

## Financial Reporting and Governance Practices Top 100 Luxembourg UCIs

We are thrilled to present the sixth edition of our annual study, which examines selected financial reporting and governance practices implemented by the largest undertakings for collective investment (UCIs) in Luxembourg.

Our study offers a comprehensive analysis of the 2023 annual report disclosures from the 100 largest undertakings for collective investment (UCIs) in Luxembourg, as determined by assets under management (AuM). This analysis provides a factual and detailed overview of the accounting, financial reporting, and corporate governance practices of UCIs in Luxembourg.

The findings of this study serve as a valuable reference for the Luxembourg market, enabling boards and governance professionals to benchmark their Fund practices against the study’s results. This study covers an extensive array of trends, including the disclosure of a separate directors' reports and board composition.

With the heightened emphasis on environmental, social, and governance (ESG) by investors and other stakeholders, robust corporate governance principles are a key expectation for Funds. While the corporate governance code is intended to serve as this foundation, our study reveals that 63% of the 100 largest Funds do not disclose whether they have adopted such a code. This highlights a significant opportunity for improvement in transparency and adherence to governance standards.

We hope you find this report insightful. If you would like us to benchmark your Fund’s practices and present our results and observations to your board, please do not hesitate to contact us.

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# Top 100 Market Study – 2024

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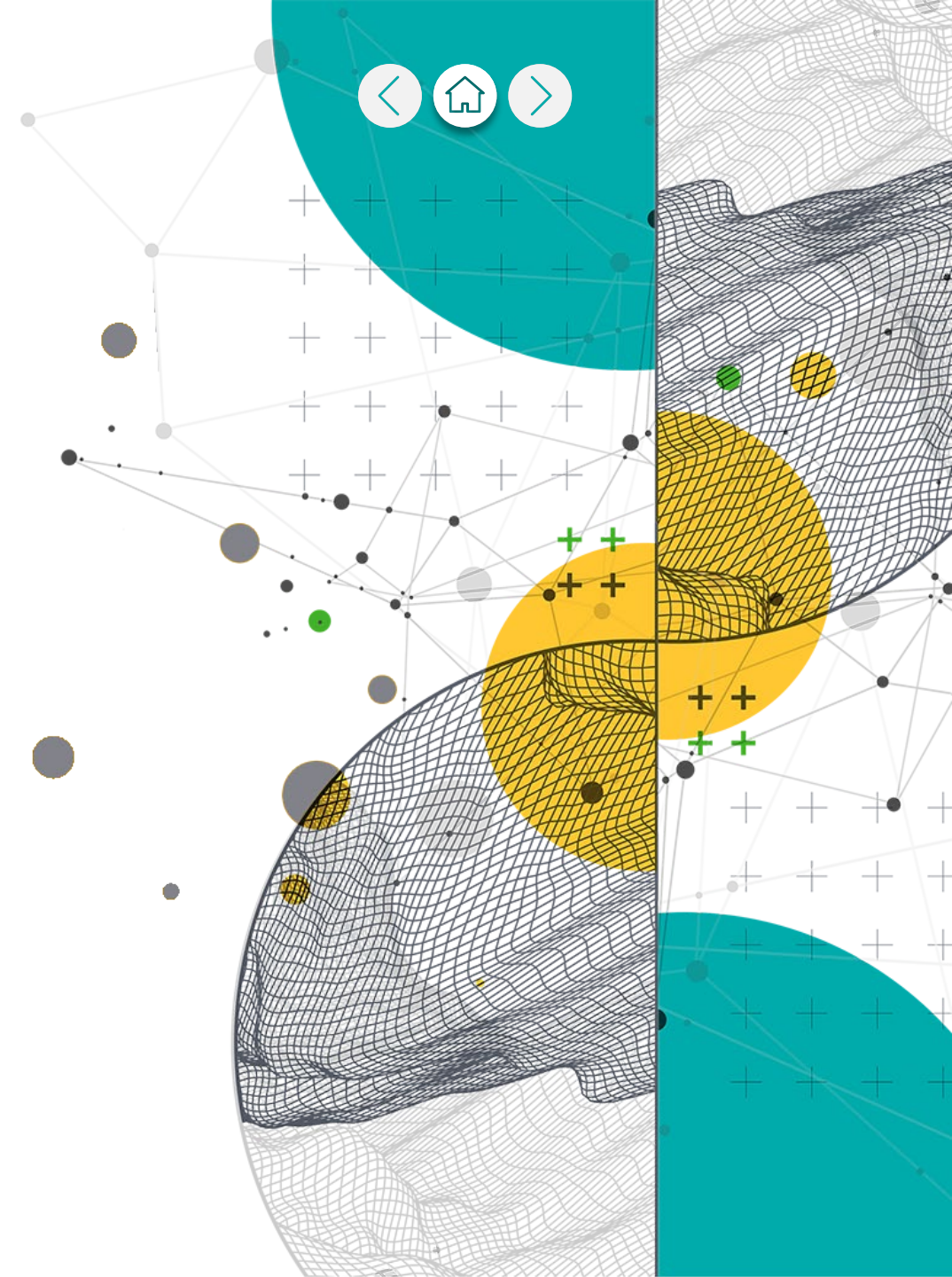
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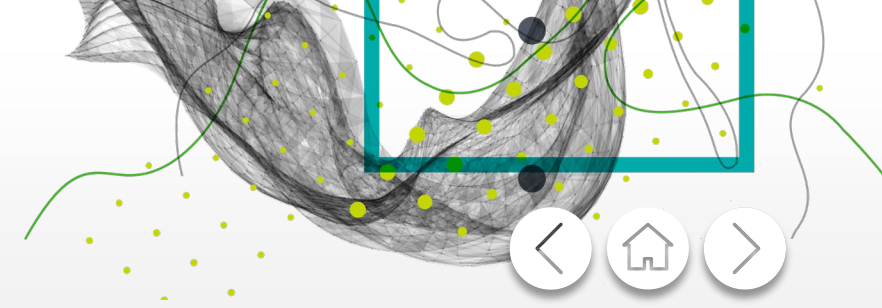
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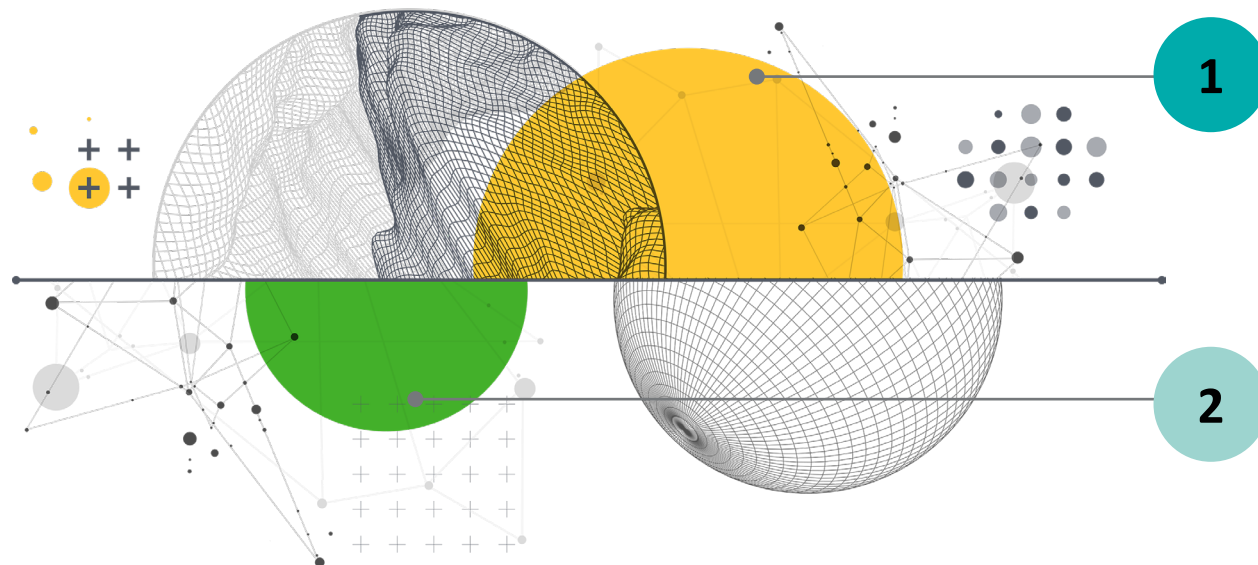
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Market study of the financial reporting and governance practices of the 100 largest (by AuM) UCIs in Luxembourg, based on their 2023 annual reports.

This market study provides a snapshot of:



**Accounting and financial reporting** practices in Fund's annual reports

**Corporate governance** practices applied and their related disclosures in Fund's annual reports

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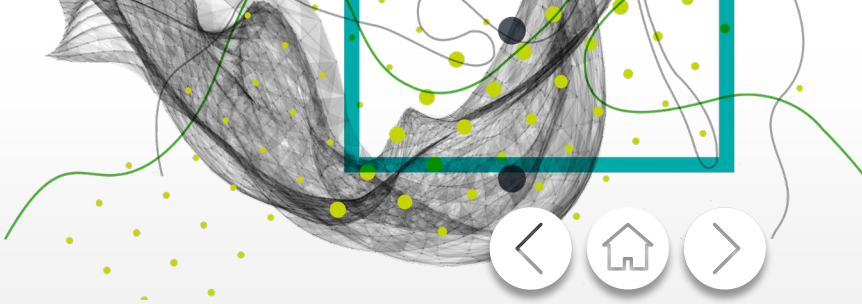
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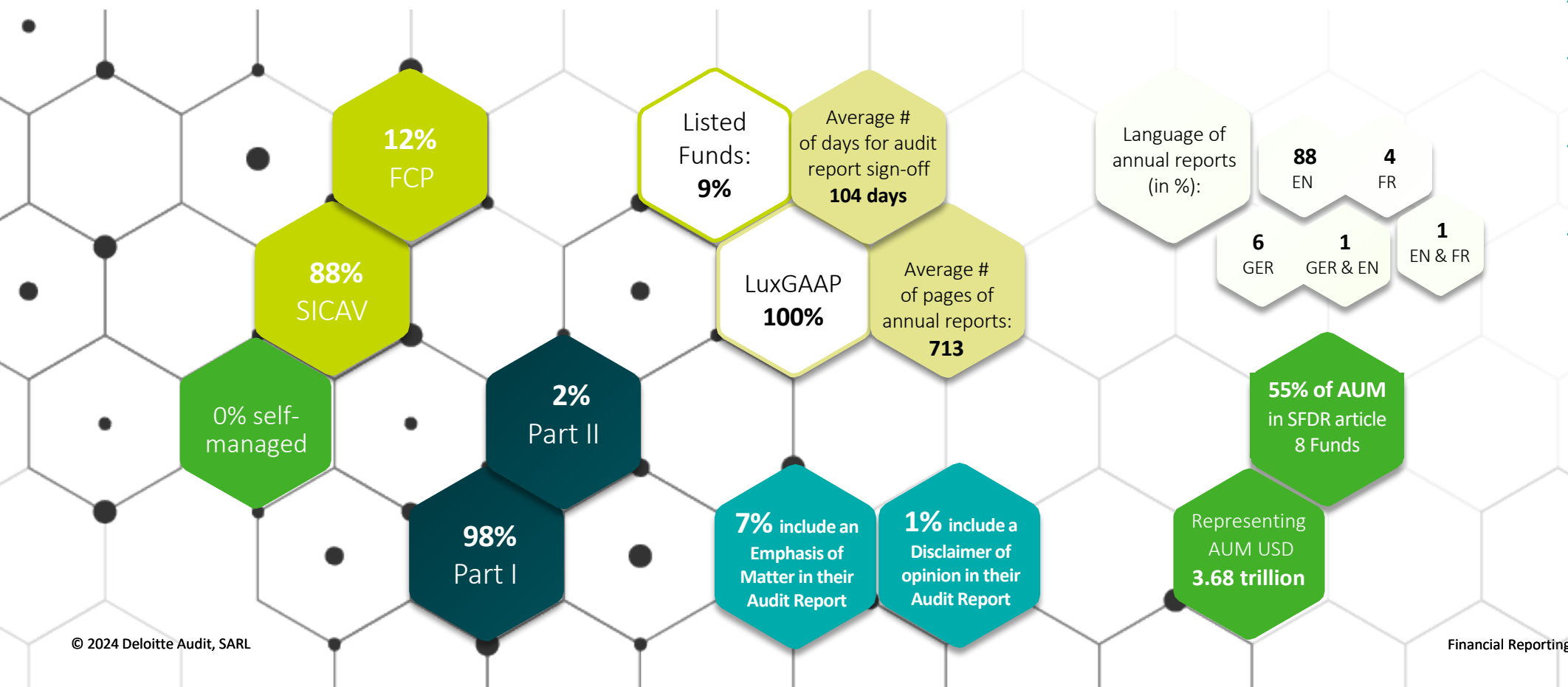
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Highlights of the largest 100 UCIs in Luxembourg included in the study:



