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Edition 2012

Financial Sector Professionals (PSF) in Luxembourg
2012 Overview and outlook of a fast-growing sector

Contents

Foreword

Raphaël Charlier
Partner – Audit

Stéphane Césari
PSF Industry Leader
Partner – Audit and Advisory

For the third year running, and after the success of our previous brochures, we have the pleasure of presenting you the 2012 edition of our analysis of Financial Sector Professionals (PSF) in Luxembourg.

This brochure, which also contains interviews and articles on trends and issues, offers an overview of PSF. It reveals the importance of this industry to the Luxembourg economy and illustrates the different existing categories and their development.

Luxembourg's political, regulatory and social stability has helped stimulate the PSF sector. Its financial industry, one of the most competitive in the world and ranked among the top financial centres around the globe, offers a wide range of financial services and expertise to satisfy all market demands. Although the financial sector is still dealing with a state of crisis and the regulatory environment is tightening, the number of PSF never ceases to grow and licensing applications continue to flood in.

New prospects are emerging for this industry. The most burning issue for PSF is the broadening of the scope of oversight of services provided by auxiliary PSF, who are now required to assess the risks to which the financial sector is exposed as the result of the PSF's actions. The CSSF circular 12/544 defines the new risk-based approach and aims at reaffirming the quality of the financial services of Luxembourg providers. The implementation last year of the Payment Services Directive saw a large number of payment and electronic money establishments flourish in Luxembourg. Much thinking went into creating a *Family Office* as a wholly regulated entity and creating a new classification of 'professional custodian of assets other than financial instruments' following the AIFMD directive.

We wish to thank Jean-Claude Boutet, Claude Eyschen, Serge Krancenblum, Charles Mandica and Raoul Mulheims for their valuable participation in this brochure. Their wide-ranging experiences in this industry provide an in-depth look at the latest issues affecting PSF, as well as the outlook for changes in the sector.

We hope you enjoy reading our publication.

Introduction

PSF: essential actors in the Luxembourg marketplace

Financial Sector Professionals (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 very broad range of financial and even non-financial services.

PSF, which are duly supervised by the *Commission de Surveillance du Secteur Financier* (CSSF), enjoy special access to the market in financial activities and fall within the highly-coveted sphere of professional secrecy of the banking sector.

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 on the financial sector* as amended by the Law of 13 July 2007 on Markets in Financial Instruments (MiFID).

By virtue of the demands of professional secrecy in the banking sector, many non-financial actors have made the necessary efforts, and sometimes on a large scale, to obtain PSF approval allowing them to serve other players in 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 undertakings** (Art. 24 - 24-9 of the Law)

  Defined as firms supplying or providing investment services to third parties on a professional and ongoing basis.

  These are mainly:

  1. Investment advisers
  2. Financial instrument brokers
  3. Agency brokers
  4. Asset managers

- **Specialised PSF** (Art. 25 - 28-10 of the Law)

  Specialised PSF as defined in the Law of 28 April 2011 are entities active in the financial sector but which do not offer investment services. These mainly include:

  1. Providers of company incorporation and management services
  2. Corporate domiciliation agents
  3. Registrars

- **Auxiliary PSF** (Art. 29-1 - 29-4 of the Law)

  Auxiliary PSF acting principally as subcontractors offering operational services on behalf of banks or other Financial Sector Professionals. These include:

  1. Auxiliary PSF not involved in information technology, namely client communication agents (Art. 29-1) and financial sector administration agents (Art. 29-2). The Law of 28 April 2011 extends the activities of these PSF to Specialised Investment Funds (SIF), SICAR (*Société d'Investissement en CApital à Risque* or Venture Capital Companies) and approved securitisation entities.
  2. Auxiliary PSF involved in information technology, namely operators of primary computer systems in the financial sector (OSIP - Art. 29-3) and operators of communications networks and secondary computer systems in the financial sector (OSIS - Art. 29-4).

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

Deloitte has for many years been developing expertise to enable it 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.

** The Articles of the law mentioned in this brochure refer to the amended Law of 5 April 1993*

Scope of PSF in the Luxembourg economy

Analysis of the importance of PSF and review of their economic and social dimensions, their geographic diversity and their representatives in Luxembourg

The growing importance of an economic player

The analysis in the most recent study carried out by the Haut Comité de la Place Financière (HCPF) on the situation as at 31 December 2010 showed that PSF should not be underestimated in relation to the other players in the financial industry. Indeed we found that:

- Added value per employee (excluding auxiliary PSF) was clearly higher than in the banking sector (nearly 30% spread between the two sectors)
- PSF (excluding auxiliary PSF) represent 15% of the jobs in the financial industry (and more than a third if including auxiliary PSF)
- The contribution of PSF (excluding auxiliary PSF) to tax revenue was nearly 8% of the total tax contribution of the financial industry

Figure 1: Summary of financial industry data as at 31 December 2010

	Added value (€ bn)	GDP (%)	Jobs (employees)	Jobs (%)	Taxes (€ bn)	Tax revenues (%)	Added value/ employee (€ k)
2010							
PSF (investment undertaking and specialised)	1.98	5	5,824	2	0.14	1	340
Banks	6.96	17	26,254	7	1.00	10	265
Insurances	2.49	6	4,668	1	0.50	5	533
Management companies	2.18	5	2,339	1	0.33	3	932
Total financial industry	**13.61**	**33**	**39,085**	**11**	**1.97**	**19**	**2,071**

Market size

With continuous growth of almost 95% in seven years, PSF in Luxembourg are constantly re-affirming their presence. In 2011 there were 322 PSF in the Grand Duchy compared with 166 in 2004.

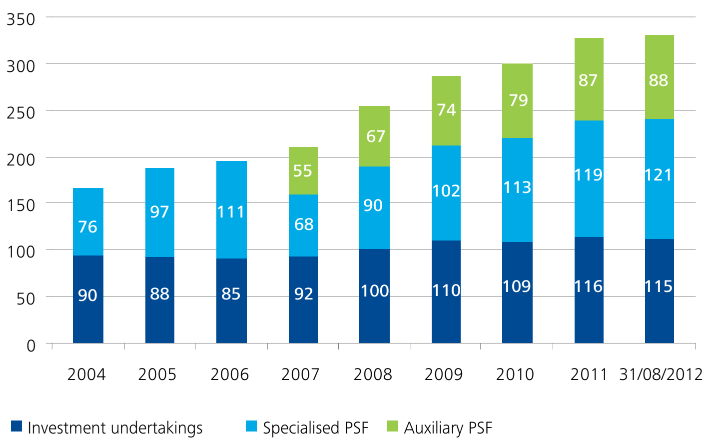
This trend is still evident at the time this brochure goes to press, with 324 entities, of which 115 are investment undertakings, 121 specialised PSF and 88 auxiliary PSF, according to the CSSF (list as at 31 August 2012). These figures illustrate the position occupied by PSF in recent years.

Since 2007, the number of auxiliary PSF has grown by almost 60% and specialised PSF by 78%. Investment undertakings meanwhile grew at a more moderate pace, having risen by 25% since 2007 (figure 2). After an unchanged period between 2009 and 2010, the number of investment undertakings again grew by 6% in 2011.

This market momentum for the PSF industry is mainly explained by:

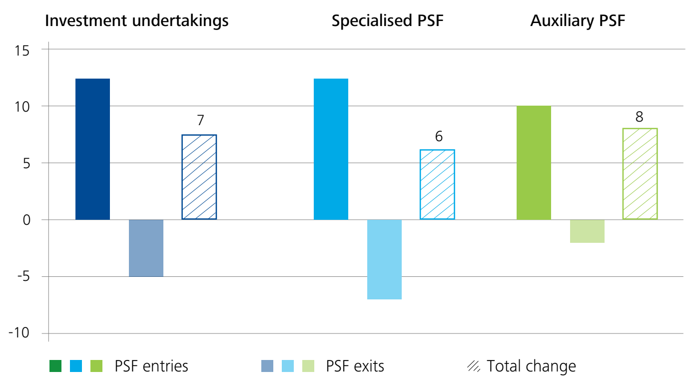
- The growth of the financial marketplace, particularly for the investment funds and company administration sector, which broadens the field of services an PSF is able to offer
- The heightened activity in financial and non-financial services for which PSF licensing is now mandatory
- The recognition of a quality label, as PSF are regulated by the CSSF
- The attractiveness of Luxembourg. Since 2007 more than 77% of the PSF created in Luxembourg are of foreign origin. This figure is constantly rising

Figure 2: Annual change in the number of PSF by category



Source: CSSF statistics: www.cssf.lu as at 31 August 2012

Figure 2b: PSF change by category - entries and exits in 2011



The gross annual change is that of a booming market with numerous PSF being formed and disappearing, characteristic signs of a young and dynamic market.

The increase in the number of PSF reflects both the formation of new companies, as well as the transformation of existing but unregulated companies into PSF.

Any decline in numbers reflects the abandonment of PSF status, liquidation or merger. For example, the decline in total numbers of specialised PSF in 2011 was mainly due to the absorption of the PSF Fastnet by Caceis Bank Luxembourg.

Discussion with Claude Eyschen CEO of CapitalatWork, Luxembourg

How do you see investment undertakings evolving in the Luxembourg economy?

Luxembourg's financial world is going through a profound transformation and I see two types of players who will emerge from this change as winners:

- Larger companies who are part of a major international group and who will benefit from economies of scale in the face of rising costs. These players are mostly in the banking sector
- Highly specialised investment undertakings that possess real skill which allows them to differentiate themselves in the eyes of an ever-more demanding clientele

I also think that proximity to the client will play an increasingly important role, as our clients are increasingly looking to be served locally. This is why we've chosen to base ourselves close to our Benelux clients: in addition to Luxembourg, we also have offices in Antwerp, Brussels, Ghent and Breda. Management competence runs across our group, but customer service happens locally.

What are the major challenges facing investment undertakings?

The biggest challenge remains the erosion of the traditional clientele. Companies that are part of a major international group will need to rely on intragroup networks to attract capital to Luxembourg. More specialised companies like ours will mainly be approaching local clients from Luxembourg.

Luxembourg's image also needs to be rebuilt. Our financial marketplace has been the target recently of unjustified attacks and I applaud the government's commitment and that of the various professional associations to correct and defend our image abroad.

Any Luxembourg investment company will tell you the same thing: the weight of regulations has considerably increased in recent years. No one disputes the importance of regulation, but the cost of implementing it puts pressure on the profitability of investment companies. We need to ensure these costs do not hold back the initiatives that have been taken in the sector, and that they don't hamper the necessary transformation that we are now experiencing.

Other factors, less directly related to the financial world, should continue to develop:

- Transportation infrastructure - I'm thinking here mainly of air transport to countries in Asia or Eastern Europe
- 'Premium real estate' for wealthy clients who may choose to reside in Luxembourg
- In general, a high-service-level culture because the NSWI and UHNWI that investment companies are targeting are not only just looking for financial products, but also for an environment that they are familiar with in other financial marketplaces

What advantages does Luxembourg offer investment undertakings?

Frank questioning is fundamental for permitting change, and that's what Luxembourg is doing. In early 2009, the old business model of the marketplace was coming to the end of its life. Since this self-searching began, many initiatives have been developed. It's therefore this willingness, I would even say this necessity to change, that constitutes the best opportunity for the Luxembourg financial world.

The biggest challenge remains the erosion of the traditional clientele

Often, we tend to focus only on our 'little' Luxembourg universe, and tell ourselves that the changes we're undergoing are not easy, but we forget how the financial sector operates in our neighbouring countries or in Switzerland: these countries have similar problems to those which we are experiencing today (regulation, declining profitability, capital flight), and in relation to them, Luxembourg is in better shape than many other financial centres.

Compared to non-European marketplaces, we have valuable advantages in the European passport and in the freedom to provide services. Luxembourg is still the most international country in the EU and its multiculturalism secures real advantages.

The economic crisis has also shown our clients that risk management is paramount and that the ability to acquire zero-risk assets, as we could before the crisis, is no more (I'm thinking of bank deposits, alternative products and even sovereign debt). Which makes clients more than ever inclined to seek the services and advice of an independent asset manager. The crisis has also put an end to the fashion for extremely complex financial products, incomprehensible to common mortals. Clients now want simple products, while becoming increasingly demanding for detailed information about the investments the manager is making. That allows companies with a coherent and consistent investment philosophy and real management and analysis skill to stand out from their rivals.

Aggregated balance sheet and net profits of PSF (figure 3)

The sum of the balance sheets of all the PSF amounted to €12,958 million at 31 December 2011 as compared to €11,421 million at the end of December 2010, a rise of 13% in balance sheet totals over one year. This change is mainly due to the increase in the business volumes of two PSF totalling €1,810 million: a specialised PSF licensed for lending operations and a investment undertaking licensed in 2010.

We note a concentration of business during 2011. As at 31 December 2011, the three PSF with the largest balance sheet totals (the entities cited above being two of them) represented nearly 50% of the total balance sheets of all PSF, whereas as at 31 December 2010, the three largest PSF represented nearly 44% of the total balance sheet.

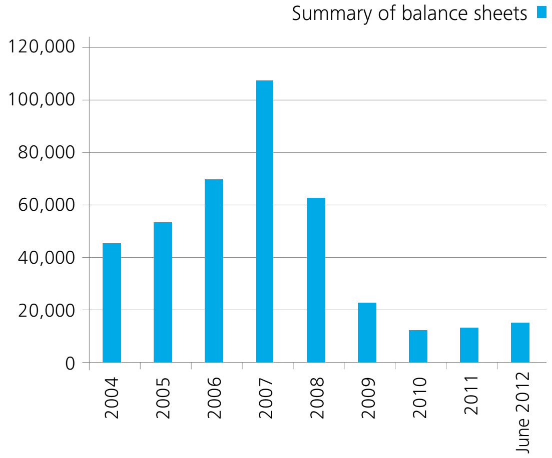
In view of the diverse range of actors covered by the term PSF, we prefer to use the net profit rather than the balance sheet as a criteria because we think it gives a more accurate depiction of the strength and reality of the industry.

