Deloitte.

The outlook and future of a persistent sector in turbulent times

Professionals of the Financial Sector (PSF) in Luxembourg

December 2020

Table of contents

Foreword

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

The PSF industry in Luxembourg numbered 270 entities at the end of September 2020, compared to 278 at year-end 2019. In terms of jobs, the sector has employed more than 15,000 people over the past few years, representing 16,000 in August 2020. **The PSF market continues to display definite robustness**, despite a slight decrease in the number of entities and employees in recent years.

Competitiveness is inherent in all markets. In a regulatory and technological environment that is constantly evolving, or even revolting, it is important that PSF focus on their core business and adapt to tomorrow's needs and changes. We are observing an **ongoing remodeling** of some organizations' licenses, reflecting a better understanding of licensing requirements regarding the services provided and, in some areas, a quest for synergy that results in a concentration of players and a new range of service offerings.

In 2020, PSF, no different from any other financial market actor, experienced turbulence from the unexpected COVID-19 pandemic. However, as of today, **PSF has shown amazing resilience**, having successfully implemented measures recommended by the CSSF as well as showing limited reduction of their results by the end of 2020. This resilience is expected to be a strong basis for future growth.

Through our detailed analysis of the PSF market, we hereby present **the key trends and changes in this industry in an ever-changing environment.**

Integrating the latest PSF figures with detailed commentary, our report analyzes changes in the PSF market and demonstrates its dynamic nature. It features **interviews with key people** from the financial center and articles on topical issues, written by industry-dedicated professionals. The report provides an overview of PSF and illustrates the existing types and developments. It confirms the industry's importance in the Luxembourg economy.

Considering the large range of **significant regulatory and tax developments that have occurred in recent years**, players in the industry have had to (and continue to) keep up to date and make necessary adjustments to comply with new requirements. And, in some areas, they have had to reimagine their service offerings and business delivery models.

We kindly thank **Christophe Gaul, Mukesh Prayagsing, Manuel Ghidini** and **Patrick Useldinger** for their valuable contributions to this brochure. Their complementary experience in this industry has provided us with an enlightened opinion of the latest PSF news and the sector's prospects.

We hope you will enjoy reading our publication.

Raphaël Charlier
Partner – PSF Leader

Introduction

PSF: A wide range of services in a regulated environment

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

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

The professional secrecy obligation is defined by Article 41 of the Law of 5 April 1993, as amended by the law of 4 December 2019. This obligation was reinforced by the entry into force of the new General Data Protection Regulation (EU) 2016/679 on 25 May 2018.

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

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

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

- **Investment firms firms** (Art. 24 to 24-10 of the Law) are defined as firms supplying or providing investment services to third-parties on a professional and ongoing basis. These are mainly:
  1. Investment advisers
  2. Brokers in financial instruments
  3. Commission agents
  4. Private portfolio managers

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- **Specialized PSF** (Art. 25 to 28-11 of the Law), renamed as such by the Law of 28 April 2011, these are entities active in the financial sector which do not offer investment services. They mainly include:
  1. Corporate domiciliation agents
  2. Registrar agents
  3. Family Offices
- **Support PSF** (Art. 29-1 to 29-6 of the Law) act principally as subcontractors offering operational services on behalf of credit institutions, PSF, payment institutions, electronic money institutions, insurance and re-insurance undertakings, pension funds, and UCIs. They also act on behalf of Specialized Investment Funds (SIF), SICAR (Société d'Investissement en Capital à Risque) or venture capital companies, approved securitization entities, and RAIF (reserved alternative investment funds). They include
  1. Support PSF not involved in information technology, namely client communication agents (Art. 29-1) and financial sector administrative agents (Art. 29-2).
  2. Support PSF involved in information technology, namely Primary IT Systems Operators of the financial sector (OSIP - Art. 29-3) and Secondary IT Systems and communication networks operators of the financial sector (OSIS - Art. 29-4).
  3. Support PSF offering dematerialization or digital document conservation services (Art. 29-5 and 29-6).
  4. Art. 29-7 to 29-14 introduced by the law of 30 May 2018 concern entities carrying out at least one of the following activities:
     - Approved Publication Arrangements (APA) – Art. 29-12
     - Consolidated Tape Providers (CTP) – Art.29-13
     - Approved Reporting Mechanisms (ARM) – Art.29-14

     There is only one entity that has obtained one of the licenses listed above:
     - Deloitte Solutions S.à r.l.

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

Deloitte has for many years been developing the expertise necessary 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.

1 Scope of PSF in the Luxembourg economy

1.1 A strong economic player

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

Market size

The number of PSF has slightly decreased. On 31 December 2019, the Grand Duchy identified 278 PSF, down from 280 at the end of 2018.

The main category of PSF in 2019 remains specialized PSF, which accounts for 38%. The downturn in the number of these PSF (-17% between 2013 and 2019) appears to have stabilized in 2019.

In 2019, investment firms accounted for 36% of PSF. They used to be the main category until 2009 and their progress now stabilized between 2009 and 2019.