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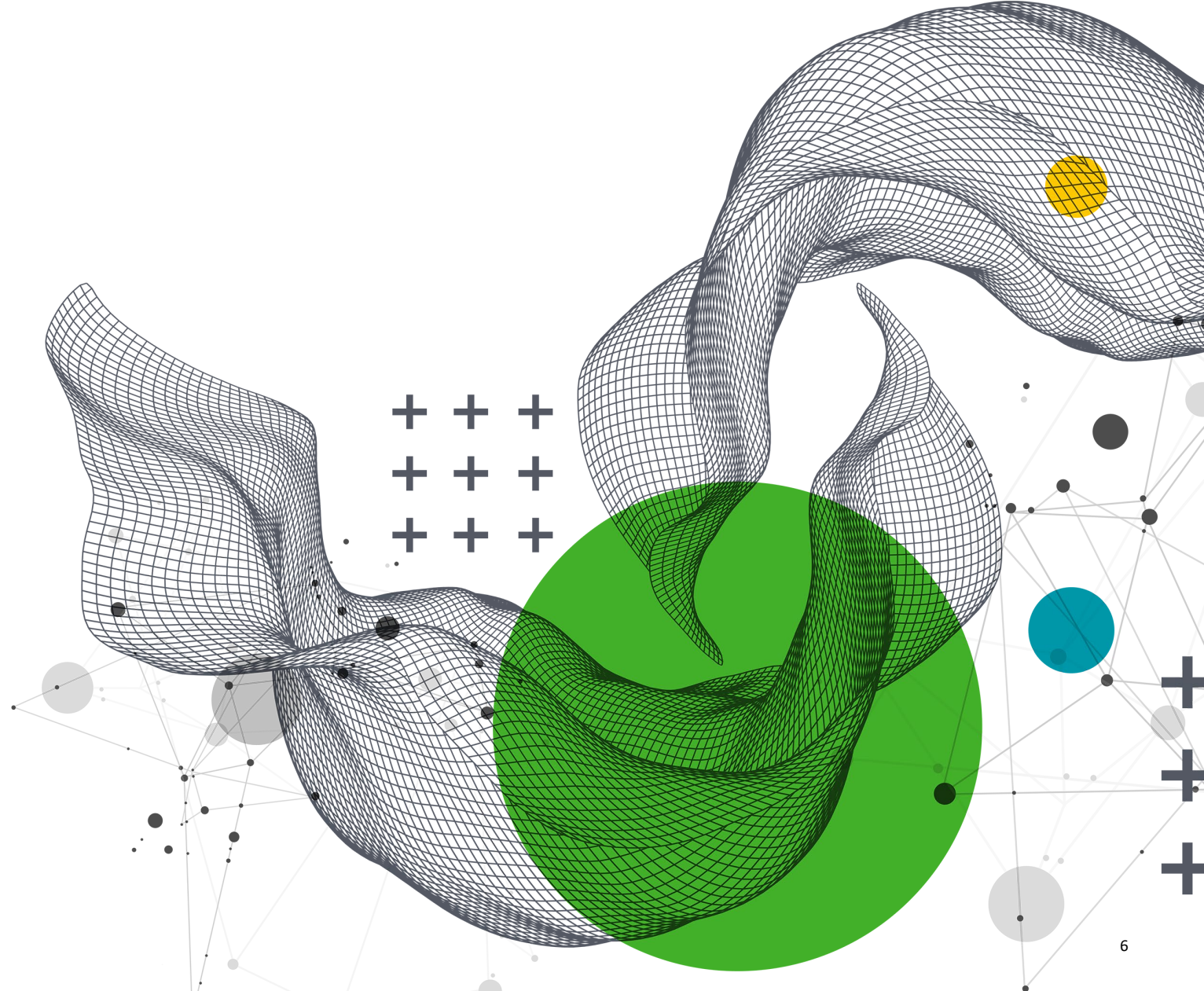
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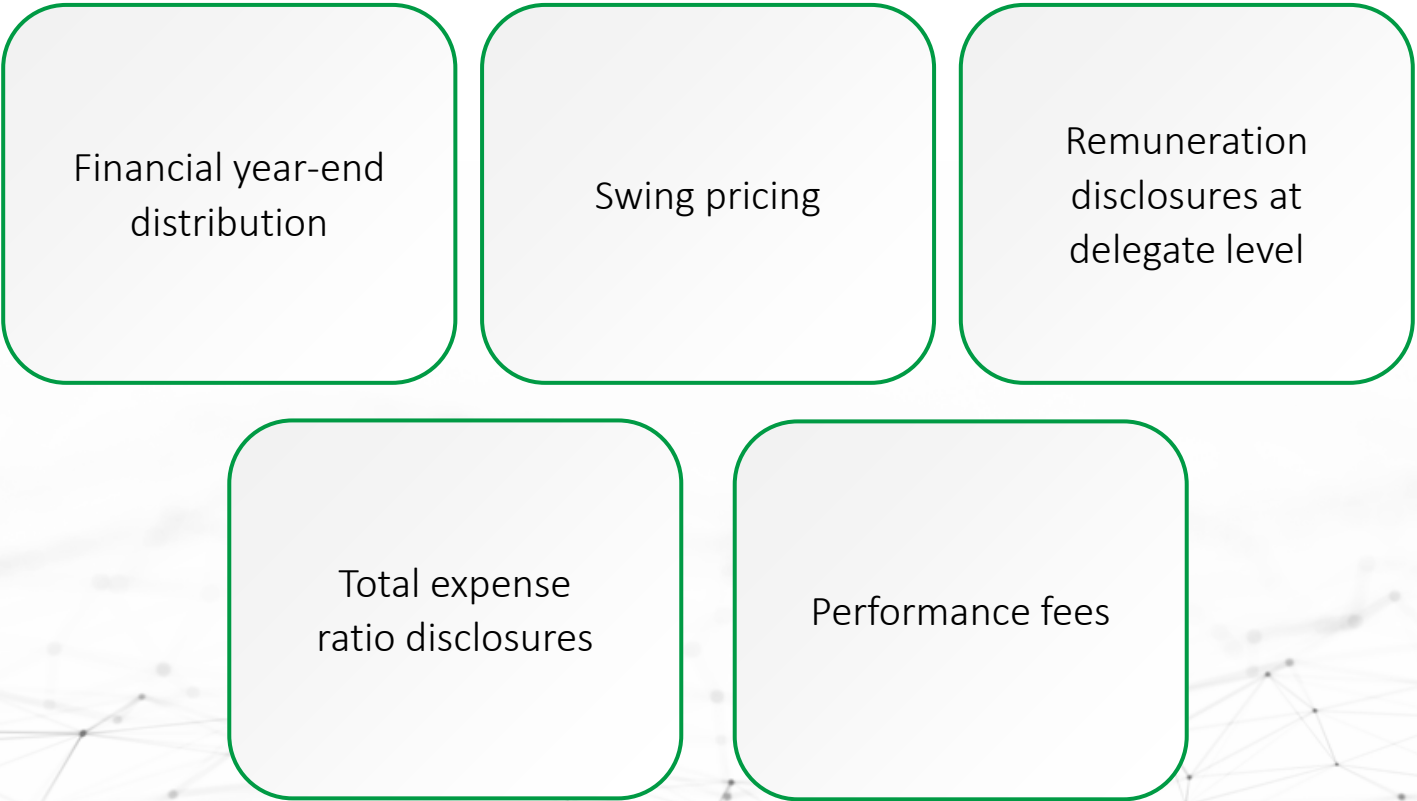
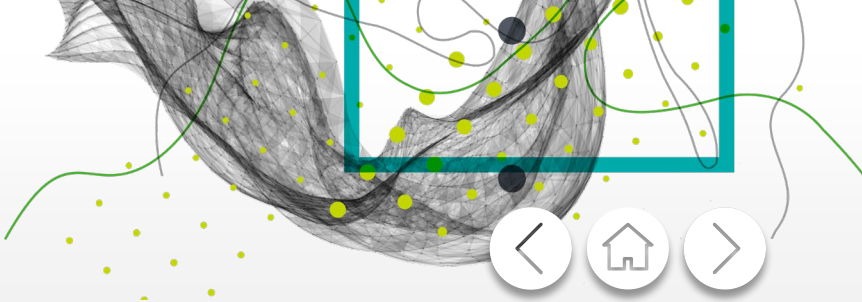
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## Section 01

# Accounting trends



# 01 Accounting trends



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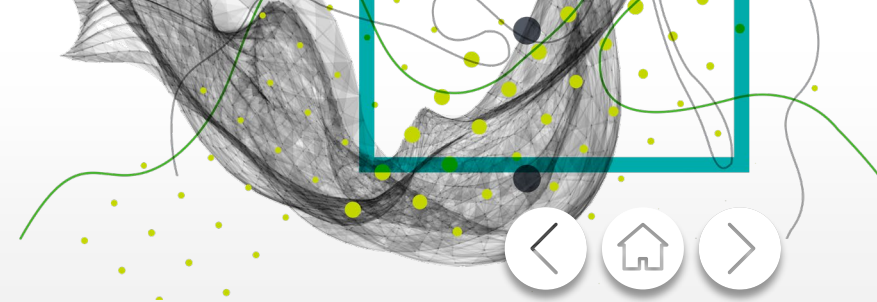
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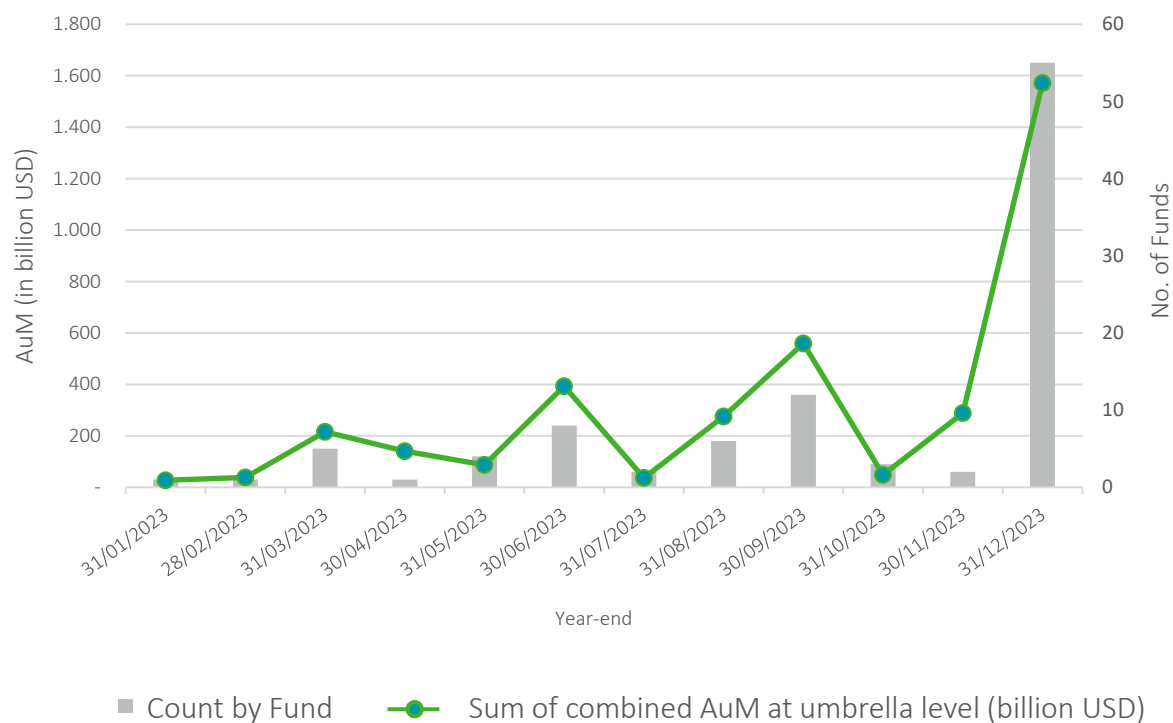
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## 01 Accounting trends