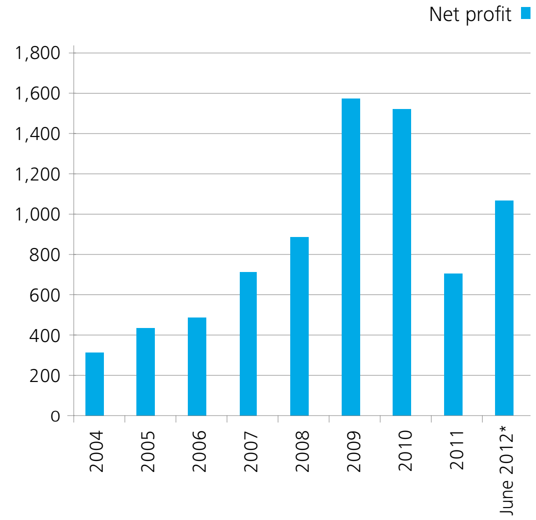
The PSF are now reporting considering this new criteria a total decline of over 50% in net results over a year, with total net revenues falling from €1,519 million at 31 December 2010 to €693 million at 31 December 2011. According to the CSSF, this negative change is mainly attributable to a single specialised PSF and does not reflect the trend seen among most PSF.

As at 31 December 2010, this PSF represented nearly 57% of the net revenues of all PSF combined (i.e. €860 million). In 2011, it only represented 9% of total net revenue (i.e. €62 million).

Excluding from the totals the result of this atypical structure, PSF' total net revenue declined by 4% against 2010 and were €631 million in 2011 (versus €659 million in 2010). As at 31 December 2011, the PSF with the highest revenue represented 33% of total revenue (i.e. €228 million).

Figure 3: Balance sheet totals and PSF profits (in € million)





Source: CSSF newsletter September 2011, latest information dated 31 July 2011

** For comparison purposes, the profit at 31 July 2011 was pro-rated over 12 months*

An analysis of the profits by category (figure 4) reveals that:

- Most of the PSF net profits (51%) were generated by specialised PSF. The share of specialised PSF is sharply down this year as a result of the decline in the results of the entity mentioned above
- The net revenue of investment undertakings have grown sharply since 2008, from €83 million in 2010 (up 250% in 3 years). In 2011, most entities saw their net revenues stabilise, but the decline in the net revenue of a major player was the main cause of the total reduction in 2011. However, given that this reduction is due to an isolated case, we may conclude that this stabilisation shows the strength of this sector in the face of the economic crisis

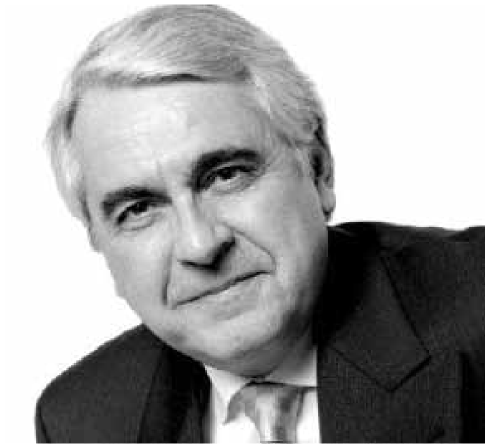
The weight of auxiliary PSF is relatively low compared with the size of the sector in terms of employment. Its share, nevertheless, continues to rise steadily.

Note that according to CSSF data as at 30 June 2012, and prorated over 12 months, PSF generated net revenues of over €1 billion in the 2012 financial year, an increase of more than €300 million versus 2011 (+44%).

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

(€ millions)	Balance sheet total						Net results					
	2009		2010		2011		2009		2010		2011	
	Amount	Relative share	Amount	Relative share	Amount	Relative share	Amount	Relative share	Amount	Relative share	Amount	Relative share
Investment undertakings	1,132	5%	1,655	15%	2,629	20%	171	11%	361	24%	297	43%
Specialised PSF	20,147	90%	8,746	77%	9,419	73%	1,377	87%	1,116	73%	353	51%
Auxiliary PSF	1,177	5%	1,020	9%	910	7%	30	2%	42	3%	44	6%
Total	22,456	100%	11,421	100%	12,958	100%	1,577	100%	1,452	100%	694	100%

Source: CSSF report 31 December 2011



Discussion with Jean-Claude Boutet, Partner at Intuitae

How is Luxembourg tackling the future in the *Family Office* field?

When and why did you decide to base yourself in Luxembourg?

Although still present in Switzerland and France, my partners and I decided to set up in Luxembourg in 2008. Luxembourg is an essential European and international hub in terms of financial engineering. This positioning allows us to satisfy our clients' desire for security via a real structure in Luxembourg and not via a 'letterbox address'. It also allowed us to be closer to Belgium, with a view to commercial development, given its attractiveness and the special relationships that the Kingdom has always had with the Grand Duchy.

The decision to set up in Luxembourg resides also in the fact that, historically, many families had structures in the Grand Duchy even before our company was founded. So for some families, we are merely continuing and strengthening a family strategy.

Why does your company prefer Luxembourg to other countries in terms of* Family Office *operations for your clients?

Because the particular characteristics of Luxembourg allow the Grand Duchy, we believe, to be ideally resourced to become a recognized marketplace in *Family Office* operations; indeed, better than our Swiss cousins, to satisfy the families we serve.

These characteristics include, notably, the wide spectrum of financial services offered, its experience in financial structuring, as well as its ability to adapt and its reactivity in the face of competing markets and economies. The country's political and economic stability, even in times of crisis, and the image resulting from it, coupled with an attractive fiscal policy are undeniable advantages in attracting and developing a competitive *Family Office* business.

However, in the interests of the families that we serve and taking into account the specifics of their assets, we are perfectly open to setting up a focused service in other centres of excellence in France, Belgium or Switzerland.

What is your long-term vision of the 'Luxembourg product' in the* Family Office *field?

I believe that Luxembourg has a role to play in the *Family Office* business, and can claim to be recognized in this field, on the strength of its experience in financial engineering, its economic stability and the constant concern of its authorities to operate a realistic and consistent fiscal policy and prove its attractiveness while adapting to international regulations.

I am also convinced that Luxembourg should not limit itself to only European families. Luxembourg's business will grow with the globalisation of its clientele. Europe is not the only place that has wealthy families. There are also countries in South-East Asia and South America with strongly growing economies. Families in these countries are currently looking along with Europe to diversify their assets and ensure a degree of stability despite the crisis. Although they are more familiar with Switzerland, Luxembourg already has a certain resonance in their ears.

Does the* Family Office *business need supervision?

Supervision of the *Family Office* business in the same way as any other financial service in Luxembourg is an absolute necessity on the one hand to prevent slippage and protect families' assets, and on the other to safeguard the Grand Duchy's image of excellence by guaranteeing the professionalism of its actors.

I am certain that all the key players in the *Family Office* field, namely lawyers, auditors, bankers and other service providers with whom *family officers* work on an ongoing basis will benefit from regulatory supervision.

The draft legislation must, however, be rapidly detailed and passed in order to set up the bases of this supervision, the effectiveness of which will depend on how precisely our business activities can be defined. Well aware of the extent of the challenges and opportunities this regulation represents as regards to our image, our future and in a way the future of the Grand Duchy, we are ready to adapt to any changes that the regulation might induce.

I believe that Luxembourg has a role to play in the Family Office business, and can claim to be recognised in this field ”

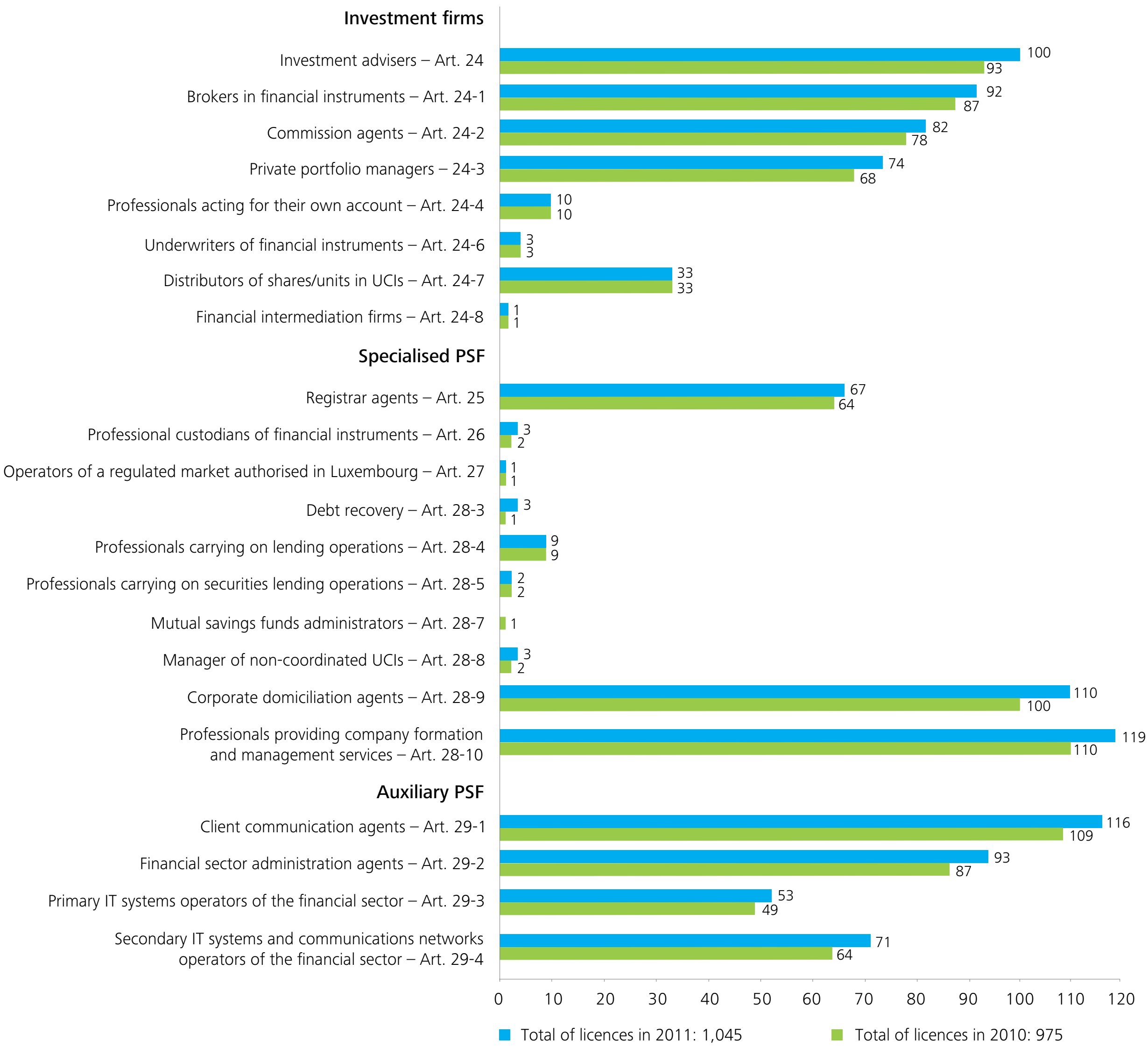
Distribution of the number of licences

In 2011 as in 2010, the licences most widely granted are those under Art. 28-10 'Professionals providing company formation and management services', followed closely by Art. 29-1 'Client communication agents' and Art. 28-9 'Corporate domiciliation agents'. These three articles represent a third of the licences granted as at 31 December 2011 (as also in 2010). Licensing applications for these three activities increased by 31%, 26% and 28%, respectively, between 2009 and 2011 (see figure 5b).

The most popular licence in 2009, Article 24 'Investment advisers' had dropped to 4th place as at 31 December 2011, although its numbers continued to rise by 6% between 2009 and 2011. This slight levelling off was also seen in most investment undertaking licences.

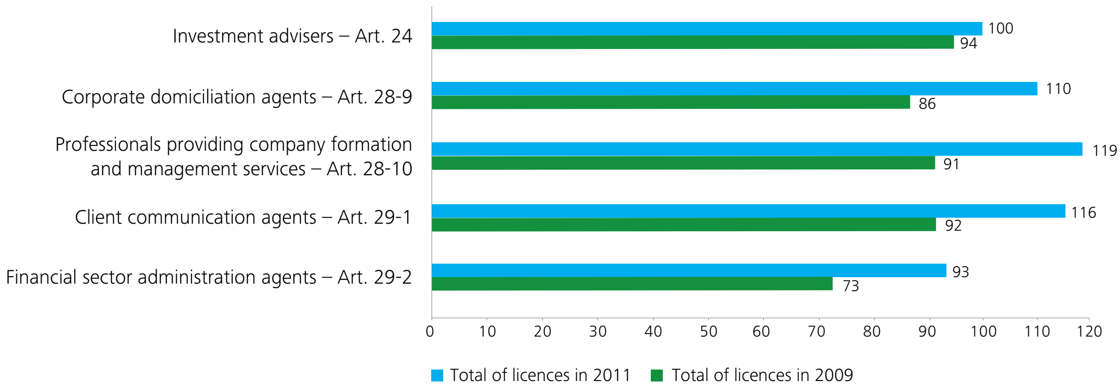
Note the sharp increase in licences under Article 25 'Registrar agents' from 51 in 2009 to 67 in 2011, a 31% rise, and for licences under Article 29-2 'Financial sector administration agents' from 73 to 93 between 2009 and 2011, up 27%.

