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Outlook and future of a strong and changing sector

Professionals of the Financial Sector (PSF) in Luxembourg

November 2017

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Foreword

The Luxembourg marketplace reasserts its leading role in the global financial sector each year. The country's reputation for its quality services among clients coming to Luxembourg is built on the expertise and know-how of its Professionals of the Financial Sector.

The Professionals of the Financial Sector (PSF) industry in Luxembourg numbered 304 entities in 2016, compared to 308 for 2015. In terms of jobs, the sector has employed more than 15,000 people over the last few years. **PSF is still a strong market,** with an increase in employment despite the stable number of companies.

Competitiveness is inherent in all markets. In a constantly evolving regulatory and technological environment, it is important to focus the company on its core business and adapt to the needs and changes of tomorrow. We are noticing an adaptation of some structures' licences, which reflects a better understanding of licensing requirements according to the services provided. Through our detailed analysis of the PSF market, we present the **key trends and development of this industry in a changing environment**.

Integrating the latest PSF figures plus explanations, our brochure analyses changes in PSF and demonstrates their dynamic nature. It is enhanced with **interviews with key people in the marketplace** and articles on topical issues, written by industry-dedicated professionals.

The report provides an overview of PSF and illustrates the various existing types and their developments. It confirms the industry's importance in the Luxembourg economy.

The regulatory developments are numerous: on the eve of the entry into force of MiFID II, players in the sector must adapt to many changes such as the entry into force of the European data protection regulation "GDPR", changes to IT subcontracting and discussions underway at the time of writing this document as regards Bill 7024 and Article 41 thereof.

We kindly thank **Serge de Cillia, Jean Fuchs, Olivier Hamou, Alain Hondequin, Christophe Lentschat** and **Jean-François Terminaux** for their valuable contribution to this brochure. Their complementary experience in this industry provided us with an enlightened opinion of the latest PSF news and the sector's prospects.

We hope you will enjoy reading our publication.

Stéphane Césari
Partner – PSF Leader

Raphaël Charlier
Partner – Audit

Introduction

PSF: A wide range of services in a regulated environment

Professionals of the Financial Sector (PSF) are defined as **regulated entities offering financial services apart from the receipt of deposits from the public** (a function which is strictly confined to credit institutions). This industry therefore covers a wide range of financial and even non-financial services.

PSF, which are supervised by the Luxembourg regulatory authority, the *Commission de Surveillance du Secteur Financier* (CSSF), enjoy special access to the market in financial activities and fall within the financial sector's specific sphere of information confidentiality and security.

The professional secrecy rules are defined by Article 41 of the Law of 5 April 1993, which is the topic of intense debate as part of Bill 7024.

This special access is not without consequences in terms of governance, structure, risk management and prudential supervision. It is governed by the Law of 5 April 1993, as amended, relating to the financial sector ('the Law').

By virtue of the demands of information confidentiality and security, many non-financial players have made the necessary efforts, and often on a large scale, to obtain PSF status allowing them to serve other players of the financial sector.

There are three types of PSF depending on the type of activity carried out and the nature of the services provided, namely:

- **Investment firms**
  (Art. 24 to 24-9 of the Law)
  They are defined as firms supplying or providing investment services to third parties on a professional and ongoing basis. These are mainly:
  1. Investment advisers
  2. Brokers in financial instruments
  3. Commission agents
  4. Private portfolio managers

- **Specialised PSF**
  (Art. 25 to 28-11 of the Law) Renamed as such by the Law of 28 April 2011, these are entities active in the financial sector but which do not offer investment services. They mainly include:
  1. Corporate domiciliation agents
  2. Registrar agents
  3. Family Offices

- **Support PSF**
  (Art. 29-1 to 29-6 of the Law)
  Support PSF act principally as subcontractors offering operational services on behalf of credit institutions, PSF, payment institutions, electronic money institutions, insurance and re-insurance undertakings, pension funds and UCIs. They also act on behalf of Specialised Investment Funds (SIF), SICAR *(Société d'Investissement en Capital à Risque or venture capital companies),* approved securitisation entities and RAIF (reserved alternative investment funds). They include:
  1. Support PSF not involved in information technology, namely client communication agents (Art. 29-1) and administrative agents of the financial sector (Art. 29-2).
  2. Support PSF involved in information technology, namely Primary IT Systems Operators of the financial sector (OSIP - Art. 29-3) and Secondary IT Systems and communication networks operators of the financial sector (OSIS - Art. 29-4).
  3. Support PSF offering dematerialization or digital document conservation services (Art. 29-5 and 29-6).

This brochure presents the **scope** of this industry in Luxembourg and gives a clear view of the **different types** of PSF and **how they have evolved**.

For many years Deloitte has been developing the expertise necessary to support and advise all forms of PSF during their development stages from the time of creation and throughout their growth period. These services are described in the appendix to this brochure.

1

Scope of PSF in the Luxembourg economy

1.1 A strong economic player

Analysis of the importance of PSF and review of their economic and social footprint.

Market size

The number of PSF is stabilising. The Grand Duchy identified 304 PSF[1] as at 31 December 2016, against 308 at year end 2015.

The main category of PSF in 2016 remains specialised PSF, accounting for nearly 40 percent of PSF. However, despite steady growth between 2007 and 2013, the number of these PSF saw a slight downturn in 2016 (-1 percent) after a slight increase in 2015 (1 percent).

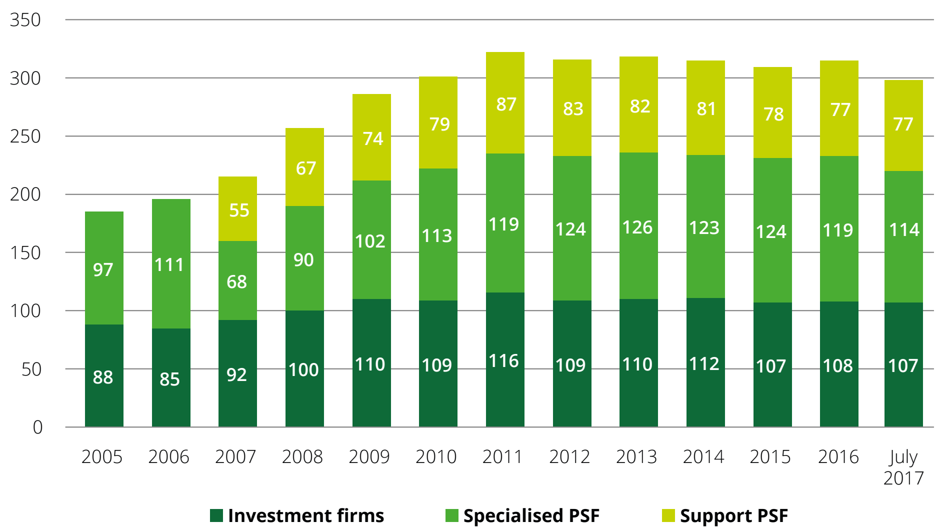
In 2016, investment firms accounted for 35 percent of PSF. In the majority until 2009, their progress has been slowed by the financial crisis. After experiencing a downturn in 2012, their number has stabilised since.

Support PSF have displayed dynamic growth since their creation (+40 percent since 2007). The number has however been stabilising since 2012 and as at 31 December 2016, they accounted for 25 percent of the PSF population. However, we noted a drop in the number of PSF, with 298 players on 14 July 2017, down from 304 on 31 December 2016.

This market trend for the PSF industry is mainly due to:

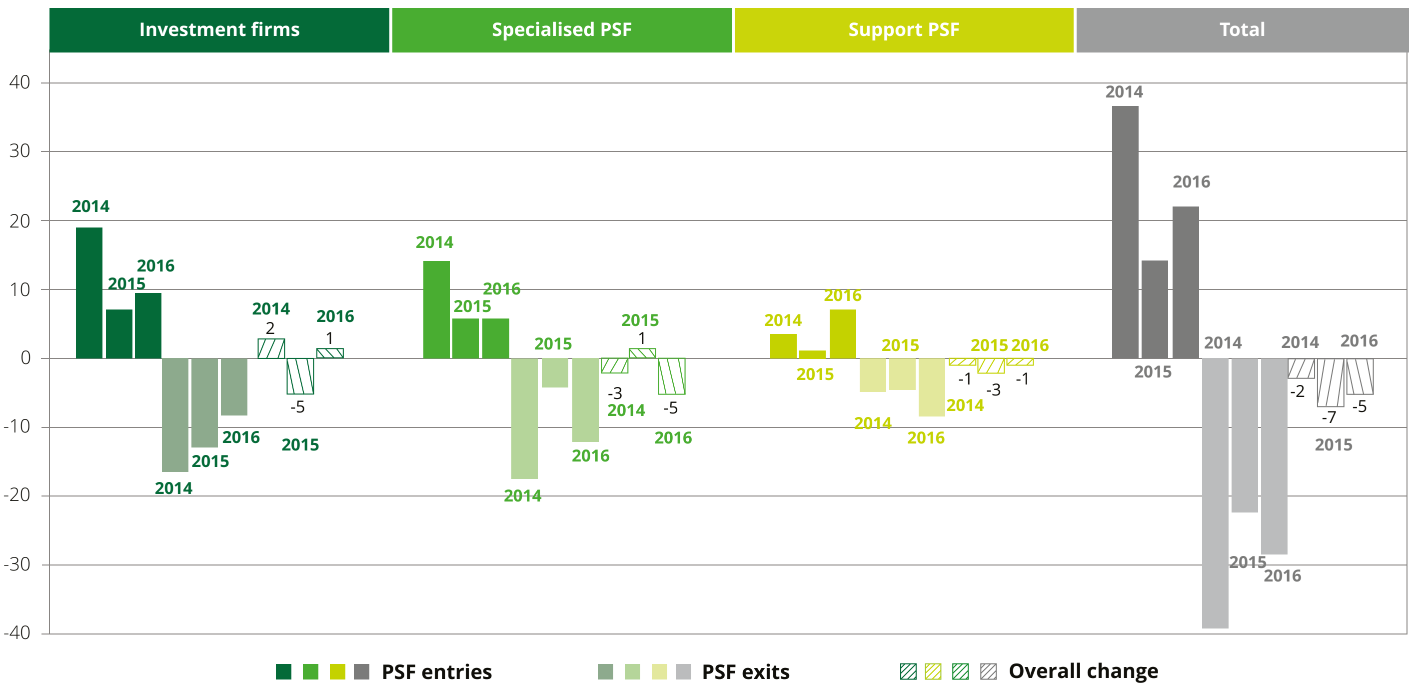
- The quest for cost reductions by pooling resources
- Growth of the financial marketplace, particularly in investment funds and corporate domiciliation agents, which broadens the scope of services a PSF is able to offer
- The growing number of financial and non-financial services for which approved PSF status is mandatory
- Recognition of a quality label, as PSF are regulated by the CSSF
- The attractiveness of Luxembourg. Since 2007, more than 50 percent of PSF created in Luxembourg have been of foreign origin and this figure is still rising
- A better understanding of licensing requirements according to the services provided

Figure 1: Annual change in the number of PSF by category



1. Source: CSSF list of PSF as at 31 December 2016

Figure 2: PSF change by category - entries and exits 2016, 2015 and 2014



The overall change in the number of PSF over the last 10 years can be broken down into two phases. Over the 2006 to 2011 period, a 64 percent increase was recorded, showing the considerable implementation of PSF in the marketplace. This significant growth peaked in 2011, marking a turning point in changes in the number of new PSF created each year. From 2011 to September 2017, it is interesting to note the stability over an almost six-year period, and the constancy in the total number of PSF and their distribution by category.

A point that calls for attention is 2007 with the appearance of support PSF. The creation of this new category brought a new distribution of PSF: initially 39 percent of specialised PSF in 2006 withdrew or turned to the support PSF activity and their number has almost doubled since 2007. Investment firms have remained relatively stable over the same period.

The number of PSF varied little between 31 December 2015 and 31 December 2016. However, this apparent stability over the year 2016 must be put into perspective with the creation of 20 entities and the withdrawal of 24 entities, compared to 13 entities created and 20 entities withdrawn in 2015.

The new PSF result from the creation of companies, but also from the conversion of existing entities into PSF. The variation in PSF numbers may also be due to a change of PSF category.

PSF withdrawals are mainly due to entities relinquishing their PSF status, liquidations and mergers between various PSF. Some entities refocused their activity and adapted their status accordingly.

At the time of writing this brochure, this trend would appear to be confirmed with already nine status changes over the first nine months of 2017.

We note that, for investment firms and support PSF, PSF creations over 2016 are offset by exits. For specialised PSF, entities created in 2016 only partially offset the exits. The final impact is quite balanced, since the total number of PSF dropped by 1 percent only in 2016.

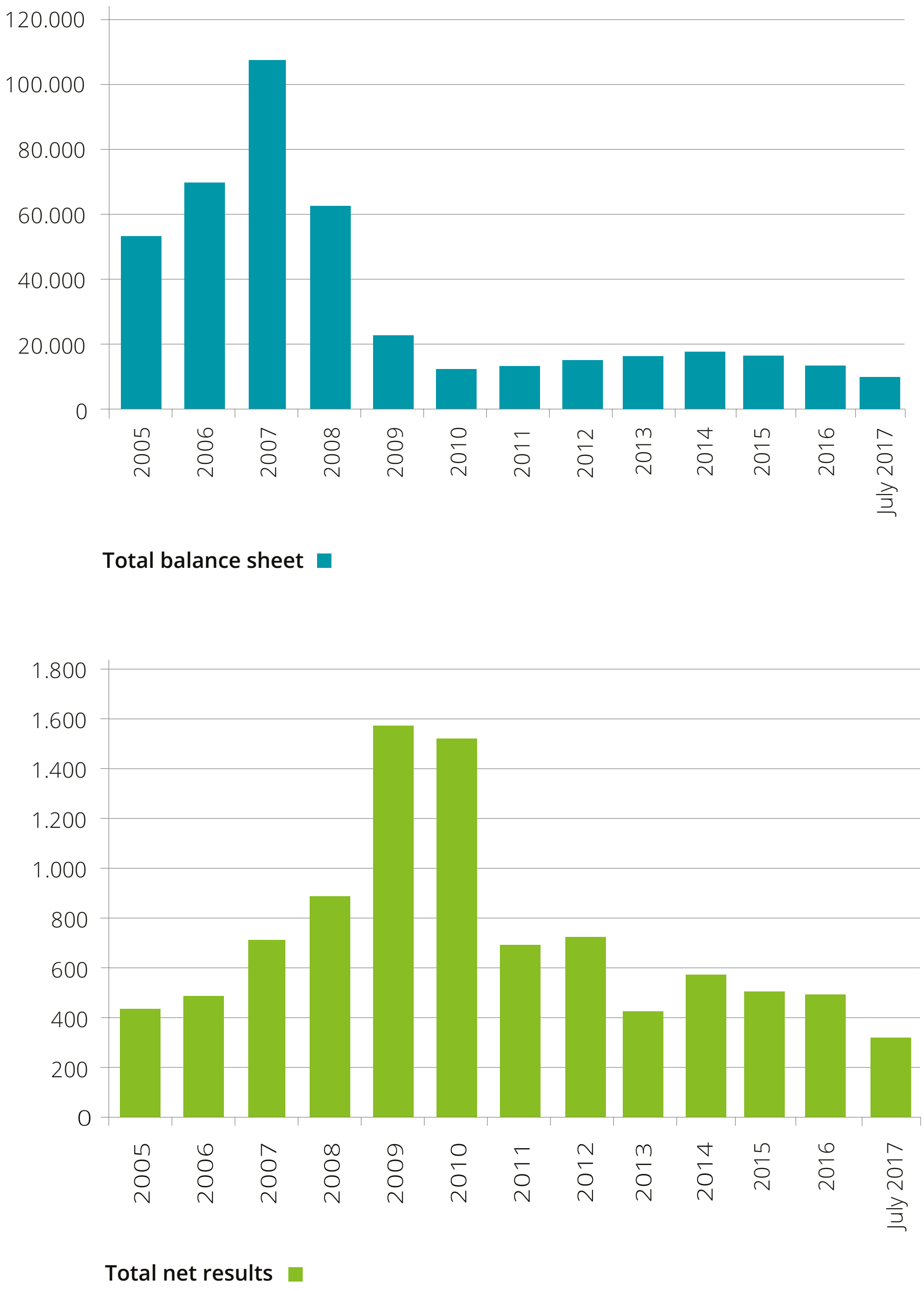
Excerpt from our "Luxembourg - from recovery to opportunity I A 10-year retrospective" brochure dated July 2017

- The Luxembourg financial sector remains the key strength and contributor of the Luxembourg economy with 27 percent of value produced
- Financial sector employment has grown by approximately 7,500 units since 2007, to reach a total of 46,000 FTEs in 2016, equivalent to 9 percent of total Luxembourg employment growth in the period
- The Luxembourg financial sector has rebounded since the financial crisis, at a faster rate than that of other European countries, with growth of nearly ten times that of the European financial sector
- In wealth management, in spite of client outflows due to repatriation following increased tax transparency, assets under management in Luxembourg have grown from €270 billion to over €350 billion in 2015
- The international political context has become less predictable, highlighting the relevance of Luxembourg's stability

PSF Balance sheets and net aggregate results

The sum of the balance sheets of all PSF amounted to €11 billion as at 31 December 2016, compared to €14.2 billion as at 31 December 2015, i.e. a drop of almost 23 percent in one year.

Figure 3: Evolution of total balance sheets and net results of PSF (in € million)



Source: Statistics of the CSSF.

This variation is mainly due to investment firms which saw their balance sheet total drop by 47 percent, i.e. about €3.23 billion. This strong downturn is mainly due to the exit of Franklin Templeton Luxembourg (€2.9 billion as at 31 December 2015). The total balance sheet of specialised PSF fell by 6 percent, i.e. approximately €411 million. The balance sheet variation of specialised PSF is mainly due to the reduction in the balance sheet of Reluxco International from €1.2 billion by the end of 2015 to €545 million at year-end 2016.

