE BEST RATING AGENCY FROM THE MAJOR RATING AGENCIES: S&P, MOODY’S AND FITCH.

UBS ASSET MANAGEMENT LAUNCHES FIRST ONSHORE RENMINBI LUXEMBOURG UCITS FUND

Swiss fund manager UBS Asset Management has launched the first Luxembourg UCITS fund denominated in onshore renminbi in order to give investors direct access to the China interbank bond market. This demonstrates Luxembourg’s role as a hub for Chinese financial firms, as well as funds investing into China.

T ROWE PRICE TO SET UP EU HUB IN LUXEMBOURG

T ROWE PRICE, THE $1TN US ASSET MANAGER, IS SEEKING THE APPROVAL OF LUXEMBOURG’S FINANCIAL REGULATOR (CSSF) TO STRENGTHEN ITS PRESENCE IN LUXEMBOURG. THE LUXEMBOURG COMPANY WILL BECOME THE NEW HEAD OFFICE FOR ITS EU BUSINESS, WHILE THE UK ENTITY WILL CONTINUE TO SERVE THE DOMESTIC MARKET.
SOCIÉTÉ GÉNÉRALE: WHY WE CHOSE LUXEMBOURG

French bank Société Générale Bank & Trust is the oldest foreign banking institution in Luxembourg. We sat down with Véronique de la Bachelier, CEO, Société Générale Bank & Trust to find out more about the bank's history, activities and long-term strategy.

LFF: FOR HOW LONG HAVE YOU BEEN BASED IN LUXEMBOURG AND WHAT IS THE ROLE OF THE BANK WITHIN THE FINANCIAL CENTRE?

VdlB: Société Générale Bank & Trust (SGBT), a wholly-owned subsidiary of Société Générale Group, has been present in Luxembourg since 1893 and is the most long-standing foreign banking institution established in the Grand Duchy. For 125 years, we have contributed to the industrial development of the Luxembourg financial centre as a commercial and retail bank.

Through the years, we have played a key role in the emergence of the Luxembourg financial centre and developed know-how in securities services and UCITS. We have developed the expertise of a multi-specialist bank, offering services to business customers, institutional investors through our Securities Services and to high net worth individuals through private banking and built an active trading room in support of all our client groups.

“For 125 years, we have contributed to the industrial development of the Luxembourg financial centre as a commercial and retail bank.”

VÉRONIQUE DE LA BACHELERIE
“This responsive and proactive approach to business is perfect for our activities and underlines the success of the securities industry in Luxembourg.”

**LFF: WHAT ARE THE BENEFITS OF BEING LOCATED IN LUXEMBOURG?**

**VdelaB:** First of all, as an international financial marketplace, Luxembourg is located at the heart of Europe. This strategic location matches well with the international dimension of Société Générale in Luxembourg and suits our needs.

We can rely on a favourable ecosystem with a stable political and economic environment coupled with a multilingual and multinational labour market as well as regulatory institutions that have a deep sense of business and highly developed sense of responsibility as well as an open-minded approach to innovation. This responsive and proactive approach to business is perfect for our activities and underlines the success of the securities industry in Luxembourg.

This ecosystem supports the long-term strategy of Société Générale group and SGBT, known as “Transform to Growth”, which reflects our identity as a trusted partner for our clients, committed to the positive transformation of our society and economies.

**LFF: WHAT ACTIVITIES ARE YOU INVOLVED IN AND HOW HAVE YOU DEVELOPED THEM?**

**VdelaB:** We have two activities as our core business. The first is our Private Banking services where we assist international entrepreneurs and high net worth individuals in their development. We offer our clients the benefits of a long tradition of private banking services in the eurozone's leading centre for international private banking. SGBT is a major asset for Société Générale Private Banking's setup.

Secondly, through Société Générale Securities Services network, we provide a full range of securities services that are adapted to the latest financial markets and regulatory trends ranging from clearing services, liquidity management to fund administration, fund distribution and global issuer services.

In addition, we have developed a series of additional activities such as corporate services and structured finance. The bank is a significant liquidity provider for key institutions. We also play a key role in supporting sustainable and positive impact finance and the financing of projects in emerging countries.

Our innovative trading room has become the centre of expertise for structured products for the entire Société Générale Private Banking network.

To develop these services, we rely on the diverse and solid ecosystem of Luxembourg but also on the Group and its international network.

**LFF: HOW DOES THE LUXEMBOURG ECOSYSTEM SUPPORT YOUR BUSINESS?**

**VdelaB:** In Luxembourg, public authorities, private players and business associations are ambitious to follow and develop a sector that is evolving rapidly.

We are lucky to be able to rely on a supportive and open-minded regulator keen on innovation.

There is also a constructive cooperation between the authorities and civil society to promote and develop the country. We work with major financial institutions such as the European Investment Bank (EIB),
and business associations such as the Luxembourg Bankers Association (ABBL) and the Association of the Luxembourg Fund Industry (ALFI).

In addition, we rely on government initiatives and contribute to private-public initiatives set up to support the country’s development such as the Luxembourg Sustainable Development Finance Platform.

Finally, we collaborate with internationally recognised actors such as the Luxembourg Stock Exchange and the EIB for financing new development models.

LFF: HOW DO YOU ATTRACT TALENTS AND CREATE A WORK ENVIRONMENT ABLE TO SUSTAIN EMPLOYEES?

VdelaB: In Luxembourg, we employ 1,400 people in total making us the 4th largest employer of the financial centre.

Our first concern for our staff is to preserve their work-life balance. We were the first employer from the financial centre to develop telecommuting initiatives to cut down on commuting time.

We continuously invest in our talent and help them grow personally, professionally and together as a team. This includes setting up initiatives such as flex desks, telecommuting and a large range of sport and cultural activities.