Figure 5: Total number of PSF licences at 31 December 2010 and 31 December 2011



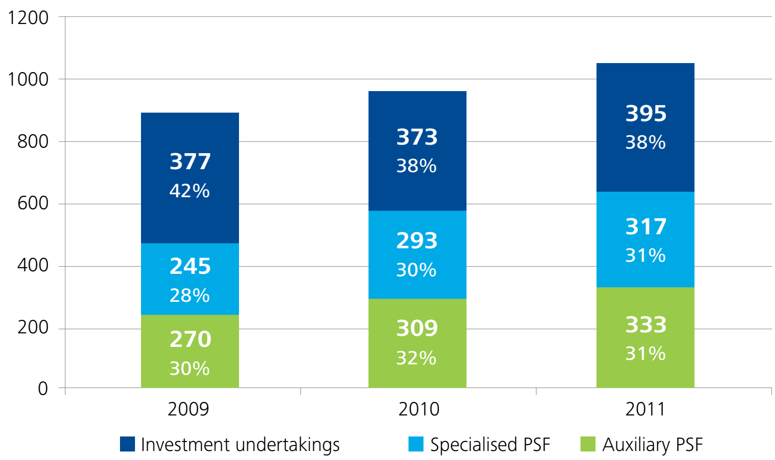
We see that three licences have not been granted at all to date. These are licences under Article 24-5 'Market makers', Article 24-9 'Investment firms operating an MTF in Luxembourg' and Article 28-2 'Persons carrying out foreign exchange cash operations'.

Figure 5b: Change between 2009 and 2011 of the five most-granted PSF licences as at 31 December 2011



PSF often tend to apply for more licences than necessary when they are setting up. They hope thereby 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.

Figure 6: Number and breakdown of licences since 2009



The Figure above shows a change in the trend since 2009, with a more balanced distribution of licences. The most common forms of licences are for investment undertakings, which accounted for nearly 38% of licences in 2011.

Figure 6b: Change in PSF licences over 2010 and 2011

Source of increases and declines in licences	Investment undertakings		Specialised PSF		Auxiliary PSF	
	2010	2011	2010	2011	2010	2011
PSF created	52	19	47	34	51	34
Existing PSF	(14)	19	12	(1)	5	(2)
PSF withdrawn	(42)	(16)	(11)	(9)	(17)	(8)
Total change in number of licences	**(4)**	**22**	**48**	**24**	**39**	**24**

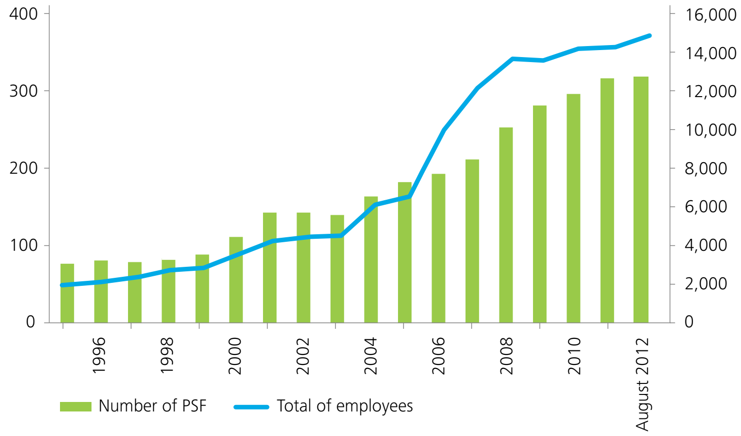
Figure 6b shows the source of licences granted or withdrawn by the CSSF in 2010 and 2011.

These refer to PSF created during the year, PSF that already existed (that obtained supplementary licences or that decided to give up certain licences), and entities that totally gave up their PSF status.

We see less movement between 2010 and 2011. Although some of the investment undertaking licences were granted to existing PSF, that was not true of specialised and auxiliary PSF licences.

In fact, most of the changes in specialised and auxiliary PSF licences reflected the entry of a new PSF or the exit of an existing PSF.

Figure 7: Summary of jobs by year and comparison with movements in the number of PSF



Year	Number of PSF	Total of employees
1995	78	1,827
1996	82	2,017
1997	80	2,323
1998	83	2,612
1999	90	2,788
2000	113	3,499
2001	145	4,176
2002	145	4,399
2003	142	4,455
2004	166	6,059
2005	185	6,547
2006	196	9,928
2007	215	12,174
2008	257	13,605
2009	286	13,485
2010	301	14,159
2011	322	14,217
August 2012	324	14,816

The PSF: a consistent and steady employer

According to the latest CSSF estimates as at 31 December 2011, PSF (including auxiliary PSF) employed 14,217 people, while banking had only 12,478 more.

Based on the survey carried out by the HCPF on the situation existing at 31 December 2010, we estimate that the PSF sector accounts for 2% of the total jobs of the working population in the Grand Duchy.

PSF are Luxembourg's second-largest employers in the financial industry, ahead of insurance and management companies (figure 1, page 6).

Employment in PSF

Employee numbers in recent years have grown almost non-stop (figure 7).

Between 2008 and 2011, PSF jobs increased by more than 10%, while jobs in banking, which had increased slightly in 2011, declined overall by nearly 2% over the same period.

The slight increase in the workforce between 2010 and 2011 was connected to two events:

- The absorption of Fastnet by Caceis Bank Luxembourg, resulting in the transfer of nearly 550 employees to the banking sector
- The entry of one auxiliary PSF, which created nearly 300 jobs

The remaining PSF experienced a slight increase.

Employment by auxiliary PSF is shown in figure 8:

We see that more than 12% of auxiliary PSF employees are manual workers, including 86% who are part time. Employees represent 81% of auxiliary PSF staff. These data are similar to 2010.

The ratio of female employment in 2011 was 22.3% in auxiliary PSF, as it was in 2010. It remains well below the rate in banks, which was 46% in 2011. The nature of these PSF, focused mainly on IT or protection, largely explains this situation.

Figure 8: Breakdown of jobs by employee category in auxiliary PSF

	2010	2011	Change 2010 - 2011
Executive staff	539	615	76
Administrative staff	6,719	7,042	323
Logistical staff	991	1,022	31
of which part-time	*796*	*879*	83
Total	**8,249**	**8,679**	**430**
Men	**6,397**	**6,740**	**343**
Women	**1,852**	**1,939**	**87**
Employment rate of women	**22.5%**	**22.3%**	

Discussion with Serge Krancenblum CEO of SGG

What is your assessment of the Luxembourg environment?

The domiciliation business has, in recent years, heavily underpinned LBO (Leveraged Buy-Out), Real Estate and Private Equity structures. The continuing crisis since 2008, however, touches all these operations, naturally impacting our activities. Certainly, there are fewer operations, fewer creations, and smaller operations while the duration of the cycle of these operations is getting longer. There are therefore fewer entrants, but the impact is mitigated by a small number of entities exiting.

In this context, competition between domiciliation agents tends to intensify. The market originally consisted of a few large players and a mass of small and medium-sized entities. Today, new players are appearing in Luxembourg from the Channel Islands and the West Indies (Jersey Trust, Capita, IPES, etc.) and elsewhere, and the large mainly Dutch groups are still present (TMF, Orangefield, Intertrust, etc.). These domiciliation agents are looking for new opportunities alongside their more mature internal markets. We are also seeing increased competition between Luxembourg domiciliation agents.

> We are a country that values law, is solid and stable and has an extraordinary advantage: the quality of its people

Alongside these players, banks, which are historically significant rivals for private client business, with some of the most aggressive practices, seem to be increasingly withdrawing. They are currently in the grip of global decisions to reduce their activities.

The market is therefore becoming complex from various points of view: in terms of size and competition, in terms of products and in terms of geographical coverage.

How do the see your marketplace's future?

We will certainly see a lot of consolidation in this sector. Paradoxically, there will continue to be new players; entrepreneurs who are currently employees of banks or PSF. Typically, these domiciliation agents could again be sellers within 7 to 10 years.

I am convinced that the market will continue to grow, certainly not at the same pace as before, but it will do so. Although over the years Luxembourg has had to fight to be known, we are today entering into a virtuous circle: Luxembourg is 'the' country to be in. Major international legal firms, which are involved in setting up most financial structures, are now very familiar with the Grand Duchy's advantages.

You seem to be suggesting that Luxembourg's advantages have developed?

The structuring market is organised around three segments: HNWI (High Net Worth Individuals), institutions, and major groups.

Luxembourg now has a clear lead on other marketplaces in being virtually the only fully active and extremely skilled player in these three client segments.

It allows Luxembourg to offer multiple languages, financial statements in various currencies, and less onerous taxation than other European states such as Cyprus, and to stay smart and predictable.

We are a country that values law, is solid and stable and has an extraordinary advantage: the quality of its people. We have a fabulous talent pool of highly educated professionals and experts that also happen to be widely multilingual. Whether they are bankers, PSF, or legal or audit consultancies, we have thousands of them. They are also a driving force for market creativity and development.

Luxembourg also has an exceptional range of structuring vehicles for institutional, corporate and private clients. This range should soon be supplemented by trusts and private foundations. Our *limited partnership*, currently being overhauled, should win over Anglo-Saxon players used to these structures.

The government's open and constructive approach is a remarkable opportunity.

For investment funds, I see AIFM as an opportunity for Luxembourg to boost its standing vis-a-vis the Channel Islands.

What are the biggest challenges that you see here?

It is clearly distortions in competition between unregulated and regulated professionals, especially those who operate with the CSSF framework. Our political and supervisory authorities undoubtedly face immense pressure from other countries. These pressures are sometimes significantly tinged with protectionism. Since everyone attempts to highlight their rivals' weaknesses, it is always difficult to maintain relationships.

Costs are now more than ever a challenge, with the very major problem of pay indexation in a market that tolerates fee hikes less and less. The cost of regulatory constraints weighs more heavily, especially on PSF with fewer than 30 employees.

Brand image is essential for Luxembourg. We need to state loud and clear who we are and promote our fields of excellence. We therefore need to be even more professional, eliminate 'DIYers' to preserve our market's reputation, get involved in professional associations in order to effectively support promotional and development initiatives undertaken by the government.

We owe much to Luxembourg and it is up to all of us to contribute as we can to its success.

”

More representation through professional associations

PSF are subject to supervision by the CSSF. The PSF status is subject to a licence granted by the Ministre des Finances following a recommendation by the CSSF. The conditions for obtaining this status include notably initial capitalisation, integrity, competence of management and adequate governance based on a central administration in Luxembourg.

Among the professional associations, the following are the most prominent of those representing the interests of the PSF:

ALPP
(Association Luxembourgeoise des Professionnels du Patrimoine)
A non-profit making organisation. It includes over 100 independent companies, established in Luxembourg, whose complementary activities cover the entire range of financial and asset-management services for an international clientele of companies and private individuals.

Tel: +352 27 85 87 77
Fax: +352 26 26 49 22
www.alpp.lu
info@alpp.lu

LIMSA (Luxembourg International Management Services Association)

Created in 2004, the purpose of this association is to promote the interests of corporate domiciliation agents based in the Grand Duchy of Luxembourg, in the broadest sense of the term, and to defend the professional interests of affiliated members.

It organises seminars and other meetings and develops initiatives centrally that would be too costly or too difficult for members to implement on their own. It promotes the missions of company domiciliation agents and defends their interests vis-à-vis the authorities, in particular by sitting on various consultative bodies and commissions, domestically as well as internationally. It maintains contacts with authorities, other professional organisations, professional Chambers and other corporate institutions.

Tel: +352 46 61 11-2609
Fax: +352 46 85 10
www.limsa.lu
limsa@sgg.lu

ALFI
(Association Luxembourgeoise des Fonds d'Investissement)
This body officially represents Luxembourg investment funds and includes a wide selection of service providers: custodian banks, fund managers and administrators, transfer agents, fund distributors, law firms, consultants and tax advisers, auditors and accounting firms, IT service providers etc. Its mission is to make Luxembourg the most attractive centre for international investment funds.

Tel: +352 22 30 26 – 1
Fax: +352 22 30 93
www.alfi.lu
info@alfi.lu

Association des PSF de support
This association was created in 2007 and currently has over 50 active corporate members which provide services to financial institutions. This platform's mission is to inform SSIS members about changes in outlook for the professions in question, synergy between players with a view to securing for Luxembourg projects with an international dimension, and proactive handling of current topics relating directly to auxiliary PSF.

Tel: +352 43 53 66 – 1
Fax: +352 43 23 28
psfsupport@fedil.lu

Numerous other organisations gravitate around PSF, including the following:

IFMA
(The International Facility Management Association)
IFMA Luxembourg is the local branch of this international association. With over 20,000 members in 50 countries, the association is open to *Facility Managers* and provides them with the expertise needed to carry out their activities.

Tel: +352 26 005 400
contact@ifma.lu
www.ifma.org

L.A.F.O.
(Luxembourg Association for Family Offices)
This relatively young Luxembourg professional association, with around thirty members, specialises in the *Family Office* sector. The Family officer is primarily an association for service providers to wealthy families and entities, which coordinate, manage and supervise all the services to their clients (asset management, law firms, tax advisers, banks, trust, notaries etc).

Tel: +352 27 85 87 77
info@lafo.lu
www.lafo.lu

FedISA
(Fédération de l'IML - Information Lifecycle Management, du Stockage et de l'Archivage)
Formed on 26 March 2010, FedISA Luxembourg is a non-profit making association for innovation in paperless issues and electronic archiving. Its purpose is to bring together the players in the Luxembourg market: experts, users and suppliers of information life cycle management, paperless systems, electronic archiving and storage products and services, such as OSIPs and OSISs (auxiliary PSF).

www.fedisa.eu
(the Luxembourg website is being set up)

Contacts:
Roland Bastin: rbastin@deloitte.lu
Cyril Pierre-Beausse: cyril.pierre-beausse@allenovery.com

AGDL
(Association pour la Garantie des Dépôts)
AGDL provides a mutual guarantee system covering cash deposits (deposit guarantee) and claims resulting from investment transactions (compensation of investors) as defined by the Law and its articles of association for its members' clients and investors. The members of the AGDL are banks, Financial Services of the Post Office (Services Financiers de l'Entreprise des Postes et Télécommunications) and investment firms.