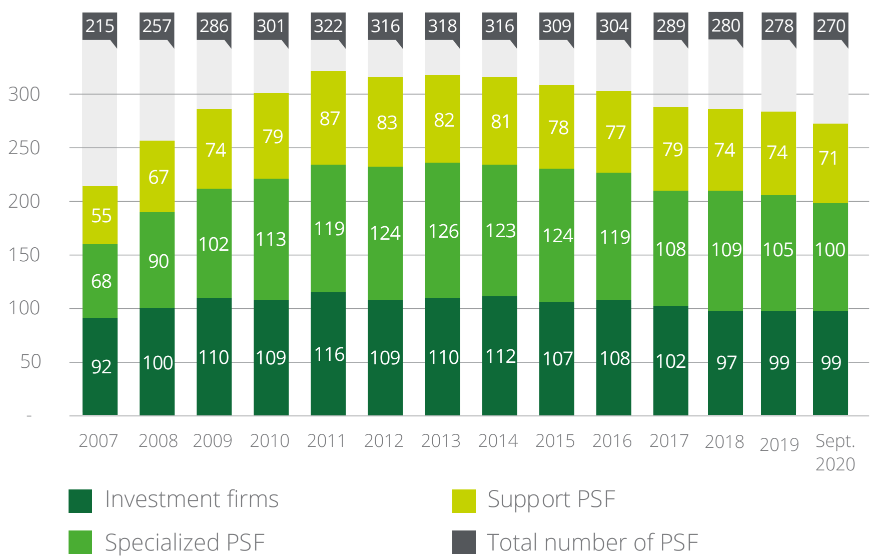
Market trends for the PSF industry can be broken down into three phases:

- From 2006 to 2011, the number of PSF increased by 64%, mainly due to the growth of the financial center. This is particularly visible in investment funds and corporate domiciliation agents, and to the growing number of financial and non-financial services in demand from Luxembourg financial institutions (banks, insurance companies, funds, etc.)
- From 2012 to 2016, the number of PSF stabilized, a trend that was mainly due to a better understanding of licensing requirements according to the services provided
- Since 2017, the number of PSF has seen a reasonable level of stability, from 289 in December 2017 to 278 in December 2019. This reduction stems primarily from the growing costs that PSF must incur to comply with new regulations (AML, MiFID II and GDPR) and to keep up with digitalization. It is also due to an increase in the number of merger transactions concluded with the aim of pooling resources to reduce costs and attain the critical size. 2017, 2018 and 2019 were 3 years of consolidation for investment firms' footprint.

It should be noted that the minor dip in the number of PSF has affected the net profit (decreasing from €519 million in 2018 to €458 million in 2019) and the total balance sheet amount (which slightly decreased from €8.952 million at the end of 2018 to €8.839 million at the end of 2019). However, the number of employees has increased (from 16,526 at the end of 2018 to 16,878 by the end of 2019).

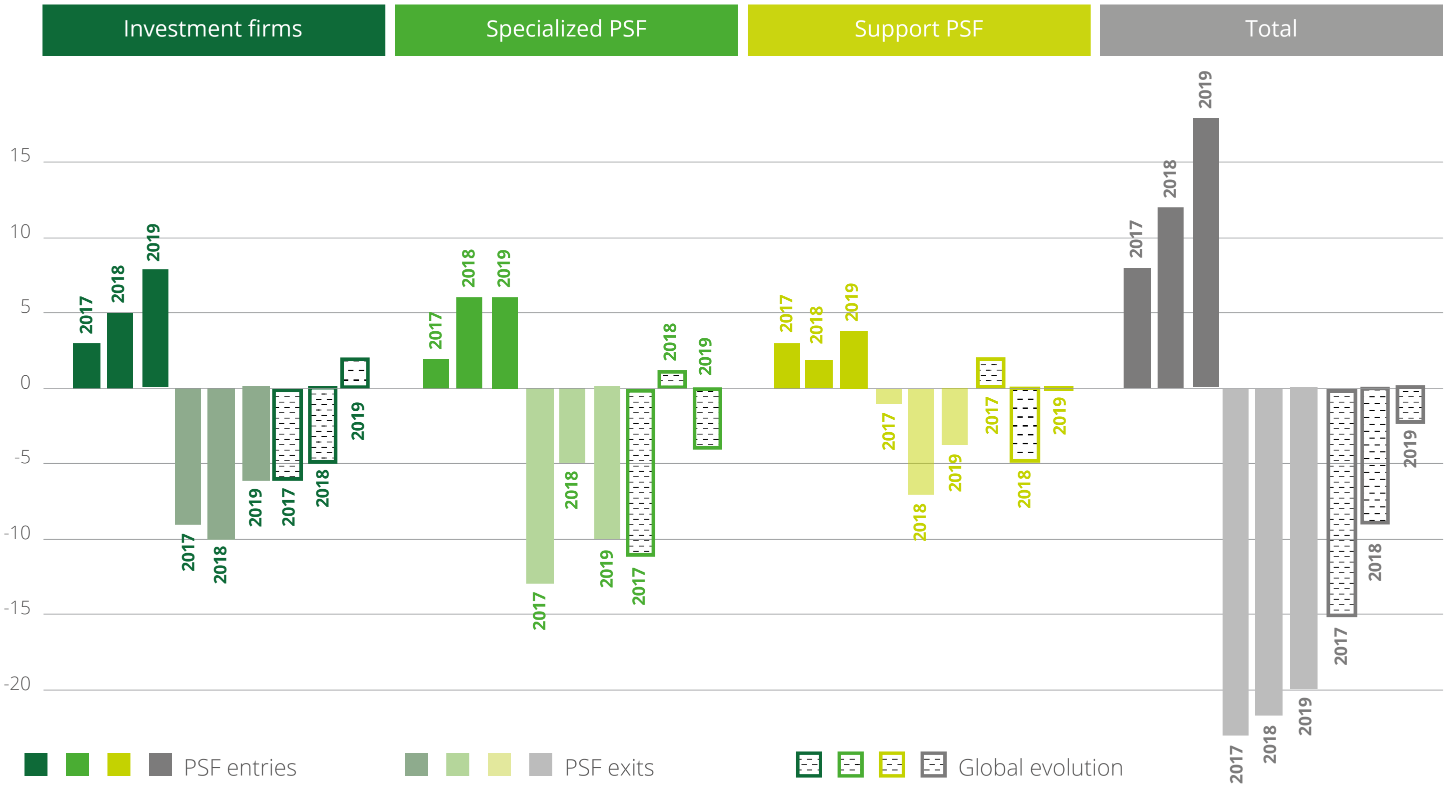
In the course of 2020, the number of PSF has slightly decreased by 3% (270 PSF as of September 30, 2020) which affected the net profit (€143 million in August 2020) as well as the number of employees (15,979 in June 2020).