All of our employees are also equipped with a laptop while collaborative workspaces or “silence” rooms are available to improve flexibility and collaborative work.

All these initiatives are based on our leadership model and corporate culture to favour the sense of commitment of our employees, their team spirit as well as innovation and their creativity.

LFF: WHAT DO YOU NEED TO DEVELOP FURTHER YOUR ACTIVITIES IN LUXEMBOURG?

VdelaB: Attracting new international talent to Luxembourg and sustaining them is of primary importance to our company.

To do so, the high level of quality of life found in Luxembourg is a key factor. However, there is still some work to be done such as adding even more international schools to welcome expatriate families. Continuing efforts to promote the image of Luxembourg abroad will also be key to attracting new talent.

Digitalisation has become a key challenge for the financial industry. What we need is additional support, allowing us to adapt successfully to this change and facilitate the transition to the digital world for all our employees by means of specific training and programs to prepare them for tomorrow’s jobs.

LFF: WHAT DO YOU APPRECIATE MOST ABOUT LIVING IN LUXEMBOURG?

VdelaB: Connectivity is available at so many levels.

First of all, the connectivity with Paris and thus with our group. Paris to Luxembourg takes only 2 hours 10 mins on the TGV, which is fantastic.

Then there are the easy connections with our peers thanks to business associations such as the International Bankers Club for example but also the open-mindedness of decision makers.

Finally, the large offer of cultural events and institutions, for example the Luxembourg Philharmonie, which offers a wonderful program and makes life in Luxembourg very vibrant. I also have the honour of presiding over the cultural association Victor Hugo, which serves as a bridge between France and Luxembourg.

“First of all, the connectivity with Paris and thus with our group. Paris to Luxembourg takes only 2 hours 10 mins on the TGV, which is fantastic.”

VERONIQUE DE LA BACHELERIE

Additional initiatives towards more flexibility and telecommuting will be needed to facilitate the transition towards a world in constant change and improve the work-life balance of our employees.
“It is clear that the UK cannot keep full and automatic access to the EU single market while exiting from the EU. There will be access, but we have to define which type of access.”

PIERRE GRAMEGNA

Looking ahead at the EU financial services agenda

LUXEMBOURG’S FINANCE MINISTER, PIERRE GRAMEGNA GIVES AN INSIGHT INTO WHAT’S IN STORE FOR 2018.

LFF: BREXIT NEGOTIATIONS ARE TENSE, AND IT NOW SEEMS UNLIKELY THAT THE UK WILL REMAIN IN THE SINGLE MARKET. WHAT IS YOUR VIEW ON THE CURRENT TALKS AND LIKELY OUTCOME?

PG: It is clear that the UK cannot keep full and automatic access to the EU single market while exiting from the EU. There will be access, but we have to define which type of access.

When you look at the global picture, in the field of financial services, automatic market access is much rarer than it is for goods or other services. Banking and financial services have always had to live with lots of barriers worldwide. The EU single market is an exception. Business can and will find solutions. For instance, if you set up a subsidiary somewhere in the EU, then you can have access to the EU single market. Key Swiss banks have chosen Luxembourg as their EU hub, and this is what British players can do too, in order to retain access.
If we are smart on both sides, we will try to define a bilateral relationship that goes beyond the mere application of the World Trade Organisation rules. When you look at CETA, the trade relationship set up between the EU and Canada, it entails not only provisions on goods and services but also has rules on social laws and environmental issues. Building on this experience, the EU could elaborate a specific type of agreement with the UK, even more elaborate than the one we have with Canada. It could be a “sui generis” relationship agreement, but that needs to be worked out, and that will be a long and tedious negotiation to go through. That’s why a transition period is warranted.

**LFF:** WHAT OTHER POINTS ARE DOMINATING THE AGENDA THIS YEAR IN THE EU AND THAT ARE RELEVANT TO FINANCIAL SERVICES?

**PG:** I see two major topics. The first one is the deepening of the Capital Markets Union (CMU), together with the completion of the Banking Union. The second dominating topic this year is tax. The US tax reform lowers corporate tax rates substantially and implements a series of OECD BEPS recommendations. Yet, some measures also seem to discourage imports and encourage exports. It remains to be seen in what way these new regulations are compatible with World Trade Organisation rules.

“We need to make sure that we all play by the same rules in financial services, that’s the biggest challenge.”

**LFF:** CAN YOU EXPLAIN HOW THE EU BANKING UNION PROGRAM IS DEVELOPING?

**PG:** There are two topics that the European Council has nailed down as being the ones where progress must be made. The strengthening of the European Stability Mechanism (ESM) and the completion of the Banking Union.

With regard to the Banking Union, good progress has been made in reducing risks in the banking system. Sufficient risk reduction is crucial before further steps can be taken in the area of risk sharing, the backstop of the Single Resolution Fund (SRF) and a European Insurance Scheme. A second priority is the strengthening of the ESM. Headquartered in Luxembourg, the ESM has worked very well since its inception and everyone recognises that. It could play an important role in crisis prevention, in the development and monitoring of any future support functions. The ESM could also act as the common backstop for the SRF.

**LFF:** CAN YOU EXPLAIN NEW AREAS OF FINANCIAL REGULATION?

**PG:** The agenda is always very cumbersome, and we have gone through lots of regulations in the past couple of years. The 2018 EU agenda is massive. For instance, the Commission has recently tabled a FinTech action plan, as well as green finance pack-
“The digitalisation of the economy is there to stay and is going to be for me the most crucial topic of 2018.”