Tel: +352 46 36 60 – 1
Fax: +352 46 09 21
www.agdl.lu
info@agdl.lu

ISACA
(Information Systems Audit and Control Association)
With over 86,000 members in more than 160 countries, of which approximately one hundred are located in Luxembourg, the ISACA is a major worldwide provider of knowledge, certification, exchange, promotion and security training in information technology (IT), systems security and assurance, corporate governance of information technology companies and management of IT risk and compliance. Founded in 1969, ISACA acts as a promoter of international conferences, publishes a magazine and develops international systems for auditing and information system management. The institution is open to IT auditors who may be involved with PSF.

www.isaca.lu
isacalux@gmail.com

IRE
(Institut des Réviseurs d'Entreprises)
The IRE members are registered company auditors (réviseurs d'entreprises) and approved auditing firms. It represents the rights and interests of the profession, issues norms relating to contractual auditing, ensures compliance with professional standards and duties and to legislation on money laundering and the financing of terrorism. It also performs the tasks allocated to it by the CSSF. The PSF commission within this institution demonstrates the benefit of the IRE to the industry.

Tel: +352 29 11 39 – 1
contact@ire.lu
www.ire.lu

IIA Luxembourg
(Institute of Internal Auditors)
IIA Luxembourg is the local branch of the Institut des Auditeurs Internes and the promoter of the Code of Ethics and standards guiding the profession.
IIA Luxembourg currently has around 400 members employed by nearly 100 companies based in Luxembourg, covering all sectors of business. The institution is open to internal auditors who cover PSF.

Tel: + 352 26 27 09 04
www.iia.lu
iialux@pt.lu

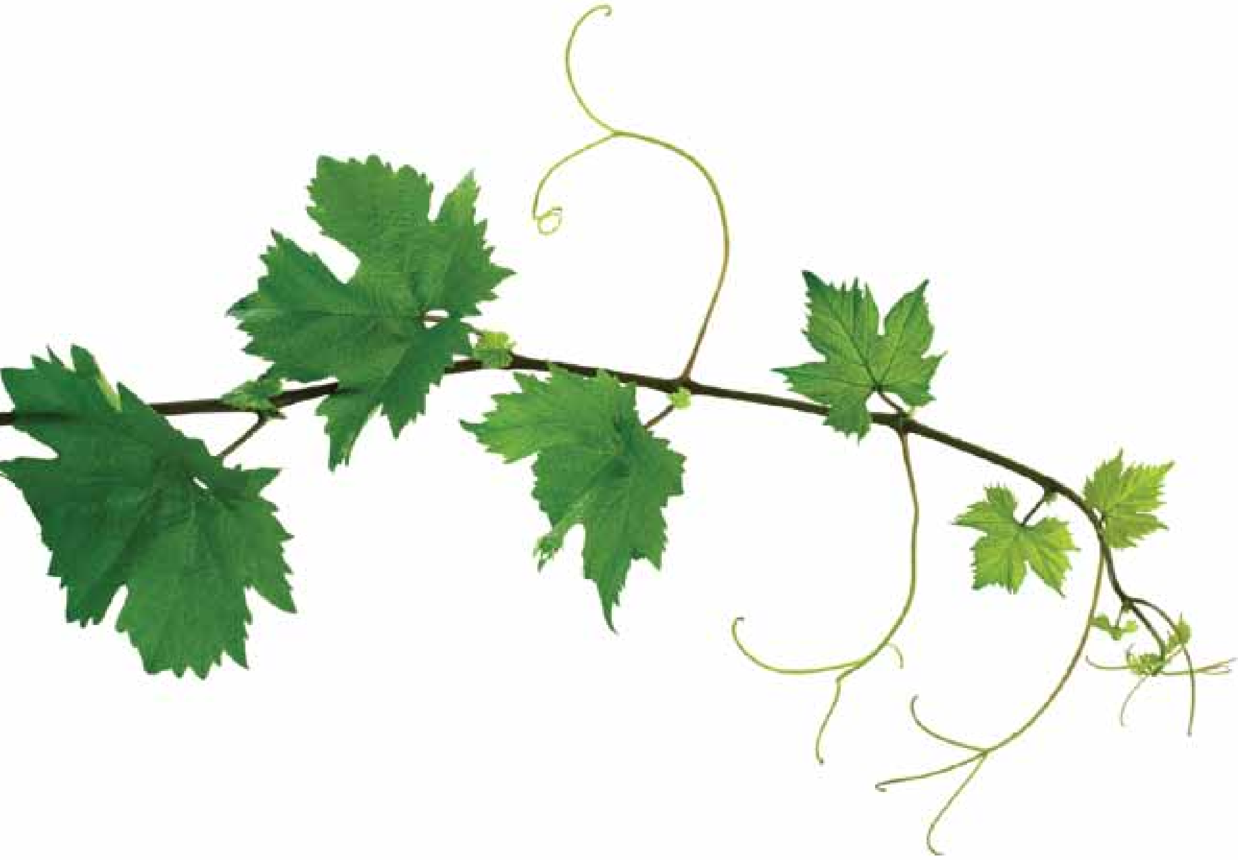
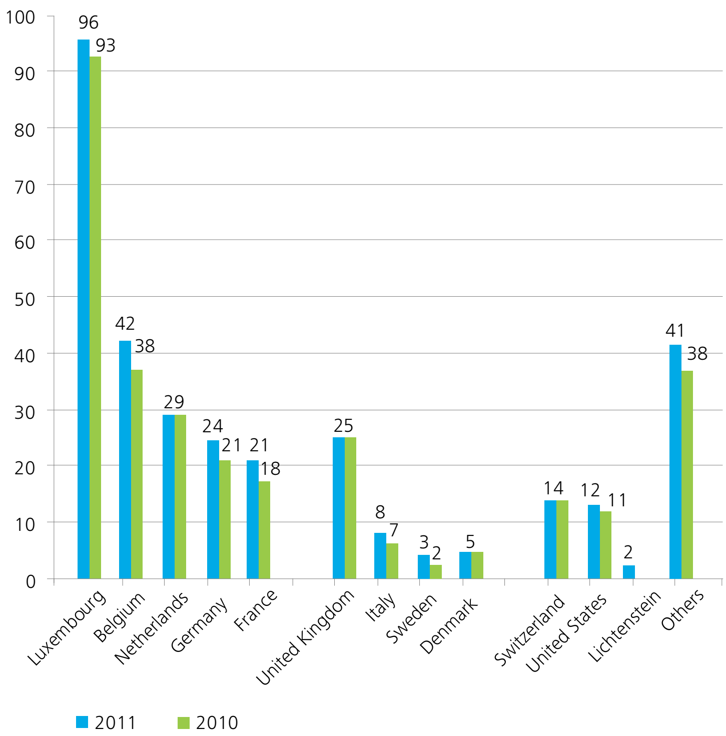


Figure 9: Geographical origins of PSF



Source: CSSF statistics www.cssf.lu

Players of diverse geographical origins

The diverse nature of the geographical origins of PSF demonstrates the interest many countries have in the sector. The chart above tends to demonstrate the major importance of Luxembourg PSF, emphasising the existence and development of a dynamic local market.

There are 116 actors from neighbouring countries such as Belgium, France, Germany and the Netherlands.

Two-thirds of PSF are therefore local players from neighbouring countries with geographically close owners and directors. This is in contrast with the banking sector, where the players are much more international.

Nevertheless, the PSF market has highly international origins albeit principally European.

In fact, 79% of PSF are from the European Union. The country with the largest growth in PSF between 2007 and 2011 is the UK with 17 new PSF, an increase of 113%. The United Kingdom is now 4th place in terms of the origin of PSF after the Netherlands and Germany.

Not-in-bank depositary function – Broaden the PSF's horizon

PSF have their stake to act as a depositary for the* 'not-in-bank' *assets, especially for Private Equity and Real Estate

Two of the major EU regulations on the Investment Funds industry, AIFMD and UCITS V, are aiming at harmonising and re-defining the role of the depositary function. One of the main aspects is the possibility for EU MiFID investment firms and supervised legal persons with guarantees and prudential regulation to qualify for the depositary function. While funds essentially investing in financial instruments that can be held under custody will merely remain in safekeeping with credit institutions, the monitoring duties on other assets or 'not-in-bank assets' can represent an opportunity for PSF actors, such as fiduciary companies, family offices or domiciliary agents, to enter the depositary activity for schemes mainly investing in non-financial assets. This regulatory dichotomy between assets that can be held under custody and other assets has its origin with current set-ups in different EU jurisdictions where no depositary bank is required for various Private Equity (PE) and Real Estate (RE) investment schemes not sold to the public (e.g. Limited Partnership in UK).

This upcoming regulatory alignment across the different EU jurisdictions represents a real opportunity for PSF to diversify and expand their service offering along the asset servicing value chain. Furthermore, this new service could also represent an additional advantage for the PSF to increase their client retention by proposing a "one-stop-shop" offering.

Even if not-in-bank assets are not yet clearly defined by the regulation, we consider the main opportunity for PSF institutions resides in RE and PE investment schemes. More specifically, this possibility to deposit 'not-in-bank' assets with an PSF will be mainly applicable to the Luxembourg SIF and SICAR schemes, as structures falling under the Part II of the 2010 Law can also be distributed to retail investors, triggering more stringent requirements for the depositary.

PE and RE specialised PSF have real opportunities to lock their client base and diversify their service offering

In both AIFMD and UCITS V regulations, an important difference is made between safekeeping duties on financial or 'in-bank' assets and monitoring duties on other or 'not-in-bank' assets. In case of loss of financial assets in custody (i.e. safekeeping), the depositary has the obligation to return an identical type or the corresponding amount of the assets whereas for other assets not held under custody, the monitoring duties mainly consist in verifying the ownership of these assets. This difference is a key factor for PSF entities that consider entering this new market segment of the depositary activity. In addition, some PSF organisations may have a real competitive advantage towards banking entities in relation to not-in-bank assets depositary activities. For instance, PSF central administrators of PE/RE investment schemes will be in a position to leverage the information and documentation already in their possession to perform the monitoring duties on not-in

Benjamin Collette
Partner
Strategy and Corporate Finance
Deloitte Luxembourg

Simon Ramos
Directeur
Advisory and Consulting
Deloitte Luxembourg

bank assets. In addition, PE/RE asset classes are a rather 'niche' business requiring a specific expertise that is currently not necessarily offered by all banks acting as fund depositaries and for which certain PSF firms have already gained sound expertise. This experience and knowledge of all process flows related to the PE/RE investment funds can be leveraged for the depositary function as well. A further advantage of potential new market entrants PSF is their ability to serve smaller structures which might be out of major fund custodian's target clients due to assets size profitability thresholds. As a result, PSF could even not be considered Furthermore, the new role of the depositary under AIFMD and UCITS V may lead certain financial services groups to review their operating model and potentially seek for partnerships (e.g. joint-ventures) or even sell their PE/RE asset servicing business to focus on more streamlined vanilla business. Another advantage for certain PSF service providers, such as domiciliary agents, is their existing relationship with a client base with a real appetite for dedicated and non-vanilla investment schemes. This client base may see in the new regulation the opportunity to package their holdings in regulated vehicles requiring an entrusted depositary partner and service provider who can provide them with a 'one-stop-shop' service offering. In a nutshell, PSF can seize the regulatory opportunity to lock its existing client base by leveraging its current client relationship and experience on RE/PE operating model while it can become a single point of contact by expanding its offering across the entire asset servicing value chain, hence, Domiciliary, Fund Administration, Transfer Agency and Depositary services. This new strategic positioning and diversification is also a real opportunity for PSF to address additional market share on the PE/RE niche.

PSF will need to be ready towards the challenges related to the depositary function

The above opportunities will be reserved to PSF actors which are able to meet the considerable challenges in relation to entering the depositary activity. First of all and despite the fact that the not-in-bank depositary will 'only' have ownership verification and recordkeeping duties, the depositary PSF will also have to supervise certain functions which are typically part of banking activities (e.g. cash monitoring, collateral management, IPO, leverage reporting). The depositary PSF will also have to set-up a sound controls framework to cover its supervisory duties on items such as the NAV calculation, fund income distribution, transactions involving the assets of the fund or investment compliance monitoring. In addition, the depositary PSF will also need to implement an information flow with sub-custodians and other counterparties of the fund (e.g. prime brokers, OTC derivative agents, target fund administrators, property manager, notary) in order to perform its initial and on-going due diligence responsibilities. The implementation of such information flows and controls framework is well known by major fund custodians but might represent a cultural switch from manual ad hoc to streamlined processes for PSF depositaries. Such a change in an organisation's operating model can also bring forward business scalability issues in case of significant increase of the assets under custody and the related operating and controls processes. An open point currently discussed by most regulators is the capital requirements for such PSF depositaries. The depositary license may be triggered by potential capital requirements comparable to banks. Further topics might become a challenge for PSF depositaries and shall be closely monitored. Would the PSF depositary be submitted to shadow banking rules? Will there be a conflict of interests issue for fund administrator that will also become depositary? What will be the fiscal impacts if the PSF depositary appears in the underlying SPV register as the owner of the assets to prevent from any fraud from the fund manager?

PSF shall define their strategy and re-design their operating model right now

All in all, we see a real opportunity for PSF PE/RE central administrators, domiciliary agents or family offices to penetrate the not-in-bank depositary market. We also believe it is the right moment for these PSF to initiate their strategic service positioning and go-to-market approach. As a second step, the most successful actors will perform gap analyses on their current controls and operating processes in order to meet the requirements linked to the depositary function and re-design their operating model. Strong regulatory watch and interpretation skills will also be keys for the wining stake. Deloitte can leverage its strong knowledge on the strategic, regulatory and operational issues in the asset servicing industry for both vanilla and non-financial asset classes. We can cover any aspect of the depositary value chain and assist you to catch the opportunity offered by the new regulation. We can become your entrusted partner to guide you through this major step in your organisation. Together, we can answer essential questions such as – how can I leverage my existing client base? – do I have sufficient capital requirements to become a PSF depositary? – is my operating model scalable in relation to my business plan? shall I enter into business partnerships with other asset servicing providers, if yes, with whom? – how can I increase my asset servicing market share via a depositary offering? – shall I tackle local investment schemes only or open foreign subsidiaries to serve internationally domiciled schemes? – what will my day-to-day operations consist in as a PSF depositary? – what is a pragmatic controls framework and due diligence process? – what is the latest regulatory standpoint and how do my PSF competitors react?