The total balance sheet of support PSF remains very stable (-2 percent).
The balance sheet concentration of PSF continues as at 31 December 2016. The three PSF with the highest balance sheet totals (1 investment firm with €2 billion and 2 specialised PSF with a total of €2.1 billion) account for nearly 52 percent of the total balance sheet of all PSF, compared to 51 percent in 2015.

Given the diverse range of players that the term PSF encompasses, we prefer to use net profit as the criterion rather than balance sheet, as we believe it better reflects the strength and reality of the industry.

Thus, PSF post a slight decrease of 1 percent in net profits in one year, with total net revenues going from €519 million as at 31 December 2015 to €514 million on 31 December 2016.

This apparent and real stability conceals two very significant contrasting movements. The decrease in total net profits for the investment firms is due to one entity (Franklin Templeton Luxembourg, which exited in 2016) and the change in the result of Reluxco International alone explains the strong increase in the net result of specialised PSF between 2015 and 2016, from a loss of €101 million in 2015 to a profit of nearly €6 million in 2016.

According to CSSF data as at 31 July 2017, PSF overall have a provisional net profit of €331 million, a rather positive trend which we hope to see confirmed over the second half of the year.

Figure 4: Breakdown of balance sheet totals and net results totals by PSF category

Total balance sheet (in € million)

	2009		2015		2016		July 2017	
	Amount	Relative share	Amount	Relative share	Amount	Relative share	Amount	Relative share
Investment firms	1.132	5%	6.004	42%	3.164	29%	4.216	37%
Specialised PSF	20.147	90%	7.090	50%	6.679	61%	5.937	53%
Support PSF	1.177	5%	1.107	8%	1.128	10%	1.127	10%
Total	22.456	100%	14.201	100%	10.971	100%	11.280	100%

Total net results (in € million)

	2009		2015		2016		July 2017	
	Amount	Relative share	Amount	Relative share	Amount	Relative share	Amount	Relative share
Investment firms	171	11%	249	48%	132	26%	95	29%
Specialised PSF	1.377	87%	202	39%	315	61%	183	55%
Support PSF	30	2%	68	13%	67	13%	53	16%
Total	1.578	100%	519	100%	514	100%	331	100%

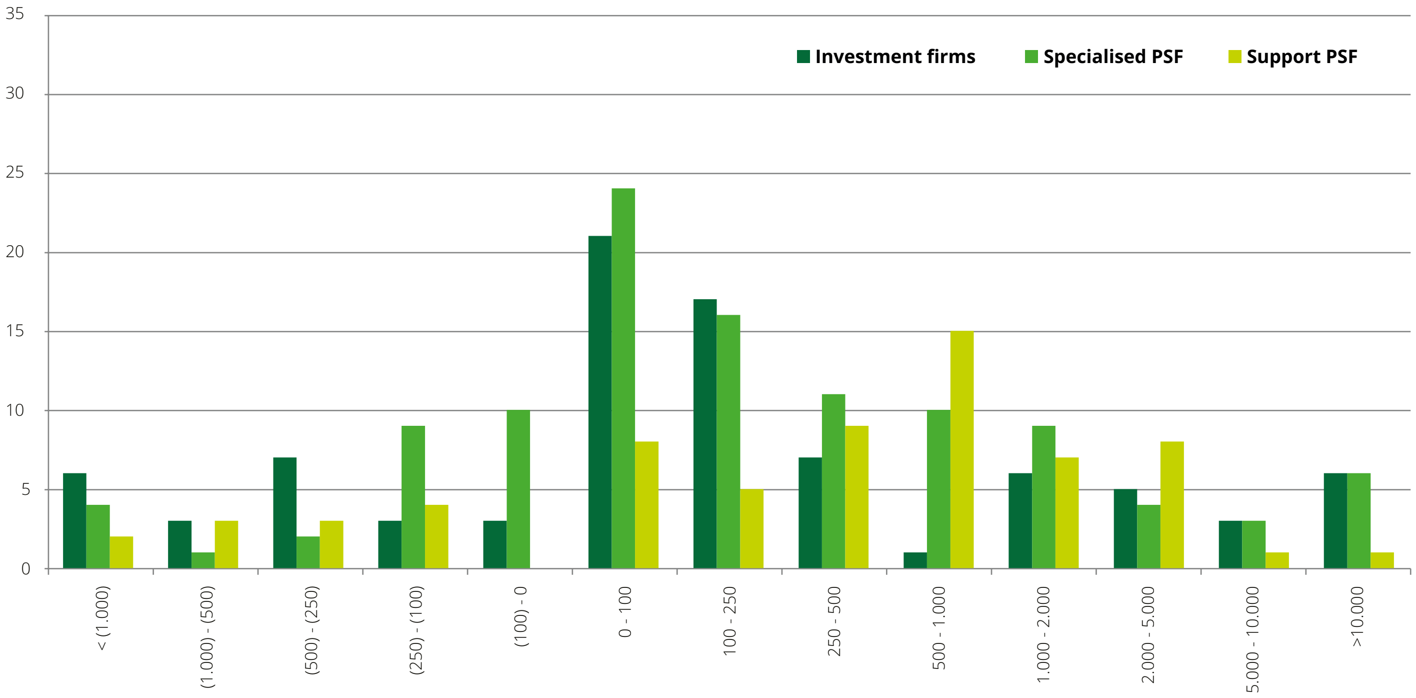
Source : CSSF statistics at July 2017.

An analysis of profits by category shows that:

- The net profits of **investment firms,** which strongly decreased in 2016, saw their relative share drop from 48 percent in 2015 to 26 percent in 2016 compared to the other categories of PSF.
- The results of **specialised PSF** increased considerably in 2016, up by 56 percent. In 2016, specialised PSF accounted for 61 percent of the profits of all PSF, compared to 39 percent in 2015.
- However, the relative share of net profits of **support PSF** remained very stable between 2016 and 2015, at around 13 percent.

Figure 5.1: Breakdown of PSF by net result bracket as at 31 December 2016 (in €,000)

Following our analysis of the financial statements, the structure of the main trends of net result is as follows:



The average net profit of a PSF as at 31 December 2016 amounts to €1.7 million, i.e. the same figure as at 31 December 2015.

Figure 5.2: Comparison of breakdown of PSF by net result bracket in 2015 and in 2016 (in €,000)

	Investment firms		Specialised PSF		Support PSF	
	2015	2016	2015	2016	2015	2016
Loss	23%	25%	26%	24%	19%	18%
Proft between 0 & 100	16%	24%	27%	27%	16%	12%
Profit between 100 & 1,000	34%	28%	26%	34%	33%	44%
profit between 1,000 & 5,000	18%	13%	13%	12%	27%	23%
Profit > 5,000	9%	10%	8%	8%	5%	3%
	100%	**100%**	**100%**	**100%**	**100%**	**100%**

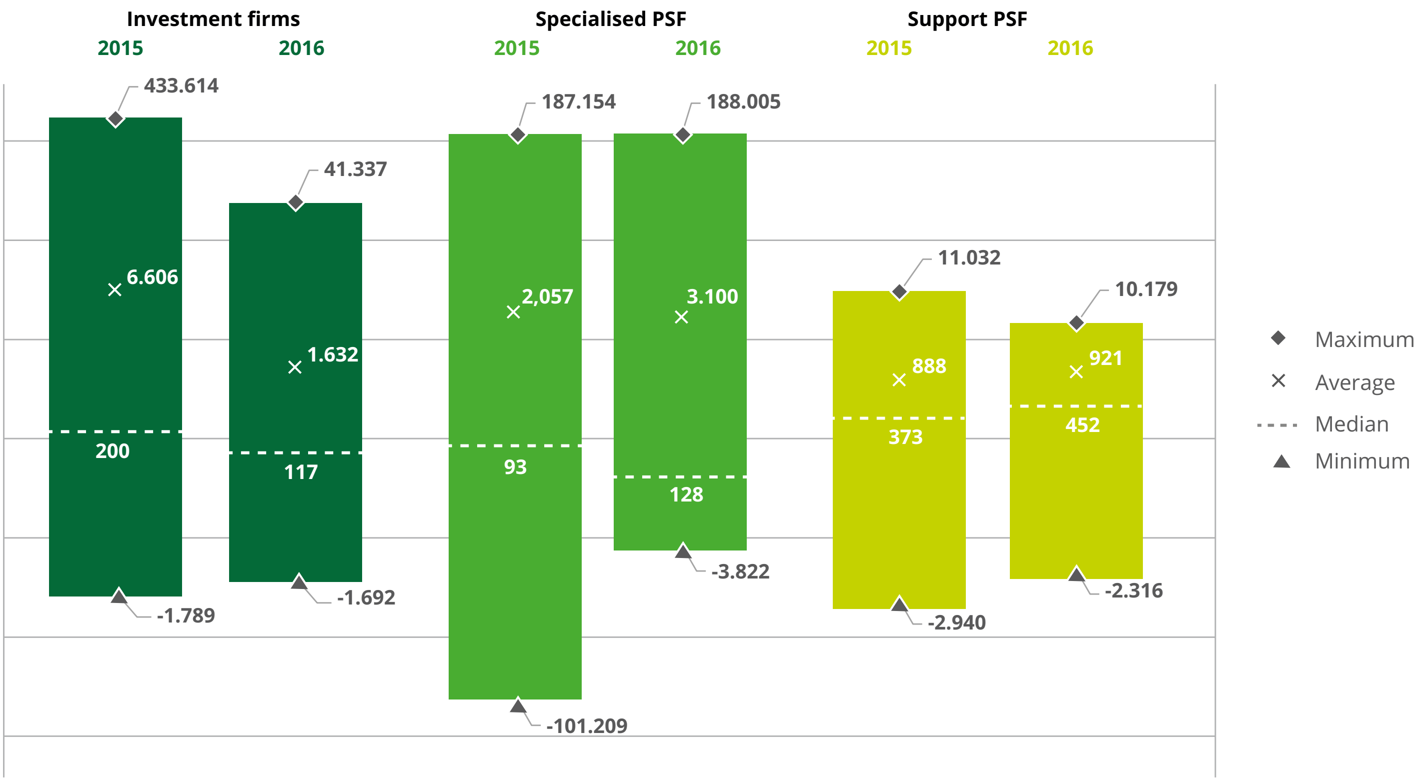
Investment firms Category:
Net profit/loss of investment firms ranged from a loss of €1.8 million to a profit of €41 million. The three highest figures were posted by Lombard Intermediation Services S.A., Attrax S.A. and Valueinvest Asset Management S.A., for a total amount of €74.8 million. While average profit was €1.6 million, the median stands at €117,000 and is up compared to the €200,000 of 2015.

Specialised PSF Category:
Net results of specialised PSF varied between a loss of €3.8 million and a profit of €188 million. Two PSF posted an extremely high profit compared to the other entities: Clearstream International S.A. and PK Airfinance S.à.r.l., with €225 million in total. The other entities peaked at a profit of €24 million. This explains why, despite an average profit of €3 million, 73 percent of the specialised PSF generated profits below or equal to €1 million.

Support PSF Category:
Net results of support PSF ranged from a loss of €2.3 million to a profit of €10 million. The concentration of profit is higher than for the two other PSF categories. This is confirmed by an average profit of €921,000, close to a median figure of €452,000.

Although the tendency in the sector is towards higher concentration of profits, a handful of companies continue to drive the average net profit upwards.

Figure 6: Range and average net results by PSF category as at 31 December 2016 (in €,000)



Main expenses of PSF

From the financial statements that we recovered, we analysed the main expenses of PSF. The expenses identified correspond to:

- Staff costs
- External expenses and other operating expenses
- Financial expenses
- Taxes

Year over year, the distribution of these expenses remains relatively stable. However, they do not all carry the same weight from one PSF category to another.

For **investment firms**, external expenses and other operating expenses account for more than half of identified expenses, whereas personnel costs account for less than 30 percent.

For **specialised PSF**, external expenses and other operating expenses and personnel costs are equivalent and account for 91 percent of identified costs. The significant portion of interest paid (25 percent) is due to one PSF, Reluxco International, whose interest amounts to €173 million in 2015, which represents 95 percent of interest. Without this extreme, the share of these expenses would amount to 2 percent of identified expenses.

Among **support PSF,** external expenses and other operating expenses rank first and account for 50 percent of identified expenses. They are followed by personnel expenses representing about 45 percent in 2016.

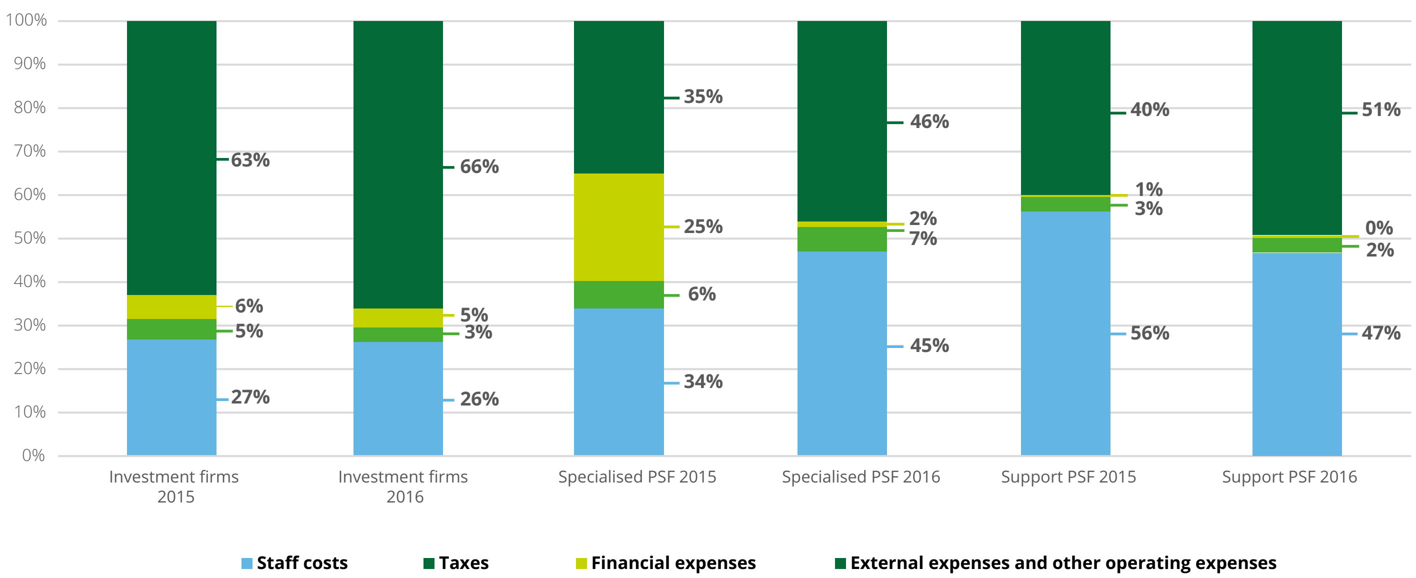
We have calculated the average cost of an employee for each PSF category in €,000:

- For investment firms: 138 (125 in 2015)
- For specialised PSF: 88 (88 in 2015)
- For support PSF: 76 (74 in 2015)

We have also recalculated an effective rate of taxation per PSF category and we note that it is less homogeneous than in 2015 across the different categories:

- Investment firms: 18.7 percent (22.4 percent in 2015)
- Specialised PSF: 17.1 percent (22.3 percent in 2015)
- Support PSF: 23.8 percent (21.4 percent in 2015)

Figure 7: Breakdown of the main expenses per PSF category as at 31 December 2015 and as at 31 December 2016 (in %)



Among investment firms, external expenses and other operating expenses rank first and account for two-thirds of identified expenses. They are followed by personnel expenses representing 26 percent.

Figure 8: Total number of PSF licences as at 31 December 2016 and 31 December 2015

Distribution of the number of licences

As at 31 December 2016, the most widely granted licence is still Article 28-6 “Family Office”. Created in 2013, this licence met with great success as soon as it was published. It has been granted to almost 60 percent of PSF: 88 percent of investment firms and 80 percent of specialised PSF (including 97 percent of corporate domiciliation agents). It alone represents more than 14 percent of licences as at 31 December 2016.

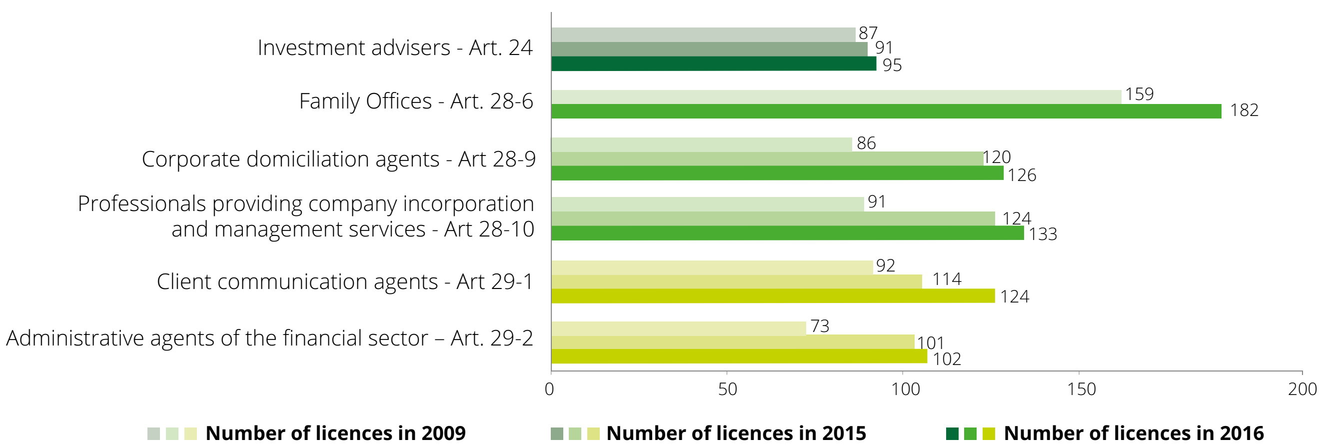
The four most frequent licences in 2016 are still Articles 28-6 “Family Office”, 28-9 “corporate domiciliation agents”, 28-10 "professionals providing company incorporation and management services” and 29-1 “client communication agents”. These four articles account for nearly 44 percent of licences as at 31 December 2016.