PIERRE GRAMEGNA

age, which are both areas of great interest for the Luxembourg financial centre. But there is nothing in my opinion that is as important as the two subjects I mentioned before, which are the tax reform in the US and its implication, as well as to make sure that we have a regulatory level playing field, both inside the EU and all over the world.

LFF: DOES EUROPE HAVE PLANS TO ADD A REGULATORY FRAMEWORK TO CRYPTOCURRENCIES?

PG: This is a topic which has generated a lot of attention. As the President of the European Central Bank (ECB), Mario Draghi, and others have said recently, cryptocurrencies are there to stay, so we need to deal with them. The innovations brought about by cryptocurrencies regarding the speed of payments and efficiency are evident. And beyond cryptocurrencies, there is an important potential in the underlying concept of ensuring traceability through the blockchain. However, there are issues with fraud, anti-money laundering, and topics like consumer protection and “know your customer” that need to be looked at very carefully. We have a partial solution in so far as the EU payment services directive applies, but that doesn’t cover the full scope of issues that are at stake. The G20 has launched an initiative for more checks and balances. We as Luxembourgers are going to follow this very carefully together with all the other European countries, and if more regulation is needed, we are very open to discuss that. In this context, I am also pleased that the Luxembourg Parliament has very recently had a first debate on cryptocurrencies, and will continue to study the related issues in the months ahead.

LFF: THE DIGITAL ECONOMY IS IMPACTING FINANCIAL SERVICES. WHAT SHOULD WE EXPECT THIS YEAR?

PG: I think there is going to be a significant issue about taxation of the digital economy. The role of the internet and digital solutions in today’s economy and how these are influencing the rest of business, be it in trade and services, but also in the financial industry is going to loom in the coming months. The digitalisation of the economy is there to stay and is going to be for me the most crucial topic of 2018. That’s why we have launched the Luxembourg House of Financial Technology (LHoFT), because FinTech is already becoming an essential pillar of our financial centre, next to our three main sectors which are private banking, investment funds and insurance. So, I am very glad that we are successful in attracting FinTech companies to Luxembourg. FinTech is a challenge because it is disruptive for traditional players, but it is also an opportunity to diversify and develop our financial centre, and help existing players become more competitive.
CUTTING THROUGH THE REGULATORY JUNGLE

REGULATION IS MAKING THE FINANCIAL LANDSCAPE EVEN MORE COMPLEX. IN THIS EDITION, WE BRING YOU CLARITY TO THIS REGULATORY JUNGLE AND ASK KEY INDUSTRY EXPERTS TO PROVIDE AN OVERVIEW ON THE MAIN CHALLENGES AND OPPORTUNITIES TO EXPECT THIS YEAR.
FOCUS

SANDRINE DE VUYST,
HEAD OF PRIVATE BANKING,
ing LUXEMBOURG
FOCUS

The European Union Markets in Financial Instruments Directive II (MiFID II) has been a key regulatory topic for the Luxembourg asset management industry. Coming into force in January, the directive has created a single rulebook covering financial market activities and services. It aims to enhance investor protection and establish a safer, more open and responsible financial system.

“The financial regulator, the CSSF, listens to the sector and tries to understand the actual situation banks are facing.”

SANDRINE DE VUYST

REVOLUTION IN REGULATION

THIS YEAR, SEVERAL NEW PIECES OF LEGISLATION WILL COME INTO FORCE THAT WILL TRANSFORM DATA MANAGEMENT WITHIN THE FINANCIAL SECTOR. LEADING FIGURES IN THE LEGAL, INSURANCE, ASSET MANAGEMENT AND BANKING SECTORS DECIPHER WHAT IMPACT THESE CHANGES WILL HAVE AND EXPLAIN HOW TO TURN REGULATORY CHALLENGE INTO BUSINESS OPPORTUNITY.

The European Union Markets in Financial Instruments Directive II (MiFID II) has been a key regulatory topic for the Luxembourg asset management industry. Coming into force in January, the directive has created a single rulebook covering financial market activities and services. It aims to enhance investor protection and establish a safer, more open and responsible financial system.

“Fidelity Luxembourg was an integral part of Fidelity’s global MiFID II implementation programme and covered the new conduct of business requirements for all markets in Continental Europe served from our Luxembourg office,” explains Corinne Lamesch, Head of Europe Legal and FIL Luxembourg at international investment manager Fidelity International.

COMPLYING WITH MiFID II

Fidelity worked closely with ALFI, the Association of the Luxembourg Fund Industry, to assess the impact of MiFID II on investment funds. The working group comprised of asset managers, management
companies, securities service firms, audit firms, law firms and document and information management firms.

“As a key regulatory topic for Luxembourg’s investment fund industry, there was a close and successful collaboration between all the stakeholders to prepare and implement MiFID II. In particular, the work of the various industry groups led to the use of common templates, to exchange the new data required by MiFID II. This is a key achievement because fund manufacturers and fund sellers/buyers can thereby exchange a large amount of new data in an efficient, harmonised and automated manner.”

MiFID II aims to make the distribution of and trading in financial products transparent and cost-effective.

“MiFID II is aiding us with our mission to create innovative financial solutions with the best possible outcome for our clients. The easier it is to understand a product, the easier it is to use a product. However, the regulation around inducement has raised new questions, and it is more important than ever to work closely with our clients to ensure we meet changing client needs, including tailoring new investment solutions and services. New requirements have helped in our path to developing a new variable management fee, which will better align our interests with our clients. The model includes both a reduction of the annual management fee and a variable management fee that is symmetrically linked to fund performance.”

There has been criticism within the asset management industry that the required disclosure of transaction costs associated with managing investments has created substantial confusion about how to understand data.