This upcoming regulatory alignment across the different EU jurisdictions represents a real opportunity for PSF to diversify and expand their service offering along the asset servicing value chain

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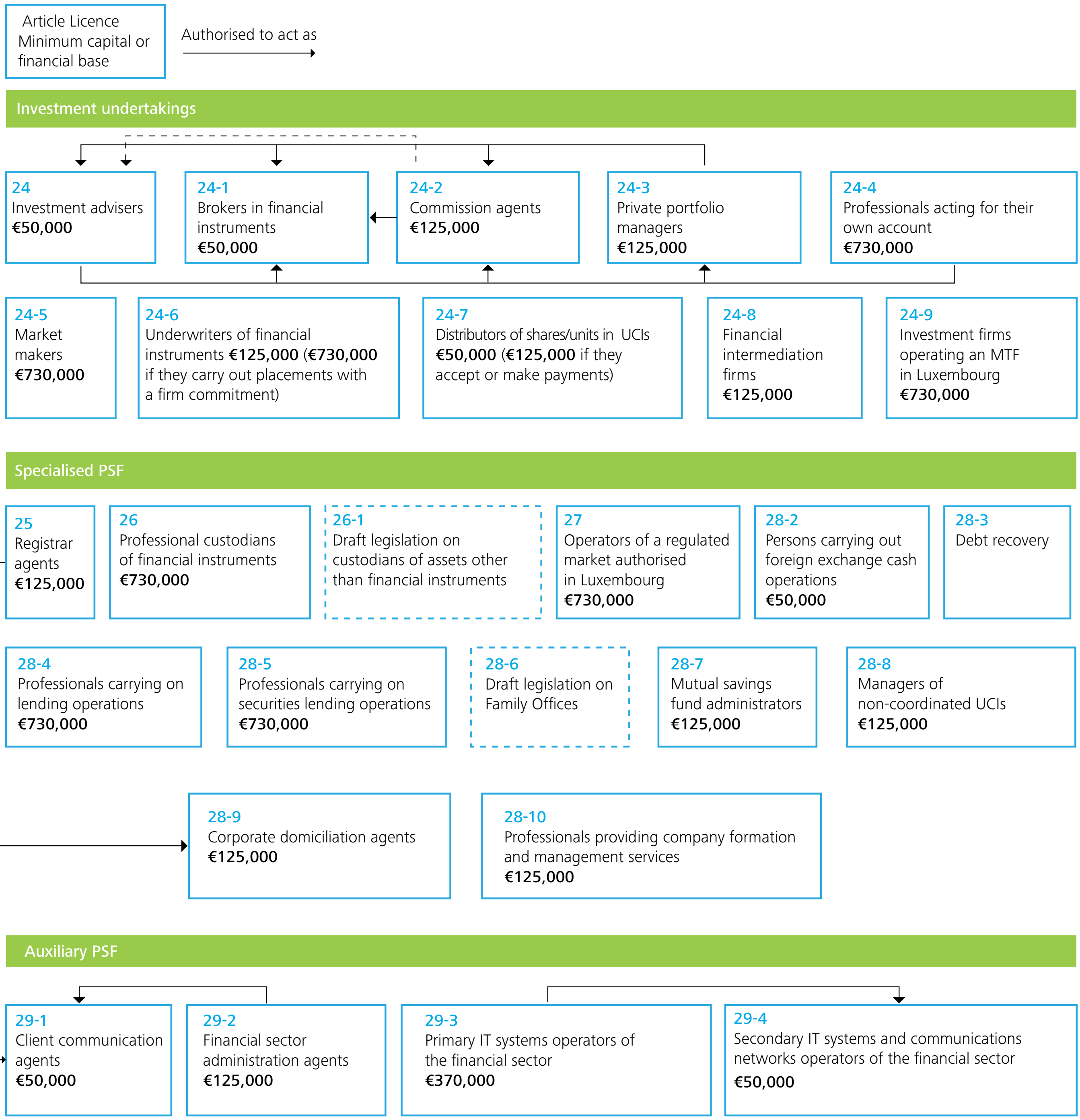
Types of PSF

Detailed description of licences

The following table shows in diagrammatic form the various categories as well as the various PSF licences.



Discussion with Charles Mandica President of the Auxiliary PSF Association and CEO of Steria PSF Luxembourg

How do you see the auxiliary PSF that you represent changing in the Luxembourg economy?

As in 2007, we are again at a turning point in the history of Auxiliary PSF. Since their creation, we have observed a lot of imagination and flexibility in creating this type of licensing and nearly a hundred companies now hold licences. A force for change led by the new CSSF circular 12/544, *"Optimisation by a risk-based approach to supervision of Auxiliary PSF"*, should be forthcoming and we should see in 2013 the first era of their status strengthened by this Circular. If not for the financial crisis, this Circular would have perhaps been issued differently, in any case not in its present form with more stringent risk management requirements. It demonstrates the CSSF's intention to tighten supervision of the financial sector.

This desire to tighten prudential supervision runs the risk, in the short term, of holding back growth in the number of Auxiliary PSF. It will probably restrict entry for some and could also drive other existing PSF out of the regulated sector and put an end to some activities. We consequently need to wait for the sector to be restructured in this new era ushered in by CSSF circular 12/544.

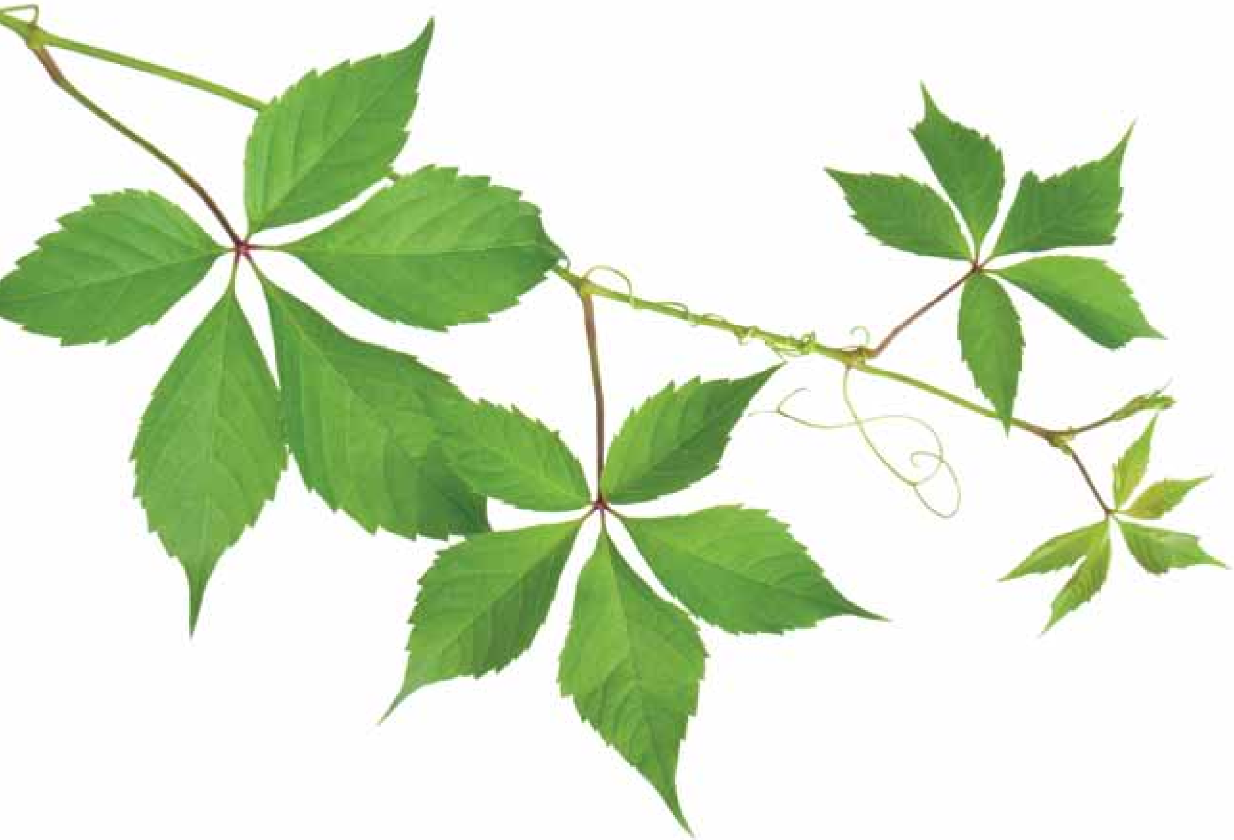
These changes are also linked to technological changes with the advent of cloud computing. Draft legislation has recently been tabled by the Justice Ministry to provide additional guarantees to clients in the event that a cloud service provider (CSP) goes bankrupt. This is positive for Luxembourg's positioning. However, the intention is not to create a new auxiliary PSF status for cloud computing. In my opinion, we have enough licences at present and these activities could be provided through existing licences.

What are the main challenges in the PSF business that you represent?

Our clients and the market seem satisfied with the implementation of the new CSSF circular 12/544, as they need more governance and transparency, in this period of tighter regulation. This Circular thus gives clients more added value, but the challenge will also be to sell it because this heightened security will come at a cost. One corollary will be, as mentioned above, additional pressure on investments and therefore greater market concentration.

Along with this challenge that is specific to Auxiliary PSF, other more global challenges in the Luxembourg financial sector as a whole will impact us, namely the economic crisis, increasing State deficits and wage increases. We need to find adjustments fast to avoid slippage and loss of competitiveness that could have repercussions throughout the economy.

I believe that we can sometimes run out of steam, not grasp the nettle, in terms of ideas and new projects in Luxembourg. Today's generation has never experienced



Luxembourg is the only country to have this type of regulated status and governance for Auxiliary PSF and I am convinced that this distinct advantage will translate into a competitive one

economic decay, despite various crises. The present wait-&-see attitude can lead to such a decay and we need to find new growth vectors and be more proactive in this regard. In terms of auxiliary PSF, one of these values is probably the development and recognition of a status abroad that would limit the effects of a relative saturation of the local market.

What advantages does Luxembourg offer the PSF that you represent?

Luxembourg is the only country to have this type of regulated status and governance for auxiliary PSF and I am convinced that this distinct advantage will translate into a competitive one. Information management has many advantages as it offers the possibility of modulating outsourcing variables much more easily than internalising the services.

Banking confidentiality, in the strict sense, has won out. Professional confidentiality, discretion, know-how and data protection attract many clients to Luxembourg. This is a continuing advantage for Luxembourg's marketplace in comparison with other countries that do not have these possibilities.

Furthermore, Luxembourg has set up serious infrastructures, especially in terms of fibre optic networks and data centres, which are attractive for clients and boost our members' competitiveness. Skill and expertise are also evident, on both technical and linguistic levels. Social harmony and dialogue contribute to all of these.

Although very dependent on the growth of the financial sector that we serve, and the decisions of international groups, I am convinced that our members have the necessary advantages to adapt to the demands and needs of the market.

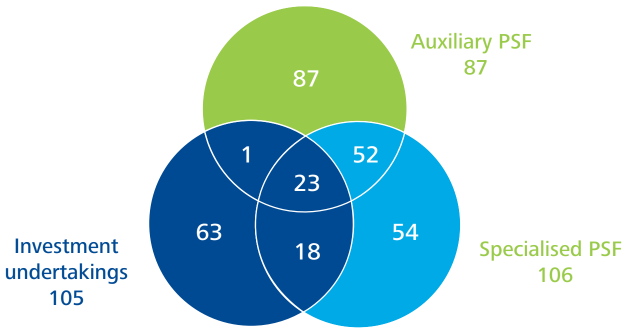
Our ambition, as the Association of Auxiliary PSF, is to promote these advantages in a structured way abroad in order to position Luxembourg as the 'International Trusts Centre' in the European Union.

The appendix includes a summary table of key information on PSF by type of licence, the legal definition of the licence and products and services offered, the minimum required capital 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 licences that are largely unrelated to each other, there are more than 33 million combinations of licences possible. At 31 December 2011, there were only 322 PSF. It is interesting to look at the main combinations of licences that we have now.

Figure 10: PSF licences by category

At 31 December 2011



At 31 December 2010

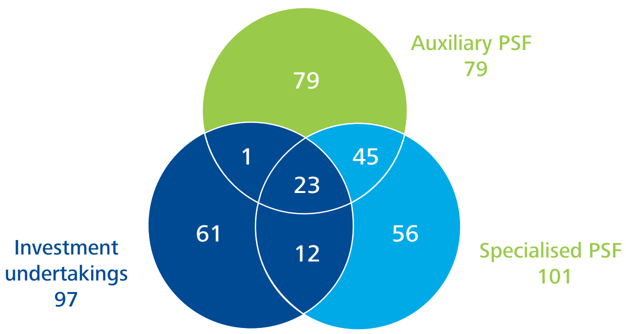


Figure 10 opposite shows the licences by main categories and the overlaps between categories as at 31 December 2010 and 31 December 2011. PSF have the option of combining several licences but it is the principal PSF licence allocated by the CSSF which determines the category of the PSF.

An investment undertaking licence takes precedence over the other categories of specialised PSF or auxiliary PSF and is therefore the PSF's principal licence. The PSF would be identified in this case as an investment undertaking.

A specialised PSF licence takes precedence over an auxiliary PSF licence and would therefore be the PSF's main category. The PSF would then be identified as a specialised PSF.