### Financial year-end distribution

Number of Funds analysed by month selected for financial year-end during 2023 with AuM



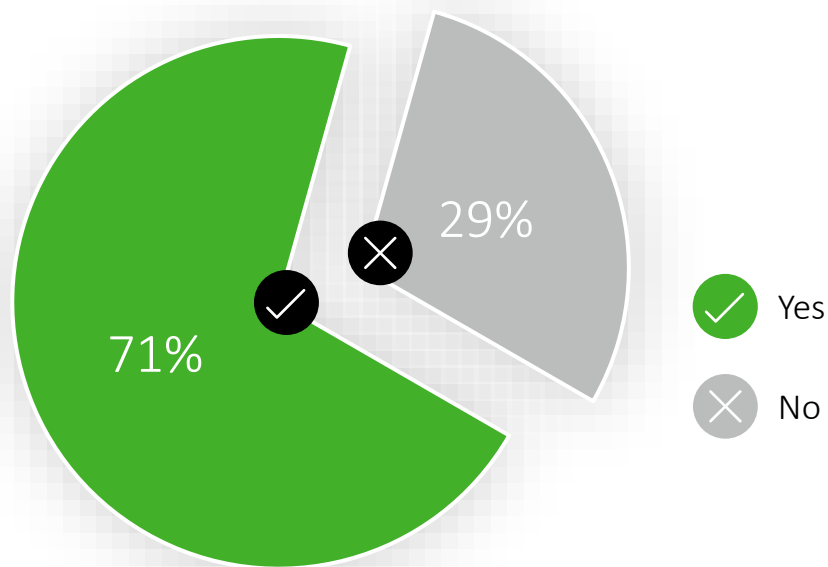
- Initiators are free to choose their preferred financial year-end date under Luxembourg's regulations and tax rules.
- More than 50% of the 100 largest Funds have December year-ends.
- Otherwise, March, May, June and September are among the preferred year-end months.
- As a result, most financial statement preparation and related audit activities are concentrated in the early months of the calendar year.



# 01 Accounting trends

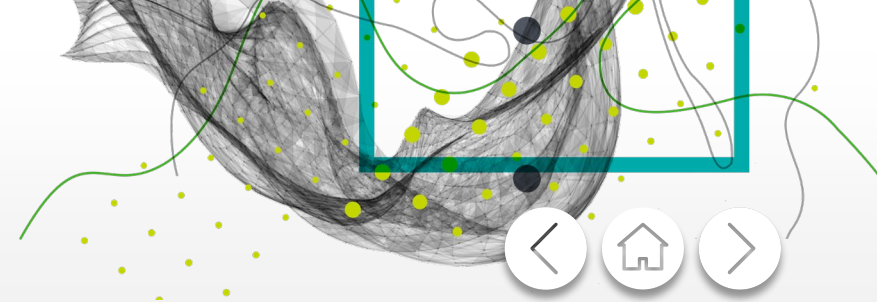
## Swing pricing

Does the Fund apply swing pricing?



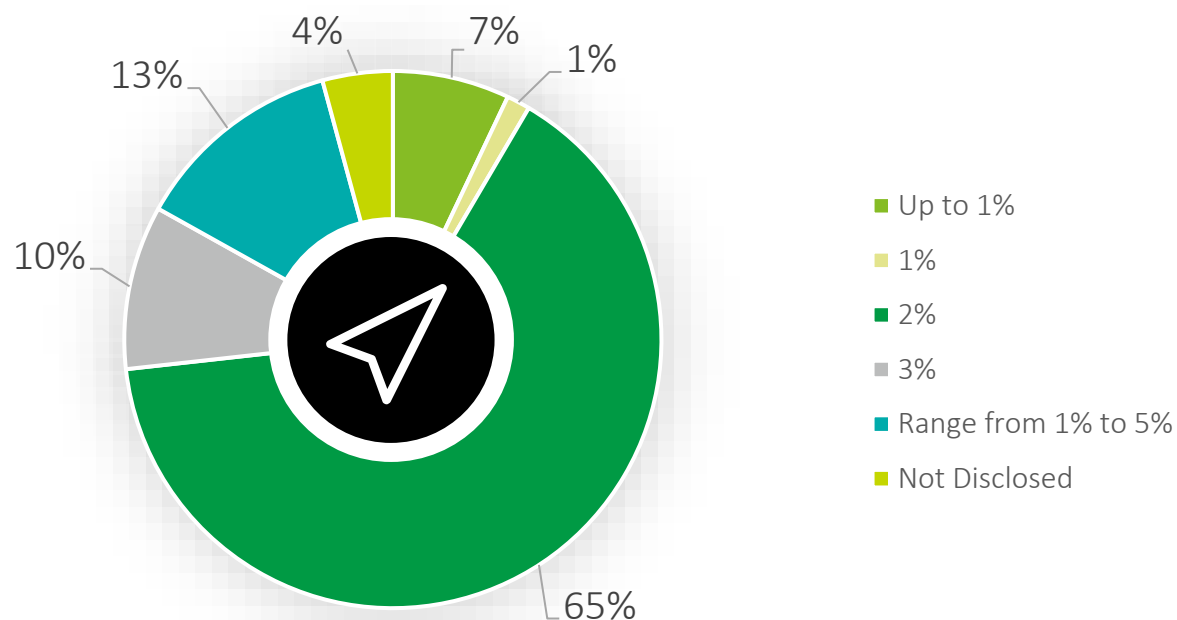
- Adoption of swing pricing remained stable compared with 2023's study (67%) and was 7% higher compared with 2020 (64%).
- There is continued focus on swing pricing in consultation and policy discussions. Most recently revised FSB Recommendations and IOSCO Guidance on Anti-Dilution Liquidity Management Tools (LMTs) were published.
- Some Funds (included in the 29%) have justifiable reasons why not to apply swing pricing, e.g., money market funds.

# 01 Accounting trends



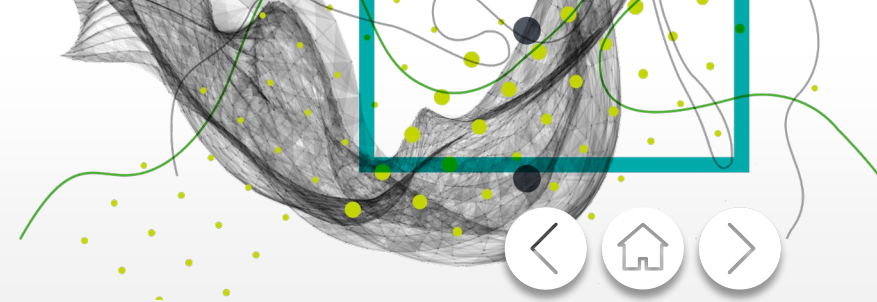
## Swing pricing

What maximum swing pricing factors are applied?



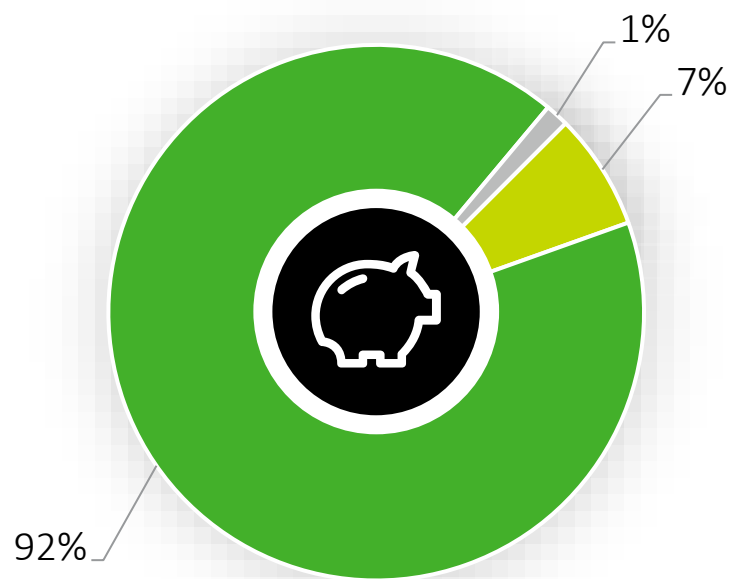
- More than 50% of Funds chose 2% as their maximum swing pricing factor.
- Reference is made to the 2022 updates of the ALFI swing pricing guidelines and the survey as it relates to the determination and verification of an appropriate swing pricing factor. The CSSF FAQ on swing pricing further clarifies what information is to be disclosed.

# 01 Accounting trends



## Swing pricing

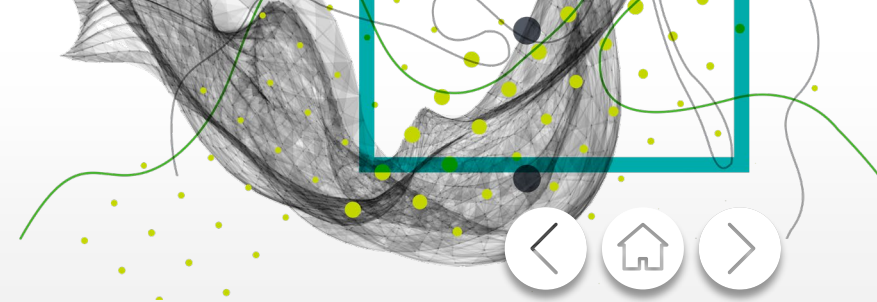
If the Fund applies swing pricing, is full or partial swing pricing adopted?



■ Full ■ Partial ■ Not disclosed

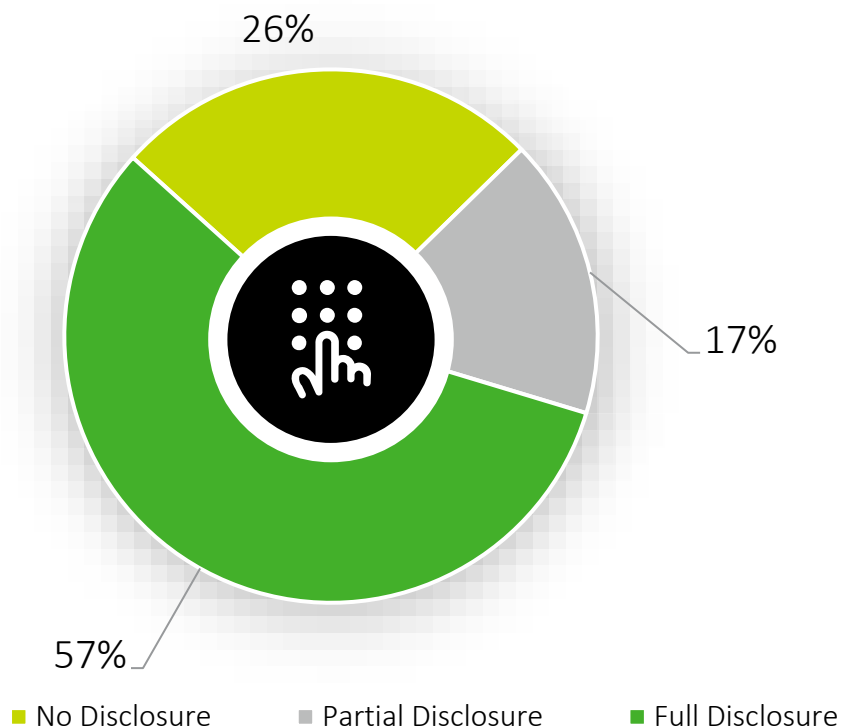
- In line with past studies, the market leans strongly towards partial swing pricing.
- Partial swing pricing is when the NAV is only swung if a predetermined net capital activity threshold (the swing threshold) is exceeded at each dealing day.
- This mainly stems from the expected lower volatility and risk of operational errors when applying partial swing pricing.