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



Source: CSSF list of PSF as at 31 December 2019

Figure 2: PSF change by category - entries and exits 2019, 2018 and 2017



Source: CSSF list of PSF as at 31 December 2019

Changes within each PSF category

The number of PSF varied only in the specialized PSF and investment firms categories between December 2018 and December 2019, with the number of mergers and ending of activities being roughly equal to twice the number of creations of new PSFs for these two categories.

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

PSF withdrawals are mainly due to entities relinquishing their PSF status, liquidations and mergers between various PSF.

Some entities refocused their activity and adapted their status accordingly (2 investment firms changed into specialized PSF).

We note that, for investment firms, in 2019 there were more PSF creations than withdrawals. However, for specialized PSF there were fewer creations than withdrawals as there were only 6 new specialized PSF in 2019 against 10 withdrawals. The trend for the support PSF is stable (four new support PSF licenses granted in 2019, versus four withdrawals). The final impact is a slight drop in the number of players in 2019, with a total decrease of 1% in the total number of PSF.

Overview of PSF contribution in financial sector[1]

- The Luxembourg financial sector remains the key strength and contributor of the Luxembourg economy with 25 percent of value produced.
- Financial sector employment has grown by approximately 7,500 jobs since 2007, to reach a total of 49,163 employees in 2019, equivalent to eleven percent of total Luxembourg employment in 2019.
- The Luxembourg financial sector has rebounded since the financial crisis at a faster rate than that of other European countries, with growth of nearly ten times that of the European financial sector.

1 Source: Country Report Luxembourg 2020 (EU Commission) and CSSF annual report 2019

- In private banking, in spite of client outflows due to repatriation following increased tax transparency, assets under management in Luxembourg grew from €225 billion in 2008 to over €395 billion in 2018.

- Since December 2019, the international economic and political context has become less predictable mainly after the health crisis related to COVID-19, highlighting the relevance of Luxembourg's stability.

PSF Balance sheets and net aggregate results

The sum of the balance sheets of all PSF amounted to €9 billion as at December 31, 2019, the same as at December 31, 2018.