It follows therefore that auxiliary PSF do not have an investment undertaking licence or specialised PSF licence.

The total number of PSF included in this analysis at 31 December 2011 was 298:

- 105 investment undertakings
- 106 specialised PSF - 18 actors with investment undertaking status have already been identified above and are therefore not counted as specialised PSF
- 87 auxiliary PSF - 76 actors with investment undertaking status have already been identified above and are therefore not counted as specialised PSF

For comparison purposes, the total number of PSF included in our analysis at 31 December 2010 was 277* including:

- 97 investment undertakings
- 101 specialised PSF
- 79 auxiliary PSF

Entities authorised pursuant to Articles 24 to 24-9 were classified as investment undertakings. Specialised PSF are entities authorised under Articles 25 to 28-10. Auxiliary PSF are entities that only have licences under Articles 29-1 to 29-4.

** Deloitte Brochure 'PSF, Profile of a high growth sector' issued in November 2011*

Of the 322 PSF in existence at 31 December 2011, the following 24 were excluded from the analysis in order to avoid creating an excessive distortion between actors in terms of activity and/or size:

- 4 PSF with special status
- 9 PSF with single status
- 11 PSF that are branches of European entities

These branches are in fact part of foreign entities that are not subject to the Luxembourg Law of 5 April 1993.

Investment undertakings

Unlike the other two categories of PSF, investment undertakings have a European passport for the purpose of distributing their products and services. They can set up branches and freely provide services with a single notification procedure to the authorities of the other Member States of the European Union.

The number of investment undertakings included in the analysis as at 31 December 2011 was 105 compared with 97 as at 31 December 2010. Based on this analysis the following factors appear:

Firstly, all the investment firm PSF combined have one or other, or even all of the following four licences:

- 100 are licensed investment advisers (Art. 24)
- 92 are licensed financial instrument brokers (Art. 24-1)
- 82 are licensed agency brokers (Art. 24-2)
- 74 are licensed asset managers (Art. 24-3)

70% of investment undertakings have all four licences.

In addition to these principal licences, we see that only 33 investment undertakings also have the status of distributor of UCI units (Art. 24-7).

Many of these PSF also hold additional licences arising from other PSF categories:

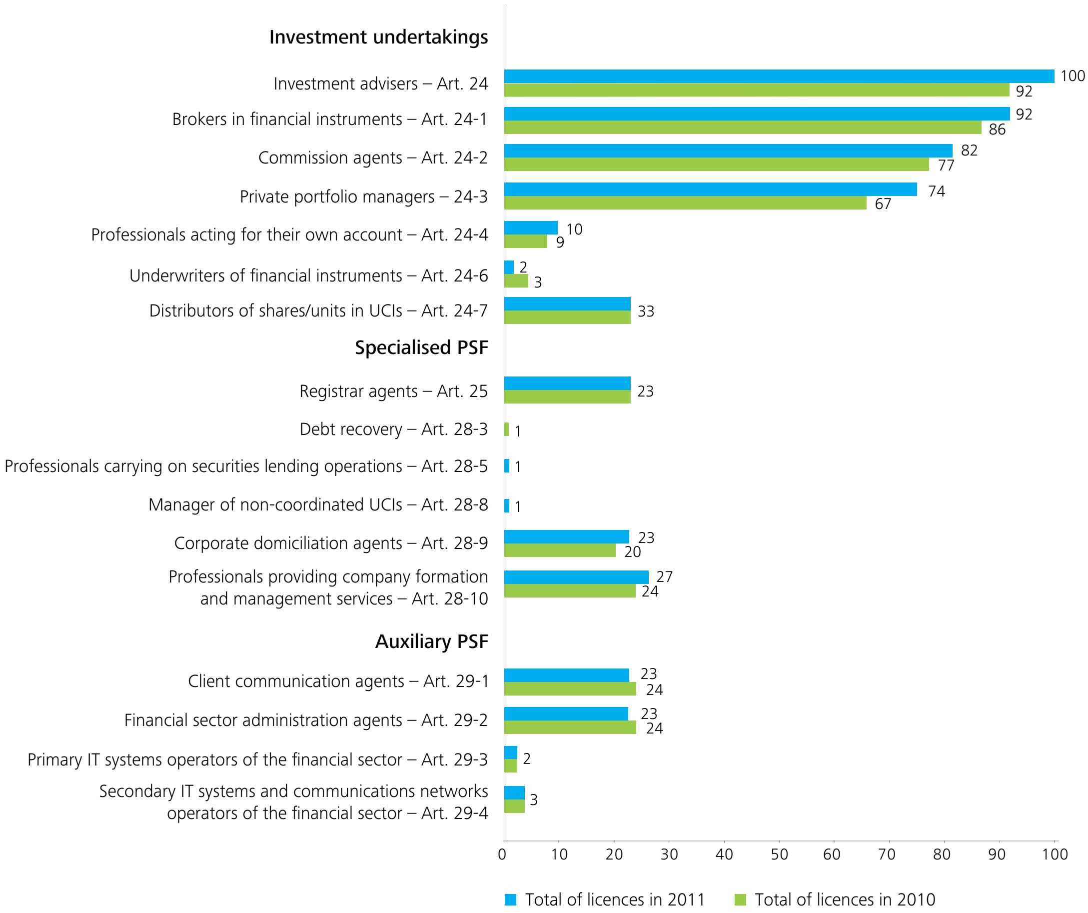
- Specialised PSF licences:
  - 23 with registrar licences (Art. 25)
  - 23 with corporate domiciliation agent licences (Art. 28-9)
  - 27 licensed for company incorporation and management services (Art. 28-10)
- Auxiliary PSF licences:
  - 23 with customer relations service provider licences (Art. 29-1)
  - 23 with financial services administration agent licences (Art. 29-2)

Additional activities are therefore quite uniform and mainly relate to the distribution of UCI units, administration or customer relations service providers, registrars and company administrators (figure 11).

Figure 11b shows changes between 2009 and 2011 in the five most common investment undertaking licences in 2011. They relate to Articles 24 to 24-3 and 24-7 (see comments above).

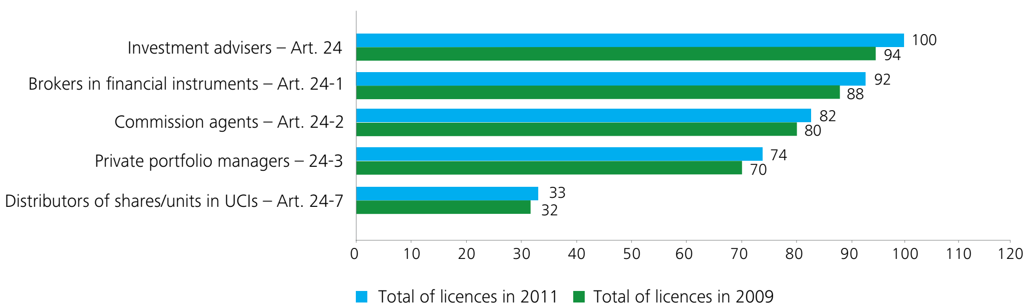
We see an overall decline of nearly 2.5% in these licences between 2009 and 2010. However, in 2011, licensing applications increased significantly, producing a net change of 5% in these licences between 2009 and 2011. This reversal of the trend confirms the important role that investment undertakings have in areas regulated by these articles. We also see a propensity among investment undertaking PSF to diversify into specialised and auxiliary PSF activities.

Figure 11: Licences granted to investment undertakings



Investment undertakings cannot be licensed for the following activities: Article 24-5 'Market makers', Article 26 'Professional custodians of financial instruments', Article 27 'Operators of a regulated market authorised in Luxembourg', Article 28-4 'Professionals carrying on lending operations' and Article 28-7 'Mutual savings funds administrators'.

Figure 11b: Change between 2009 and 2011 in the five licences held by the most prominent investment firms, as at 31 December 2011



CSSF circular 12/544: Optimisation by a risk-based approach to supervision of 'auxiliary PSF'

Laurent Berliner
Partner
Risk, compliance and attest
Deloitte Luxembourg

Jérôme Sosnowski
Directeur
Risk, compliance and attest
Deloitte Luxembourg

On 18 July 2012 the CSSF finally published its previously announced document: this new, expected and sometimes dreaded Circular partially unveils the new regulatory obligations that auxiliary PSF who are certified under articles 29-1, 29-2, 29-3 and 29-4 of the modified law of 5 April 1993 relating to the financial sector, will need to satisfy.

Initially intended to be a single instrument, there are actually two Circulars that together will set out the rules that must be followed in this regulated sector of activity: the first, which is the subject of this article, concerns risk management by auxiliary PSF; the second, similarly, will set out the practical rules concerning the missions of statutory auditors as well as auditors' reports for those same auxiliary PSF.

It is therefore a big challenge, as these actors who are essential components of a properly operating Luxembourg financial market will need to not only define and set up a governance system specific to their working environment, but also, via this same system, engage in continuous self-assessment of risks using the terminology and approach specified in the regulation: (1) 'direct risks relating to activities provided in the financial sector and having a direct impact on the beneficial clients of such activities' and (2) 'indirect risks relating to the organisation and administration of the auxiliary PSF or to its non-financial-sector providers whose impact creates indirect risk for its professional clients in the financial sector'.

Added to these is the obligation to issue at least once a year, two separate reports, one concerning the risks of each auxiliary PSF ('Risk Analysis Report') and the other describing its administrative and accounting organisation, internal control system, IT infrastructure, its activities and its financial position ('Descriptive Report') comparable to the Long Form Report of credit establishments and of PSF investment enterprises.

The proportionality principle

This principle is an anchor point of the Circular. It should, however, be used cautiously as it does not give free rein to minimise the importance of the work to be accomplished. This proportionality must be placed in perspective in terms of the importance of the activity provided by the auxiliary PSF in the financial sector (importance of the activities subcontracted to the auxiliary PSF by the clients), as well as in terms of the importance of the financial sector in the PSF's total client base.

Based on these two criteria, the PSF may then set up and implement a more or less sophisticated risk management system, proportionate to the volume and complexity of its financial sector activities. In other words, an activity that is only marginal in terms of business revenue or is only of marginal impact in the financial sector will under normal circumstances not be required to set up and implement an ultra-sophisticated approach.

The pragmatism of this regulation will therefore allow some actors to avoid undue costs and constraints that could significantly affect their economic performance.

The governance system

Which governance system the auxiliary PSF opts for is the other crucial element of this Circular, as it must ensure the integrity and continuity of the risk control environment and its operation.

The auxiliary PSF's Management will rapidly need to choose the most suitable formula for its organisation by asking 'Who' will be responsible for risk management? And above all, will risk management be outsourced or not?

Although the Circular considers that full outsourcing of risk management is likely to be a realistic option only for 'smaller entities that carry on a low-risk activity', it is nevertheless important to consider the effectiveness of such an option. How can you ensure that you have the continuous risk management process required by the Circular? The entity or person tasked with that responsibility must have a perfect understanding of the company's operations in order to control all risks and specify any necessary corrective actions. This option may be advantageous for the auxiliary PSF (in terms of cost), but it also has disadvantages or even additional risks: specifically, that the company's risk management will only be partial and the methodology unsuitable.

For larger auxiliary PSF, the situation will be different because outsourcing the risk analysis function is not allowed in principle. In that case, the objective will be to entrust this task to a person or team with perfect mastery of the methods required to develop this function. A co-sourcing solution seems to be an interesting alternative: it would allow the company to capitalise on in-depth knowledge of its internal workings, while using expert external resources to apply best practices in risk management.

Regardless of the option adopted, the auxiliary PSF will need to produce documentation that includes at least the following elements:

- The roles and responsibilities of the various stakeholders in the governance and risk management system
- The methods and processes put in place to identify, assess, validate, limit, monitor and communicate risks
- Tools for managing and documenting risks

Risk management

Once this organisation framework has been set up, it must be implemented, used on an ongoing basis, and a Risk Analysis Report (RAR) extracted at least once a year. If it is poorly prepared and/or poorly implemented, this report will be overwhelmed by detail and have no real added value: it will actually create additional risk to the extent that the regulator will require the mechanism implemented to be revamped. Conversely, if it is well prepared and implemented, this exercise will allow the PSF to adapt its operational processes and secure its business model.

The proportionality principle is an anchor point of the Circular

Computerised tools in particular will help to more effectively satisfy the requirement for timely maintenance and tracking of risk management operations. Now increasingly affordable, even for smaller entities, these tools allow more effective maintenance, faster and more transparent company risk management, and will allow some to produce their own RARs.

The countdown has begun

Meeting the obligations with this Circular demands very special attention on the part of the Management of auxiliary PSF because the timeline is short. Indeed, as regards to auxiliary PSF with the fiscal year ending 31 December, the first RARs will need to be issued starting 31 March 2013: to comply with this date means setting up, upstream, all the steps mentioned earlier. It therefore requires making decisions rapidly that are the most appropriate for each PSF's circumstances and using the available resources to meet the deadlines.

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Specialised PSF

In contrast to investment undertakings, specialised PSF do not benefit from the European passport, but may carry on financial operations in Luxembourg. The analysis found and reviewed 107 specialised PSF as at 31 December 2011, versus 101 in 2010.

This category covers three main sub-groups.