The number of main licences has dropped from 2014. However, the considerable dynamism seen in 2014 was exceptional, 2015 and 2016 were rather years of consolidation and thus more representative of the trend seen in recent years. So, after the significant rise in the distribution of licences between 2009 and 2014, a tendency towards concentration on core business was seen in 2015 and 2016.

The "Corporate domiciliation agent" licence (Article 28-9) has also risen sharply, from 86 licences in 2009 to 126 in 2016 (+48 percent), like the "Financial sector administrative agents" licence (Article 29-2) which has gone from 73 to 102 licences between 2009 and 2016 (+29 percent).

Lastly, in 2016, 13 specialised PSF held the licence under Article 26-1 enabling them to carry on the activity of "professional depositary of assets other than financial instruments". Also created in 2013, this licence was only adopted for the first time in 2014, a sign that the market preferred to wait for a real need for this kind of service to develop before engaging investments.

Figure 9: Change between 2016, 2015 and 2009 in the main six PSF licences as at 31 December 2016



We can see that 3 licences are not granted to any entity as at 31 December 2016. These are licences under articles:

- 24-5 Market Maker
- 24-9 Investment firms operating an MTF in Luxembourg
- 28-2 Person carrying out foreign exchange cash operations

It shall be noted that at the time of publication, only Lab Luxembourg S.A. had formally obtained the licences under respectively Articles 29-5 for providers of dematerialization services of the financial sector and 29-6 for providers of conservation services of the financial sector.

Up to 2014, PSF often tended to apply for more licences than necessary when they were setting up, thereby hoping to avoid having to make a subsequent application to the CSSF to extend their licence, which would become necessary if they decided to expand their range of activities.
All categories considered, the change in the total number of licences is positive, with a 5 percent increase, i.e. 62 more licences than in 2015.

Since 2009, we have seen a consistent increase in the number of licences per PSF speciality, the maximum being reached in 2014. The period between 2009 and 2014 represents a dynamic phase in the granting of licences for the sector, whereas 2015 and 2016 were years of relative stability, thus reflecting a better understanding of licences and the costs incurred.

For the fourth year running, the most widely granted licences are those of specialised PSF

For the fourth year running, the most widely granted licences are those of specialised PSF (43 percent of licences in 2016, compared to 28 percent in 2009) Figure 11 details the factors of change in the number of licences in activity between 2015 and 2016.

These changes break down as follows:

- PSF created during the year
- PSF that already existed (and obtained supplementary licences or decided to relinquish certain licences)
- Entities that totally gave up their PSF status

The variations mainly result from PSF statuses created or those given up. While the trend in recent years was to broaden service ranges to be better armed to cope with recession, professionals appear to have reached a certain degree of maturity in their service offering, as the low variation in the number of licences over the year would appear to confirm.

Investment firms mostly hold five licences (mainly Articles 24 to 24-3, as well as Article 28-6 Family Office). This homogeneity is less pronounced for specialised PSF and support PSF. While most specialised PSF hold six licences, a significant number of them hold only three.

Similarly, while the majority of support PSF hold only one licence, almost the same amount hold two licences (Articles 29-3 and 29-4).

Figure 10: Change in and breakdown of licences since 2009

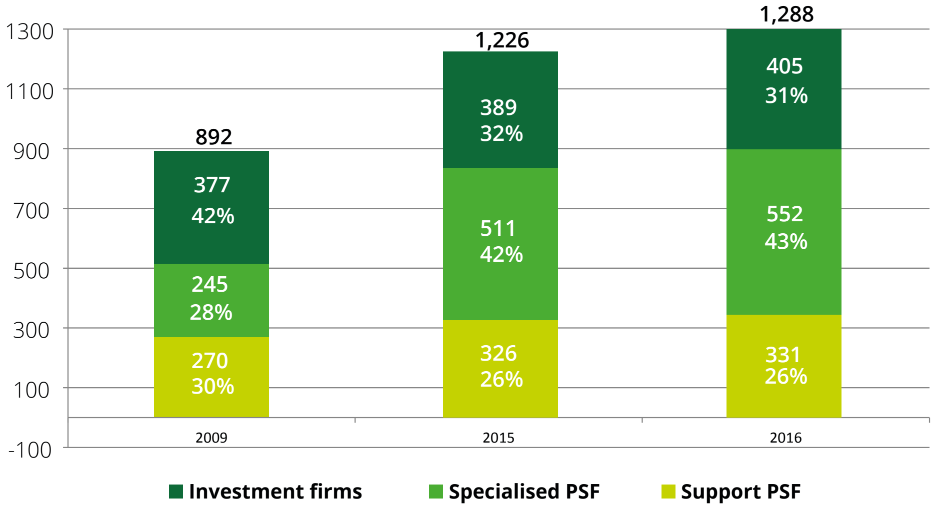


Figure 11: Change in PSF licences over 2016 and 2015

Source of increases and declines in licences	Investment firms 2016	Specialised PSF 2016	Support PSF 2016
PSF created	8	2	2
Existing PSF	10	39	16
PSF withdrawals	(2)	-	(13)
Total change in the number of licences 2016	**16**	**41**	**5**
Total change in the number of licences 2015	**(26)**	**(42)**	**(19)**

Figure 12: Distribution of PSF by number of licences as at 31 December 2016

Number of licences	Investment firms 2016	Specialised PSF 2016	Support PSF 2016
0	0	1	
1	1	**15**	**31**
2	1	6	**29**
3	4	**31**	7
4	10	3	**8**
5	**33**	4	1
6	**13**	**46**	1
7	**11**	12	
8	7	1	
9	3		
10	6		
11	5		
12	4		
Total	**98**	**119**	**77**

Interview with Serge de Cillia Managing Director of ABBL

Alain Hondequin General Counsel Business Clusters

ABBL is, by nature, designed for bankers. What kind of relationship do you have with PSF?
We are indeed an association of banks and bankers, but many of our members are neither. We have representatives of major law firms, of the "big four", of specialised service companies and a few of PSF. Furthermore, our relationship with PSF as a group is often indirect. Banks serve investment firms (asset managers), and support PSF serve banks. There is a form of mutual outreach. We have a common marketplace interest to defend, particularly in the private banking sector.

What are your thoughts about the factors that do or will influence the PSF landscape in Luxembourg?
The project to reform Article 41 on professional secrecy in the financial sector and the prospects of growing the use of digital technology will have significant effects on employment not only in the financial sector but also in other sectors of the economy. For a while, the interests of ABBL members seemed to be in conflict with those of members of the FEDIL. However, we must bear in mind that we are all seeking to secure the future of our financial marketplace.

Furthermore, when it comes into effect in 2018, MiFID II will no doubt impact the services provided by investment firms considerably, both banks and PSF. The extensive changes to retrocession rules will definitely alter companies' payment models and the information to communicate to their customers on transactions.

The cost induced by regulations is constantly on the rise. However, it will not continue rising forever; it must stabilise, but when? The cost of contributions to the FRL *(Fonds de résolution Luxembourg)* and the FGDL *(Fonds de garantie des dépôts Luxembourg)*, are estimated to €200 million a year.

Do you think Brexit can affect PSF?
The only thing we really know about Brexit is that we must get ready, but we don't know what to prepare for. At the moment, the conditions and consequences of Brexit are vague. Insurance companies and investment funds have made a series of announcements about moving their European headquarters to Luxembourg. As for banks, Northern Trust Luxembourg is going to do likewise by turning its Luxembourg entity into the European HQ.

The arrival of new players also creates opportunities for PSF.

What is your feeling about the positioning of PSF in Luxembourg?
Everyone has suddenly realised that investment firms must make some serious changes. Ten years ago, PSF were product sellers; today, they are solution providers. Their client base has changed too. It is different, more international and wealthier, and more in search of bespoke solutions that go well beyond asset management. This situation is also illustrated by the success of family office-type services.
Then there is the digital offer, an area in which certain banks are lagging behind, and certain PSF even more.

PSF are not the only ones that need to take a fresh look at things. Banks, insurance companies and payment system operators are all facing competition from FinTechs and other start-ups.

Interview by Raphaël Charlier and Stéphane Césari – 24-08-2017

1.2 The PSF: a consistent and steady employer

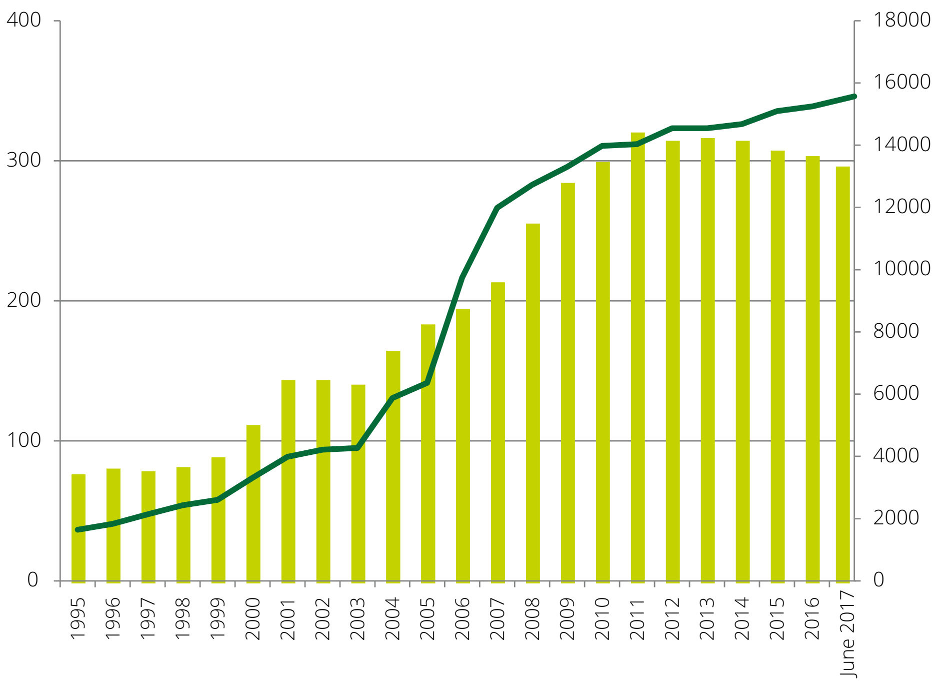
PSF employ 15,442 people as at 31 December 2016, i.e. 10.929 more employees than Management Companies and 10.618 less than Banks.

Employment in PSF
Using the latest figures available from the CSSF (June 2017), we find the following distribution of employment in the financial sector in Luxembourg: for a total number of employees of 45,908, all financial sectors considered (banks, management companies according to chapter 15, and PSF), 57 percent work in banks, 9 percent in management companies, and 34 percent in PSF, including 59 percent in support PSF. With 15,583 jobs in June 2017, a new record in the number of PSF jobs was reached.

Between 2009 and June 2017, employment in PSF increased by 15 percent, whereas employment in banks globally diminished by 1.6 percent between December 2009 and December 2016. This double trend appears to be confirmed in recent years.

The breakdown of employees by category of PSF remains stable year over year (figure 14). Support PSF are represented most with 59 percent of jobs in the sector.

Figure 13: Summary of jobs by year and comparison with changes in the number of PSF



*Source: CSSF statistics of June 2017 based on the most recent available data.

Specialised PSF remain the biggest recruiters. After the net creation of 356 jobs in 2015, specialised PSF saw their workforce increase by 5 percent in 2016, i.e. 185 more employees. This variation is due to the strong momentum in this category of PSF and a general tendency to recruit.

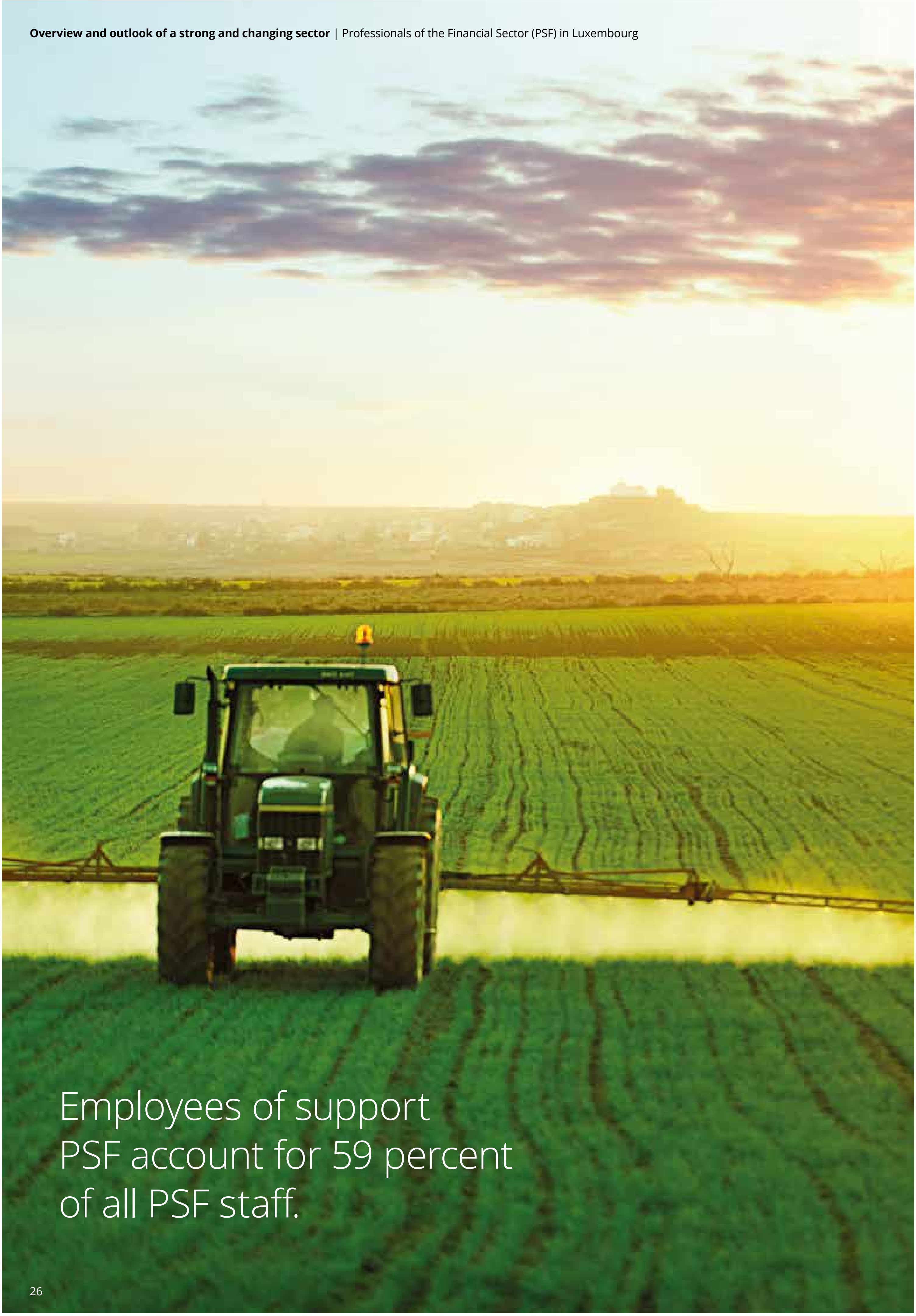
The analysis that we conducted on the basis of PSF 2016 annual financial statements shows that most investment firms and specialised PSF have less than 25 employees.

These PSF employ 21.1 people on average for investment firms and 33.4 for specialised PSF in 2016. These average figures remain quite high thanks to a handful of entities generating a significant number of jobs:

- In 2016 the four largest investment firms alone employed 977 people (with over 100 employees each, EFA having more than 500). The workforces of these companies account for almost 43 percent of the total number of investment firm employees. Without these four entities, investment firms would have an average workforce of 14 people.
- The number of specialised PSF employing more than 100 people is higher (8 as at 31 December 2016). Among them, there are five PSF with over 150 employees, totalling 1,254 people. They are TMF, UBS Fund, Intertrust, SGG and International Financial Data Services. In total, their workforces account for nearly one third (32 percent) of specialised PSF employees. Without these five entities, the average staff of specialised PSF would be 24 people.

Figure 14: Changes in the number of employees by PSF category

	2015		2016		Change	
	Total	Part	Total	Part	Total	Change
Investment firms	2.278	15%	2.285	15%	7	0,31%
Specialised PSF	3.787	25%	3.972	26%	185	+4,89%
Support PSF	9.218	60%	9.185	59%	-33	-0,36%
Total	**15.283**	**100%**	**15.442**	**100%**	**159**	**1,04%**



Employees of support PSF account for 59 percent of all PSF staff.