# 01 Accounting trends



## Remuneration disclosures at delegate level

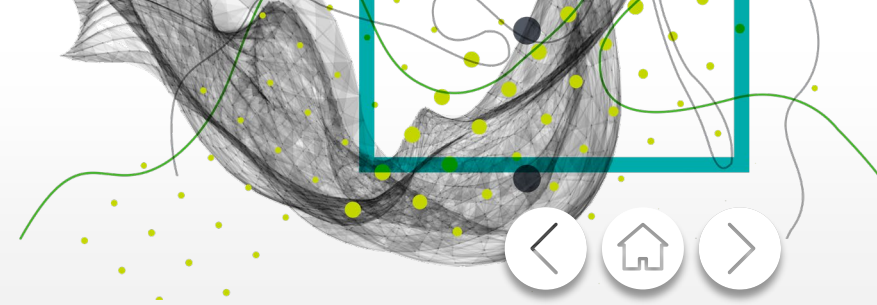
Disclosure of remuneration to identified staff at delegate level



- 74% provide either full or partial disclosures as it relates to remuneration paid to delegates.
- This is an increase compared with 2023's study (68%).
- Remuneration-related disclosures requirements are set out in Article 69 (3)(a) of the UCITS Directive and in Article 22 (2)(e) of the AIFMD and are further clarified in the respective ESMA FAQs on the UCITS and AIFM Directives.

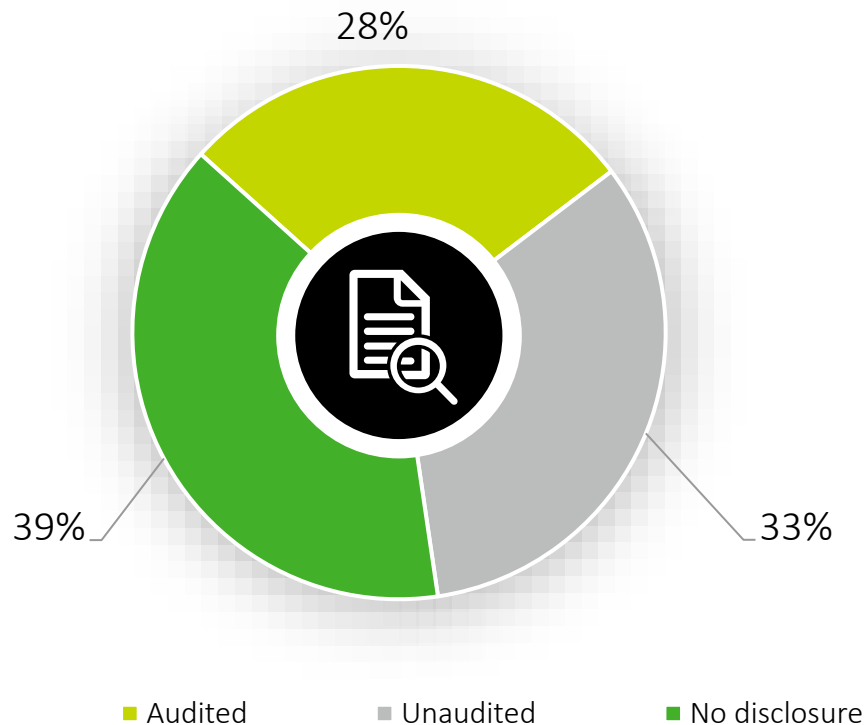


## 01 Accounting trends



### Total expense ratio disclosures

Disclosures of total expense ratios in the annual report

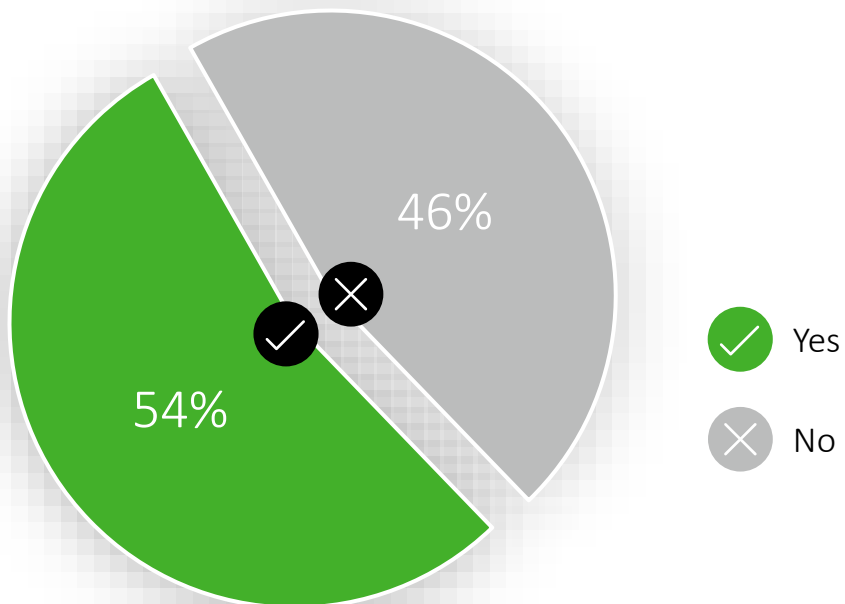


- 61% disclose their total expense ratios (TERs) in their annual reports, a slight decrease compared with 2023's study (64%).
- 28% of the Funds have their TERs audited (i.e., the TER is either included in the Notes to the Financial Statements or marked as audited).
- Swiss promoters lead the field in TER disclosure, given the local requirement for this disclosure for certain Funds distributed in Switzerland.

# 01 Accounting trends

## Performance fees

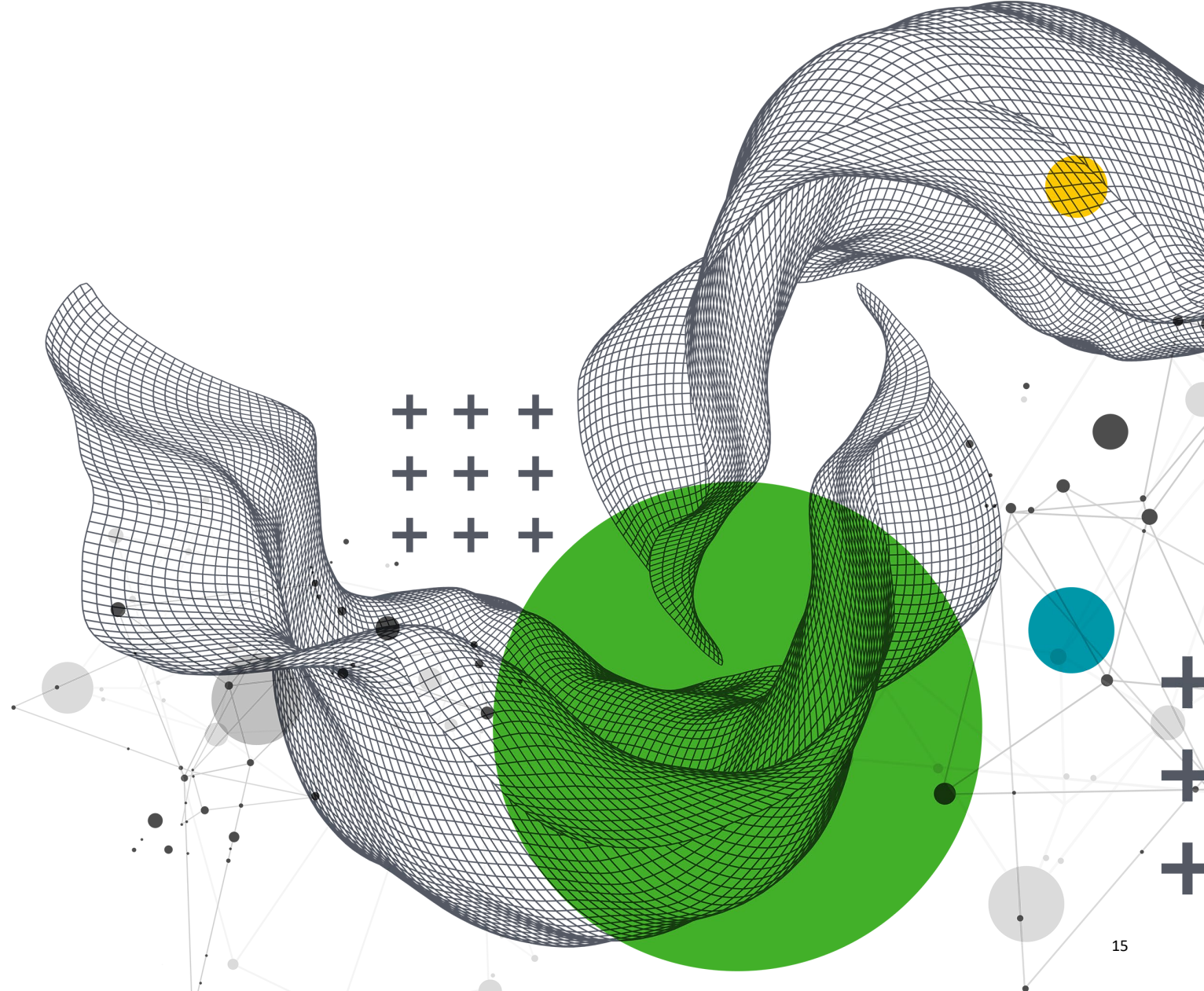
Is the Fund subject to performance fees?



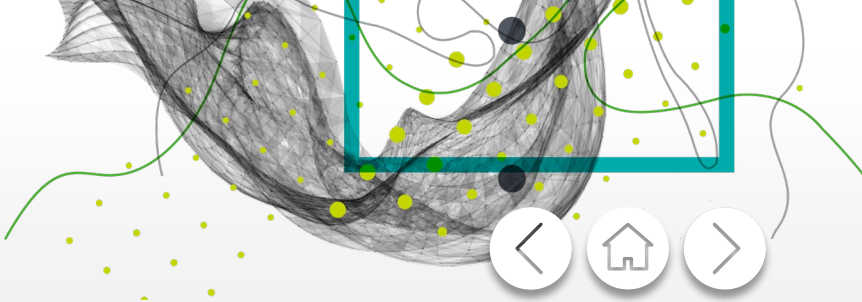
- 54% levy performance fees, which is in line compared with 2023's study.
- CSSF Circular 20/764 implemented the European Securities and Markets Authority ("ESMA") Guidelines on performance fees in UCITS and certain types of AIFs into the Luxembourg framework. ESMA has issued FAQs on both the UCITS and AIFM Directives which provide further clarification.