“Ensuring our financial products are transparent and cost-effective to our clients is essential to us. We are MiFID II compliant and transparent in our data. However, it is important to note that at present there is currently no industry standard to how transaction costs are calculated, so it’s hard to compare and contrast between different asset managers. The varying transaction cost methodologies being applied across the industry is making it difficult for investors to make like-for-like comparisons. This is expected to continue until the industry has harmonised cost methodology. We encourage investors to consider both net performance and costs when evaluating a fund,” adds Lamesch.

Private banks have also been adjusting their business models in light of the new rules. Every bank planning on providing financial advice in any form must now articulate precisely what the value proposition looks like and how much it will cost.

“It is this a game changer for the private banking sector? Definitely! And not only for Luxembourg, for the whole banking industry in Europe. For the consumer, these changes are positive as transparency in the banking world becomes the new standard. And it drives the market into focusing on the clients’ needs,” says Sandrine De Vuyst, Head of Private Banking, ING Luxembourg.

In addition to the resources and knowledge available at the group level, De Vuyst could leverage support from the Luxembourg ecosystem to help clarify the directive.

“The financial regulator, the CSSF, listens to the sector and tries to understand the actual situation banks are facing. They were very supportive throughout the implementation process and assisted the banking sector during the transition period from the MiFID I regime to the new MiFID II. Several circulars were issued to implement the assessment of knowledge and competence of the employees giving investment advice and providing information on financial instruments.”

In the longer term De Vuyst believes that with transparency on costs and margins the whole sector will continue to face pressure for the margins to go down.

“Private banks have to adapt their offering in terms of investment services (i.e. focusing on investment mandates) and pricing. And they have to assume the impact on costs that had the implementation of MiFID II. The competitive advantage for Luxembourg is to be able to
offer an unmatched variety of banking services and financial products with easy access to clients. In some home countries of our clients, we see that the product offering is getting narrower and standardised, which may be an unwanted effect of this directive."

Implementation of MiFID II has had a significant impact on the costs for the industry – yet the industry has much to gain from the clarity the directive will bring.

“Clients will benefit from a fully transparent world with clear pricing and relevant products. We are convinced that product offerings with simplified pricing structures will become more important in the future. We are better suited to guide our clients towards the right product, particularly in the advisory business. With a regulated framework, clients benefit from more protection, and the relationship managers seek to bring more added value to the relationship through more frequent client contacts and formalisation of advice.”

**PSD2 AND THE API CHALLENGE FOR OPEN BANKING**

The EU Payment Services Directive (PSD2), creates a new era of openness; requiring banks to allow Third Party Providers direct access to customer payment account information – provided customers give consent. The change is set to revolutionise the payments industry, affecting everything from the way we pay online, to what information we see when making a payment.

“PSD2 has been developed to protect customers in this growing digital economy,” says Thierry Schuman, Member of the Management Board, BGL BNP Paribas Luxembourg. “It is an opportunity for innovation and Open Banking as it regulates the way we share sensitive information and it provides FinTechs and Banks with a new playground to shift our service model. It also comes with new distribution models and a new competitive landscape which

“MiFID II is aiding us with our mission to create innovative financial solutions with the best possible outcome for our clients.”

CORINNE LAMESCH
is often a good way to offer new services and more choices to customers.”

**WILL THIS BE THE DEATH OF TRADITIONAL BANKS?**

The BNPP Group, one of the largest financial actors in Luxembourg with more than 3,600 employees, anticipated PSD2 well in advance so that all changes coming into effect in January 2018 were delivered and operational in due time. BGL BNP Paribas is a founding member of LuxHub, an industry-led initiative gathering third-party PSD2 providers and banks at the centre of the financial ecosystem.

“The banking sector has a crucial role to play in helping the client to understand and control the use of his banking data. We have already fulfilled this role of customer protection, by ensuring that access to data is regulated and processed through dedicated interfaces, the famous APIs. This is instrumental to ensure the safety of our customers. As a consequence, the technics related to screen or web scrapping (access using customer’s bank IDs for aggregators or payment initiators) which presented real concerns about data protection and security will be gradually abandoned,” he adds.

**ARE FINTECH’S GOING TO TAKE OVER?**

“We see banks opening up their platforms to third parties, looking to collaborate with developers and improving their offerings to match changing consumer expectations. The increased innovation will make financial services more transparent,” says Duke Prins, CEO of Payconiq International, a European cross-border mobile payment solution headquartered in Luxembourg. Last year, Payconiq acquired Luxembourg payments company Digicash and now has a growing number of powerful banks as shareholders.

“Luxembourg’s central location is perfect for managing a growing European business, and the government supports an entrepreneurial and international business environment. The openness to innovation in Luxembourg and the proximity of the banks, who are our main business partners, makes it an ideal testing ground for us to quickly learn what works and what doesn’t.”

**WILL CONSUMERS GET A BETTER DEAL?**

The Payconiq mobile app enables banking customers to make payments via smartphone, and between accounts held at different banks. “Our main challenge is changing the habits of the consumers so that their instinct becomes paying with their phone. This is also our biggest opportunity, as we can show customers and businesses the benefits of mobile payments.”

Giving customers a better deal through innovation is central to the BGL PNP Paribas PSD2 strategy. The bank works closely with FinTechs and a business innovation team sources and qualifies the best partners to test and industrialise new service models for customers.

“Our business innovation team identify, co-work and test tailor-made solutions in real conditions with real customers or prospects, to maximise the chance to industrialise the service if the Proof Of Concept is successful. In only a few months we were able to launch a Minimum Viable Product with 300 volunteer employees – customers of the Bank – and the experience led us to decide to deploy the new service at a larger scale,” adds Schuman.