Figure 15.1: Distribution of PSF by number of employees bracket as at 31 December 2015 and at 31 December 2016

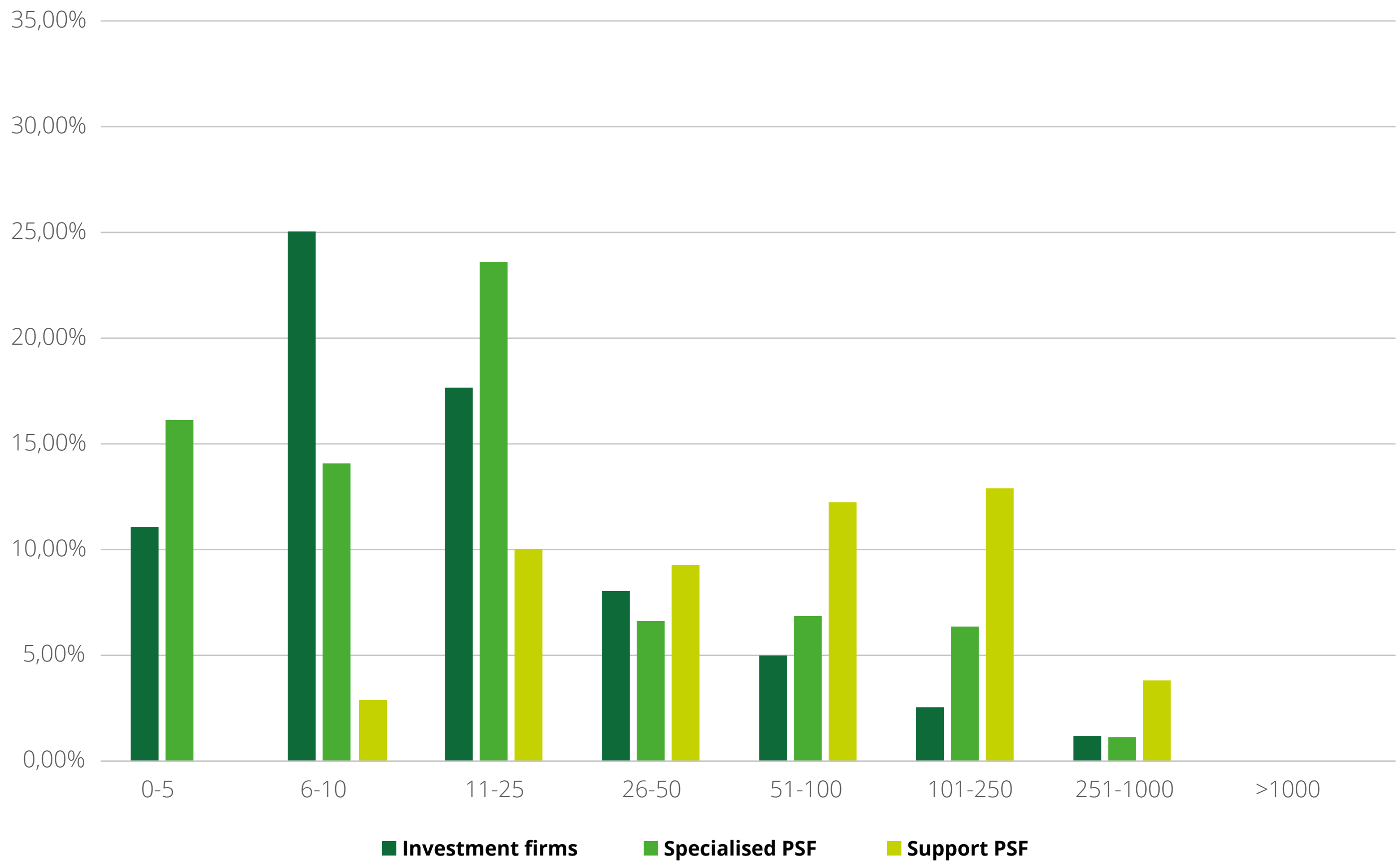
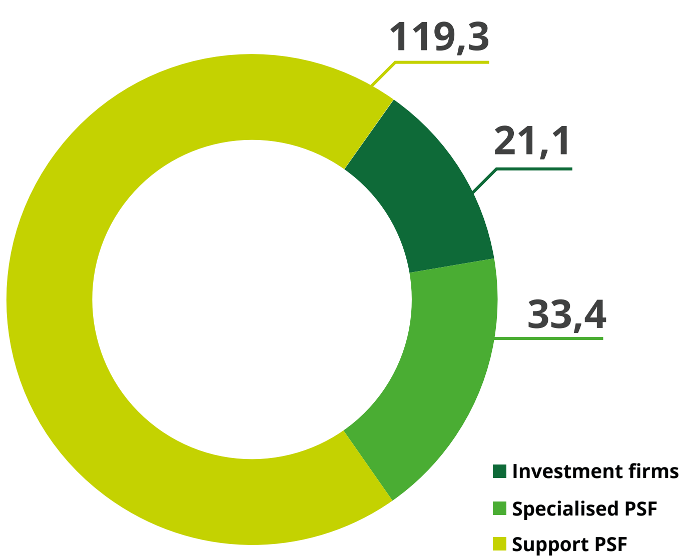


Figure 15.2: Average number of employees by PSF category



Most support PSF employ between 25 and 250 people, and the average number of employees per support PSF is 119.3 in 2016 (118.2 in 2015), a figure boosted by five PSF (Clearstream Services, Brink's Security, G4S Security Solutions, Telindus and IS4F) which each employ more than 500 people (totalling more than 3,679 employees, i.e. 40 percent of the sector's total workforce).

Without these five PSF, the average workforce of support PSF would be 76.5 employees.

By projecting our analysis to June 2017, the overall level of employment in the PSF industry is still growing. We note a slight increase by 1 percent, and mainly in the specialised PSF category.

Review of the results of PSF per employee

Following our analysis of PSF annual financial statements, we were able to calculate the average profit per employee. For all PSF, it posts a slight drop, from €34,500 in 2015 to €33,900 in 2016.

Specialised PSF show highly variable profit figures per employee: between a loss of €302,000 and a profit of €3.1 million per employee. The average profit per employee amounts to €81,800.

The slight drop in average profits per support PSF employee is due to a decrease in maximum and minimum average profits while the total workforce remained relatively stable.

Average profits per investment firm employee amount to €58,000 in 2016, compared to €107,000 in 2015. This decrease is mainly due to the exit of Franklin Templeton in 2016, which had an average profit per employee of €36.1 million. By excluding Franklin Templeton from our calculations, the average result per investment firm employee amounts to a loss of €79,000 for 2015.

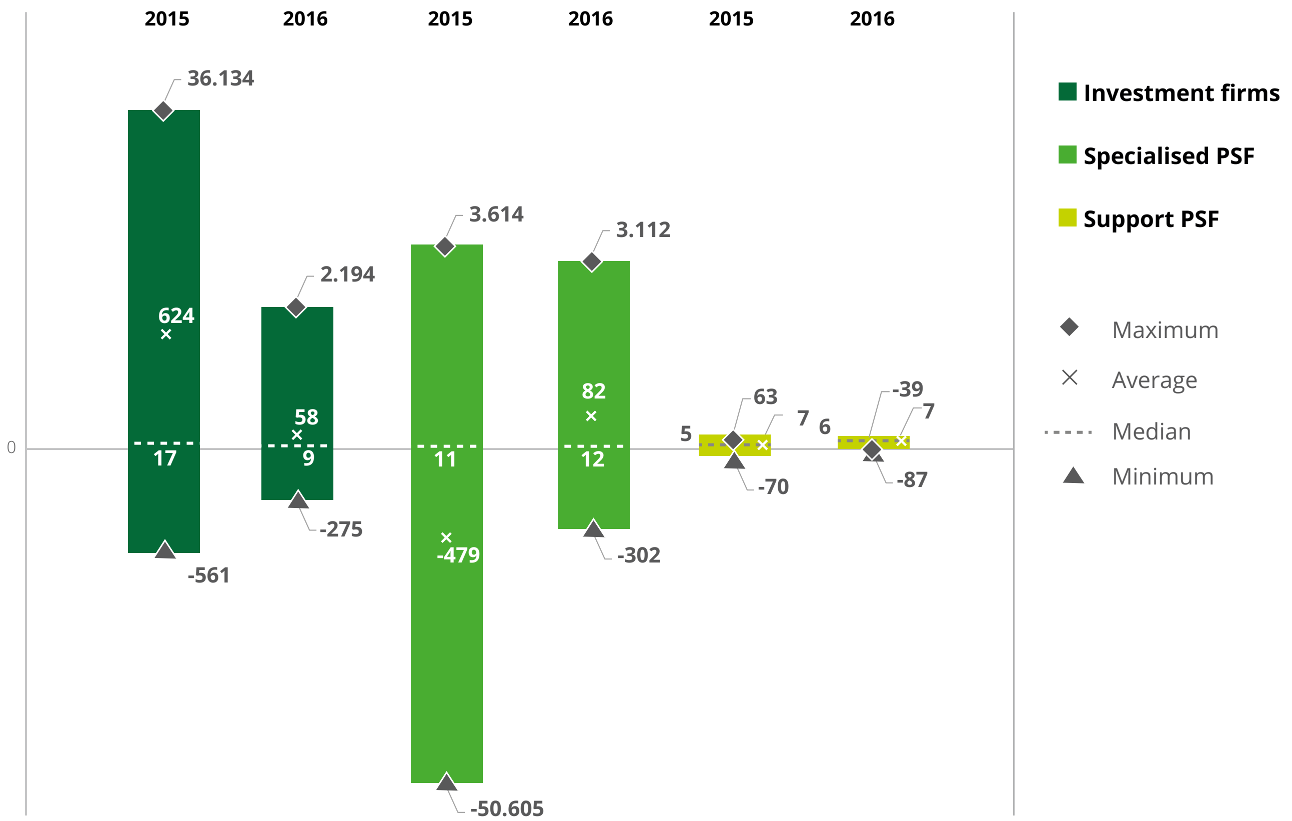
Details of the support PSF workforce

We can see that employees of support PSF account for 59 percent of all PSF staff. Security and IT services are the activities that generate so many jobs. Thus:

- G4S and Brink's Security (in the security sector) alone employ almost 2,100 people
- Clearstream Services, Telindus and IS4F (which offer IT solutions and services) together employ almost 1,600 people

These five companies account for almost 40 percent of all PSF jobs.

Figure 16: Range and average net result per employee as at 31 December 2016 and 31 December 2015 (in €,000)



2 Types of PSF

2.1 Licences in detail

The following table schematically sets out the various categories, as well as the different licence types of PSF.

Article Licence
Minimum capital or financial base

Authorised to act as

Investment firms

24
Investment advisers
€50,000

24-1
Brokers in financial instruments
€50,000

24-2
Commission agents
€125,000

24-3
Private portfolio managers
€125,000

24-4
Professionals acting for their own account
€730,000

24-5
Market makers
€730,000

24-6
Underwriters of financial instruments **€125,000** (€730,000 if they carry out placements with a firm commitment)

24-7
Distributors of shares/units in UCIs
€50,000 (€125,000 if they accept or make payments)

24-8
Financial intermediation firms
€125,000

24-9
Investment firms operating an MTF in Luxembourg
€730,000

Specialised PSF

25
Registrar agents
€125,000

26
Professional depositaries of financial instruments
€730,000

26-1
Professional depositaries of assets other than financial instruments
€500,000

27
Operators of a regulated market authorised in Luxembourg
€730,000

28-2
Currency exchange dealers
€50,000

28-3
Debt recovery

28-4
Professionals performing lending operations
€730,000

28-5
Professionals performing securities lending
€730,000

28-6
Family Offices
€50,000

28-7
Mutual savings fund administrators
€125,000

28-9
Corporate domiciliation agents
€125,000

28-10
Professionals providing company incorporation and management services
€125,000

28-11
Central account keepers
€730,000

Support PSF

29-1
Client communication agents
€50,000

29-2
Administrative agents of the financial sector
€125,000

29-3
Primary IT systems operators of the financial sector
€370,000

29-4
Secondary IT systems and communications networks operators of the financial sector
€50,000

29-5
Dematerialisation service providers of the financial sector
€50,000

29-6
Conservation service providers of the financial sector
€125,000

The appendix to this brochure features the key information on PSF by type of licence, with the legal definition of the licence and products and services offered, the minimum required capital (or the capital base) and, where applicable, the amount of civil liability insurance required by law in order to carry out the activity.

Due to the high number of statuses that are mostly unrelated, a multitude of combinations of licences is theoretically possible. It is therefore interesting to look at the main combinations of licences held by the various PSF.

Figure 17 below groups together licences by major category of PSF, and the overlaps between categories as at 31 December 2015 and 31 December 2016. It should be noted that branches operating in Luxembourg are only investment firms.

PSF have the option of combining several licences, but it is the principal licence of the PSF, allocated by the CSSF, which determines the PSF category.

An investment firm licence takes precedence over the other categories of specialised PSF or support PSF and is therefore the PSF's principal status. The PSF will thus be identified as an investment firm.

A specialised PSF licence takes precedence over a support PSF licence and will therefore be the PSF's principal status. The PSF will then be identified as a specialised PSF.

Accordingly, only PSF that do not hold the investment firm or specialised PSF licence are support PSF.

Of the 304 PSF existing as at 31 December 2016, the ten PSF that are branches of European entities were excluded from this analysis. This is because they are part of foreign entities that are not subject to the Luxembourg law of 5 April 1993, as amended.

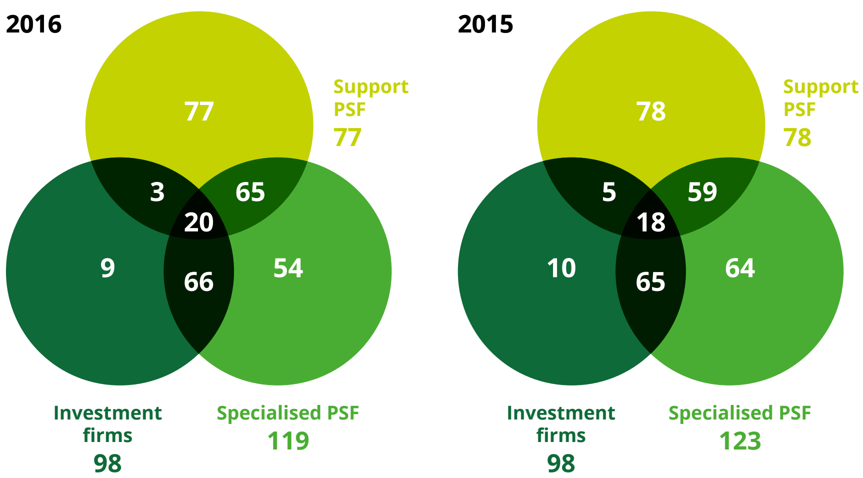
The total number of PSF included in this analysis as at 31 December 2016 was therefore 294 (excluding branches):

- 98 investment firms
- 119 specialised PSF (the 88 players with investment firm status too have already been identified above and are therefore not counted as specialised PSF)
- 77 support PSF (the 89 players with investment firm and specialised PSF status too have already been identified above and are therefore not counted as support PSF)

Entities with a status pursuant to at least Articles 24 to 24-9 have been classified as investment firms. Specialised PSF are entities with a licence under Articles 25 to 28-11.

Support PSF are entities that only have licences under Articles 29-1 to 29-6.

Figure 17: Licences of PSF by category



2.2 Investment firms

As the only PSF category to have the European passport for the distribution of their products and services, investment firms can set up branches and freely provide services merely by filing a single notification to the authorities of other European Union Member States.

The number of investment firms included in the analysis as at 31 December 2015 and 31 December 2016 was 98.

At year-end 2016, nearly all the investment firms have one or other, or even all of the following four licences:

- 95 hold an investment adviser licence (Art. 24)
- 93 have a licence as brokers in financial instruments (Art. 24-1)
- 89 have a licence as commission agents (Art. 24-2)
- 81 have a licence as private portfolio managers (Art. 24-3)

Only two investment firms do not have any of these four licences. 75 percent of investment firms have all the four licences.

Another licence widely held in investment firms corresponds to the status of distributor of shares/units in UCIs (Art. 24-7). This status is indeed held by one fourth of investment firms.

Many of these PSF also hold additional licences relating to other PSF categories and particularly to the Family Office licence (Art. 28-6). However, out of the 87 investment firms holding this licence, only 36, i.e. less than half, actually carry on this activity.

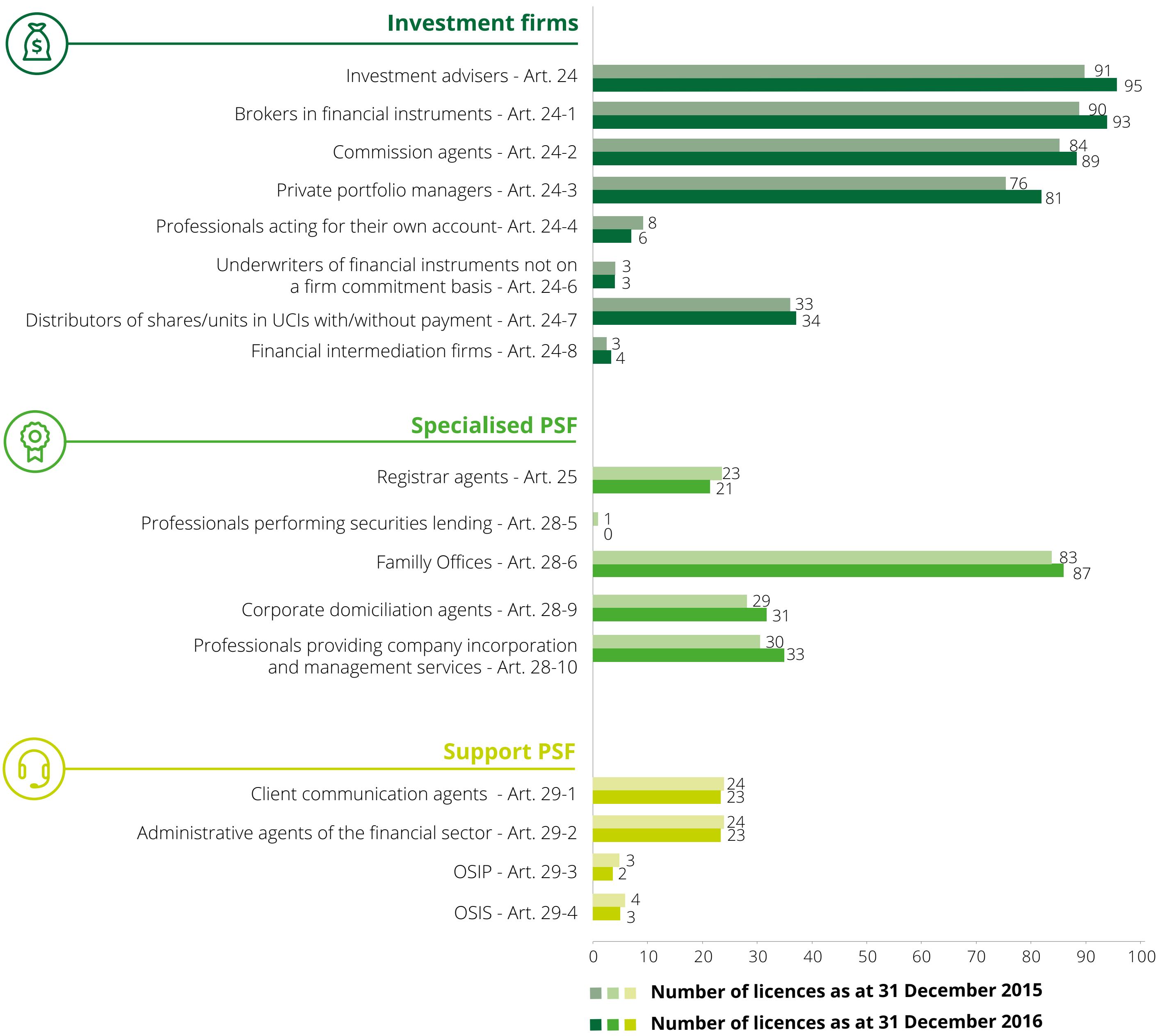
The other additional activities are quite uniform and primarily concern providers of company incorporation and management services (Art. 28-10), administrative or client communication agents (Art. 29-1 and 29-2), registrar agents (Art. 25) and corporate domiciliation (Art. 28-9) (Figure 18). A strong rise is seen in licences held by investment firms between 2015 and 2016 (see Figure 18) from 600 to 629, mainly due to the net creation of such PSF in 2016.