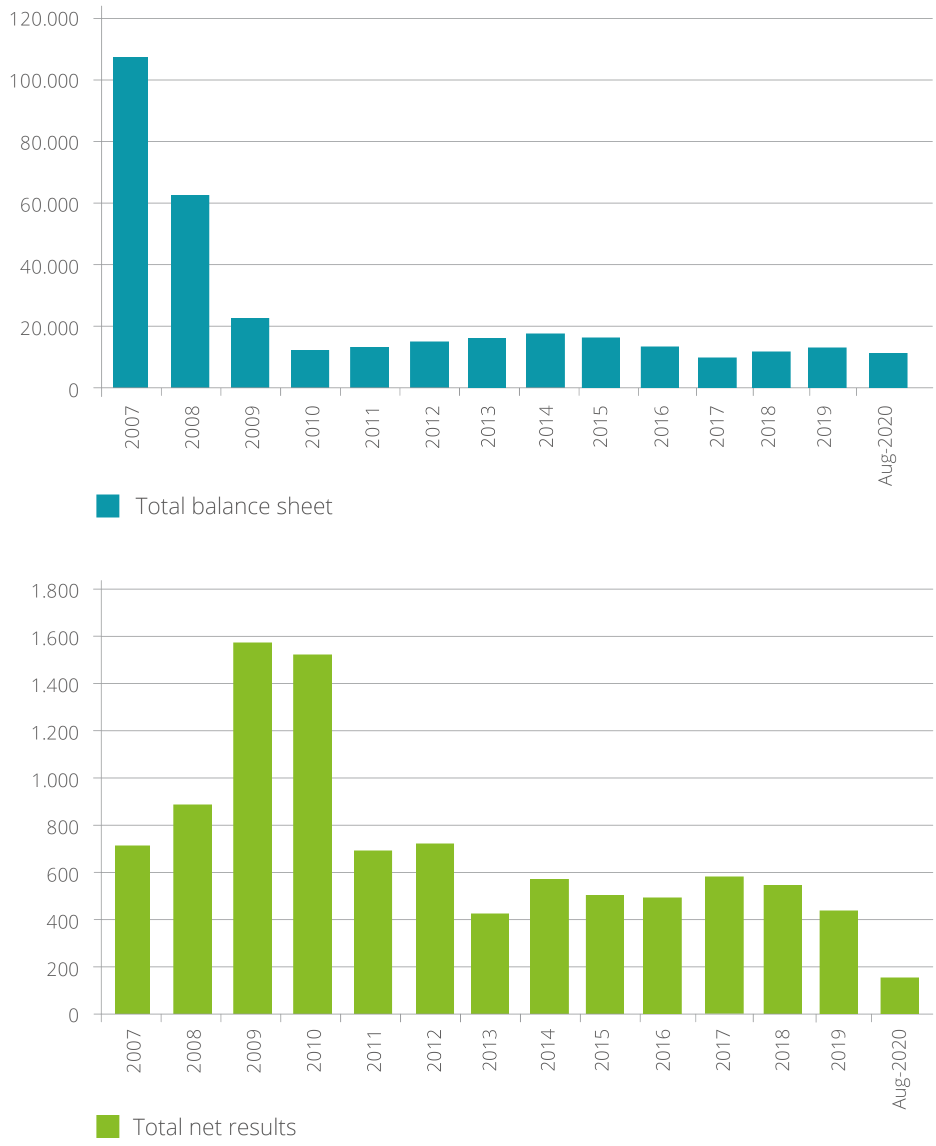
This stability is partly due to investment firms and Support PSF that saw their balance sheet total increase respectively by 32% (€279 million) and 35% (€476 million), compensating the decrease of the total balance sheet for specialized PSF by €868 million (-13%). The increase for investment firms is mainly attributable to three entities with a very high balance sheet total (Stevens et De Munter, Interactive Brokers Luxembourg S.à r.l and Fund Channel S.A). The increase for support PSF is mainly due to one PSF entity with a high total balance sheet total (Proximus Luxembourg S.A.). However, for specialized PSF, the decrease of total balance sheet is mainly attributable to an entity impacted by the restructuring of the group to which it belongs (POST Luxembourg).

The balance sheet concentration of PSF increased between December 2018 and December 2019. The three PSF with the largest balance sheet totals (two specialized PSF with a combined balance sheet value of €5.423 million and one support PSF with total balance sheet € 508 million) account for 57% of the balance sheet total of all PSF, compared to 32% in 2018.

Given the diverse range of players that the term PSF encompasses, we prefer to use net profit as the criterion, rather than a balance sheet, as we believe it better reflects the strength and reality of the industry. Thus, PSF posted a 12% decrease in net profits between 2018 and 2019, from €520 million in 2018 to €458 million in 2019.

According to CSSF data as at 30 September 2020, PSF overall have a provisional net profit of €174 million (investment firms accounting for €75 million and specialized PSF accounting for €62 million), a rather negative trend as compared to last year, totaling €371 million.

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



Source: Statistics of the CSSF

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

Total balance sheet (in € million)

	2017		2018		2019		September 2020	
	Amount	Relative share	Amount	Relative share	Amount	Relative share	Amount	Relative share
Investment firms	1.973	24%	875	10%	1.155	13%	1.137	13%
Specialized PSF	5.170	62%	6.732	75%	5.864	66%	5.983	67%
Support PSF	1.234	15%	1.344	15%	1.820	21%	1.833	20%
Total	**8.378**	**100%**	**8.952**	**100%**	**8.839**	**100%**	**8.953**	**100%**

Total net results (in € million)

	2017		2018		2019		September 2020 (9 months)	
	Amount	Relative share	Amount	Relative share	Amount	Relative share	Amount	Relative share
Investment Firms	138	24%	65	13%	100	22%	75	43%
Specialized PSF	358	62%	371	71%	290	63%	62	36%
Support PSF	80	14%	83	16%	68	15%	37	21%
Total	**576**	**100%**	**519**	**100%**	**458**	**100%**	**174**	**100%**