**GETTING READY FOR GDPR**

The General Data Protection Regulation (GDPR) will affect every business and public body that processes the personal data of EU residents. It will cause a significant disruption to how companies store, manage and process personal data. The regulation will be enforced on 25th May and organisations will have to comply or face hefty fines.

“The key change is that, under GDPR, consent will require clear affirmative action. Silence, pre-ticked boxes and inactivity will no longer suffice for there to be a valid consent,” explains Véronique Hoffeld, Partner, Loyens & Loeff Luxembourg.
“The banking sector has a crucial role to play in helping the client to understand and control the use of his banking data.”

THIERRY SCHUMAN

“The openness to innovation in Luxembourg and the proximity of the banks, who are our main business partners, makes it an ideal testing ground for us to quickly learn what works and what doesn’t.”

DUKE PRINS
Consents that were obtained pre-GDPR will continue to be valid under GDPR (without any confirmation or other action from data subjects required) provided that they meet the GDPR requirements for consent.

“The reinforcement of all these obligations requires that all operators check their current procedure, policies and data flows and put in place additional measures to ensure their processing activities are lawful. This is also the case for storage – personal data cannot be kept indefinitely. Data processors and operators must put mechanisms in place to ensure that their servers and archives are regularly ‘cleaned’,” she adds.

Data is the lifeblood of the insurance industry, and GDPR will cause a significant shake-up in how insurers store, manage and process personal data. Globally, 2018 is a particularly challenging year for the sector who must navigate a regulatory maze.

“At the beginning of the year, we had to implement the regulation Packaged Retail Investment and insurance-based products (PRIIPs) which took a lot of our energy and we are still fine-tuning the many PRIIPs requirements. The Insurance Distribution Directive (IDD) is also on the way, and the General Data Protection Regulation (GDPR) requires a lot of resources and work as well,” explains Romain Braas, CEO, Bâloise Assurances Luxembourg, a provider of insurance and pension solutions headquartered in Switzerland.

The reinforcement of GDPR requires that all companies check their current procedure, policies and data flows as well as putting place additional measures to ensure their processing activities are lawful.

“GDPR brings higher standards to the existing data protection standards and creates new requirements. The data protection scope is extended and, a new organisation of responsi-
GDPR is not just a new regulation, but also a cultural change which will concern every employee and every stakeholder acting in the insurance chain. Changes must be made in people’s skills, insurers processes, and IT organisation. GDPR is, therefore, a major evolution and non-compliance is simply not an option,” says Braas.

New rules on data portability will particularly impact the insurance industry. Individuals will be able to obtain data that a controller holds on them and reuse it for their own purposes.

“Data portability is a new right given to the policyholder and allows the latter one to ask for the transfer of his/her data to another insurer or service provider, meaning that customers now have ownership and control over their data. Data portability will make it easier for the customer to change his/her insurer. Between insurers, a commonly agreed data transfer template should be developed to make the portability more efficient.”

For the end customer, it will mean more transparency, more rights and better control on the use of his/her data. For insurers, the prospect of increased business.

“GDPR will allow us to create (or improve) a trust relationship with the customer if he/she is convinced that his/her personal data is safely and correctly treated. It gives us a legal framework to improve the quality of our data and to offer our customers products which fit their specific needs. We focus on innovative insurance solutions and new niche products. A good GDPR compliance will be necessary to create new partnerships, and we are ready,” Braas concludes with a smile.

GM
FOCUS

Exploring solutions for regulatory challenges.

CLAUDE MARX, DIRECTOR GENERAL OF THE LUXEMBOURG FINANCIAL REGULATOR, THE COMMISSION DE SURVEILLANCE DU SECTEUR FINANCIER (CSSF), OUTLINES THE REGULATORY PRIORITIES FOR THE YEAR AHEAD.

LFF: SEVERAL LEADING FINANCIAL COMPANIES HAVE CHOSEN LUXEMBOURG AS THEIR NEW EU-BASE FOLLOWING BREXIT. DID YOU EXPECT LUXEMBOURG WOULD GET THIS LEVEL OF INTEREST AND WHERE DOES THE CSSF’S LEVEL OF EXPERTISE COME IN?

CM: From my point of view, the interest of financial companies in Luxembourg is not surprising considering that Luxembourg is a recognised banking centre in the Eurozone and the second largest fund centre in the world. Also, a large number of experienced and renowned service providers are established in Luxembourg so that financial companies may benefit from a robust environment simplifying the relocation process. The combination of a high level of expertise on the one hand, and responsiveness of the regulator on the other side, as well as the possibility to file in English have had an impact on the decision of several financial companies to come to Luxembourg. More generally, I think that the choice of location of the new EU-bases was influenced by strategic considerations such as the pre-existence of structures in other EU member states, the proximity to European supervisory authorities, the volume of activity in a Member State or the possibility of relocating existing human resources. This explains why Brexit relocations are not concentrated in one specific location but rather diversified among several European financial centres. At EU level, for instance, within the European Supervisory Authorities and at the level of the ECB, we are vigilant that regulatory arbitrage does not drive relocation choices.

LFF: WILL THE CSSF GROW AND HOW ARE YOU MANAGING COSTS FOR SUPERVISED ENTITIES BECAUSE SUPERVISION COSTS ARE HIGH AND INCREASING YEAR ON YEAR?

The CSSF employs 771 people as at 1 March 2018 and continues to recruit specialists to fulfil its tasks as regulator and supervisor of the financial sector. We anticipate that the CSSF will employ more than 900 people medium term. We are relocating part of our staff into a new building at the beginning of 2019, and continue our investment in IT and other office equipment. The CSSF is also exploring on how to use new technologies like AI in the supervisory process.

“The CSSF must ensure an impeccable quality of work and adequate response times while maintaining its budget so as not to discourage smaller players.”