Among investment firms, we now distinguish two categories, those governed by the CRR (Common Reporting Regulation) and those that are not. In practice, the former are subject to a closer supervision and fall within the province of the European Central Bank.

The scope of the CRR is limited by the definition of investment firms under Article 4(1)(2) of the Regulation (EU) 648/2012 CRR as amended by Regulation (EU) 575/2013. Therefore, investment firms providing certain categories of investment services fall within the scope of the CRR, as they are considered to be quasi-banks. They are mainly private portfolio managers that directly offer their customers accounts carried by a bank via so-called omnibus accounts.

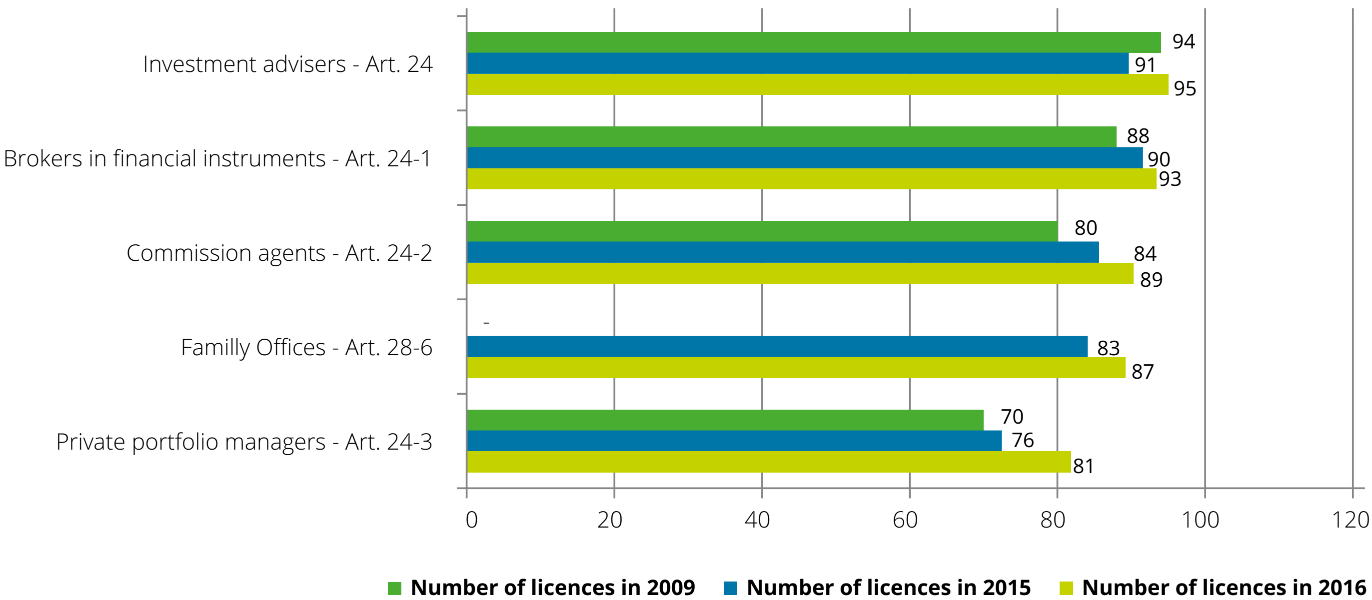
CRR investment firms are subject to specific rules, in particular with regard to supervision on a consolidated basis, to specific prudential reporting requirements, such as the Liquidity Coverage Requirements (LCR) or Net Stable Funding Requirements (NSFR) to regulatory equity requirements and to remuneration policy requirements. Between the end of 2015 and the end of 2016, the number of CRR-governed investment firms dropped from 35 to 30. This trend can be explained by the disappearance of several entities or by the reorganization of their operating mode so as to no longer be considered CRR firms. They thus reduce the weight of their reporting and supervision requirements.

Figure 18: Licences granted to investment firms as at 31 December 2015 and as at 31 December 2016



A strong rise is seen in licences held by investment firms between 2015 and 2016

Figure 19: Change between 2016, 2015 and 2009 in the five main licences held by investment firms as at 31 December 2016



MiFID II : No more time to wait!

Julie Van Cleemput
Director - Advisory & Consulting
Deloitte

As the entry into force of MiFID II approaches, impacted investment firms are now facing some challenges with the actual implementation. Indeed, although the one-year-postponement of the application of MiFID II was a welcome relief to many investment firms, many complexities remain a few weeks ahead of 3 January 2018:

- The additional **client reports** require extensive analysis in order to properly define business requirements, hence sometimes delaying the IT developments further down the line. For example, the complexity and work required for the costs and charges report should not be underestimated. On the one hand, there is the ex-ante costs and charges report, which it may be difficult to estimate precisely and for which there is no industry standard in terms of format and granularity. On the other hand, there is the annual ex-post report for which the collection of all the actual costs and charges related to the investment service and the products may prove cumbersome.
- The trend on the selection of the **advisory model** rapidly became clear: non-independent status for large institutions and independent status for the smaller ones not benefitting from in-house or group products. However, the **strategy to compensate for the loss of trailer fees and other types of commissions is still a highly debated topic,** especially amongst larger institutions when it comes to paying out those inducements to other investment firms. Some independent asset managers or business introducers rely heavily on the retrocessions received from their key partners, a situation which is unlikely to remain as such in the months or years to come.
- Another implementation pain point is the extended **transaction reporting** obligations: more instruments in the scope, more data to report, and more players under the obligation to report. The firms merely transmitting orders must also report transactions to the CSSF. The bright side is that receiving firms (such as depositary banks executing transactions and brokers) can aggregate data and fulfill the reporting obligations for themselves as well as for the transmitting firms; this is formalized via a "transmission agreement".
- Almost no investment firm will have an automated solution in place to assess and respect the **target market** distributor obligations. Amongst several reasons were the late arrival of the ESMA guidelines on the scope of fields to assess, and the lack of maturity on how manufacturers would communicate target market data and how distributors would capture this information.
- Investment firms that wish to continue using external **investment research** will have to decide whether they will pay for it out of their own P&L or whether they will charge end clients. If research costs are passed on to clients, investment firms will have to cope with heavy operational and organisational requirements, such as the set-up of a Research Payment Account and due diligence on research providers. Such firms will also have to plan for the added complexity of using such research across different investment strategies and for different groups of clients.

Questions to Jean Fuchs

Managing Director of Fuchs & Associés Finance S.A.

President of the *Association Luxembourgeoise des Professionnels du Patrimoine*

What is your feeling about the position of investment firms in Luxembourg, commonly known as "private portfolio managers"?
We are probably at the biggest turning point that the profession has experienced since I arrived in Luxembourg in 1981. But whether it is good or bad, I don't know. The customer relationship is changing fundamentally, our priorities are changing. Private portfolio management used to be much more intuitive. Today, it is increasingly assisted by tools. In the past, the human mind prevailed, with its freedom of judgement, intuition and, of course, its mistakes. Our professionalism is now asserting itself to the full and we are gradually automating a lot of tasks, moving towards industrialisation. Everything is weighed up, controlled, transparent.
Yet, today we also have access to a considerable number of highly diversified products for our clients, with a whole range of tools to access them.

At the same time, private portfolio managers are adopting the mindset of Family Offices. Rather than focusing on our clients' money, we now take into account the people they are, the estate they own, the holdings they buy and sell, the property they invest in and the way their wealth is structured. We now manage people rather than just their financial assets.

Paradoxically, we are losing a certain human dimension in our management process and gaining in our relationship with clients.

How would you compare Luxembourg and Switzerland?
Luxembourg is faring well. However, Switzerland will remain the leader in private portfolio management for many years to come. It's a question of education, of philosophy. Luxembourg is a great machine centred on funds which serves private management on a secondary basis. In Switzerland, it's the other way round.

In Switzerland, funds are designed as incidental to private portfolio management. Their entire economic fabric is directed at private management. In addition to private bankers and asset managers, lawyers, tax consultants, the Big Four, hotels and restaurants all aim to serve private clients. It's part and parcel of their mindset. Even taxi drivers know how to welcome rich clients and give them that special Swiss treatment so that they feel like they are being taken care of.

What major challenges do you see for investment firms?
This change comes at a cost. We will be investing heavily in computer applications because we have no other choice.

The right weight of regulations is a major problem. Of course, we are moving towards an environment of control and protection, with reputations to be protected, but we must not overlook our main mission, our real priority, i.e. client performance. Regulations are necessary and could no doubt be adapted more shrewdly, according to the type of entity. We are not banks, and yet the regulatory framework applies and our members sometimes feel overburdened by a system that was not designed for them.

What do you regard as the opportunities for investment firms today?
Technology could be a solution to many of these regulatory complications. It will also give us access to the whole world, both for products and clients (online accounts).
Some promising tools for centralising and compiling data are emerging from several depositary banks, as well as applications that will facilitate account opening procedures and the client due diligence we must do.

Investment firms also have a valuable European passport that progress in technology will allow us to turn to greater advantage. However, I do not think Brexit will be a particular opportunity in our sector.

What are your expectations of the government for the marketplace?
We have the advantage - unlike Switzerland in fact - of benefitting from the full attention of our national authorities. They are fully aware of the financial sector's importance in the Luxembourg ecosystem. However, I sometimes find the marketplace too "single culture" and overly focused on investment funds. I would like to see more support for the private portfolio management cluster and a relaxation of regulations so they are more tailored to our size and to the real criticality of our business.

Interview by Raphaël Charlier and Stéphane Césari – 25-07-2017

2.3 Specialised PSF

Unlike investment firms, specialised PSF do not benefit from the European passport, but may carry on financial activities in Luxembourg. There are 119 specialised PSF as at 31 December 2016, versus 124 in 2015.

This category covers three main sub-groups. The first sub-group includes the 94 corporate domiciliation agents (Art. 28-9) at year-end 2016 (90 at year-end 2015). We note that:

- They also hold licences under Art. 28-10 as professionals providing company incorporation and management services and Art. 28-6 as Family Offices (in 97 percent of cases)
- More than half of them hold licences as registrar agents (Art. 25), client communication agents and financial sector administrative agents (Art. 29-1 and 29-2)

The second sub-group includes 61 registrar agents (Art. 25):

- All of them have the support PSF licences under Art. 29-1 and 29-2 respectively as client communication agents and financial sector administrative agents
- Almost all of them have the specialised PSF licences as corporate domiciliation agents (Art. 28-9) and professionals providing company incorporation and management services (Art. 28-10), and more than 96 percent of them hold the licence as Family Office (Art. 28-6)
- Only one holds a licence as a secondary IT systems and communication networks operator of the financial sector (Art. 29-4)

The third and last sub-group includes the seven professionals carrying on lending operations (Art. 28-4) (8 entities at year-end 2015). This licence appears to be unique in that, apart from one case, it is not held together with any other status.

These are mainly subsidiaries of banks such as BIL, ING, BGL or BNP, and also subsidiaries of international groups such as PK Airfinance. These entities carry on financial or operational leasing activities. The number of licences held by specialised PSF rose from 467 in 2015 to 490 in 2016 (Figure 20).

Between 2009 and 2016, the number of specialised PSF licences rose from 255 to 490, which is a 48 percent growth over 7 years. Except for the Family Office licence launched in 2013, the most spectacular increase in specialised PSF licences between 2009 and 2016 is that of licences specific to support PSF, and more particularly under Art. 29-1 and 29-2 (+85 percent and +82 percent respectively).

Figure 20: Licences granted to specialised PSF as at 31 December 2016

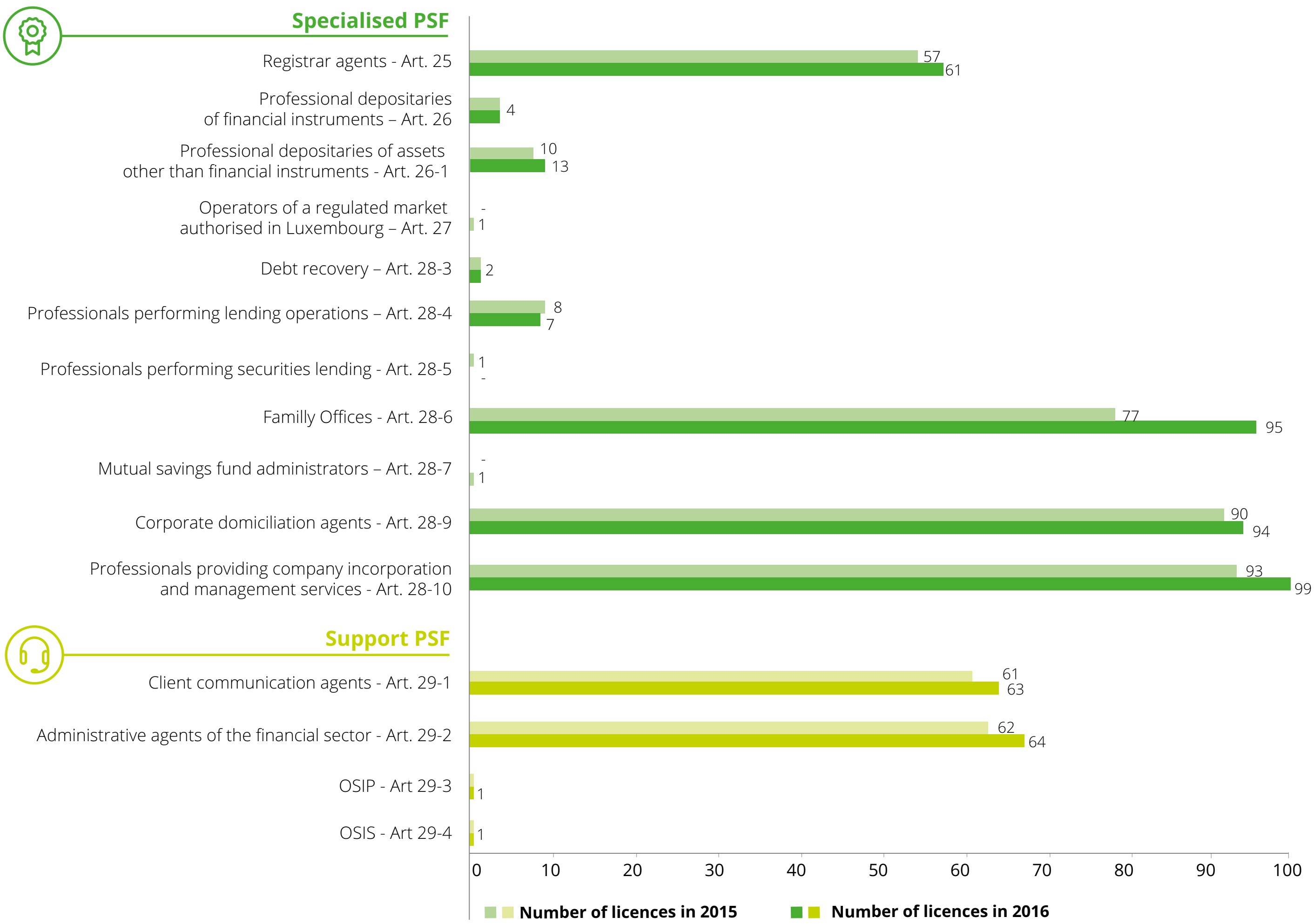
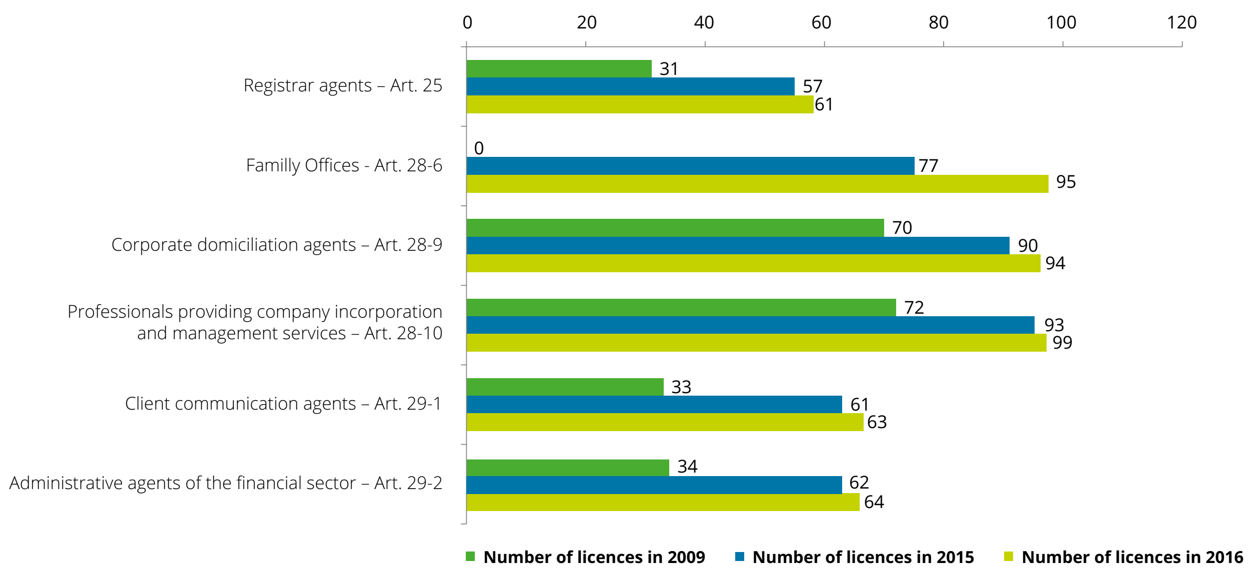


Figure 21: Change in the six main licences held by specialised PSF as at 31 December 2016



GDPR Accountability
A case for Professionals of the Financial Sector

Georges Wantz
Director - Advisory & Consulting
Deloitte

The General Data Protection Regulation is a European regulation that will apply from 25 May 2018 directly across all 28 EU Member States. By applying to all personal data processing activities, the regulation aims to strengthen and unify data protection for all individuals in the European Union.