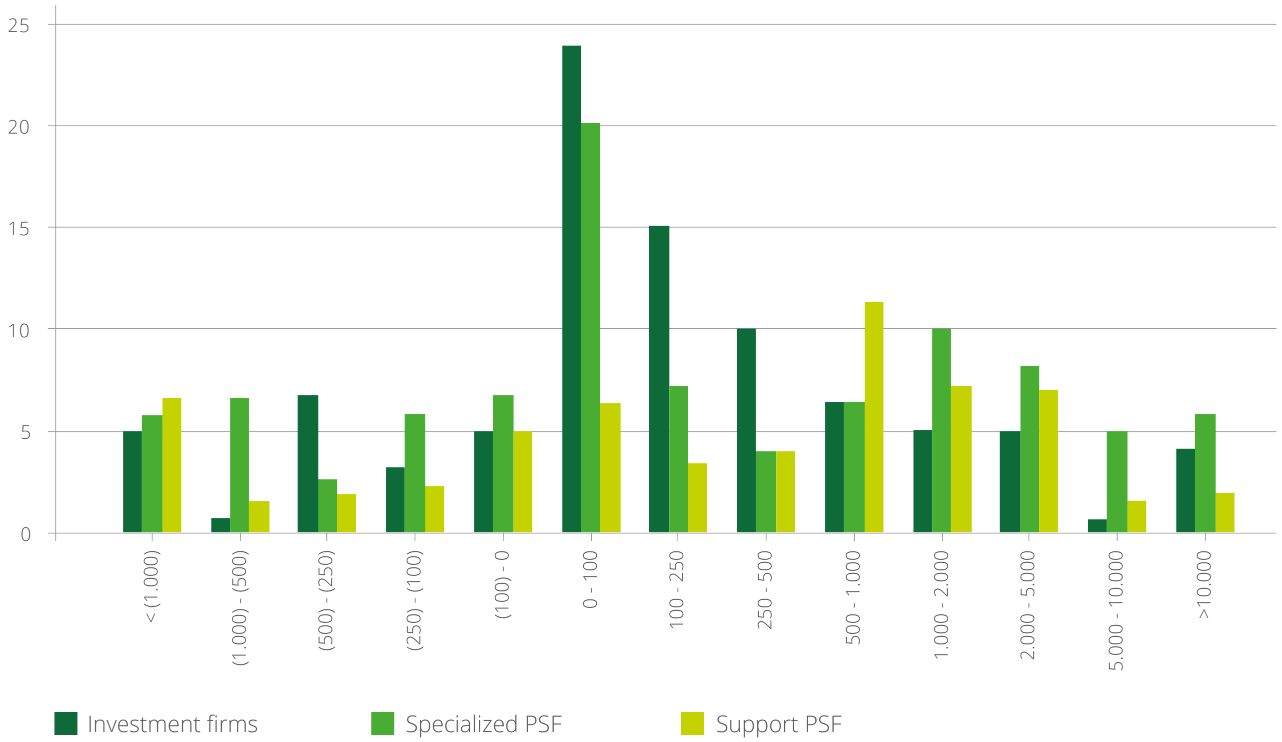
Source: CSSF statistics at 30 September 2020

An analysis of profits by category shows that:

- The net profits of **investment firms**, which increased by 53% over 2019, saw their relative share rise (22% in 2019 compared to 13% in 2018)
- The net profits of **specialized PSF** decreased in 2019 by 22%. In 2019, specialized PSF accounted for 63% of the net profits of all PSF (71% in 2018)
- The net profits of **support PSF** decreased by 18%. Their relative share remained stable with 15% in 2019, compared to 16% in 2018

Figure 5.1: Breakdown of PSF by net profit bracket as at 31 December 2019 (in € thousands)

Following our analysis of the financial statements that we received, the structure of the main profit trends is as follows:



The average net profit of a PSF as at 31 December 2019 slightly decreased from €1.85 million in 2018 to €1.65 million in 2019.

Figure 5.2: Comparison of breakdown of PSF by net result bracket in 2018 and in 2019 (in € thousands)

	Investment firms		Specialized PSF		Support PSF	
	2018	2019	2018	2019	2018	2019
Loss	37%	23%	25%	30%	23%	30%
Proft between 0 & 100	20%	26%	25%	21%	11%	10%
Profit between 100 & 1,000	27%	35%	32%	19%	36%	31%
profit between 1,000 & 5,000	10%	11%	10%	19%	22%	23%
Profit > 5,000	6%	5%	8%	11%	8%	6%
	100%	**100%**	**100%**	**100%**	**100%**	**100%**

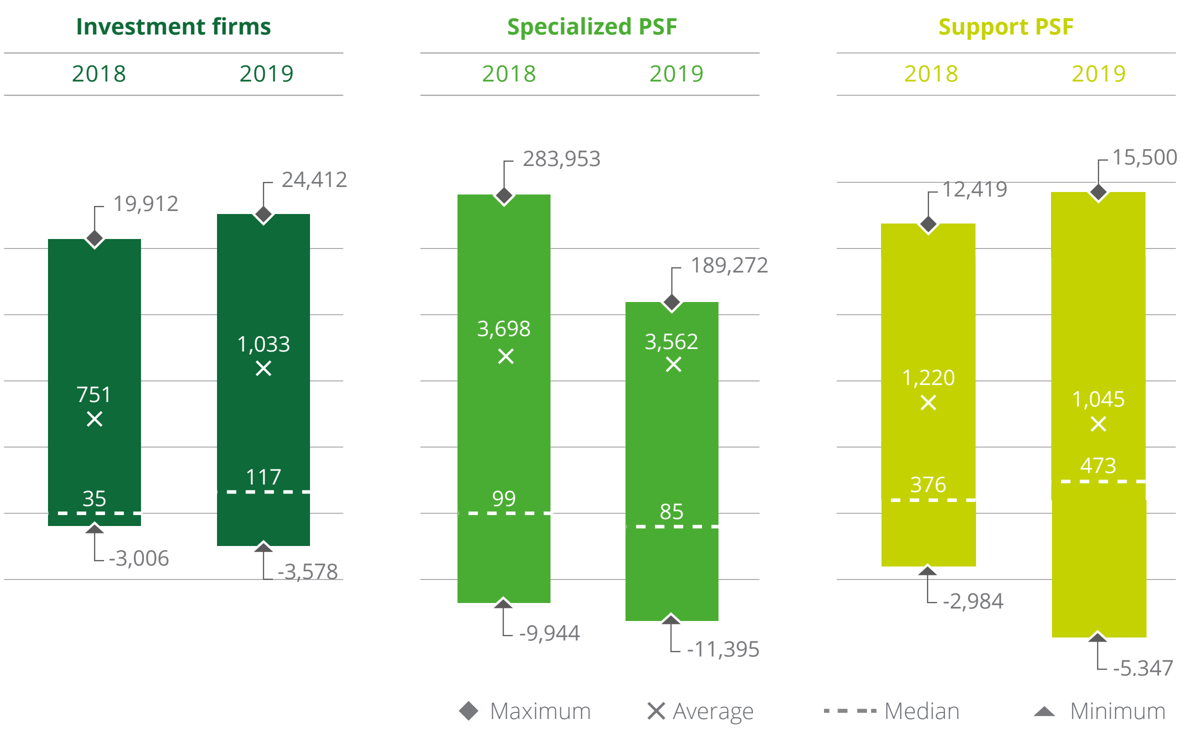
Investment firms category:
Net results of investment firms ranged from a loss of €3.6 million to a profit of €24 million. The three largest figures were posted by Attrax S.A., Midas Wealth Management S.A. and M&G International Investments S.A, for a total amount of €57 million. While average profit was €1 million, the median stands at €117 thousand, up from €35 thousand in 2018.