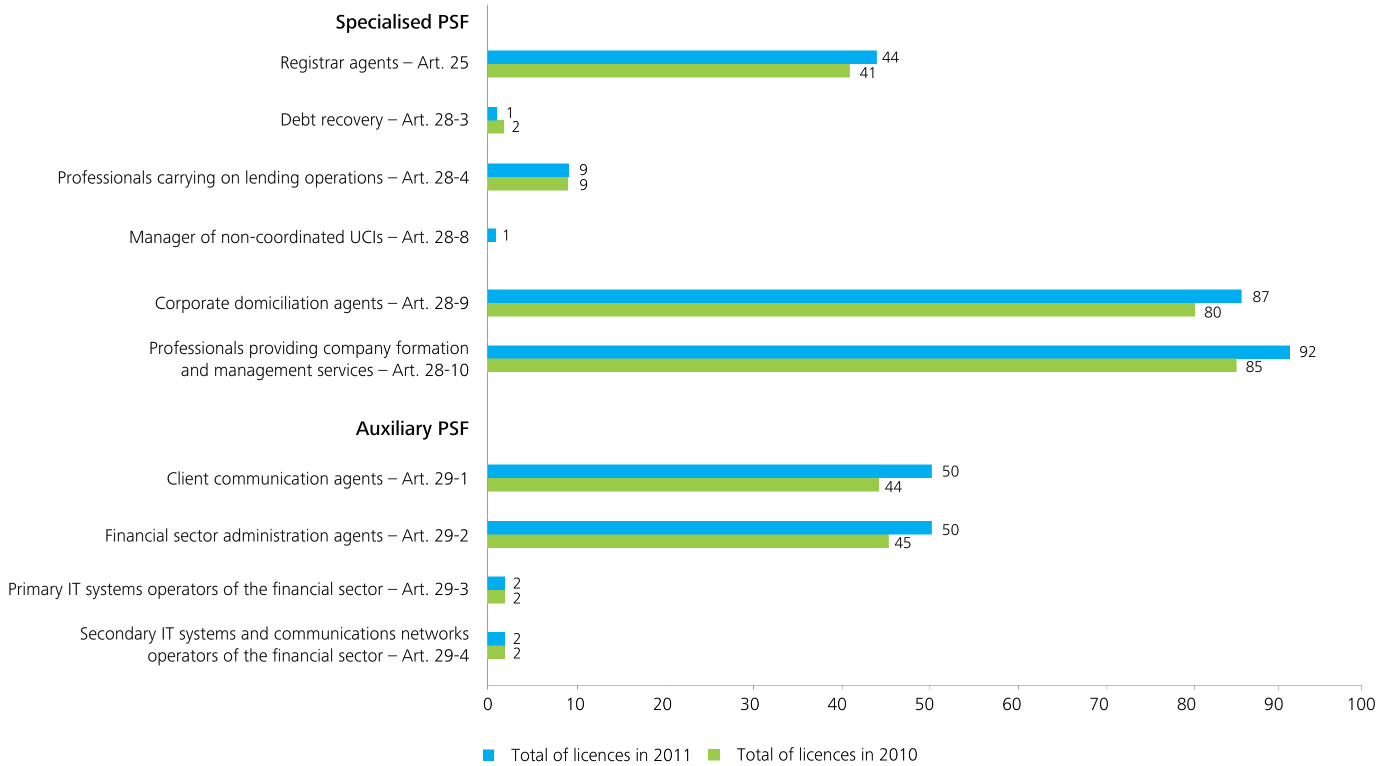
The first subgroup consists of 44 registrars (Art. 25):

- 93% of the registrars (41 entities) have corporate domiciliation agent licences (Art. 28-9) and providers of company formation and management services (Art. 28-10)
- 100% auxiliary PSF also have 29-1 and 29-2 licences as customer relations service providers and financial services administration agents
- Lastly, only two of them have licences as operators of computer systems, namely licences 29-3 and 29-4

The second sub-group consists of the nine professionals engaged in providing credit (Art. 28-4).

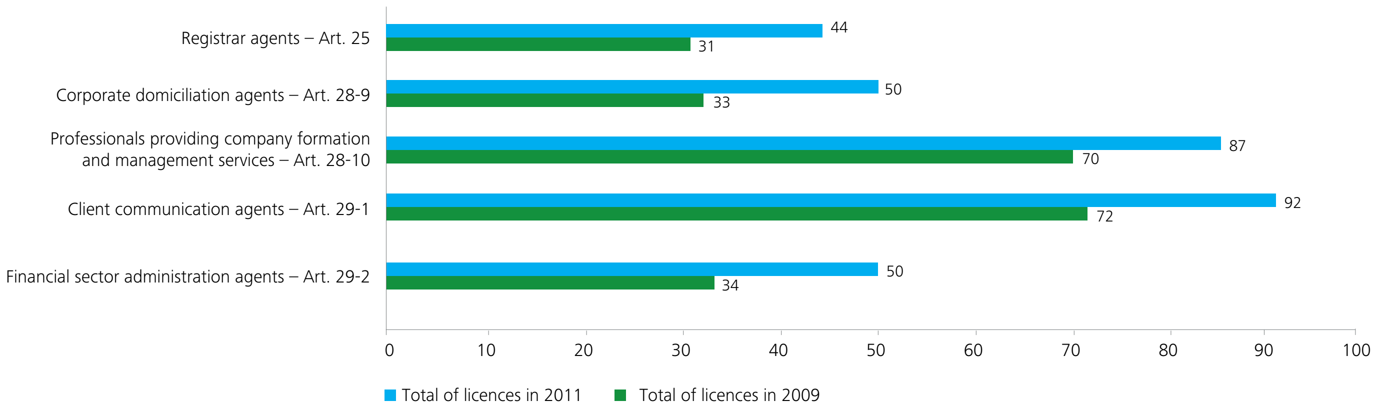
This licence is unique in that, apart from one case, it is not accompanied by any other licence. These are mainly subsidiaries of banks such as Fortis, ING or BNP, and also subsidiaries of international groups such as PK Airfinance. These entities carry on financial or operational leasing activities.

Figure 12: Licences granted to specialised PSF



Specialised PSF cannot be licensed for the following activities: Article 26 'Professional custodians of financial instruments', Article 27 'Operators of a regulated market authorised in Luxembourg', Article 28-5 'Professionals carrying on securities lending operations' and Article 28-7 'Mutual savings funds administrators'.

Figure 12bis: Change between 2009 and 2011 in the five licences held by the most prominent specialised PSF, as at 31 December 2011



This last sub-group includes 87 corporate domiciliation agents (Art. 28-9), 41 of which are licensed as registrar agents (Art. 25). As regards the additional licences held by these company administrators, we see that:

- They also always have licences under Art. 28-10 relating to providers of company formation and management services, with only one exception
- When corporate domiciliation agents are both client communication agents (Art. 29-1) and administrative agents in the financial sector (Art. 29-2), which is what 45% of PSF are, they also almost always are licensed as registrar agents (Art. 25), with the exception of four entities

The number of specialised PSF licences rose from 217 in 2010 to 234 in 2011 (figure 12). This 8% growth, despite the financial crisis, is reflected in the increase in licences under Art. 28-9 and Art. 28-10 (+7 licences each). This increase resulted in 2011 in the creation of 9 new entities, 4 existing PSF who applied for this licence and 6 PSF who gave up their PSF status.

Between 2009 and 2011, the number of specialised PSF licences rose from 184 to 234, which is a 27% rise over 3 years. We see a spectacular 52% increase in licences under Art. 28-9 between 2009 and 2011. And the second largest increase in specialist PSF licences over this period was for special licensing for auxiliary PSF under Art. 29-2 (+47%).

Auxiliary PSF

Just like specialised PSF, auxiliary PSF do not have the benefit of a European passport.

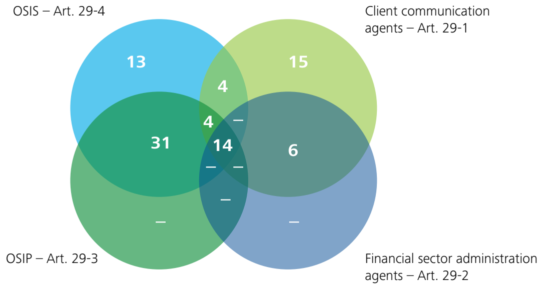
Auxiliary PSF included 87 financial professionals at 31 December 2011 compared with 79 in 2010, which held the following licences (figure 13):

- 43 client communication agents (Art. 29-1)
- 20 financial sector administration agents (Art. 29-2)
- 49 primary IT systems operators of the financial sector (OSIP, Art. 29-3)
- 66 secondary IT systems and communications networks operators of the financial sector (OSIS, Art. 29-4)

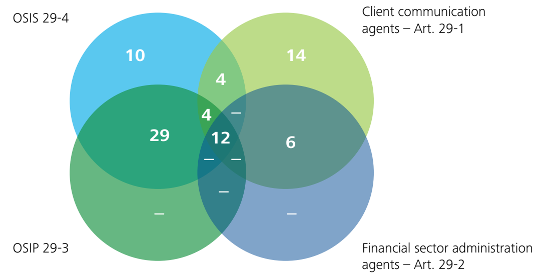
More than a quarter of these entities are local and are not part of a group. In a few isolated cases they belong to banks, but the majority belong to specialist IT groups such as Xerox, IBM, HP, Tata, Atos, CSC).

Figure 13: Distribution of auxiliary PSF licences

At 31 December 2011



At 31 December 2010



Source: CSSF reports as at 31 December 2011 and 31 December 2010

The analysis shows that two principal licences co-exist in this category.

The first group consists of 43 entities which are purely administrative and/or communication agents, with only licences pursuant to Art. 29-1 relating to client communication agents and/or pursuant to Art. 29-2 relating to administration agents in the financial sector. Administration agents (Art. 29-2) are automatically authorised to carry out client communication agents activities (Art. 29-1).

The second group consists of the 66 IT PSF (i.e. having licences under Art. 29-3 relating to OSIP and/or linked to Art. 29-4 relating to OSIS) and which are supplemented in 22 cases by licences under Articles 29-1 or 29-2. OSIP (Art. 29-3) are also automatically authorised to carry on OSIS activities (Art. 29-4).

The number of specialised PSF licences rose from 162 in 2010 to 178 in 2011 (figure 14).

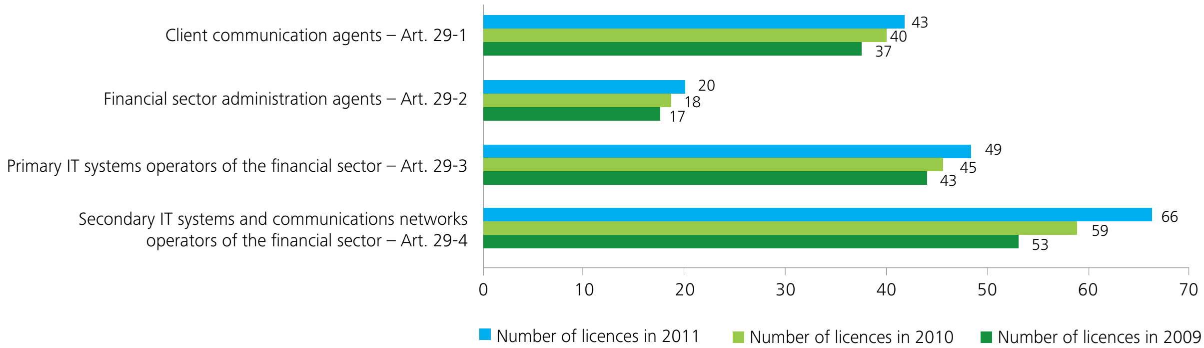
This change is due to:

- The creation of 10 auxiliary PSF in 2011 (local entities) generating 22 new auxiliary PSF licences
- The withdrawal of 2 entities who renounced their PSF status, leading to the withdrawal of six auxiliary PSF licences from these entities

This 10% net growth in auxiliary PSF licences emphasises the attractiveness of this business sector and confirms the growth potential even in a crisis environment.

Between 2009 and 2011, the number of auxiliary PSF licences rose from 150 to 178, which is a 19% rise over 3 years. Note the spectacular 25% increase in licences under Art. 29-4 between 2009 and 2011.

Figure 14: Licences granted to auxiliary PSF



Discussion with Raoul Mulheims, Co-Founder and CEO of Digicash Payments

What benefits can users expect from new payment technologies?

The new technologies used in payment services will give users an alternative paperless payment channel via mobile tools that we use every day. The most popular new technologies for making payments are mobile-phone-based. There are two kinds of users: merchants and consumers.

Compared to traditional channels, the first benefits that come to mind are faster payment flows and the use of a medium that is already part of daily life. For consumers, a mobile phone payment solution that links directly to their current account makes it easy to use without topping it up, thus avoiding the problems you get with other methods, such as electronic wallets.

For making foreign payments, there are two benefits in using a QR Code to pay by smartphone. For consumers, paying takes less time because they do not need to connect to their bank account via an internet terminal or submit a payment order to their bank. Simply by scanning the QR Code and entering a PIN on a smartphone lets the user make a payment much more quickly than via traditional cashier channels or by accessing their account over the internet. For merchants, bill collection rates and payment times are improved. All payment information is incorporated in the QR Code, so that the volume of erroneous payments linked to the account number, amount or transaction reference is virtually nil and reconciliation is considerably easier.

For merchants more exposed to payments in foreign currency or on a COD basis, using mobile phone payments initiated by a QR Code displayed on a merchant's touch tablet speeds the payment and is an alternative that does away with carrying paper money and the constraints and risks attached to it.

These new technologies are interesting in another unexpected way. They allow additional services to be integrated which traditionally had been distributed via other media, such as loyalty schemes.

Since the Payment Services Directive came into effect, we can see a clear growth in new technologies and new players in the payment field. How has this Directive allowed new 'payment service providers' to enter the market and how does it make it easier for them to access markets and ensure the continuity of their activity?

Before the Payment Services Directive (PSD), there was no special legislation in the payment sector and this field was therefore reserved for banks. In developing our activity, which began with SMS payments since the first years of this century, we faced the question of what type of licence and legislation was associated with it. The services offered remained very limited and difficult to export.

The PSD includes clauses aimed specifically at the new payment technologies sector and accommodates these players more readily by giving them an additional and broader regulatory framework than simply electronic money.

The new technologies used in payment services will give users an alternative paperless payment channel via mobile tools that we use every day

Because of its Europe-wide character, the PSD in effect provides a European service passport. It becomes immediately transportable outside our borders, to make it available to nearly 500 million people.