Under this new regulation, Data Protection Authorities (DPAs) of Member States such as the CNPD in Luxembourg have investigative, corrective, advisory and authorization powers. They are entitled to impose administrative fines ranging from 2 percent to 4 percent of the group's worldwide annual turnover of the preceding financial year or €10 to €20 million, whichever is higher. Institutions from the public and private sectors, including investment funds, will receive those fines in case of infringements of data subject rights, non-compliance with an order of the DPA or even breach of their obligations as a controller[1] or a processor[2], as defined in the regulation, not necessarily linked to a data breach.

Professionals of the financial sector in Luxembourg, hereinafter referred to as PSF, come in all shapes and sizes. They generally operate under the control of their respective customers, but are also supervised by the local financial regulator CSSF. As such, they carry out processing activities due to their own legal obligations (AML, KYC, etc.) or purposes as well as processing activities for the purpose of serving their customers. In data protection terminology, PSF can end up being considered both as data controllers and data processors, depending on the processing activities they perform and the purposes they want to achieve.

The General Data Protection Regulation is a European regulation that will apply from 25 May 2018 directly across all 28 EU Member States.

1 'Controller' means the natural or legal person, public authority, agency or other body which, alone or jointly with others, determines the purposes and means of the processing of personal data; where the purposes and means of such processing are determined by Union or Member State law, the controller or the specific criteria for its nomination may be provided for by Union or Member State law [Art. 4(7)]

2 'Processor' means a natural or legal person, public authority, agency or other body which processes personal data on behalf of the controller [Art. 4(8)], http://ec.europa.eu

For example, a Family Office will have to process personal data to comply with current AML obligations as a data controller, whereas its "Primary IT systems operator of the financial sector" will process the same personal data as a data processor and at the same time process personal data of its employees as a data controller. It is fair to say that processing of personal data does not stop at these three examples, hence spreading responsibility for protecting personal data to all the parties involved in these kinds of activities.

Typically, the different forms of investment firms and specialised PSF will handle most processing activities in the context of their service offerings as data controllers, whereas support PSF will globally see themselves as data processors and act as such.

A common misconception with personal data is that it only concerns the data of clients, whereas it actually concerns the data of any physical person, those of employees and corporate representatives as well. As such, even without accepting individuals as clients, PSF, which are acting as data processor for all or most of their service offerings, are also obliged one way or the other to demonstrate their compliance with the regulation as data controllers, as they will most certainly handle the data of their own employees.

However, as both controllers and processors of personal data will be accountable under the scope of the GDPR, the distinction will sometimes only be of theoretical consequence. By proposing a relatively large definition for controllers and processors, but also for every concept in the regulation, the regulation prevents any entity from escaping its obligations to preserve the liberties and fundamental rights of individuals, and in particular their right to data protection with respect to the processing of their personal data.

A common misconception with personal data is that it only concerns the data of clients, whereas it actually concerns the data of any physical person, those of employees and corporate representatives.

In that regard, each PSF will need to assess its very own obligations under the regulation, whether it considers to be acting as a processor or a controller or both, or otherwise face individual or collective consequences in the form of fines, indemnities or even collective actions.
In addition to that comes the reputation risk. For each breach of trust occuring at one of the entities involved in delivering a financial service whether as a data controller or as a processor, there is an appreciable risk that the loss of trust will escalate and affect all the entities involved.

Although reputation risk can be mitigated or controlled, losing the trust of clients could lead to a state where profitability is at risk, largely surpassing the impact that a fine could have had on the long term.
In order to avoid facing such consequences, it is important to determine where each party's responsibility lies within the scope of the regulation even though, to put it simply, there is little or no difference in terms of impact for processors and controllers to prepare for the obligations under the GDPR. Whereas controllers have additional duties in order to demonstrate their compliance with the GDPR, processors have the obligation to help the controllers for which they perform processing activities in order to demonstrate said compliance.

Among the most important duties stated in the GDPR that affect both processors and controllers, we find the keeping of an updated register of processing activities, the cooperation with supervisory authorities, the potential obligation of appointing a DPO in some cases, the restrictions on cross-border data transfers and most importantly accountability.

All those activities require changes within the organization of each entity but also to the provided service offering. All the entities involved will have to cooperate with each other to demonstrate their compliance and their accountability. Clarifying the responsibilities of each entity is a first step to mitigate the risk and effort relating to the performance of this task.

Questions to Olivier Hamou

Chief Executive Officer at Arendt Services

and Christophe Lentschat

Fund Administration Director at Arendt Services

Which changes do you predict for PSF specialising in corporate domiciliation and central administration?

Over the past few years, we have seen a wave of consolidation among players on the marketplace, triggered mainly by the need to reach a critical size to meet the industry's current challenges and be able to make the necessary investments to satisfy growing regulatory requirements. The role that private equity investors play in this trend should also be underlined, as they now own most major entities in our industry. Arendt Services remains an exception in this context, but that does not stop us from posting solid growth.

Our development strategy is based on two key focuses: firstly, geographical diversification, including the opening of a branch in Malta, and secondly, a broadening of our range of activities with, in particular, the launch of an offer of fund administration services targeting PE (Private Equity), RE (Real Estate) and debt asset classes.

In parallel, our industry is significantly improving its productivity via a process of automation, digitalisation and most likely robotisation in the future, to be more efficient and retain its appeal. Arendt Services is fully taking part in this process with investments in electronic document management, a secure electronic portal where clients can consult their data and documents remotely, and the automation of some of our operational processes.

What are the real challenges facing the Luxembourg financial marketplace in the PSF business that you represent?

One of the main challenges our clients face is the constant need to adapt to changes in legislation and regulations. For example, at the moment, they must deal with the impact of BEPS (Base Erosion and Profit Shifting), the transposition of the fourth AML directive and the application of new provisions on data protection (GDPR - General Data Protection Regulation). To respond to the demands of this complex and changing environment, Arendt Services is positioned as a business facilitator, assisting clients throughout the process of setting up and running their businesses. Training is a priority in order to provide clients with optimal support and meet legal and regulatory requirements.

In the current context, data confidentiality, security and reliability are vital. Certifications linked to Business Continuity processes contribute to the durability of business and is fully consonant with the philosophy of the Digital Lëtzebuerg initiative which aims to strengthen the Grand Duchy's position in ICT (Information and Communication Technologies).

Which advantages does Luxembourg offer to the PSF that you represent?

In domiciliation and corporate services, where the marketplace caters increasingly for a diverse, high-net-worth and international client base, Luxembourg has several advantages including, notably: the country's central position at the crossroads of major European markets, a stable political, economic and fiscal environment, consultation between government and sector representatives, flexibility and responsiveness, highly qualified employees, and linguistic diversity, to mention but the main ones.

In the area of funds, thanks to its historical positioning, particularly for UCITS, Luxembourg is also a reference for PE and RE funds, a fast-growing sector. According to the LIMSA 2016 survey, funds account for 40 percent of the clients of respondent domiciliation agents. This trend is greatly due to the introduction of new, more flexible vehicles, particularly Reserved Alternative Investment Funds (RAIF) and Special Limited Partnerships (SLP), combined with a sustained appetite for PE and RE investments.

Do you see any significant threats to the competitiveness of Luxembourg?

One important question concerns the impacts of Brexit. Can London become a major offshore centre at the gateway to the EU? At the moment, it is difficult to say and the exact impact will depend on the agreements made with the European Union. In any case, this threat could also be an opportunity provided we are able to adapt.

Have you any other expectations to improve Luxembourg's competitiveness?

Our sector cannot develop without taking account of people's personal aspects, their family structure and their tax situation. It is therefore in everyone's interest to continue making improvements along these lines, particularly in terms of available offers of education, and developing road, rail and air links for example.

Interview by Raphaël Charlier and Stéphane Césari – 23-08-2017

2.4 Support PSF

Just like specialised PSF, support PSF do not have the benefit of a European passport. A quarter of these entities are local and are not part of a group. In a few isolated cases they belong to banks, but the majority belong to specialist IT groups (such as Xerox, IBM, HP, Tata, Atos, CSC).

Our analysis shows that two main licences co-exist in this category.

The first group includes client communication agents under Art. 29-1 (38 entities at year-end 2016 and 33 entities at end 2015), coupled in almost 50 percent of cases with Art. 29-2 as financial sector administrative agents (15 entities in 2016 and 16 entities at year-end 2015). Administrative agents are automatically authorised to carry on activities as client communication agents.

The second group includes 59 IT PSF under Art. 29-4 as OSIS (58 at year-end 2015) which are supplemented:

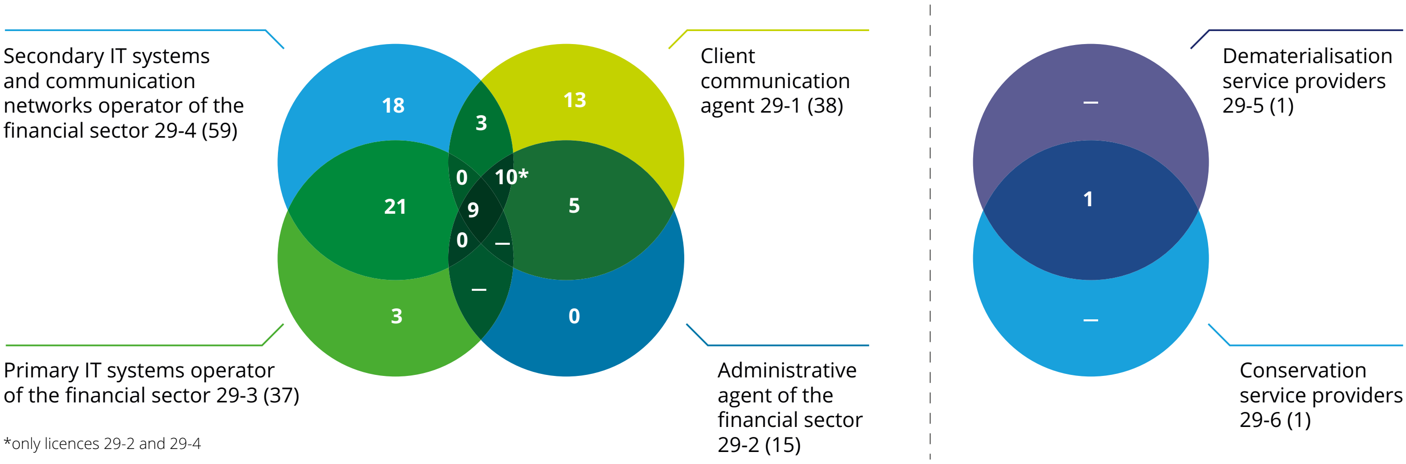
- In 37 cases by OSIP licences (Art. 29-3). OSIP (Art. 29-3) are automatically authorised to carry on OSIS activities (Art. 29-4)
- In 20 cases by licences under Art. 29-1 and 10 cases by licences under Art. 29-2

The third group includes providers of dematerialization services of the financial sector (Art. 29-5) and of conservation services of the financial sector (Art. 29-6). At year-end 2016, only one PSF held these licences.

The number of licences held by support PSF remains stable between year-end 2015 and year-end 2016 with 151 licences.

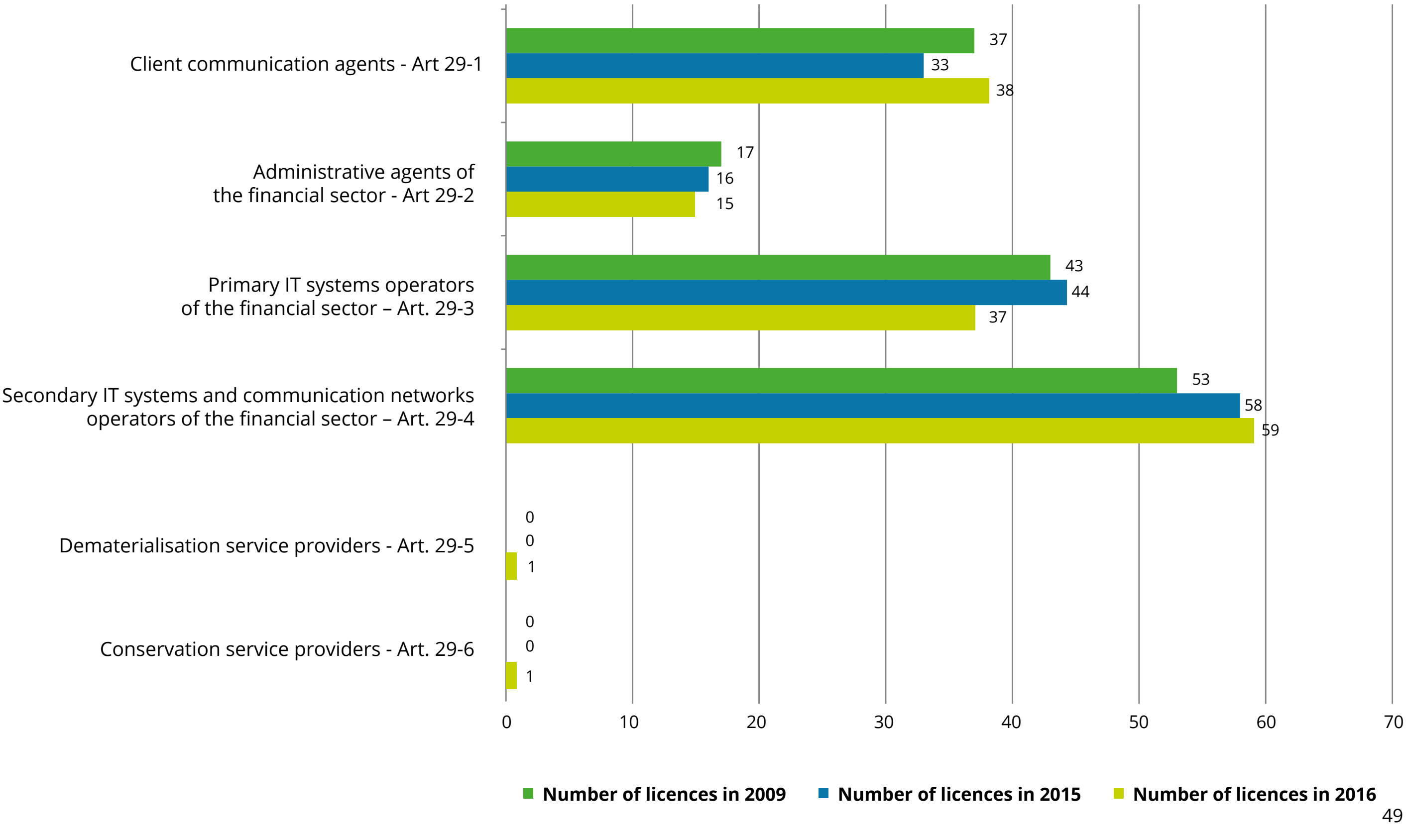
This stability is due to the withdrawal of seven entities, which renounced their PSF status, and was largely offset by the creation of six support PSF in 2016.

Figure 22: Distribution of support PSF licences as at 31 December 2016



*only licences 29-2 and 29-4

Figure 23: Change between 2016, 2015 and 2009 of licences granted to support PSF



Questions to Mr Jean-François Terminaux Managing Director of Unify SA Chairman of Finance & Technology Luxembourg.

What are the main challenges that Support PSF in Luxembourg must meet?
The biggest challenge stems from the effects of the change of Article 41 defining professional secrecy in Luxembourg. It is included in the draft bill 7024, which transposes EU Regulation 2015/751 on subcontracting into Luxembourg law, and is expected for the end of 2017. The association Finance & Technology Luxembourg cooperated extensively in developing the initial provisions and suggested changes to render the text more easily readable and reduce interpretation risks. In legislation, each word is important and must be weighed up. At the time this interview is being written, some questions are still pending concerning the definition of "end customer", the retroactivity of new measures, and how the end customer's consent could be obtained. The new provisions should clarify the framework in which subcontracting is possible.

On the basis of these considerations, the current operating model of Support PSF is outdated. We need to review and rethink both the organisation and the activities by focusing on the cloud. These new provisions should effectively permit more extensive subcontracting within groups and out to Support PSF.

Alongside this major and historical challenge, regulatory provisions such as the RAR (Risk Analysis Report) and the DR (Descriptive Report), AML obligations and capital requirements continue to weigh on the administrative and financial organisation, and thus on costs, which can sometimes be difficult to explain within international corporations. These costs are also a burden when our Support PSF attempt to export their services outside Luxembourg, whereas our international competitors do not have these requirements. We greatly hope for a better balance between the services we can sell and the costs that a CSSF licence induces.

We could also mention our association's lack of available resources. On our own, it's not possible; thanks to the involvement of certain stakeholders, the association has already seen remarkable momentum in recent years, particularly as these contributions are almost all voluntary.

What are your thoughts about the evolution of Support PSF in Luxembourg?
At the dawn of the change of legislation just mentioned, Support PSF must review their market approach in depth. Existing players will conduct their operations less and less from Luxembourg. The skills will therefore be different as they will need a higher level of knowledge and management, on a financial, operational and HR level. We are shifting away from legacy and infrastructure; today, it's all about applications and tomorrow it will be artificial intelligence.

The number of Support PSF might not change very significantly. Even if some decide to withdraw their licences due to the constraints, new ones will continue to apply for the status which is still, in some respects, regarded as a seal of quality and considered vital to serve players in the Luxembourg financial sector.

Can we do without the Support PSF licence?
I don't think so, because the framework is important and still has high value. The regulatory requirements introduced in recent years now mean that activities and risks are much better managed. In Luxembourg, we might be small, but our organisation is definitely better than in many other places, and that's a factor we must put forward. It's a fundamental criterion in the final choice clients make. Instead, we must reflect on how we can sell ourselves, firstly outside Luxembourg, and secondly outside the financial framework.