CLAUDE MARX
FOCUS

CLAUDE MARX,
DIRECTOR GENERAL OF THE LUXEMBOURG
FINANCIAL REGULATOR, THE COMMISSION DE
SURVEILLANCE DU SECTEUR FINANCIER (CSSF)
“There is no doubt in my view that the Banking Union has improved banking supervision and the safety of the banking system within the EU.”

CLAUDE MARX

LFF: YOU HAVE BEEN WORKING IN FINANCE FOR DECADES, AS CEO OF LOMBARD AND DEPUTY CEO OF HSBC IN LUXEMBOURG. WHAT DOES YOUR EXPERIENCE IN THE PRIVATE SECTOR BRING TO YOUR JOB AND YOUR VISION FOR THE DEVELOPMENT OF THE CSSF?

CM: There are both differences and similarities between the private and public sector. The main difference is the CSSF’s mission which is a public interest mission. This warrants amongst other things total independence and absence of conflicts of interest, which are guaranteed in the current operating model of the CSSF. There are also similarities between both sectors, for instance, operational challenges due to the rapid growth of the industry that we supervise, as well as the ever-growing complexity of the regulatory framework. The CSSF must be efficient in the sense that it must at all times ensure an impeccable quality of work and adequate response times while maintaining its budget within reasonable limits so as not to discourage smaller players. We need to review our work processes continually. The rapid increase in our staffing has entailed both operational and HR challenges. We have recruited and will continue to hire both young graduates and people with work experience, often from the private sector, both Luxembourg and EU citizens. In general, I believe that more could be done to further exchanges between the public and private sectors, also outside of the CSSF.

LFF: IN LIGHT OF THE SSM, REGULATION IS INCREASINGLY NOW DOMINATED BY AUTHORITIES IN FRANKFURT. WHAT IMPACT HAS THIS HAD AT THE CSSF, AND HOW WILL THIS CHANGE IN THE FUTURE?

CM: The Single Supervisory Mechanism (SSM) constitutes one of the pillars of the European Banking Union, and the European Central Bank (ECB) is in charge of banking supervision in the Euro area. Several formerly exclusive competences of the CSSF were transferred to the ECB in November 2014. In this context, significant credit institutions are now directly supervised by the ECB, while less significant institutions continue to be monitored by national competent authorities like the CSSF. In practice, there is close cooperation between the CSSF and the ECB, and CSSF staff are members of joint supervisory teams for important institutions. The CSSF is represented at the ECB’s supervisory board that discusses, plans and carries out the ECB’s supervisory tasks. All new credit institutions are authorised by the ECB, with national competent authorities being involved in the authorisation process.

LFF: FOR THE FUND INDUSTRY, THE ESA REVIEW COULD SEE PAN-EUROPEAN REGULATOR ESMA STRENGTHEN ITS POWERS. IF THERE IS A CENTRALISATION OF SUPERVISION, WILL THAT MAKE IT DIFFICULT FOR LUXEMBOURG TO LEVERAGE ITS EFFICIENCY AND ITS OPENNESS TO INNOVATION?

CM: Fund regulation is mostly based on EU Directives. Luxembourg was first in implementing the UCITS Directive into national law in 1988 and has developed into a leading centre for investment funds over the last 30 years. On the supervisory side, we have over 250 staff in charge of authorisations and supervision of investment funds. The depth of expertise and quality of control have contributed and continue to add to this critical development.

CM: The financial crisis of 2008 demonstrated that pre-existing national supervisory mechanisms were not able to prevent such a crisis. There is no doubt in my view that Banking Union has improved banking supervision and the safety of the banking system within the EU, in particular, due to the global assessment of systemic risks, the standardisation of rules and supervision mechanisms as well as the coordination of the supervision of banks within the EU monetary union. Banks today have more - and better quality - capital. The second pillar of the Banking Union, Resolution, has proven to be effective in preventing severe consequences of credit institutions that were at risk of failing. That being said, the Banking Union is not complete – more work will be done for instance on a common deposit guarantee scheme which is the third pillar of the Banking Union.

LFF: DO YOU THINK THE SSM HAS IMPROVED SUPERVISION, SO WE HAVE A SAFER BANKING SYSTEM COMPARED TO THE YEARS OF THE CRISIS?

CM: “Brexit and the degree of readiness of supervised entities will be another area of focus throughout 2018, as many institutions have ties to the UK.”

CLAUDE MARX
LFF: DO YOU THINK PSD2 WILL CHANGE THE PAYMENT INDUSTRY IN EUROPE?

CM: The purpose of PSD2 is the adoption of the current legal framework to progressive digitalisation of as well as the recent development in the payments market. These measures shall, in particular, ensure a higher security level in payment transactions and encourage competition in this sector. In my view, PSD2 will however not fundamentally change the payment industry in Europe but may have an impact on the number of actors and competitors active in this sector.

LFF: WHAT ARE THE NEXT BIG SUPERVISORY TOPICS THAT YOU ARE FOCUSING ON?

CM: In 2018, the CSSF will focus, among other things, on the implementation of several significant blocks of regulation, MiFID II, PSD2, MCD (mortgage credit directive) and PAD (payment accounts directive) as well as on the application of the European regulations MiFIR and PRIIPs, for which the legislative process has not yet been fully completed. Furthermore, the impact of the fourth anti-money laundering directive (AMLD), which has recently been voted, should not be underestimated. Indeed, the AMLD will not only extend the scope of application of existing national laws to a more substantial number of actors but will also restate existing internal organisation obligations applying to professionals. More generally, we remain vigilant and will monitor AML/CFT risks, as well as insist on appropriate governance, and effective second and third line of defence capabilities. Having started with banks, we are now in the process of rolling out questionnaires to all supervised entities to better assess various risks including the risk of money laundering.