## Section 02

# Corporate governance trends



# 02 Corporate governance trends



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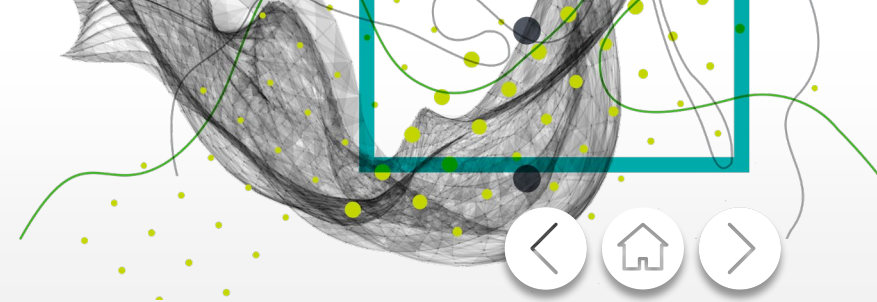
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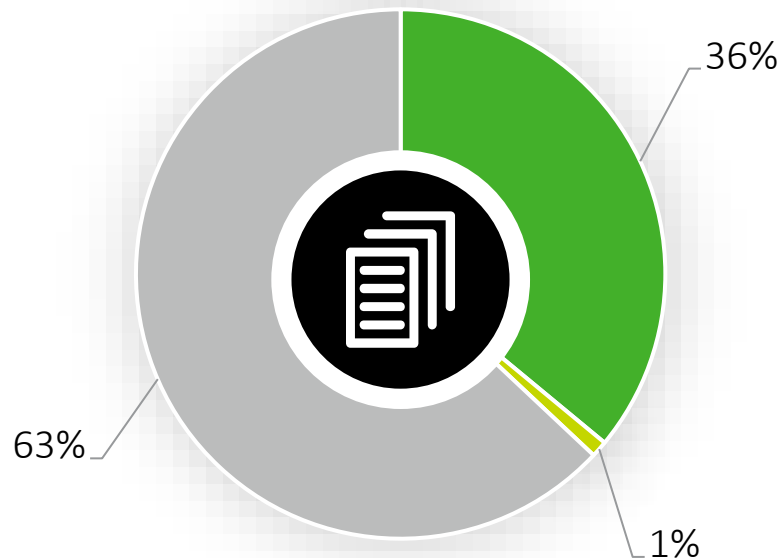


## 02 Corporate governance trends



### Code adoption

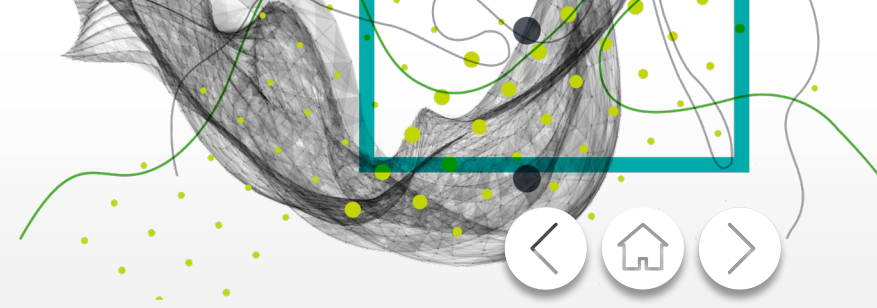
Has the Fund disclosed whether they have adopted a corporate governance code?



■ ALFI Code of Conduct ■ Own Principles on Fund Governance ■ None mentioned

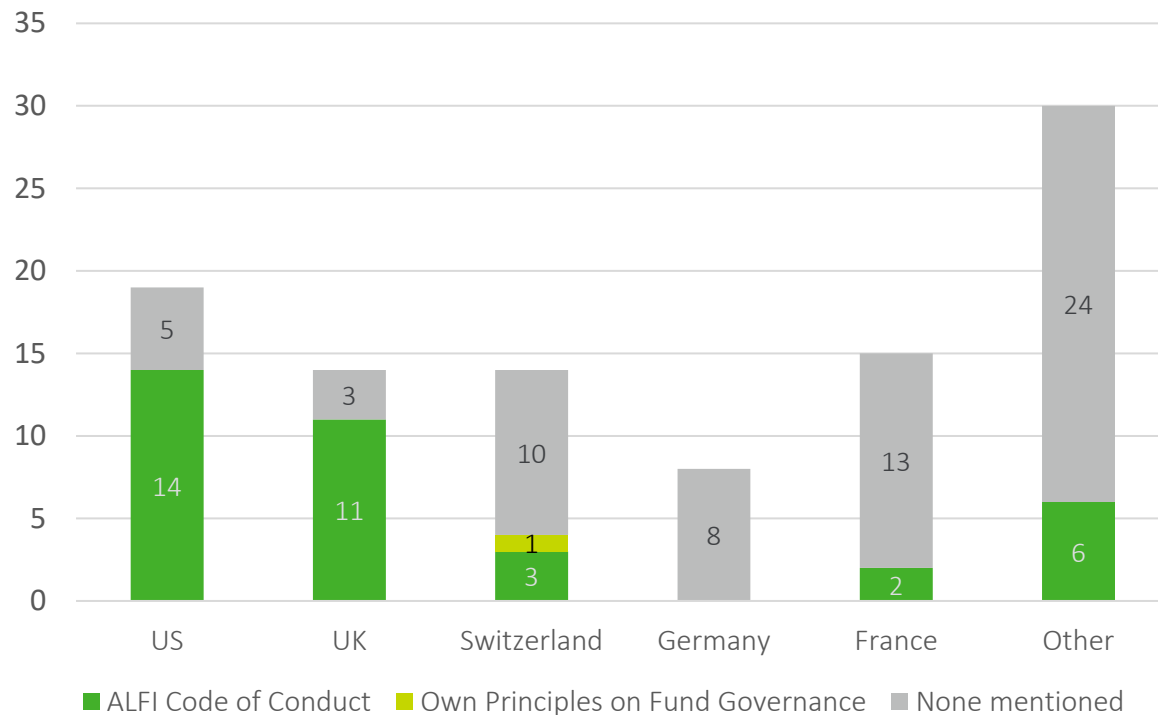
- 36% (2023 study: 38%) have disclosed in their annual report that they have adopted a corporate governance code.
- ALFI's Code of Conduct recommends the annual report explicitly confirms adherence to its principles.
- Adoption of corporate governance codes and related disclosures are expected to rise amid the growing focus on ESG and sustainability.
- The ALFI Code of Conduct has been refreshed in 2022 and most notably a new principle was added to address sustainability and ESG.

## 02 Corporate governance trends



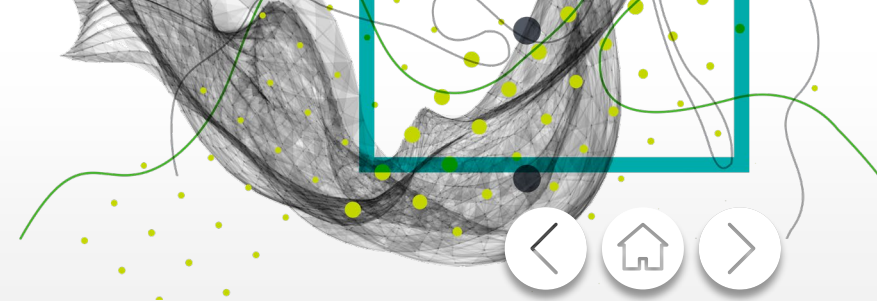
### Code adoption

Analysed by country of origin of fund sponsor



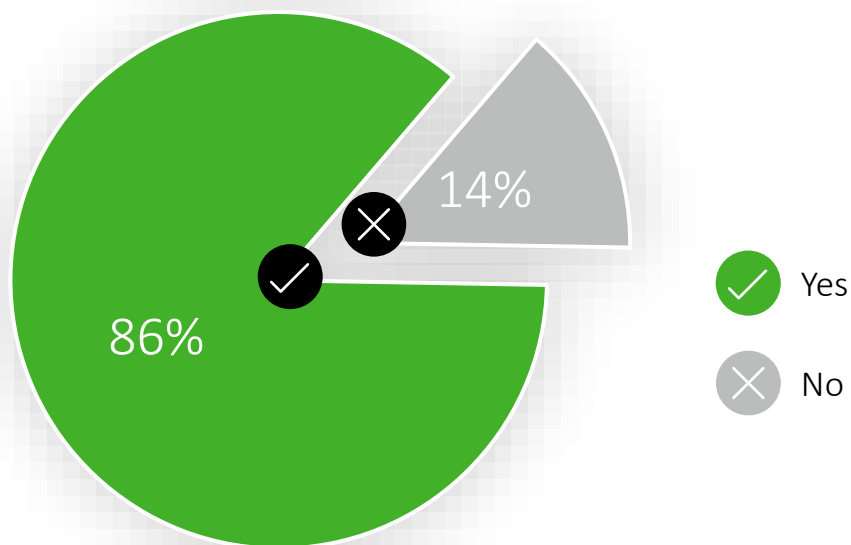
- Adopters originate primarily from Anglo- Saxon countries where corporate governance practices are more entrenched and formalized.
- Most continental European managers do not disclose the adoption of a code of conduct. Potential explanations for this fact may include the reason that local regulators in countries from where these managers originate do not require corporate governance codes, corporate governance practices are less developed or there are less Independent Directors on these Boards promoting the formal adoption of a code as best practice.

## 02 Corporate governance trends



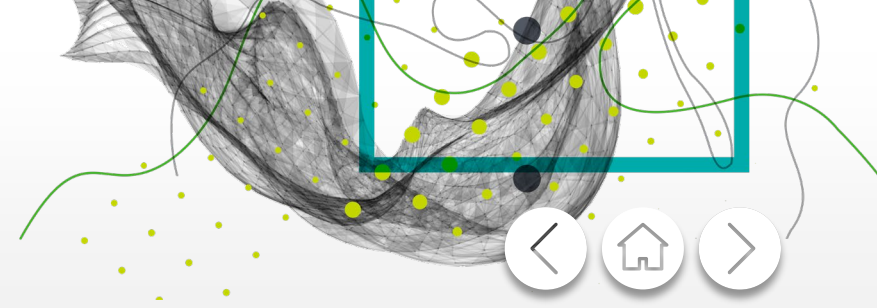
### Code adoption

If the Fund adopted a corporate governance code, does the annual report include an explicit statement of compliance with a corporate governance code?



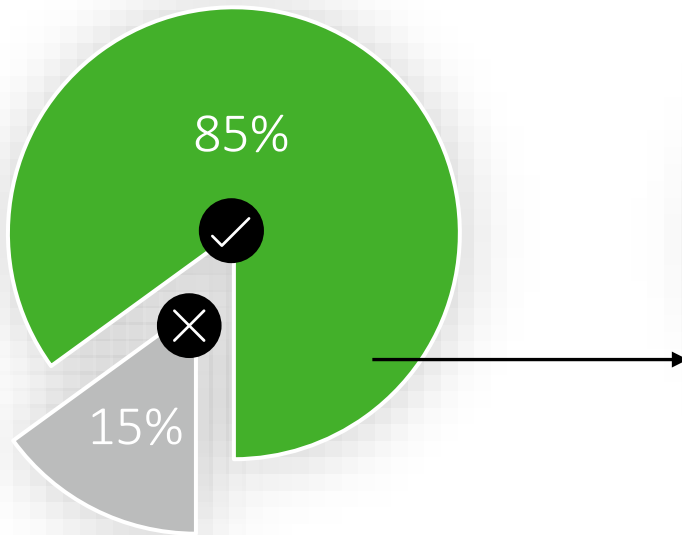
- ALFI code of conduct recommends the annual report confirms adherence to its principles.
- Of the 37 that adopted the ALFI code or its own Principles on Fund Governance, only five for the current year have not explicitly stated whether they have adhered to the code during the year under review.

## 02 Corporate governance trends

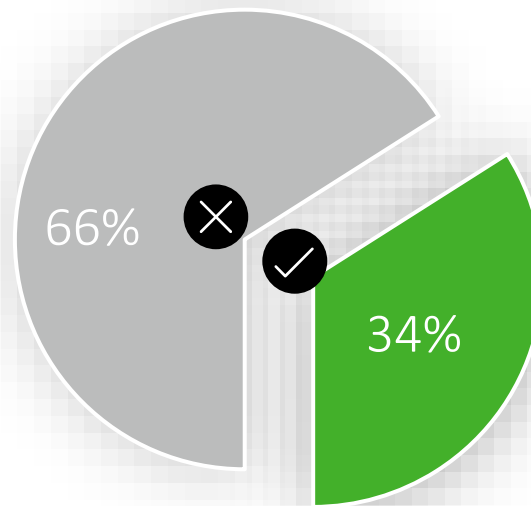


### Directors' report

Is a separate directors' report presented?



Does the directors' report substantially follow the ALFI template?