What are the opportunities for Support PSF in Luxembourg?
The new provisions relative to the GDPR (General Data Protection Regulation) can help Support PSF promote their advantages. Thanks to the regulatory provisions that we already have in Luxembourg, we are better prepared than other European players to meet new demands from clients, whether local or European.

The recent CSSF circular brings significant clarifications concerning use of the cloud. They should help us develop new solutions or improve the ones we already have.
In the end, the protective framework that prevailed until now also confined us to a certain perimeter that we will be able to move out of.

In addition to these two new provisions, certain factors have made and continue to make Luxembourg an attractive financial marketplace, such as the variety of languages used, the top level skills available, the European framework, and payroll costs which, including social security contributions, are no higher than our neighbours'.

Another factor worthy of mention is the local human relationship which is and will remain important. The undoubtedly lower payroll costs in exotic countries are taken into account when choosing a subcontractor, but experience has shown that when a problem arises with geographically remote subcontractors, the time and costs necessary to put it right can be a significant burden.

In this context of substantial change, what would be your expectations of the government?
Efforts have already been made to sell Luxembourg internationally, notably through institutions such as Luxembourg For Finance. Our association only has modest resources and we are always pleased to see the government step up its efforts to promote the skills of all Luxembourg players beyond our borders.

Interview by Raphaël Charlier and Stéphane Césari – 24-07-2017

Recent developments in IT outsourcing

Stéphane Hurtaud
Partner - Advisory & Consulting
Deloitte

Laurent de la Vaissière
Director – Advisory & Consulting
Deloitte

In May 2017, the CSSF published several circulars on IT outsourcing, among which the three following circulars bring new requirements:

- Circular 17/654 on cloud computing, which intends to clarify the regulatory framework for recourse to cloud computing infrastructure supplied by an external service provider
- Circular 17/655, which updates requirements on outsourcing for credit institutions and investment firms (it actually updates Circular 12/552 on central administration, internal governance and risk management), and
- Circular 17/656, which repeals Circular 05/178 and harmonises the requirements on outsourcing across the financial sector (i.e. resulting in an alignment between requirements for investment firms, specialised PSF and support PSF)

Developments in IT outsourcing

The developments in IT outsourcing brought by these circulars can be summarised as follows:

- **Preparing for bill of law 7024,** which is expected to frame communication of confidential data under outsourcing arrangements via the modernisation of the professional secrecy requirements set forth in the laws on the financial sector, payment services, and insurance sector
- **Allowing IT systems management/ operations to be outsourced to any IT provider abroad** (whereas previous circulars required these services to be sourced from a parent group entity) provided the IT systems do not include any readable confidential customer data; otherwise, the circulars refer to the institution's legal obligations concerning customer consent and notification (i.e. paving the way for changes foreseen in bill of law 7024) and emphasise the need to comply with personal data protection regulations (in light of the potential fines under the GDPR)
- **Increasing requirements on confidentiality and integrity of data and systems;** within the framework of outsourcing arrangements, access to data and systems will be managed according to the "need to know" and "least privilege" principle
- Defining the detailed requirements under which institutions supervised by the CSSF may **recourse to (or offer) cloud computing solutions**

Opportunities and threats of cloud computing

- The circular on cloud computing will allow institutions supervised by the CSSF to use cloud solutions of global leaders such as Amazon Web Services, Microsoft Azure, or Google Cloud Platform. This could bring **stiff competition** to the local IT outsourcing market led by Support PSF. Indeed, these global cloud solutions are well known for their ease of use, flexibility, scalability, and of course, for their cost-effectiveness (provided they are consumed optimally).

Having said that, outsourcing IT systems to cloud providers abroad may prove complex; for instance, from a regulatory compliance standpoint:

- **Data requirements** – confidential data of the institution's customers must not be readable by the provider unless customers have provided a legally valid consent. Therefore, most institutions with an existing customer base will be required to apply anonymization or encryption processes to satisfy professional secrecy requirements
- **Internal and external control requirements** – most cloud providers will need to adapt their service contracts to ensure their financial sector customers' (i) internal control functions (e.g. internal audit), (ii) external auditor, and (iii) regulator can all freely exercise their respective mandates in the context of the outsourcing
- **Training requirements** – the resource operator and Cloud Officer roles defined in the cloud computing circular need to ensure that staff in charge of operating cloud resources, internal audit, and staff in charge of information security have received the due training specific to the cloud solution's resources, operations and security
- Support PSF could turn the latter requirement into **opportunities.** Indeed, these training requirements could weigh in on the business case for adopting cloud solutions in smaller institutions; and the cloud computing circular foresees Support PSF may undertake the roles of resource operator and Cloud Officer on behalf of regulated institutions. Support PSF would then have the option of either fronting the relationship with the cloud provider (i.e. reselling the cloud services), or just supporting financial sector customers with their expertise on the cloud solution.

Attention points for investment firms

Investment firms should be wary of the following updates introduced by Circular 17/655, which:

- Reaffirm that investment firms' board of directors' guiding principles must address outsourcing, including IT outsourcing arrangements which may or may not be based on cloud computing;
- Require investment firms to implement (i) a security monitoring process to be promptly informed of new vulnerabilities and (ii) a patch management procedure allowing timely correction of significant vulnerabilities (the internal audit function will assess these as part of its multi-year audit plan).

Attention points for Support PSF

Support PSF should be wary of the second chapter of Circular 17/656 clarifying regulatory requirements in the following circumstances:

- Support PSF and their branches covered by art. 29-3 and 29-4 of the Law on Financial Sector which outsource IT to their parent group
- Support PSF and their branches which outsource IT for internal usage to a third party
- Branches of support PSF which offer services to clients in their host countries based on IT infrastructure installed in the host countries and which could be outsourced to a third party
- Branches of support PSF which provide IT management/operations services to their head office

From a compliance standpoint, professionals of the financial sector should integrate these new requirements in their regulatory strategies, and should not underestimate the complexity of interactions with the regulator.

From a sourcing standpoint, professionals of the financial sector that initiate (or renew) IT investments should carefully study the opportunities brought by the ability to outsource IT systems management/operations to any IT provider abroad, including to cloud providers.

3

Deloitte's proposed services

Over many years, Deloitte has developed its competencies and services to support and advise all types of PSF over the various stages of their development, providing the following services before incorporation and throughout their existence and growth.

Upon creation

Regulatory strategy	• Assistance in compiling licence application documents and submissions to the CSSF • Gap analysis and assistance in establishing a set of procedures covering all administrative aspects and internal controls
Strategy & Corporate finance	• Business plan services including reviews of different scenarios, possibilities of subcontracting administrative and accounting organisation, etc. This business plan is an integral part of the CSSF licence application file
Direct taxation & VAT	• Design an efficient and customized tax structure based on the business plan and the specific licences • Fiscal optimisation from the beneficiaries' perspective • Assistance in matters related to direct taxation & VAT • Due diligence
Technology & Entreprise application	• Design of the IT strategy (as part of the file to be submitted to the CSSF)
Business Risk	• Develop the feasibility study & market entry strategy • Draft the business case and initial organization, operations and high level IT capabilities assessment • Refine/confirm strategy including business model and commercial strategy (i.e. products, activities/ services and targeted clients) • Design governance structure • Draft the business plan (covering 5 years), including key financials, Opex and Capex, regulatory ratio calculation and scenario analysis • Analyse the compliance with regulatory requirements • Describe the products and services • Draft required policies (i.e. risk management, compliance, AML, internal audit) • Draft the IT & IT security section • Compile the application file and appendices to be submitted to the CSSF • Definition and implementation of policies and processes • Draft procedures (operational and regulatory) • HR recruitment • Implementation of IT systems • Propose our systems, such as uComply for AML checks • Accounting & regulatory reporting configuration • Introduction, selection, negotiation with third party providers

During the development stage

Regulatory strategy

- Administrative and accounting organisation, and review of the compliance of services offered to clients in line with the requirements of the CSSF, in particular review the compliance with CSSF circular 12/552 (gap analysis, training, implementation)
- Procedures manual covering the following aspects: administrative, IT, accounting, internal controls, etc.
- Proposing compliance tools such as uComply
- Rules of conduct in line with best practice of the financial centre and MiFID rules
- Training in all the above areas
- Assistance in relations with the authorities
- Provision of a regulatory hotline
- Within the framework of subcontracting, inventory of services to be provided and drafting of Service Level Agreements (SLA)
- Support for regulatory intelligence
- Digital strategy

Governance, risks & compliance

- Subcontracting or co-sourcing of the internal audit function
- Advisory services for the definition of relations with third parties and suppliers, and definitions of the corresponding risks
- ISAE 3402 and SSAE 16
- ISAE3000
- Regulatory Health Checks
- Assistance on regulatory compliance obligations
- Assistance in developing internal control plans (Risk Management, Compliance Monitoring Programme)
- Assistance in building the governance model
- Compliance Risk Assessment (CRA)
- Training in internal control functions

Forensic & AML

- Appropriate organisation to deal with money laundering and the financing of terrorism in terms of training and raising awareness, client knowledge, structuring and procedures
- Assistance in selection and implementation of anti-fraud and AML systems
- Targeted investigation and due diligence

Financial risks

- Calculation and optimisation of solvency ratio, production of CoREP reporting and regime relating to broad exposure
- Advice, analysis and assistance regarding establishment of the ICAAP
- Implementation of a framework for liquidity monitoring and monitoring of Basel regulations, in particular in respect of the advanced method relating to operational risk
- Development of quantitative models relating to credit, market and operational risks
- Provision of training in all the above areas

IT risks (Information Technology)

- One-off advice on long-term implementation, support in terms of IT strategy, review of IT architecture, implementing solutions, IT integration and optimisation
- Assistance with all IT projects in terms of banking secrecy, relations with authorities and subcontracting
- Business Continuity Plan and Disaster Recovery Plan
- Projects and assistance in IT security (Security governance, risk management, ISO27001 implementation and cyber-security)
- IT audits and IT investigations Forensic, eDiscovery and Data Analytics
- Assistance on compliance with the data protection law

Strategy & Corporate finance

- Assistance in terms of external growth (merger, acquisition, strategic alliance)
- Due diligence
- Evaluation of PSF
- Business Model Optimisation
- Client and market strategy review
- Executive search and coaching

Capital markets and financial assets

- Valuation review and independent valuation of complex financial instruments
- Coverage of current applicable valuation procedures
- Examination of the valuation model used
- Review of market data input into the valuation model

Human resources

- Organisational transformation of the HR function
- Definition of HR TOM (Target Operating Model)
- Career and succession plan management and development
- Performance management and compensation system modelling
- Recruitment and skills assessment of specialised profiles
- Implementation of HR information systems and portals
- Change management
- E-Learning / Face-to-face Learning / DLearn offer

IMS (Investment Management services)

- Modular assistance in all issues relating to cross-border financial product distribution networks (registrations; tax reporting, risk, solvency, etc.)
- Investment policy: review of monitoring systems for investment policies and valuation, support for complex financial instruments, assistance in
- Designing new products and investment strategies, as well as advice and assistance on the aspects of UCITS V or AIFMD
- Corporate governance: advisory services for setting up a code of conduct and assistance with the selection of service providers and domiciles

Accounting	• Accounting, regulatory reporting and group reporting • Accounting and finance function outsourcing Supply of experienced employees
Direct taxation & VAT	• Assistance with tax returns (IRC [corporate income tax], ICC [municipal business tax], IF [wealth tax], withholding tax, VAT) • Ad hoc tax advice on direct taxation and VAT • Customized fiscal assistance and optimisation analyses when creating the operational structure • Assistance with the tax aspects to consider in the context of operating procedures and assistance in introducing manuals of procedures taking account of the applicable tax framework and its evolution • Assistance in respect of transfer pricing • Verification of practical aspects of tax residence • Optimisation of profit distribution to shareholders • Operational assistance (also in respect of problems linked to the EU Savings directive, FATCA, the exchange of tax information (CRS), tax treatment of investors, QI etc.) • Tax reclaim for private clients • Until the termination of operations • Evaluation of the fiscal structures of the clients • Due diligence • Personalised training and tax hotlines • Assistance on tax optimisation of the salary package of directors • Evaluation of the impact of BEPS on the client portfolio
Business Risk	• Training on regulatory requirements • IA outsourcing • Hot line on risk and regulatory subjects • HR support • Ongoing Corporate, VAT and personal Tax consulting • Any other support as required in each specific case
Private Wealth Services and Family Office	• Support and implementation of customised financial structures for private clients (sales of companies, international transfer of assets, transfers of residence, etc.) • Family and corporate governance • Financial strategy and compliance • Development of specific vehicles and products (philanthropy, art funds, Islamic finance, etc.)
Technology & Entreprise application	• Define a director plan • Implement the director plan • Define and establish an IT governance • Design a sourcing strategy • Selection of packages • Application development and maintenance • Define and implement analytical solutions
External audit	• Audit of company accounts • Review of compliance with circulars and preparation either of analytical audit reports (for investment firms), or compliance reports (for specialised and support PSF) • Consultation on regulatory and accounting issues, conversion to IFRS, agreed procedures and other normative aspects • Support relating to requests made by the CSSF • Certification of continuous training records in order to obtain related subsidies

Until the termination of operations

Forensic & AML: Liquidation services	• Assistance in setting up liquidation plans
Direct taxation & VAT	• Tax advice and assistance in connection with a liquidation, merger, demerger or transfer • Fiscal assistance with regards to the beneficiaries • Communication with the tax authorities
Business Risk	• General support during the withdrawal process and in particular in analysing the technical subjects addressing the specific requirements in terms of: – Human resources – Regulatory aspects (capital, governance, IT security etc.) – IT & Operations – M&A and valuation – Tax & VAT
Technology & Entreprise application	• IT transition management

4 Useful addresses

Organisations representing PSF

Expanding representation across professional associations

PSF are subject to the supervisory authority of the CSSF. Holding the PSF status is subject to a licence granted by the Minister of Finance, in consideration of the opinion given by the CSSF. The conditions for granting such a licence include in particular initial capitalisation, credit standing, the competence of the management and adequate governance, relying on a central administrative office based in Luxembourg.

The professional associations set out below are the most representative in terms of defending the interests of PSF:

Finance & Technology Luxembourg

This association, formed in 2007, currently combines over 50 companies providing services to financial institutions. The mission of the association's platform is to inform its members about changes in prospects for the professions in question, create synergy between players with a view to securing Luxembourg projects with an international dimension. It also proactively handles current topics related directly to support PSF and FinTech companies.
Tel : +352 43 53 66 – 1
www.financeandtechnology.lu

Association Luxembourgeoise des Family Office (LAFO)

This Luxembourg professional association has about fifty members and is specialised in Family Offices. The Family Officer serves as a service provider for 'families and asset entities', i.e. it coordinates, controls and supervises all professionals involved in the provision of services to its clients (asset management, attorneys, tax advisers, banks, trustees, notaries, etc.).
Tel: +352 621 135 933
www.lafo.lu

Association Luxembourgeoise des Professionnels du Patrimoine (ALPP)

A non-profit organisation including over 100 independent companies, established in Luxembourg and abroad, whose interaction with each other covers the entire range of financial and asset-management services for international, private and corporate clients.
Tel : +352 26 26 49 8075
www.alpp.lu

Luxembourg International Management Services Association (LIMSA)

Created in 2004, the purpose of this association is to promote the Luxembourg trust industry and the representation of the professional interests of its members.

It organises seminars and other meetings and develops initiatives on a central level, which would be too costly or difficult for individual members. It safeguards the promotion of the commercial interests of trust companies and defend their interests with the authorities, in particular by participating in commissions and working groups.