Specialized PSF category:
Net results of specialized PSF varied between a loss of €11 million and a profit of €189 million. Only one PSF posted an extremely high profit compared to the other entities: Clearstream International S.A. with €189 million. Post Luxembourg is in second position with €34 million. This explains why, despite an average profit of €2.8 million, 70% of the specialized PSF generated profits below or equal to €1 million.

Support PSF category:
Net results of support PSF ranged from a loss of €5 million to a profit of €15 million. The concentration of profit is higher than for the two other PSF categories. This is confirmed by an average profit of more than €1 million, and close to a median figure of €473 thousand.

The average net profit of a PSF for 2019 amounts to €1.65 million compared to €1.85 million in 2018.

Figure 6: Range and average net results by PSF category as at 31 December 2019 (in € thousands)



Main expenses of PSF

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

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

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

For **investment firms**, personnel expenses rank first and account for 48% of identified expenses in 2019. They are followed by external expenses and other operating expenses representing 46%.

For **specialized PSF**, external expenses and other operating expenses and personnel costs account for 96% of identified costs in 2019. The distribution of the main expenses is stable when compared with 2018.

Among **support PSF**, external expenses and other operating expenses rank first and account for 62% of identified expenses for 2019. They are followed by personnel expenses representing 36% in 2019.

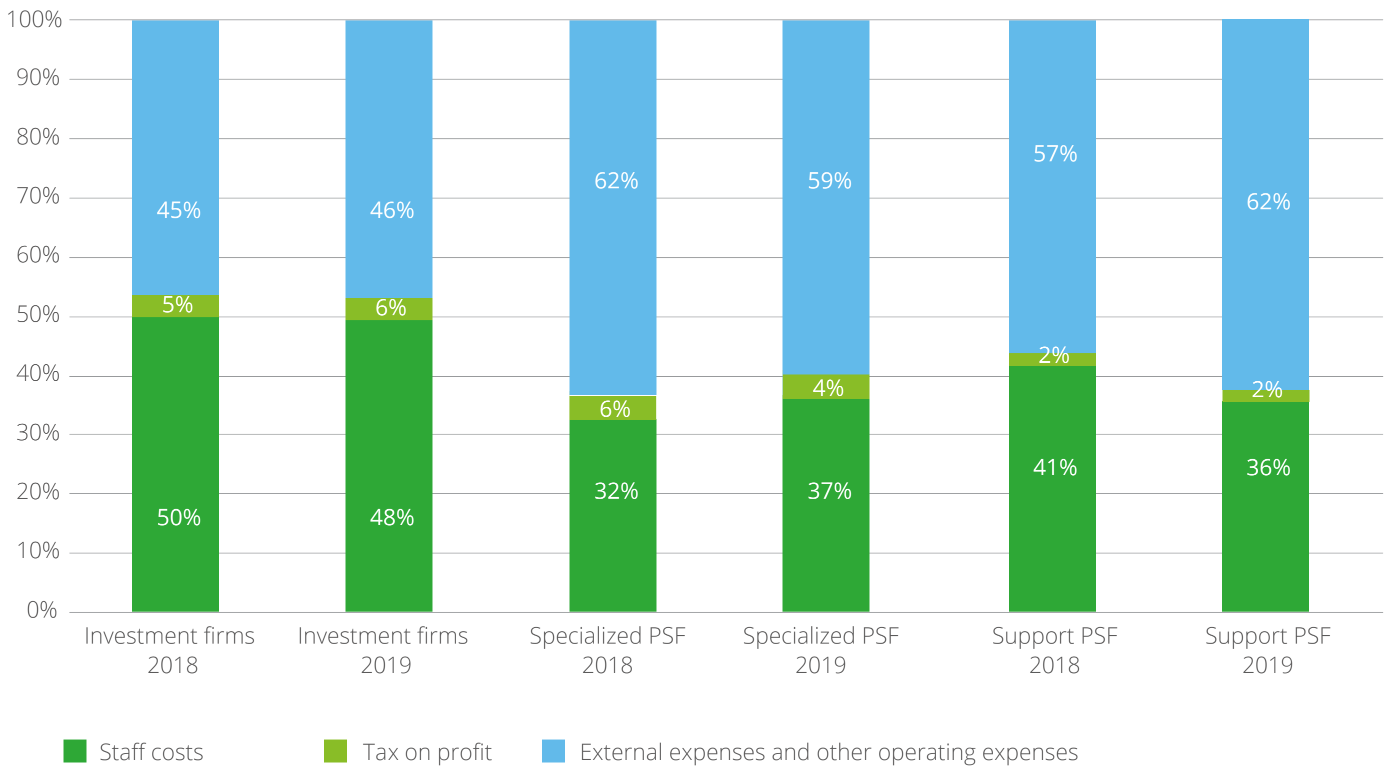
We have calculated the average annual cost of an employee for each PSF category (in € thousands):