Yes

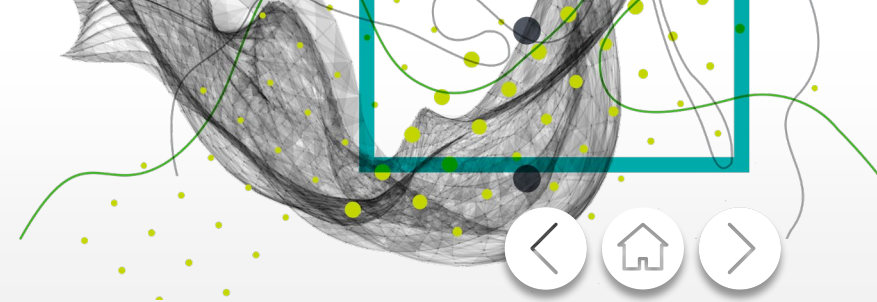


No

- 85% (2023 study: 83%) present a separate directors' report.
- Reflecting current trends, reporting by Boards of Directors in annual reports is expected to rise in response to the ongoing emphasis on ESG.
- Directors' reports are a crucial tool for boards to demonstrate and highlight their commitment to good corporate governance practices throughout the year under review, providing transparency and building trust with investors.
- ALFI offers a standardized director's report template designed to guide Fund Boards in preparing their report.

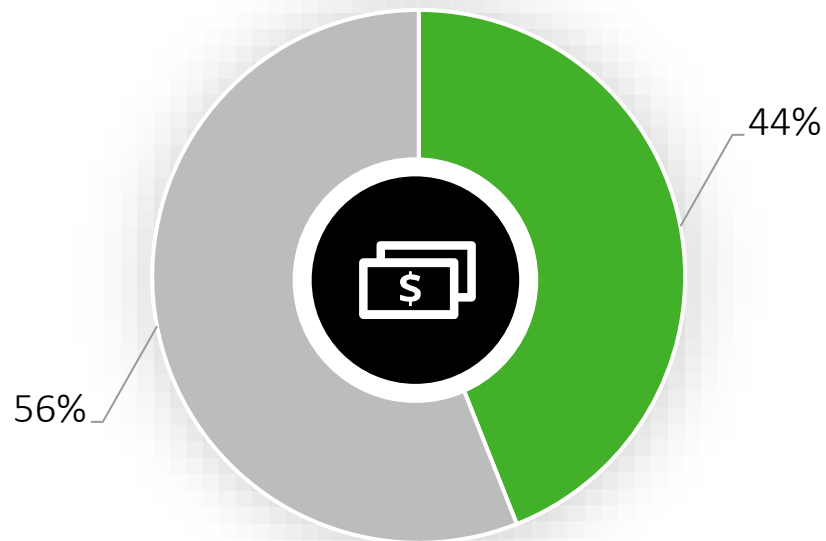


## 02 Corporate governance trends



### Directors' fees disclosures

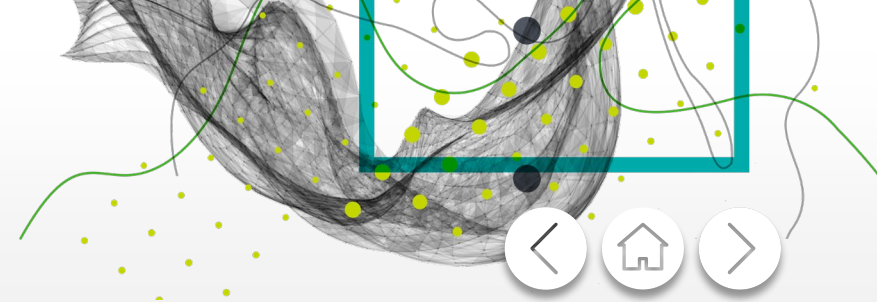
Are directors' fees disclosed in the annual report?



■ Disclosure ■ No disclosure

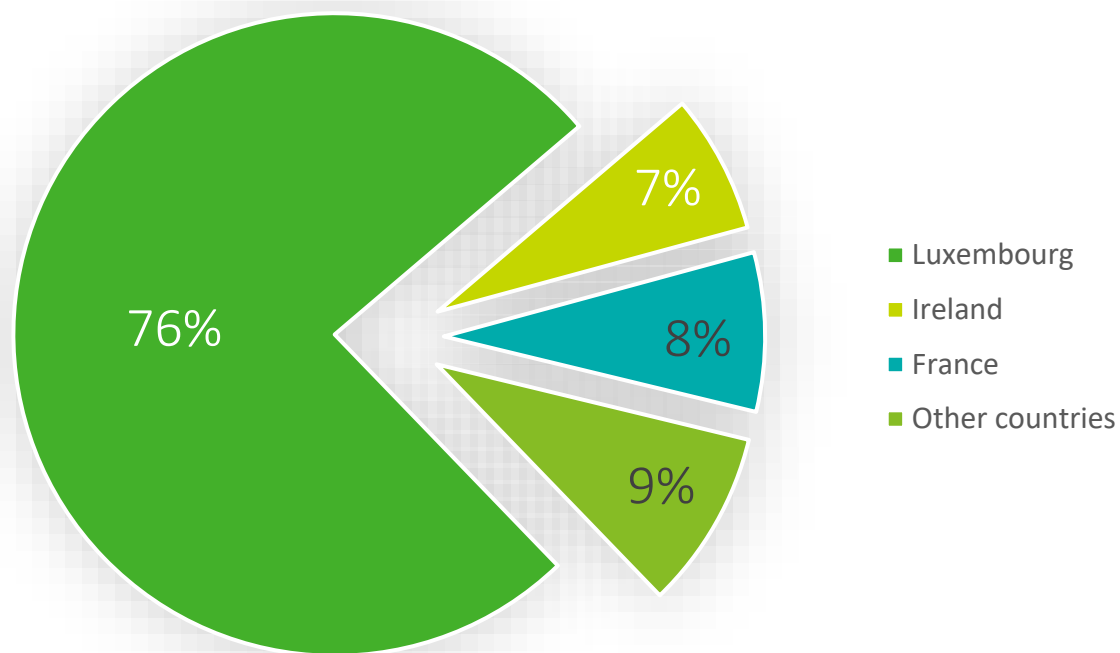
- 44% disclose directors' fees in their annual report. These are primarily fees paid to independent directors, as executive directors are usually compensated as employees through their remuneration packages.
- Directors' fee disclosures slightly increased this year compared with 2023's study (42%).
- This is separate from the disclosure of remuneration of identified staff.
- As the shareholders appoint directors at the AGM, it is considered good corporate governance to disclose the fees paid to directors as this enhances the transparency to shareholders.

## 02 Corporate governance trends



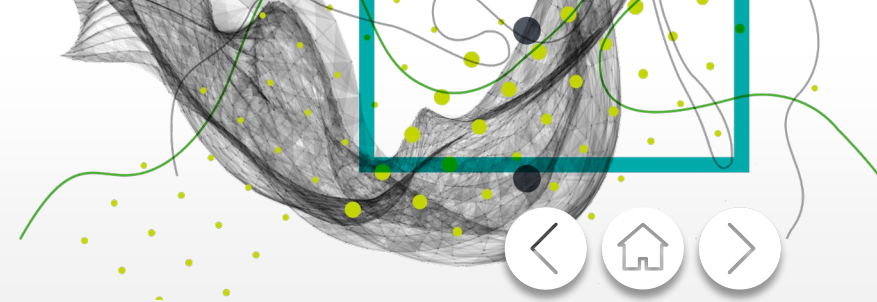
### Management Company location

In which countries are the Management Companies located?



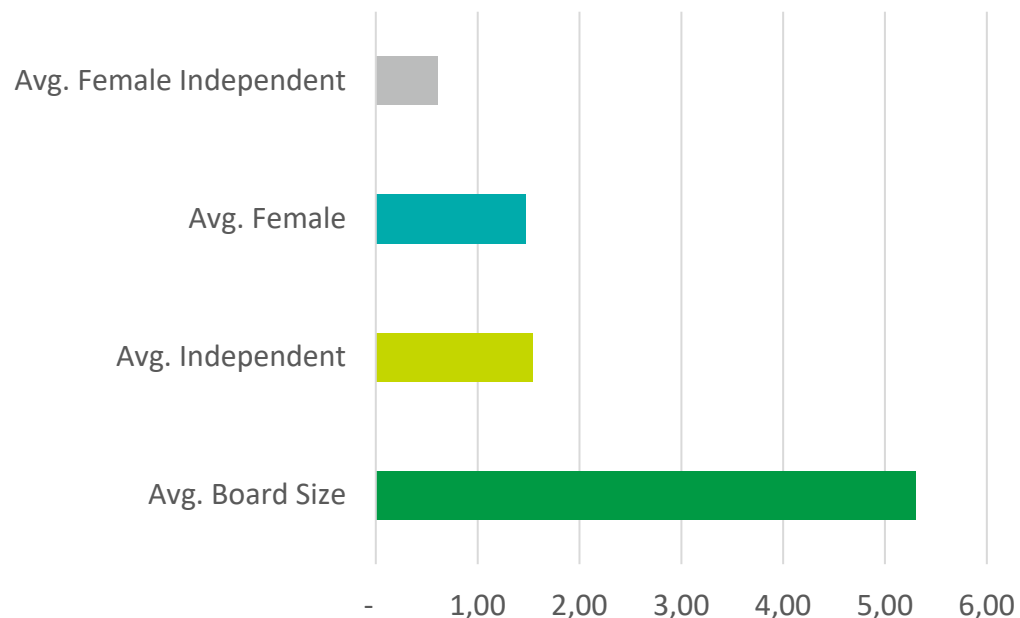
- 76% of the Funds are managed by a Management Company located in Luxembourg.
- “Other countries” compose of Netherlands (3%), Italy (2%), Germany, Belgium, Denmark and Sweden (1% each).
- All Funds have appointed a Management Company, there are no self-managed SICAVs in the analysed population.

## 02 Corporate governance trends



### Board composition

Average number of directors and gender diversity per board

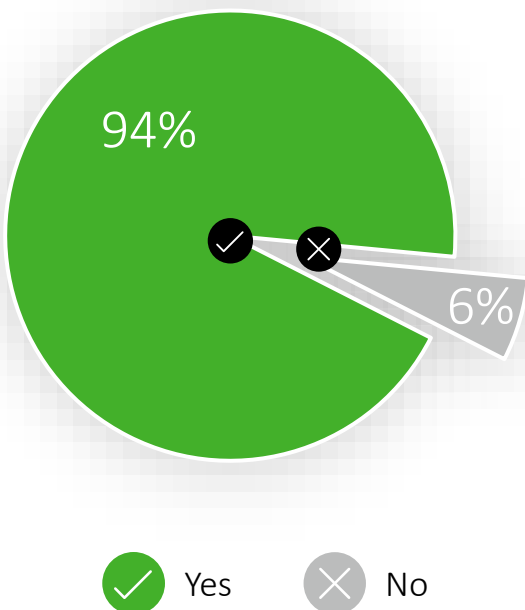


- Average number of directors per board is 5.3, with the minimum being 3 and the maximum being 11 (prior year was 5.3, 3 and 10).
- Average number of independent directors is 1.54 (prior year was 1.49).
- Average number of female directors is 1.47 (prior year was 1.38).
- Five individuals have 28 board mandates in total in the largest 100 Funds in Luxembourg. Two female independent directors have eight and four mandates respectively, one leading Luxembourg lawyer has six mandates, and two male independent directors have five mandates each.

## 02 Corporate governance trends

### ESG

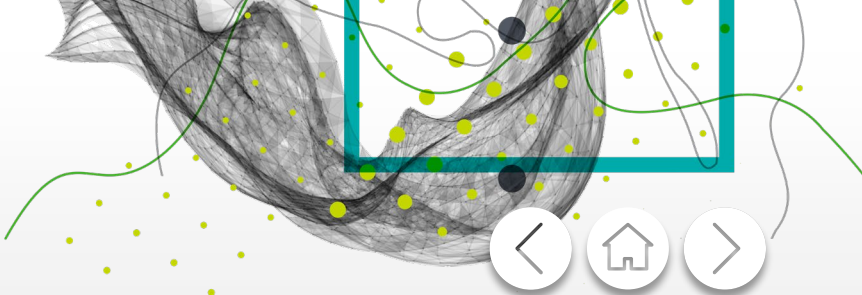
Did the Fund have an ESG focused sub-fund in its umbrella?