It has contacts with authorities, other professional organizations, professional chambers and other corporate institutions.
Tel : +352 466 111-2749
www.limsa.lu

Numerous other organisations pertain to PSF, including the following:

The International Facility Management Association (IFMA)
IFMA Luxembourg is the local branch of this international association. With over 22,600 members in 78 countries, it is open to facility managers to give them the skills necessary for their business.
Tel : +352 26 65 08 30
www.ifma.lu

Fédération de l'IML - Information Lifecycle Management, du Stockage et de l'Archivage (FedISA)
Established on 26 November 2009, FedISA Luxembourg is a not-for-profit association serving innovation in matters of dematerialisation and electronic archiving. Its aim is to bring together the players in the Luxembourg market: experts, users and suppliers of information lifecycle management, dematerialisation, electronic archiving and storage products and services, such as OSIPs and OSISs (support PSF).
www.fedisa.lu

ISACA
With more than 140,000 members in over 187 countries, ISACA is a major global provider of knowledge, certifications, exchange, sponsorship and training in terms of security and assurance of information systems, corporate governance concerning information technologies, IT risk control and conformity. Founded in 1967, ISACA sponsors international conferences, publishes a review, and develops international auditing and control standards for IT systems. The institution is open to IT auditors likely to be involved with PSF.
www.isaca.org

Other useful addresses

Administration des contributions directes
Tél : +352 40 800-1
www.impotsdirects.public.lu

Administration de l'enregistrement et des domaines
Tél : +352 44 905-1
www.aed.public.lu

Association des Banques et Banquiers, Luxembourg (ABBL)
Tél : +352 46 36 60-1
www.abbl.lu

Association Luxembourgeoise des Compliance Officers (ALCO)
Tél : +352 28 99 25 00
www.alco.lu

Association Luxembourgeoise des Fonds d'Investissement (ALFI)
Tél : +352 22 30 26-1
www.alfi.lu

Association Luxembourgeoise de Risk Management (ALRIM)
Tél : +352 26 94 59 97
www.alrim.lu

Cellule de Renseignement Financier (CRF)
Tél : +352 47 59 81-447

Chambre de Commerce du Grand-Duché de Luxembourg
Tél : +352 42 39 39-1
www.cc.lu

Commission de Surveillance du Secteur Financier (CSSF)
Tél : +352 26 251-1
www.cssf.lu

Fédération des professionnels du secteur financier Luxembourg (PROFIL)
Tél : +352 27 20 37-1
www.profil-luxembourg.lu

Fedil
Tél : +352 43 53 66-1
www.fedil.lu

Fonds de Garantie des Dépôts, Luxembourg (FGDL)
Tél : +352 26 25 11
www.fgdl.lu

House of Training
Tél : +352 46 50 16-1
www.houseoftraining.lu

Institut des Auditeurs Internes Luxembourg
(IIA Luxembourg)
Tél : +352 26 27 09 04
www.theiia.org/sites/luxembourg

Institut des Réviseurs d'Entreprises (IRE)
Tél : +352 29 11 39-1
www.ire.lu

Institut Luxembourgeois des Administrateurs (ILA)
Tél : +352 26 00 21 487
www.ila.lu

Luxembourg for Finance (LFF)
Tél : +352 27 20 21-1
www.luxembourgforfinance.com

Luxembourg Private Equity and Venture Capital Association (LPEA)
Tél : +352 28 68 19 602
www.lpea.lu

5 Appendices

5.1 PSF in a nutshell

Investment firms

PSF	Article	Minimum capital or capital base EUR	Professional indemnity insurance EUR	Activity covered by the status
Investment advisers	24	50.000	EUR 1.000.000 per claim and an aggregate of EUR 1.500.000 per year	"Investment advisers are professionals whose activity consists in providing personal recommendations to a client, either at the initiative of the investment firm, or upon request of that client, in respect of one or more transactions relating to financial instruments. Investment advisers are not authorised to intervene directly or indirectly in the implementation of the advice provided by them. The mere provision of information is not covered by this law."
Brokers in financial instruments	24-1	50.000	EUR 1.000.000 per claim and an aggregate of EUR 1.500.000 per year	Brokers in financial instruments are professionals whose activity consists in receiving or transmitting orders in relation to one or more financial instruments, without holding funds or financial instruments of the clients. This activity includes bringing two or more parties together with a view to the conclusion of a transaction between the parties.
Commission agents	24-2	125.000		Commission agents are professionals whose activity consists in the execution on behalf of clients of orders in relation to one or more financial instruments. Execution of orders on behalf of clients means acting to conclude agreements to buy or sell one or more financial instruments on behalf of clients.
Private portfolio managers	24-3	125.000		Private portfolio managers are professionals whose activity consists in managing portfolios in accordance with mandates given by clients on a discretionary client-by-client basis where such portfolios include one or more financial instruments.
Professionals acting for their own account	24-4	730.000		Professionals acting for their own account are professionals whose business is in trading against proprietary capital resulting in the conclusion of transactions in one or more financial instruments where they also provide investment services or perform in addition other investment activities or deal on own account outside a regulated market or an MTF on an organised, frequent and systematic basis, by providing a system accessible to third parties in order to engage in dealings with those third parties.
Market makers	24-5	730.000		Market makers are professionals whose business is to hold itself out on the financial markets on a continuous basis as being willing to deal on own account by buying and selling financial instruments against its proprietary capital at prices fixed by it.
Underwriters of financial instruments	24-6	125.000 or 730.000 (if they carry out placements on a firm commitment basis)		Underwriters of financial instruments are professionals whose business is to underwrite financial instruments and/or place financial instruments with or without a firm commitment.

PSF	Article	Minimum capital or capital base EUR	Professional indemnity insurance EUR	Activity covered by the status
Distributors of shares/units in UCIs	24-7	50.000 or 125.000 (if they accept or make payments)		Distributors of shares/units in UCIs are professionals whose business is to distribute units/shares of UCIs admitted to trading in Luxembourg.
Financial intermediation firms	24-8	125.000	EUR 2.000.000 per claim and an aggregate of EUR 3.000.000 per year	Financial intermediation firms are professionals whose business is to: (a) provide personal recommendations to a client, either at their own initiative, or upon request of the client, in respect of one or more transactions relating to financial instruments or insurance products, and (b) receive and transmit orders relating to one or more financial instruments or insurance products without holding funds or financial products of the clients. This activity includes bringing two or more parties together with a view to the conclusion of a transaction between the parties, and (c) perform on behalf of investment advisers and brokers in financial instruments and/or insurance products affiliated to them administrative and client communication services which are inherent to the professional activity of these affiliates, by means of an outsourcing contract.
Investment firms operating an MTF in Luxembourg	24-9	730.000		Investment firms operating an MTF in Luxembourg are those professionals whose business is to operate an MTF in Luxembourg, excluding the professionals that operate markets within the meaning of the law on markets in financial instruments.

Specialised PSF

PSF	Article	Minimum capital or capital base EUR	Professional indemnity insurance EUR	Activity covered by the status
Registrar agents	25	125.000		Registrar agents are professionals whose business is to maintain the register of one or more financial instruments. The maintaining of the register includes the reception and execution of orders relating to such financial instruments, of which they are the necessary accessory.
Professional depositaries of financial instruments	26	730.000		Professional depositaries of financial instruments are professionals who engage in the receipt into custody of financial instruments exclusively from the professionals of the financial sector, and who are entrusted with the safekeeping and administration thereof, including custodianship and related services, and with the task of facilitating their circulation.
Professional depositaries of assets other than financial instruments	26-1	500.000		"Professional depositaries of assets other than financial instruments are professionals whose activity consists in acting as depositary for: – specialised investment funds within the meaning of the law of 13 February 2007, as amended, – investment companies in risk capital within the meaning of the law of 15 June 2004, as amended, – alternative investment funds within the meaning of Directive 2011/61/EU, which have no redemption rights that can be exercised during five years as from the date of the initial investments and which, pursuant to their main investment policy, generally do not invest in assets which shall be held in custody pursuant to Article 19(8) of the law of 12 July 2013 on alternative investment fund managers or which generally invest in issuers or non-listed companies in order to potentially acquire control thereof in accordance with Article 24 of the law of 12 July 2013 on alternative investment fund managers."
Operators of a regulated market authorised in Luxembourg	27	730.000		Operators of a regulated market in Luxembourg are persons who manage and/or operate the business of a regulated market authorised in Luxembourg, excluding investment firms operating an MTF in Luxembourg.
Currency exchange dealers	28-2	50.000		Currency exchange dealers are professionals who carry out operations involving the purchase or sale of foreign currencies in cash.
Debt recovery	28-3			The recovery of debts owed to third parties, to the extent that it is not reserved by law to certificated bailiffs, shall be authorised only with the assent of the Minister of Justice.
Professionals performing lending operations	28-4	730.000		"Professionals performing lending operations are professionals engaging in the business of granting loans to the public for their own account. The following, in particular, shall be regarded as lending operations for the purposes of this article: (a) financial leasing operations involving the leasing of moveable or immoveable property specifically purchased with a view to such leasing by the professionnal, who remains the owner thereof, where the contract reserves unto the lessee the right to acquire, either during the course of or at the end of the term of the lease, ownership of all or any part of the property leased in return for payment of a sum specified in the contract;

PSF	Article	Minimum capital or capital base EUR	Professional indemnity insurance EUR	Activity covered by the status
Professionals performing lending operations (continued)	28-4	730.000		(b) factoring operations, either with or without recourse, whereby the professional purchases commercial debts and proceeds to collect them for his own account "when he makes the funds available to the transferor before maturity or before payment of the transferred debts". This article shall not apply to persons engaging in the granting of consumer credit, including financial leasing operations as defined in paragraph (a) above, where that activity is incidental to the pursuit of any activity covered by the law of 28 December 1988 on the right of establishment. This article shall not apply to persons engaging in securitisation operations."
Professionals performing securities lending	28-5	730.000		Professionals performing securities lending are professionals engaging in the business of lending or borrowing securities for their own account.
Family Offices	28-6	50.000		Those persons carrying out the activity of Family Office within the meaning of the law of 21 December 2012 relating to the Family Office activity and not registered in one of the other regulated professions listed under Article 2 of the above-mentioned law are Family Offices and regarded as carrying on a business activity in the financial sector.
Mutual savings fund administrators	28-7	125.000		"Mutual savings fund administrators are natural or legal persons engaging in the administration of one or more mutual savings funds. No person other than a mutual savings fund administrator may carry on, even in an incidental capacity, the business of administering mutual savings funds. For the purposes of this article, “mutual savings fund” means any undivided fund of cash deposits administered for the account of joint savers numbering not less than 20 persons with a view to securing more favourable financial terms."
Corporate domiciliation agents	28-9	125.000		Corporate domiciliation agents referred to as other professionals of the financial sector in the list of paragraph 1 of Article 1 of the law of 31 May 1999 governing the domiciliation of companies and referred to in this Article, are natural or legal persons who agree to the establishment at their address by one or more companies of a seat and who provide services of any kind connected with that activity. This Article does not refer to the other persons listed in the above-mentioned list.
Professionals providing company incorporation and management services	28-10	125.000		Professionals providing company incorporation and management services are natural and legal persons engaging in the provision of services relating to the formation or management of one or more companies.
Central account keepers	28-11	730.000		Central account keepers are persons whose activity is to keep issuing accounts for dematerialised securities.

Support PSF

PSF	Article	Minimum capital or capital base EUR	Professional indemnity insurance EUR	Activity covered by the status
Client communication agents	29-1	50.000		"Client communication agents are professionals engaging in the provision, on behalf of credit institutions, PSF, payment institutions, electronic money institutions, insurance undertakings, reinsurance undertakings, pension funds, UCIs, SIFs, investment companies in risk capital (sociétés d'investissement en capital à risque) and authorised securitisation undertakings established under Luxembourg law or foreign law, of one or more of the following services: – the production, in tangible form or in the form of electronic data, of confidential documents intended for the personal attention of clients of credit institutions, PSF, payment institutions, electronic money institutions, insurance undertakings, reinsurance undertakings, contributors, members or beneficiaries of pension funds and investors in UCIs, SIFs, investment companies in risk capital and authorised securitisation undertakings; – the maintenance or destruction of documents referred to in the previous indent; – the communication to persons referred to in the first indent, of documents or information relating to their assets and to the services offered by the professional in question; – the management of mail giving access to confidential data by persons referred to in the first indent; – the consolidation, pursuant to an express mandate given by the persons referred to in the first indent, of positions which the latter hold with diverse financial professionals."
Administrative agents of the financial sector	29-2	125.000		Administrative agents of the financial sector are professionals who engage in the provision, on behalf of credit institutions, PSF, payment institutions, electronic money institutions, UCIs, pension funds, SIFs, investment companies in risk capital, authorised securitisation undertakings, **reserved alternative investment funds,** insurance undertakings or reinsurance undertakings established under Luxembourg law or foreign law, pursuant to a sub-contract, of administration services forming an integral part of the business activities of the originator.
Primary IT systems operators of the financial sector	29-3	370.000		Primary IT systems operators of the financial sector are those professionals who are responsible for the operation of IT systems allowing to draw up accounts and financial statements that are part of the IT systems belonging to credit institutions, PSF, "payment institutions", electronic money institutions, UCIs, pension funds, insurance undertakings or reinsurance undertakings established under Luxembourg law or foreign law.
Secondary IT systems and communication networks operators of the financial sector	29-4	50.000		Secondary IT systems and communication networks operators of the financial sector are those professionals who are responsible for the operation of IT systems other than those allowing to draw up accounts and financial statements and of communication networks that are part of the IT systems belonging to credit institutions, PSF, "payment institutions", electronic money institutions, UCIs, pension funds, insurance undertakings or reinsurance undertakings established under Luxembourg law or foreign law.

PSF	Article	Minimum capital or capital base EUR	Professional indemnity insurance EUR	Activity covered by the status
Dematerialisation service providers of the financial sector	29-5	50.000		Dematerialisation service providers of the financial sector are dematerialisation or conservation service providers within the meaning of the law of 25 July 2015 on e-archiving in charge of the dematerialisation of documents on behalf of credit institutions, PSF, payment institutions, electronic money institutions, UCIs, SIFs, investment companies in risk capital (SICARs), pension funds, authorised securitisation undertakings, insurance undertakings or reinsurance undertakings, governed by Luxembourg law or by foreign law.
Conservation service providers of the financial sector	29-6	125.000		Conservation service providers of the financial sector are dematerialisation or conservation service providers within the meaning of the law of 25 July 2015 on e-archiving in charge of the conservation of electronic documents on behalf of credit institutions, PSF, payment institutions, electronic money institutions, UCIs, SIFs, investment companies in risk capital (SICARs), pension funds, authorised securitisation undertakings, insurance undertakings or reinsurance undertakings, governed by Luxembourg law or by foreign law.

5.2 Summary of main regulations and circulars applicable to PSF

(as at 5 September, 2017)

CIRCULAR/REGULATION	TOPIC			
		Investment firms	Specialised PSF	Support PSF
Organisation and internal control				
91/78	Segregation of assets for private portfolio managers	X (1)		
91/80 and 96/124	Staff numbers	X	X	X
93/95 and 11/515	Licence requirements	X	X	X
93/102	Activities of brokers or commission agents	X (2)		
95/120	Central administration		X	X
96/126	Administrative and accounting organisation		X	X
98/143	Internal control		X	X
00/17	Investor compensation schemes	X (3)		
04/146	Protection of undertakings for collective investment and their investors against Late Trading and Market Timing practices	X (3)	X (3)	X (3)
17/651 **17/656 (05/178 abroged) and 06/240 as amended by 17/657**	Credit agreements for consumers relating to residential immovable property Administrative and accounting organisation IT outsourcing		X	X

CIRCULAR/REGULATION	TOPIC	Investment firms	Specialised PSF	Support PSF
07/307 as amended by 13/560, 13/568 and 14/585	MiFID: Conduct of business rules in the financial sector	X		
07/325 and 07/326 as amended by 10/442 and 13/568	Branches in Luxembourg or activities exercised in Luxembourg by way of free provision of services; branches in another Member State or activities exercised in another Member State by way of free provision of services	X (3)		
09/392	Prudential assessment of acquisitions and increases in holdings in the financial sector	X	X	X
12/536	Guidelines of the European Securities and Markets Authority on systems and controls in an automated trading environment	X (3)		
12/538	Lending in foreign currencies	X	X (4)	
12/552 as amended by 13/563, 14/597 and 16/642, 16/647 and 17/655	Central administration, internal governance and risk management	X	X (5)	
13/554	Evolution of the usage and control of the tools for managing IT resources and the management access to these resources	X	X	X
Reg. 16-07 (13-02 abroged)	Out-of-court resolution of complaints	X	X	X
15/611	Managing the risks related to the outsourcing of systems that allow the compilation, distribution and consultation of management board/ strategic documents	X	X	X
Regs G-D of 25 July 2015	Dematerialization and conservation of documents / Electronic archiving			X (3)
15/631	Dormant or inactive accounts	X	X	X
Remuneration				
10/437	Remuneration policies in the financial sector	X	X	X
11/505	Proportionality principle when establishing and applying remuneration policies	X		
17/658	Adoption of the European Banking Authority's guidelines on sound remuneration policies	CRR only		
Fight against money laundering and terrorist financing				
Reg. 12-02 **10/495, 15/609, 16/639**	Fight against money laundering and terrorist financing	X	X	X

CIRCULAR/REGULATION	TOPIC			
		Investment firms	Specialised PSF	Support PSF
11/528	Abolition of the transmission to the CSSF of suspicious transaction reports	X	X	X
11/529	Risk analysis regarding the fight against money laundering and terrorist financing	X	X	X
17/650	Application extended to primary tax offences	X	X	X
Prudential ratios				
06/260 **07/290 as amended by 10/451, 10/483, 10/497 and 13/568** **07/301 as amended by 08/338, 09/403, 11/506 and 13/568** **10/494** **11/501** **11/505** **12/535** **13/572**	Capital adequacy ratios / large exposures; assessment process	X		
Reg. 14-01, 15-01 and 15-02 and 13/575, 14/582, 14/583, 15/606, 15/618, 15/620 and 15/622 as well as Regulation (EU) No 575/2013, ad hoc Commission Delegated Regulations (EU) and ad hoc Commission Implementing Regulations (EU)	Supervisory reporting requirements (CRR/CRD IV / FINREP)	X (3)		
09/403	Sound liquidity risk management	X		
11/506	Principles of a sound stress testing programme	X		
16/02	Scope of deposit guarantee and investor compensation	X		
17/03, 17/649	Adoption of the guidelines issued by the European Banking Authority (EBA) on the methods of providing information in summarized or collective form for the purposes of the Banking Recovery and Resolution Directive (BRRD)	X		
Reporting				
05/187 completed by 10/433	Financial information to be submitted to the CSSF on a periodic basis	X	X	X
07/302 , 07/306 and 08/365	Reporting on transactions in financial instruments	X (3)		
08/334 and 08/344	Encryption specifications for reporting firms to the CSSF	X	X	X
08/364	Financial information to be submitted to the CSSF on a quarterly basis by the support PSF			X

CIRCULAR/REGULATION	TOPIC			
		Investment firms	Specialised PSF	Support PSF
08/369	Prudential reporting	X	X	X
10/457	Electronic transmission to the CSSF of the long-form report and of the management letter	X		
11/503	Transmission and publication of financial information and relating deadlines	X	X	X
11/504	Frauds and incidents due to external computer attacks	X	X	X
13/577	Table "Responsible persons for certain functions and activities"	X		
Domiciliation				
01/28, 01/29, 01/47 and 02/65	Domiciliation		X (6)	
Supervision				
00/22	Supervision of investment firms on a consolidated basis	X (3)		
08/350 as amended by 13/568	Prudential supervisory procedures for support PSF			X
12/544	Optimisation of the supervision exercised on the support PSF by a risk-based approach			X
15/629 as amended by 16/641	Supplementary supervision to be applied to financial conglomerates and definition of structure coefficients to be observed by the regulated entities belonging to these financial conglomerates	X		
External audit				
03/113 and 13/571	Practical rules concerning the mission of external auditors of investment firms	X		

(1) applicable only to private portfolio managers (art. 24-3)

(2) applicable only to brokers in financial instruments (art. 24-1) and commission agents (art. 24-2)

(3) depending on the activity of the PSF

(4) applicable only to professionals performing lending operations (art. 28-4)

(5) applicable only to professionals performing lending operations (art. 28-4) and only chapter 3 of part III of the circular is applicable

(6) applicable only to PSF providing domiciliation activities

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