Brexit and the degree of readiness of supervised entities will be another area of focus throughout 2018, as many institutions have ties to the UK.

GM

LFF: WHAT ARE THE CHANGES FOR THE SUPERVISOR IN THE LIGHT OF BLOCKCHAIN TECHNOLOGY AND CRYPTOCURRENCIES?

CM: Blockchain technology has the potential to transform part of the operations of supervised entities. We are following this closely at various levels: our financial innovation team, supervision of PSF de support, banks, investment firms, investment funds, and our FinTech working group, just to name a few. The use of blockchain technology may require changes to our current legal and regulatory framework. Regarding cryptocurrencies, there is currently no legal framework, which in itself entails specific risks for unsophisticated investors who ultimately may lose all of their investment. While cryptocurrencies are relatively new, some of the risks associated with the use of them are old – money laundering, fraud, market abuse just to name a few. Neither the national competent authorities nor the ECB supervises cryptocurrencies. There are currently discussions at EU level regarding possible regulation, and we would certainly favour a European, rather than a national categorisation and regulation.

“Blockchain technology has the potential to transform part of the operations of supervised entities.”

CLAUDE MARX
CUTTING THROUGH THE REGULATORY JUNGLE
Key regulations for 2018 and who they impact.

**JANUARY**
- MiFID II / MiFR
  Impacts investment funds & hedge funds, credit institutions, insurance companies.
- PRIIPS
  Impacts investment funds & hedge funds, credit institutions, insurance companies, middle market.
- IFRS9
  Impacts credit institutions, Professionnels du secteur financier (PSF).
- PSD2
  Impacts credit institutions, PSF.
- BMR
  Impacts investment funds and hedge funds, credit institutions, insurance companies, middle market.

**APRIL**
- AnaCredit
  Impacts credit institutions.

**MAY**
- GDPR
  Impacts every business and public body that processes the personal data of EU residents.
GLOSSARY

**MiFID II / MiFR**
A new legislative framework to strengthen investor protection and improve the functioning of financial markets making them more efficient, resilient and transparent.

**IFRS9**

**PSD2**
The new European Directive on Payment Services in the European internal market, aims to enhance consumer protection and convenience, to improve the security of payment services and, to promote innovation and competition.

**GDPR**
The General Data Protection Regulation will introduce a sweeping new data protection regime to give people more control over their data.

**BMR**
The new EU Benchmark Regulation (BMR) introduces new compliance requirements for benchmark administrators, contributors, and users, with regard to interest rate, foreign exchange, security, commodity, and other benchmarks used in financial transactions.

**MMF**
The Money Market Fund Regulation introduces new requirements for MMFs in particular, portfolio composition, valuation of assets, diversification, liquidity management and credit quality of investment instruments.

**PRIIPS**
‘Packaged Retail Investment and Insurance-Based Products’ sets out new calculation methodologies and transparency requirements for such investment products across the EU.

**AnaCredit**
A project to set up a dataset containing detailed information on individual bank loans in the euro area, harmonised across all member states.

**IDD**
The Insurance Distribution Directive makes it easier for firms to trade cross-border, creates a level playing field among all participants and strengthens policyholder protection.

**PSD2**
The new European Directive on Payment Services in the European internal market, aims to enhance consumer protection and convenience, to improve the security of payment services and, to promote innovation and competition.

**GDPR**
The General Data Protection Regulation will introduce a sweeping new data protection regime to give people more control over their data.

**BMR**
The new EU Benchmark Regulation (BMR) introduces new compliance requirements for benchmark administrators, contributors, and users, with regard to interest rate, foreign exchange, security, commodity, and other benchmarks used in financial transactions.

**MMF**
The Money Market Fund Regulation introduces new requirements for MMFs in particular, portfolio composition, valuation of assets, diversification, liquidity management and credit quality of investment instruments.
ERNY SCHUMACHER, PRESIDENT OF LUXEMBOURG’S ASSOCIATION OF PRIVATE WINEMAKERS
Small country, great wines

MARKING A NATURAL BORDER BETWEEN LUXEMBOURG AND GERMANY, THE MOSELLE RIVER WINDS FOR 42 KILOMETERS PAST STEEP VINYARDS. LUXEMBOURG’S WINE-GROWING REGION, AT JUST 1,300 HECTARES, MAKES IT A SMALL PLAYER COMPARED TO THE WINE GROWING REGIONS OF ITS NEIGHBOURS. NEVERTHELESS, LUXEMBOURG WINE GROWERS HAVE DEVELOPED EXCEPTIONAL STILL AND SPARKLING WINES THAT ENJOY AN EXCELLENT REPUTATION AMONGST WINE CONNOISSEURS.

“Our wines are characterised by a certain fruity acidity,” says Erny Schumacher, President of Luxembourg’s Association of Private Winemakers and himself a fifth generation wine-grower. “You don’t find that liveliness in other wine regions. We do not try to reduce acidity, we leave it in. This lack of manipulation is exactly what’s bringing the lively flavours”. As a result, Luxembourg wines regularly bring home international prizes, such as the Berlin Wine Trophy and Mundus Vini, and are frequently lauded in the popular buyer’s guide, the Guide Hachette des Vins.

To achieve this typical taste, the majority of Luxembourg wines are developed in stainless steel tanks. The variety of grapes is wide, comprising the Pinot Blanc, Gris, Noir and Auxerrois grapes, as well as Riesling, Elbling, Rivaner, Chardonnay and Gewürztraminer. 90% of the country’s wine production goes into white wines and only 10% into red.