- 94% of the Funds have either an Art. 8 or Art. 9 sub-fund in its umbrella (2023 study: 89%).
- 61% of the Funds have included a prominent statement within the main body of the annual report referring to the information to be found in the annex which is required by Article 50 (2) of Regulation (EU) 2022/12881.
- The European Commission launched an extensive consultation and review of the SFDR in September 2023 and in May 2024 the European Commission published its summary report and among other key messages the European Commission identified widespread support for the broad objectives of the SFDR but divided opinions regarding the extent to which the regulation has achieved these objectives during its first years of implementation.



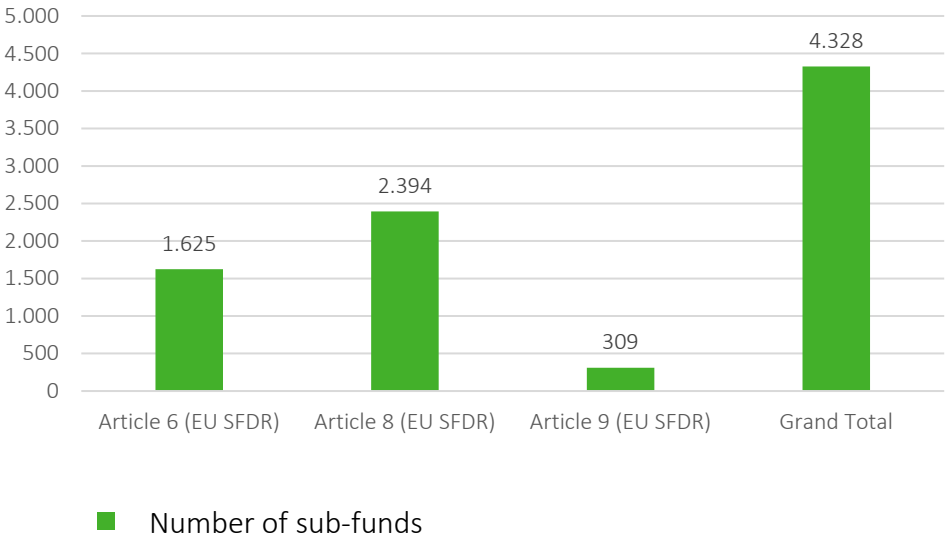
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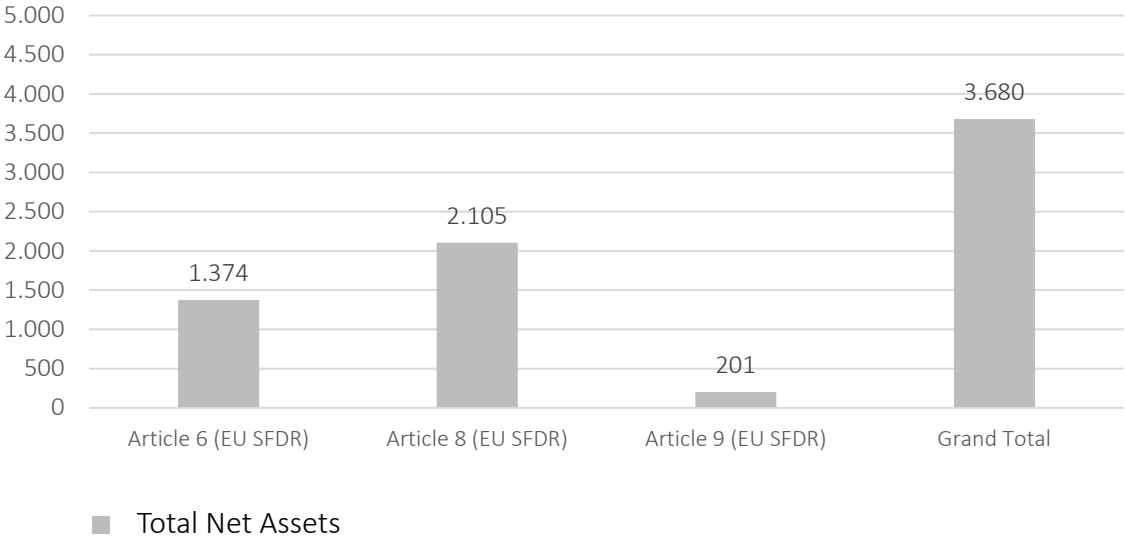
## SFDR classification

SFDR classification by number of sub-funds and by sub-fund TNA

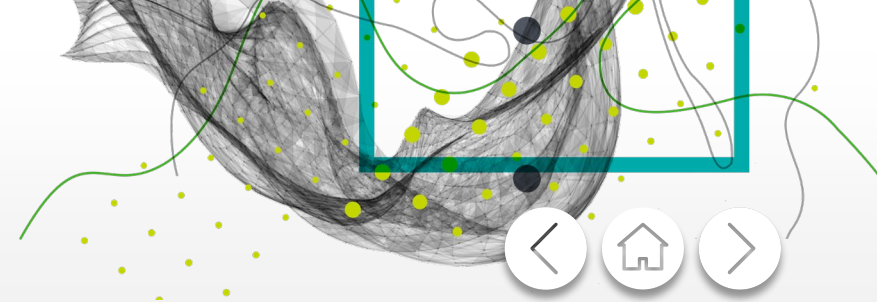
SFDR classification by no. of sub-funds



SFDR classification by sub-fund TNA (in billion USD)

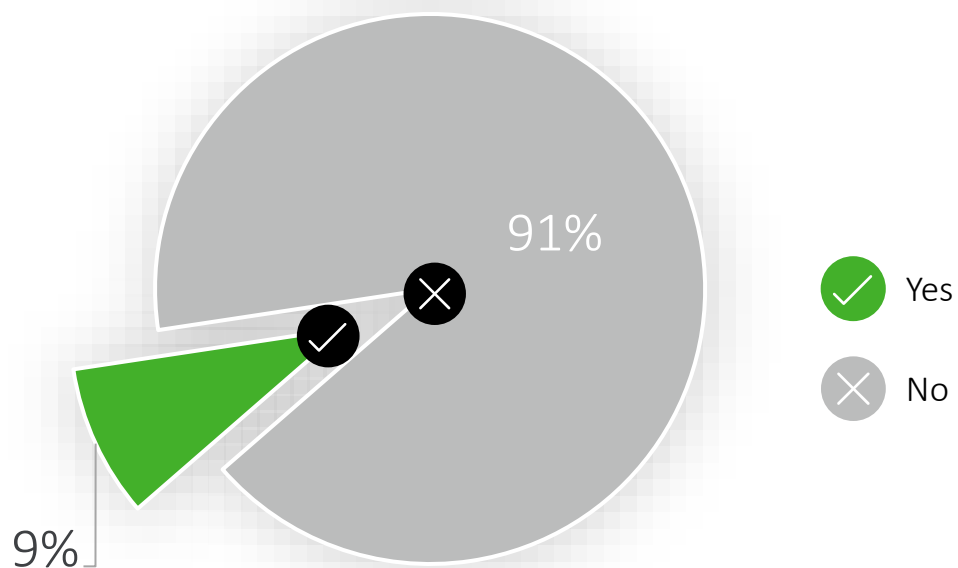


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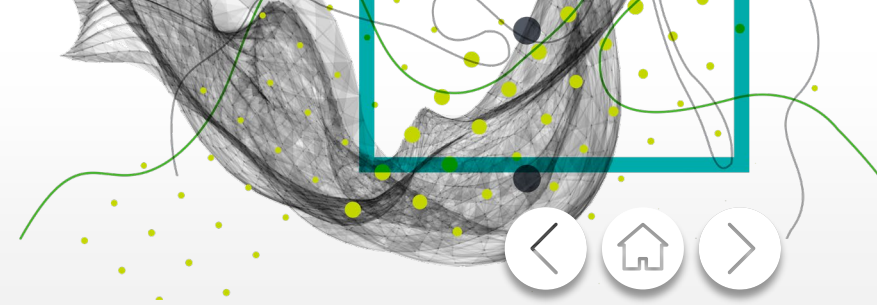
### Key audit matters

Is a key audit matter included in the auditor's opinion?



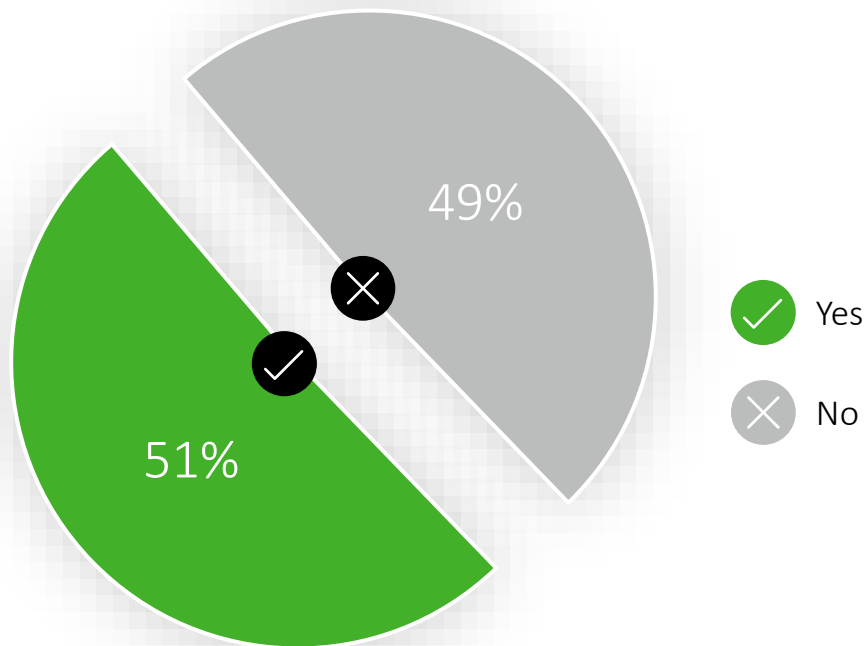
- Key audit matters are disclosed for nine out of the nine listed Funds.
- Key audit matters are predominantly related to the valuation and existence of the investment portfolio and derivatives.
- Key audit matters are those matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements of the current period. International auditing standards require disclosure to be considered for listed entities.

## 02 Corporate governance trends



### Related party

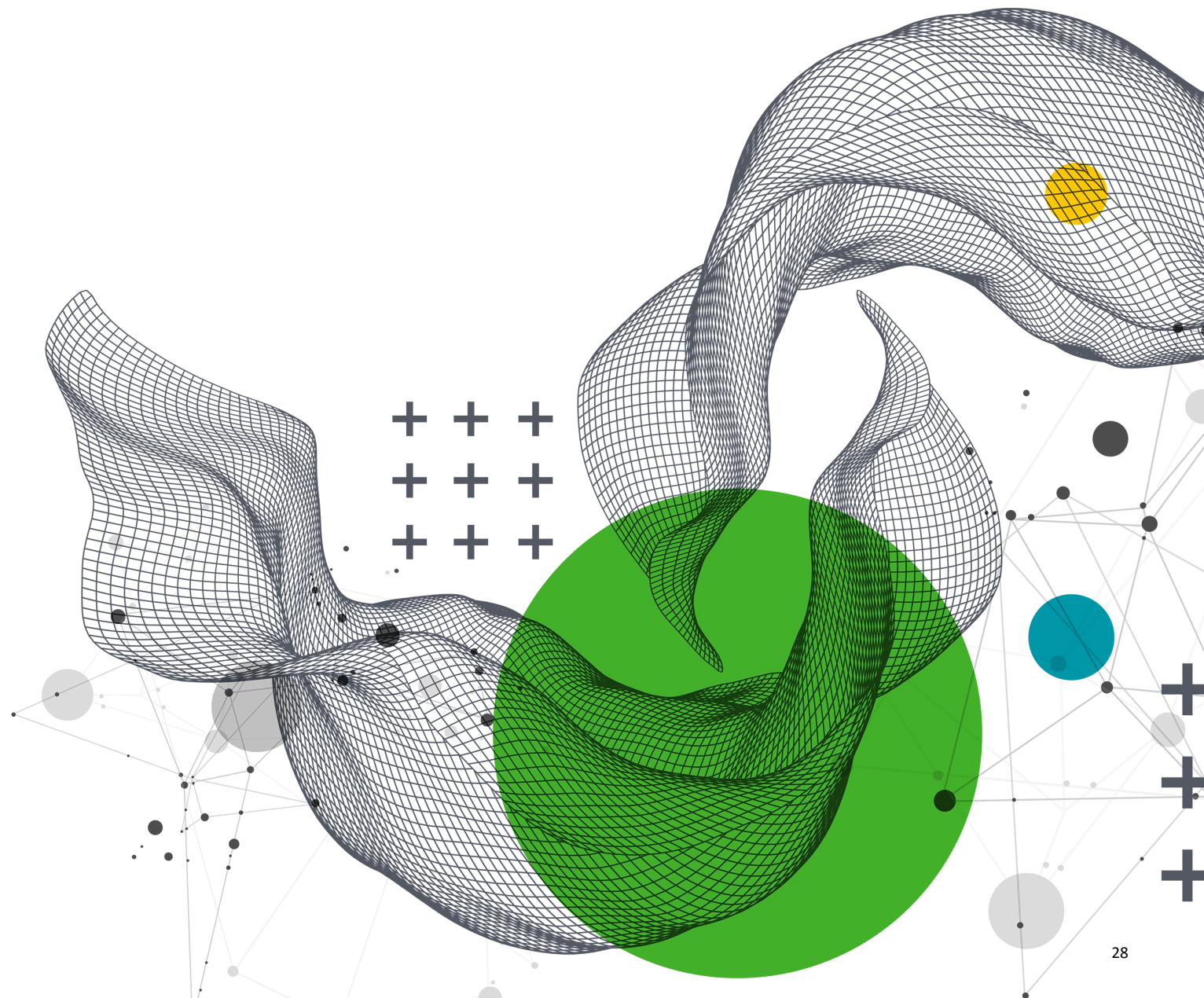
Are related party transactions disclosed in the annual report?