Obtaining a 'stamp' as an establishment regulated by the CSSF allows Digicash Payments S.A. to be a recognised player in the financial sector and facilitates exchanges with other players in this sector, notably with banking partners. Ultimately, this will boost end-users' confidence.

For Digicash, the PSD has resolved the question of status and of operability connected with its regulation. It has also generated synergistic opportunities with financial players and has allowed the service to be exported throughout the European Union.

What is the relationship between innovative spirit, regulatory needs and competition?

All the players have the same needs and are subject to the same regulatory constraints. They all need to obtain a licence to carry on their activity. The PSD has in principle not led to a reduction in activity and therefore has not had a negative impact on the Luxembourg or international market.

Consequently, competition is not between players, but between the payment methods that consumers want to choose; the loser ends up being payment in cash.

Navigating a path through the legislative framework as a pioneer among payment services players based on new technologies has proven to be longer than expected. We finally got there by working in close cooperation with our partners and we have together defined the models that make sense for everyone.

The CSSF also showed its willingness to serve consumers and, at the same time, to support the development of the financial market.

How does your business fit into Luxembourg's economic, social and banking environment?

The project is based on integrating multiple players within a mobile payment ecosystem. Digicash has argued that it could become an exportable initiative where Luxembourg could take the lead. There are, on the one hand, local and global banking players who are interested in the product and, on the other, merchants who are rallying to this initiative. It has an enormous potential for exporting expertise and know-how. The ultimate vision shows a breakthrough in the payment sector and that could happen very fast because the tools exist and the willingness of the major players is very evident.

The approach can be against the banks or with the banks, whether by direct link with the payer, or by offering the banks a 'white labeling' product so they can retain relationships with their clients. All sorts of other mixed approaches are also possible.

In all cases, the first players in the sector will see opportunities for fast growth.

The concepts are novel in offering-banks a service that can be adapted to integrate into the range of products and packages already in place.

No banking platforms in the marketplace automatically offer 24/7 availability, and in this case, using specific services rendered by an external provider that offers continuous exchange makes total sense. However, it seems that the times are less and less favourable for heavy infrastructures or the creation of 'factories' between multiple banks. Every player in the chain can therefore focus on developing its own particular skills and the banking players can take full advantage of recent investments to improve the availability of their infrastructure.

Some players see the technical integration of a new payment system as a 'low cost' channel for offering their clients new services. The Digicash business model is to make it available to banks at low cost. In return, the banks promote the Digicash tool to their retail clients. Digicash draws its main source of revenue from the process of acquiring new merchants and billing issuers, applying rates that generally remain competitive with credit cards.

This is a profound change from the traditional concept and the future design of payment methods, with Luxembourg decisively on the launch pad.

Who pays for the cost of the services (R&D, operations and infrastructure) and how is the government a player?

When projects are launched, government subsidies can be an important source of funding. When the projects come to maturity and become operational, most of the revenues come in the form of commissions charged on the payments.

Additionally, there is also the possibility of customising the tools for banks and the possibility of billing the payer for complementary added-value services.

Last but not least, it is up to the bank to put a 'Freemium' model in place: the product is free for basic services on these new tools, but advanced functionalities are charged for. In addition, it can offer complementary products, such as insurance for example or consumer credit.

Competition is not between players, but between the payment methods that consumers want to choose; the loser ends up being payment in cash

In conclusion, many players in the market are working synergistically to offer the best environment to ensure that numerous payment-related projects see the light of day. The rate of smartphone ownership in Luxembourg, the know-how, the proximity of legislators, governmental support and regulators' clear interest encourage the development of these projects and offer a springboard for exporting these services abroad.

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Services offered by Deloitte

At all the stages in an PSF's life, Deloitte is able to help, assist and serve its ambitions. Over the years, we have built experienced teams that support the development of financial sector professionals in Luxembourg and internationally.

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
Corporate finance	• Business plans, including reviews of different scenarios, possibilities of subcontracting administrative and accounting organisation, etc. This business plan is an integral part of the CSSF licence documentation
Human resources	• Support in relation to change such asa transfer from another entity, recruitment of specialist employees
Direct taxation and VAT	• Tax advice and assistance, structural implementation • Due diligence

During the development stage

Regulatory strategy	• Administrative and accounting organisation, and review of the compliance of services offered to clients in line with the CSSF's requirements • Procedures Manual covering the following aspects: administrative, IT, accounting, internal controls, etc. • Proposing compliance tools such as U-Comply • Rules of conduct in line with the 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)
Operational risk management and internal audit	• Subcontracting or co-sourcing of internal audit work • Advisory services for the definition of relations with third parties and suppliers, and definition of the corresponding risks. • ISAE 3402 and SSAE 16 (assistance in compliance with SAS 70, improvement in existing SAS 70 and certification)
Anti-money laundering and fraud prevention, detection and investigation	• Appropriate organisation against money laundering and the financing of terrorism in terms of training and awareness raising, KYC, 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 II, 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
Payment Services Directive (PSD)	• Training, comparative analysis and project management
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*
Corporate finance	• Assistance in terms of external growth (merger, acquisition, strategic alliance) • Due diligence • Evaluation of PSF
Human resources	• HR policies, development of HR function, evaluation, development and training, recruitment of employees with specialised experience
Capital markets and financial risks	• 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 tarification models
IMS (Investment Management Services)	• Modular assistance in all issues relating to distribution networks for financial products (cross-border, marketing, regulatory, registration) • 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 in implementing UCITS IV • Corporate governance: Advisory services for setting up a code of conduct and assistance with the selection of service providers and domiciles.

Accounting	• Assistance in setting up accounting procedures, regulatory reporting and all work in relation to accounting
Direct taxation and VAT	• Fiscal optimisation • Due diligence • Operational assistance (also in respect of problems linked to the EU Savings directive, Qualified Intermediary & FATCA, the exchange of tax information, tax treatment of investors, etc.) • Assistance with tax returns (IRC [corporate income tax], ICC [municipal business income tax], IF [wealth tax], withholding tax, VAT • Assistance in respect of transfer pricing • Tax impact of IFRS • Creation of automated VAT procedures and specific management tools (e.g. VeriVAT) • Personalised training and tax hotlines
Family Office Services	• Support and implementation of customised tax 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.)
External audit	• Audit of company accounts • Review of compliance with Circulars and preparation either of analytical audit reports (for investment undertakings), or compliance reports (for specialised and auxiliary PSF) • Consultation on regulatory and accounting issues, conversion to IFRS, agreed procedures, etc. • Support relating to requests made by the CSSF • Certification of continuous training records in order to obtain related subsidies

Until the termination of operations

Liquidation services	• Assistance in setting up liquidation plans
Human resources	• Support in relation to change in connection with the transfer to another entity and within the framework of a liquidation
Direct taxation and VAT	• Tax advice and assistance in connection with a liquidation, merger, demerger or transfer • Communication with the tax authorities

Appendix

Investment undertakings				
PSF	**Article**	**Minimum capital or capital base (€)**	**Professional indemnity insurance (€)**	**Activity covered by the status**
Investment advisers	24	€50,000	€1,000,000 per claim and an aggregate of €1,500,000 per year	Investment advisers shall be professionals engaged in the business of providing personal recommendations to a client, either upon its request or at the initiative of the investment firm, in respect of one or more transactions relating to financial instruments. Investment advisors shall not be authorised to intervene directly or indirectly in the execution of the advice they provide. The simple provision of information is not covered by this Law.
Brokers financial instruments	24-1	€50,000	€1,000,000 per claim and an aggregate of €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 shall be professionals engaged in the business of presenting themselves on the financial markets and on a continuous basis as being willing to deal for their own account by buying and selling financial instruments against their proprietary capital at prices defined by them.
Underwriters of financial instruments	24-6	€125,000 (or €730,000 if they carry out placements with underwriting)		Underwriters of financial instruments are professionals whose business is to underwrite financial instruments and/or place financial instruments with or without a firm commitment.
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 shall be professionals engaged in the business of the distribution of the shares/units of Undertakings for Collective Investment licensed for distribution in Luxembourg.
Financial intermediation firms	24-8	€125,000	€2,000,000 per claim and an aggregate of €3,000,000 per year	Financial intermediation companies shall be professionals engaged in the business of: a. Providing personal recommendations to a client, either upon its request or at their own initiative, in respect of one or more transactions relating to financial instruments or insurance products b. Accepting and transmitting, on behalf of clients, orders relating to one or more financial instrument or insurance products without holding any clients funds or financial products. Such activity shall also include bringing together two or more parties thereby bringing about a transaction between those parties c. Performing, on behalf of associated investment advisors or brokers in financial instruments and/or assurance products, under a sub-contracting contract, the administrative and client reporting services inherent to the professional activities of these associates
Investment firm operating an MTF in Luxembourg	24-9	€730,000		Investment firms operating an MTF in Luxembourg shall be professionals engaged in the business of operating an MTF in Luxembourg apart from professionals who are market operators within the meaning of the Law on Markets in Financial instruments.

Specialised PSF				
PSF	**Article**	**Minimum capital or capital base (€)**	**Professional indemnity insurance (€)**	**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 custodians of financial instruments	26	€730,000		Professional custodians of financial instruments shall be professionals engaged in the business of receiving deposits of financial instruments, solely from financial service professionals, for the purpose of safe-keeping, administration (including holding and ancillary services) and facilitating their onward transmission.
Operators of a regulated market authorised in Luxembourg	27	€730,000		Market operators operating an MTF in Luxembourg shall be those persons managing or operating an MTF in Luxembourg authorised in Luxembourg apart from investment firms operating an MTF in Luxembourg.
Persons carrying out foreign exchange cash operations	28-2	€50,000		Persons carrying out foreign exchange cash operations 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 carrying on lending operations	28-4	€730,000		Professionals carrying on lending operations are professionals engaging in the business of granting loans to the public for their own account.
Professionals carrying on securities lending operations	28-5	€730,000		Professionals carrying on securities lending operations are professionals engaging in the business of lending or borrowing securities for their own account.
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.
Managers of non co-ordinated UCIs	28-8	€125,000		Managers of non co-ordinated UCIs are professionals engaged in the business of managing undertakings for collective investment other than UCIs established in Luxembourg or UCITS authorised in accordance with Directive 85/611/EEC as amended by Directive 2001/107/EC. Managers of non co-ordinated UCIs may engage in the provision of central administration services for entities managed by them.
Corporate domiciliaton agents	28-9	€125,000		Corporate domiciliation agents, who are by their nature regarded as carrying on a business activity in the financial sector, are natural and 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.
Professionals providing company formation and management services	28-10	€125,000		Professionals providing company formation 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.

Auxiliary PSF				
PSF	**Article**	**Minimum capital or capital base (€)**	**Professional indemnity insurance (€)**	**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, PFS, payment 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, PFS, payment 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
Financial sector administrative agents	29-2	€125,000		Financial sector administrative agents are professionals who engage in the provision, on behalf of credit institutions, PFS, 'payment institutions', UCIs, pension funds, **SIFs, investment companies in risk capital, authorised securitisation undertakings*,** 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, PFS, 'payment institutions', UCIs, pension funds, insurance undertakings or reinsurance undertakings established under Luxembourg law or foreign law.
Secondary IT systems and communications 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, PFS, 'payment institutions', UCIs, pension funds, insurance undertakings or reinsurance undertakings established under Luxembourg law or foreign law.

* The Law of 28 April 2011 expands the activities covered by this article to the SIF, SICAR and approved securitisation entities

Contacts

PSF

Stéphane Césari
PSF Industry Leader Partner
Tel: +352 451 452 487
scesari@deloitte.lu

Audit

Raphaël Charlier
Partner - Audit externe
Tel: +352 451 452 258
rcharlier@deloitte.lu

Tax

Raphaël Glohr
Partner - VAT
Tel: +352 451 452 665
rglohr@deloitte.lu

François Guilloteau
Partner - Direct Tax
Global Financial Services Industry
Tel: +352 451 452 577
fguilloteau@deloitte.lu

Accounting

Jean-Philippe Foury
Partner - Accounting
Tel: +352 451 452 418
jpfoury@deloitte.lu

Family Office Services

Ruth Bültmann
Partner - Family Office Co-Leader
Strategy and Corporate Finance
Tel: +352 451 452 115
rbueltmann@deloitte.lu

Pascal Rapallino
Partner - Family Office Co-Leader
Private Wealth Management
Tel: +352 451 452 846
prapallino@deloitte.lu

Investment Management

Vincent Gouverneur
Partner
EMEA Investment Management Leader
Tel: +352 451 452 451
vgouverneur@deloitte.lu

Advisory and Consulting

Risk, Compliance Attest

Roland Bastin
Partner - IT Risk
Tel: +352 451 452 213
rbastin@deloitte.lu

Laurent Berliner
Partner - Business Risk
Tel: +352 451 452 328
lberliner@deloitte.lu

Michael Martin
Partner - Forensic and Dispute Services
Tel: +352 451 452 449
michamartin@deloitte.lu

Xavier Zaegel
Partner - Capital Markets/Financial Risk
Tel: + 352 451 452 748
xzaegel@deloitte.lu

Strategy and Corporate Finance

Benjamin Collette
Partner - Corporate Strategy
Tel: +352 451 452 809
bcollette@deloitte.lu

Lou Kiesch
Partner - Regulatory Strategy
Tel: +352 451 452 456
lkiesch@deloitte.lu

Pierre Masset
Partner - Corporate Finance
Tel: +352 451 452 756
pmasset@deloitte.lu

Operations and Human Capital

Olivier Maréchal
Partner - Services Operations Excellence
and Infrastructure Operations
Tel: +352 451 452 619
omarechal@deloitte.lu

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Deloitte Luxembourg
560, rue de Neudorf
L-2220 Luxembourg
Grand Duchy of Luxembourg

Tel.: +352 451 451
Fax: +352 451 452 401
www.deloitte.lu