COMBINING TERROIR WITH QUALITY

Moselle vineyards have two types of soil. The Southern Region is characterised by Keuper mixed with marl clay while downstream the Northern Region is shell limestone. The former stores more water, so that wines from the Southern Region have more earthy tones. Both soil types are particularly suitable for the growing of Pinot grapes and make for smooth and creamy, fruity flavours.

Luxembourg winegrowers are organised in two main associations: the above-mentioned private winemakers, which represents more than 50 private winegrowers, and a cooperative. The cooperative unites another 230 winegrowers who maintain their vineyards and harvest their grapes, but leave the pressing, aging process and bottling to the cooperative. It provides expert advice to its members by sending out cellar masters and wine consultants, so that only the best grapes go into the final product.
“In the olden days, when Luxembourgish wines were not very popular, a cooperative was important to gain a foothold in the market,” says Pit Leonardy, President of the cooperative Domaine Vinsmoselle’s group of young winemakers, the Jongwënzer. Today, Domaine Vinsmoselle exports more than 50% of its wines.

Leonardy represents a generation of winemakers that stands for wines of distinguished quality in small quantities. “We have our own range of wines. They are available at chosen restaurants and in our online shop, but not at intermediaries. We only produce 8,000 liters per season and develop our wines in the Grands Premiers Crus range. Customers know they are having something exclusive.”

NOT A PARTY WITHOUT CRÉMANT

A particular success story has been the Luxembourg Crémants, sparkling wines developed under strict rules that are enjoying huge popularity not only in Luxembourg, but also in Belgium and Germany. “Domaine Vinsmoselle introduced the Crémant method in 1991, after the French protected their champagne method and limited the use of the brand to the Champagne region. Crémant ferments in bottles and enjoys the same quality status as Crémant de France,” states Pit Leonardy. “Of 150 kg of grapes, only 100 litres of juice can be extracted and the pressing has to rest on yeast for nine months”. Bottles are turned manually or placed on rocking consoles during the ripening process, making the yeast float into the bottleneck, which is later frozen and catapulted through carbonic acid pressure out of the bottle during a process called disgorging, before it is plugged with a cork stopper.

Several recognised labels encourage winemakers to produce high-quality products, most recently the AOP, the ‘Appellation d’Origine Protégée – Moselle Luxembourgeoise’, a label introduced in 2016 to combine the principle of origin with high quality standards. The label is awarded by the Luxembourg government. “During harvest season, specialists from the government take daily must samples from each barrel which are analysed by the state laboratory for alcohol content, acidity, residual sugar and sulphur. Only completely faultless wines get the label,” says Mr Schumacher. Alongside the AOP label, the private winemakers have introduced their own quality charter. “We introduced the Charta ten years ago. Charta vines are cut differently and are pure natural wines that are neither deacidified, nor desugared. They only go on sale two years after harvest.”

Further specialties of the Luxembourg wine region are ‘Vendange tardive’ from late-har-
vested, sweet grapes, ‘Vin de paille’ from grapes dried on straw mats and ‘Vin de glace’, ice wine, which is harvested at -7 degrees and therefore has become a precious rarity. However in general, global warming has positive impact on Luxembourg wines. According to Mr Schumacher, winemakers “are in a constant process of gaining experience. Unfortunately with the sun, in recent years came also the rain and thus mould. We will have to learn how to tackle these challenges.” In the last two years, due to spring frost and fungus infestation, the entire wine harvest at the Moselle accounted for 83,000 hectolitres, which is 30% less than in previous times.

**LOOKING AHEAD**

Luxembourg is sensitive to biodiversity issues and has been practicing pesticide-free viticulture for 15 years. The use of pheromone traps has proven to be very successful. “The next challenge will be to become completely herbicide-free. This can’t be achieved overnight. We started last season and are currently trying out new machines which work the earth with tools, which of course requires significantly more work,” says Schumacher.

For Pit Leonardy, the main challenge lies in the promotion of Luxembourg wines: “It is important that we all work together and promote the entire Moselle region as a wine-growing region, here in Luxembourg and internationally.”

In this context, Luxembourg has one major advantage over other regional wine areas. 48% of the population consists of expatriates, many of them from countries where there is not a serious tradition of viticulture. “Expats living in Luxembourg are very open to our wines... Nowadays, people are looking for something exquisite that’s not available at every corner supermarket. Luxembourg wines are predestined for these demands,” concludes Leonardy.
UPCOMING EVENTS

2018

SUSTAINABLE FINANCE FORUM
LUXEMBOURG

30.05

The Sustainable Finance Forum Luxembourg, organised by Luxembourg for Finance, brings together the European sustainable finance community: policy makers, practitioners, public stakeholders and corporate and retail investors.

The high-level conference, featuring business and political leaders, will address key regulatory and market challenges, the asset management industry’s role in sustainable investment, as well as how capital markets can contribute to a sustainable low-carbon economy.

Afternoon panels will focus on sustainable products available on the market and investors’ demand, sustainability standards and reporting, as well as impact investments.

For more information, please visit www.sustainable-finance-forum.com

2018

SWITZERLAND 2018

05-06.06

Luxembourg for Finance is bound for Switzerland with a financial delegation headed by HE Pierre Gramegna, Minister of Finance. Seminars will be held in Zurich on 5 June and in Geneva on 6 June.

Deep dive into asset servicing for independent wealth managers and how the Swiss wealth management industry can leverage Luxembourg's toolbox to serve European clients. Luxembourg as an International platform for Sustainable Finance.
THE NEXT EDITION OF LEO, THE FINANCIAL CENTRE’S MAG WILL BE PUBLISHED IN JUNE 2018.
LUXEMBOURG
SMALL COUNTRY WITH
GREAT WINES...

WWW.VINS-CREMANTS.LU