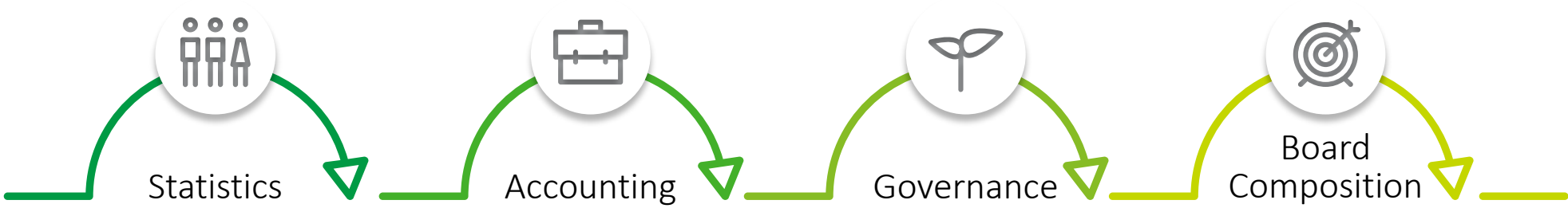
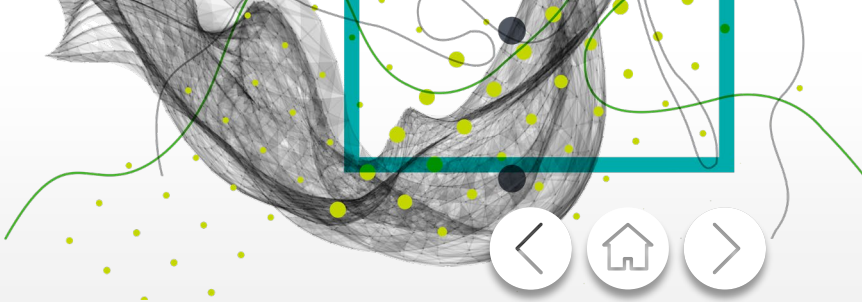
- 51% disclose related party/connected persons transactions, despite not being required under the Luxembourg rules and regulations that apply to financial statement preparation.
- This disclosure is typical for Funds distributed in certain jurisdictions like Hong Kong, which requires connected parties to be disclosed.

## Section 03

### Study highlights



# 03 Top 100 Luxembourg UCIs study highlights



## Statistics

- Representing **AUM of USD 3.68 trillion**
- 55% of Funds have **December year-ends**
- 100% use **Lux GAAP**
- A **104-day** average for audit report sign-off
- 88% **SICAV**
- 98% **UCITS**
- 9% **listed Funds**

## Accounting

- 71% of analyzed Funds apply **swing pricing**
- 74% disclose **remuneration information at the delegate level**
- 61% of analyzed Funds **disclose TER** in the annual report
- 44% disclose **directors' fees**
- 54% levy **performance fees**

## Governance

- 36% have adopted the **ALFI Code of Conduct**
- 76% have **Luxembourg domiciled ManCo**
- 85% present a **separate directors' report**
- 34% of which have a directors' report substantially following the **ALFI guidance** for directors' reports
- 94% have **ESG** focused sub-funds

## Board Composition

- Average **number of directors** per board is 5.3, with the minimum being 3 and the maximum being 11
- Average number of **female directors** is 1.47
- Average number of **independent directors** is 1.54

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### Benchmarking your Funds

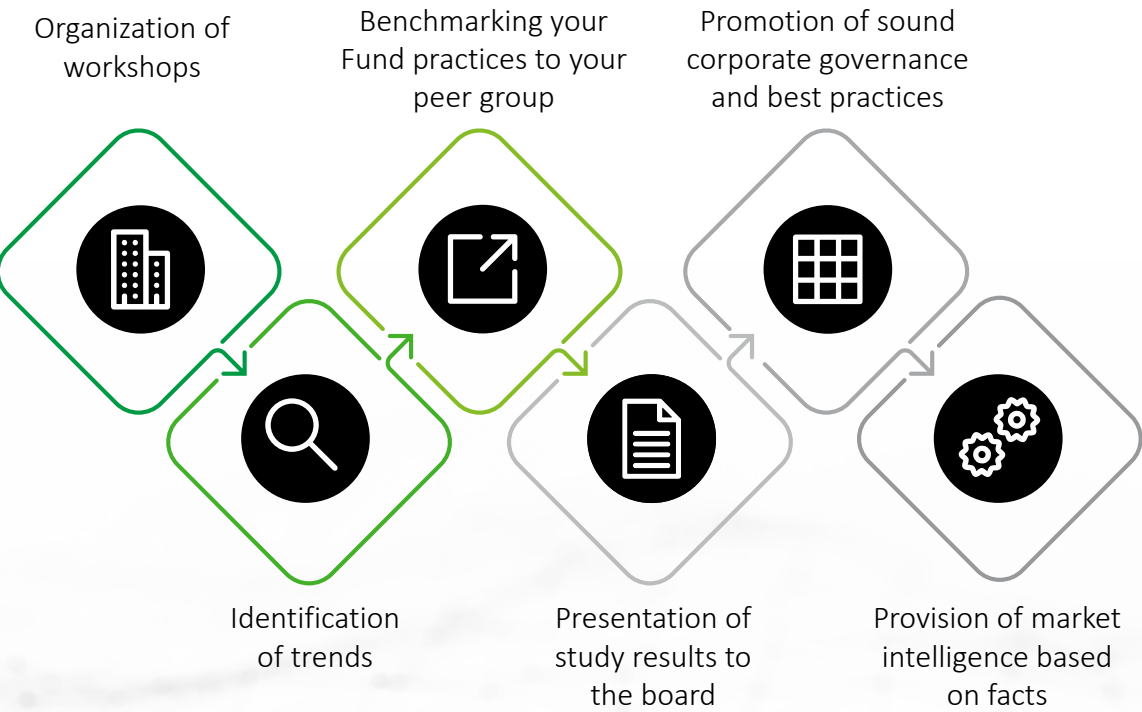
- |                                 |                              |                                  |                              |
|---------------------------------|------------------------------|----------------------------------|------------------------------|
| • Swing pricing: Y/N            | • Delegate remuneration: Y/N | • ESG: Y/N                       | • Size of board: #           |
| • TER disclosed: Y/N            | • Directors' report: Y/N     | • Related party disclosures: Y/N | • Independent directors: Y/N |
| • Directors' fee disclosed: Y/N | • ALFI code adopted: Y/N     |                                  | • Female directors: Y/N      |



# About Deloitte



## Tailored solutions - Overview



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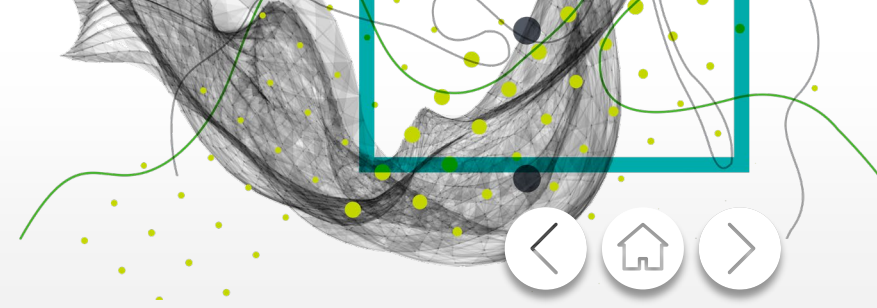
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**Tailored solutions**

# Tailored solutions - Fund Reporting Services



At Deloitte Luxembourg, we offer a robust fund reporting service that encompasses the coordination and compilation of financial statements for funds domiciled across various countries. Our service include:



### Compilation of Funds Financial Statements

We draft and generate financial statements for funds domiciled in Luxembourg or abroad, from large regulated flagship to sophisticated alternative vehicles.



### Expertise in multiple GAAP

Our service offering covers not only lux GAAP, but also a vast array of international reporting standards, such as Belgian GAAP, French GAAP, IFRS, UK SORP, US GAAP, ...

With expertise in the accounting standards of multiple countries, Deloitte Luxembourg ensures your fund's financial statements meet international standards.



### Streamlined Fund Reporting

Leveraging our in-depth knowledge and advanced tools, we streamline the creation of comprehensive and accurate fund financial statements, enhancing the transparency and credibility.



### Statistical – Regulatory reporting

In order to ensure the alignment of your financial statements with information reported to the regulator, our reporting can generate BCL and CSSF regulatory reporting.

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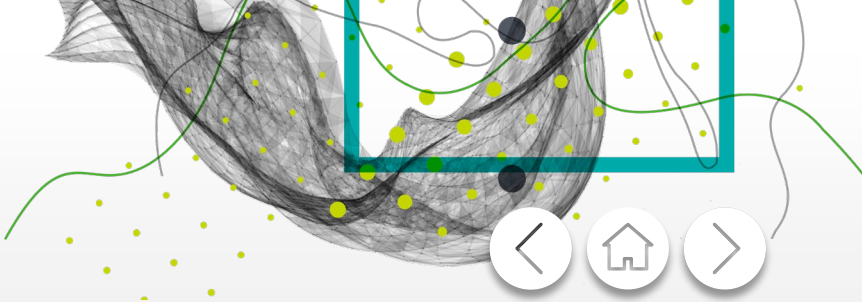
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**Tailored solutions**



## Tailored solutions - Fund Advisory Services



At Deloitte Luxembourg, we also advise clients on their complex accounting issues and reporting considerations, including:



**Accounting technical advisory**

We ensure precise and compliant accounting for complex transactions offering comprehensive support for seamless implementation of standards. We also support our clients throughout the transition process, ensuring accurate and compliant reporting in line with new standards.



**Quality review of financial statements**

We ensure they comply with relevant reporting frameworks. We also identify and correct inaccuracies in financial statements, ensuring compliance with relevant accounting standards and improving the reliability of financial reporting.



**Connecting Financial & ESG reporting services**

We provide a comprehensive support in enhancing the integration and cohesiveness of the assumptions used between financial information and sustainability information, in compliance with both accounting standards and ESG regulation. Our services include accounting analysis of ESG-linked products , challenging consistency of information disclosed across the annual accounts and enhancing disclosures.



**Gap analysis, conversion and impact assessment**

We conduct a thorough assessment of the current reporting framework to identify gaps between existing practices and the new or updated accounting standards.

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