- For investment firms: 134 (113 in 2018)
- For specialized PSF: 80 (77 in 2018)
- For support PSF: 70 (57 in 2018)

We have also recalculated an effective rate of taxation per PSF category and we note that it is not homogeneous across the different categories (trend also seen in 2018).

- Investment firms: : 29% (21% in 2018)
- Specialized PSF: 14% (16% in 2018)
- Support PSF: 29% (26% in 2018)

Figure 7: Breakdown of the main expenses per PSF category as at 31 December 2018 and as at 31 December 2019 (in %)

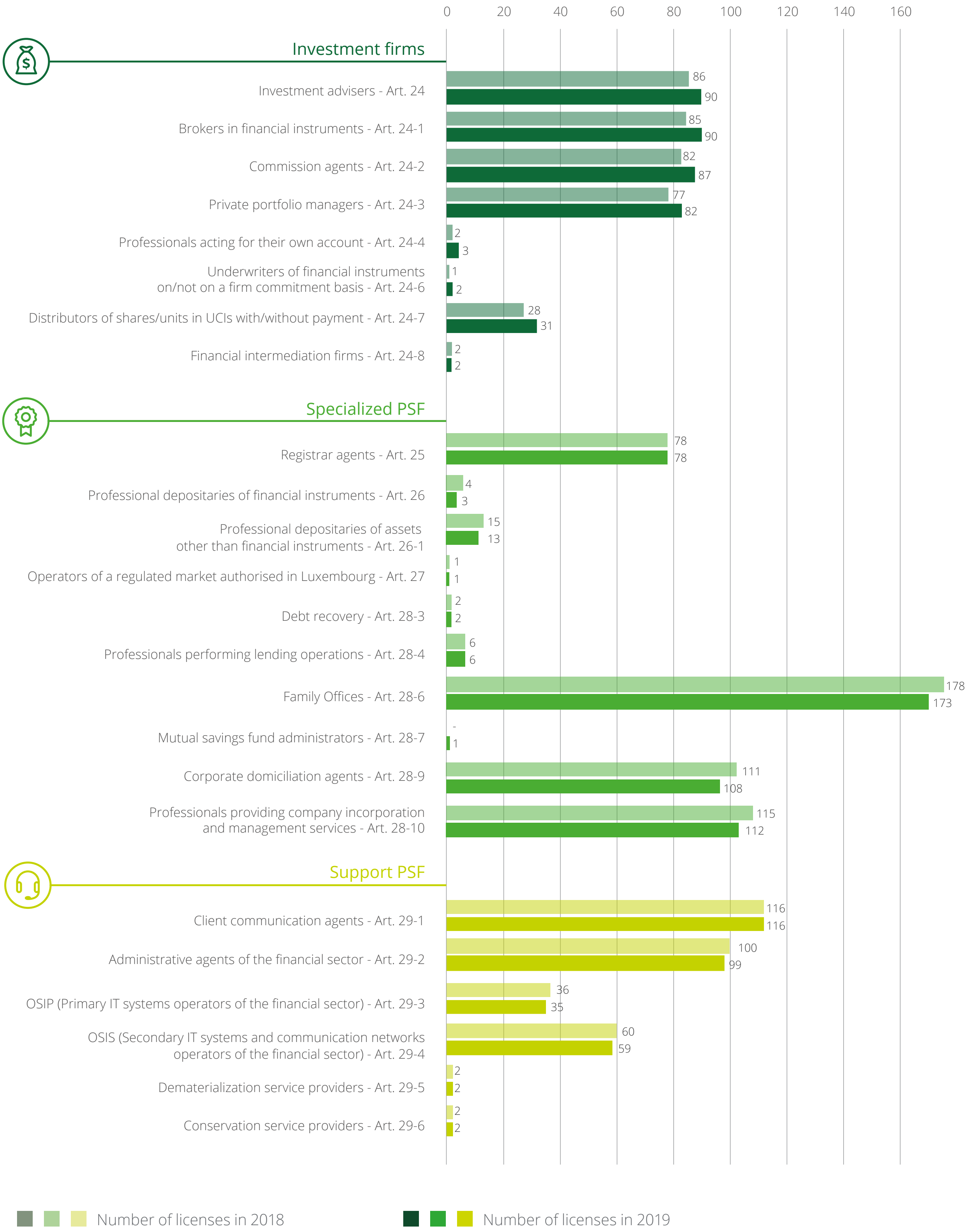


Source: CSSF statistics

Among investment firms, personnel expenses rank highest and account for 48% of identified expenses in 2019.

They are followed by external expenses and other operating expenses, representing 46%.

Figure 8: Total number of PSF licenses as at 31 December 2019 and 31 December 2018



Distribution of the number of licenses

As at 31 December 2019, the most widely granted license is still Article 28-6 "Family Office". Created in 2013, this license was met with great success as soon as it was published. It has been granted to 62% of PSF: 93% of investment firms and 77% of specialized PSF.

The seven most frequent licenses in 2019 are still Articles 28-6 "Family Office", 29-1 "Client Communication Agents", 28-10 "Professionals Providing Company Incorporation and Management Services", 28-9 "Corporate Domiciliation Agents", 29-2, "Administrative agents of the financial sector", 24 "Investment Advisers" and 24-1 "Brokers in financial instruments".

These seven articles account for 66% of licenses as at 31 December 2019.

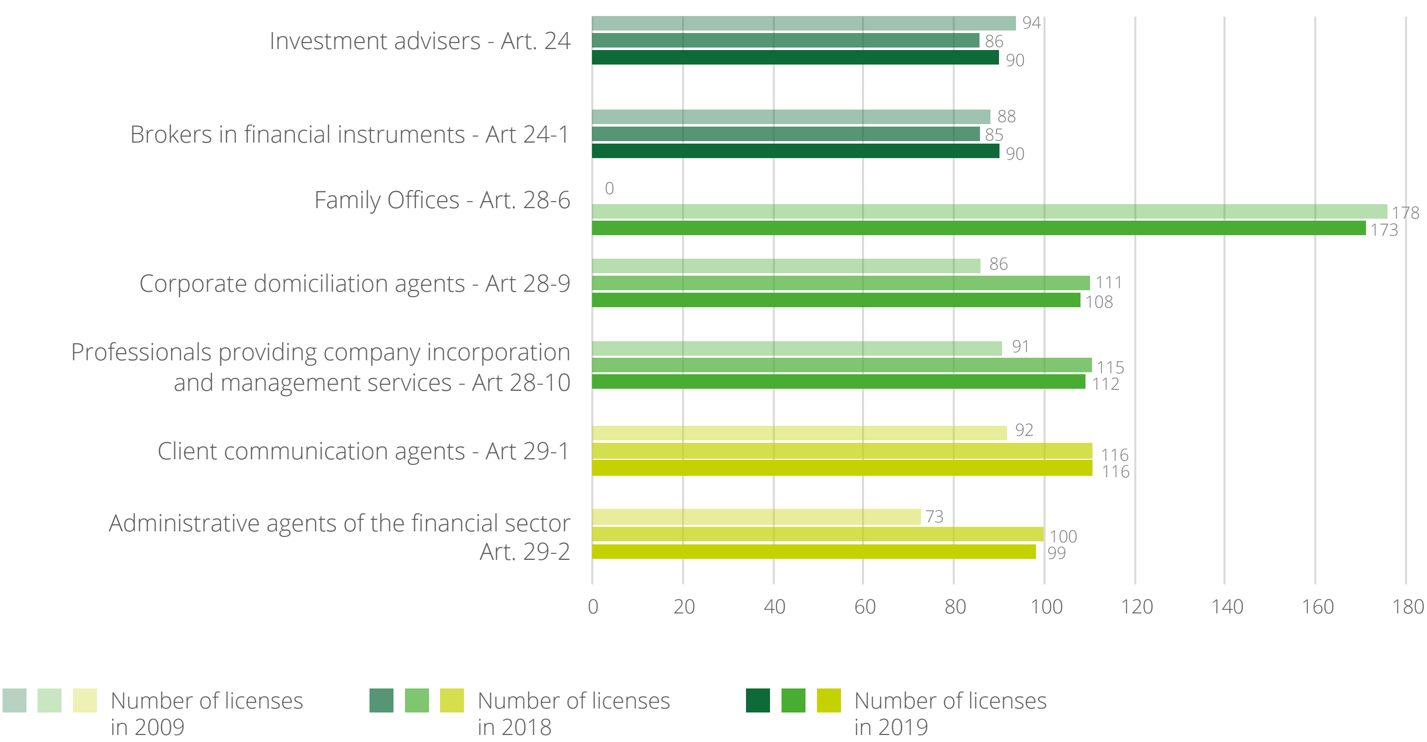
The number of main licenses dropped by 3 licenses in 2019 (788 licenses) compared to 2018 (791 licenses). However, the considerable dynamism seen in 2014 was exceptional, whereas 2017, 2018 and 2019 were rather years of consolidation and thus more representative of the trend seen in recent years. So, after the significant rise in the distribution of licenses between 2009 and 2014, a tendency towards concentration on core business has been observed since 2015, which is continuing into 2019.

The "Corporate Domiciliation Agent" license (Article 28-9) has also risen sharply, from 86 licenses in 2009 to 108 in 2019 (+26%). Similarly, the "Administrative agents of the financial sector." license (Article 29-2), has risen from 73 to 99 licenses between 2009 and 2019 (+36%).

Finally, in 2019, 13 specialized PSF held the license under Article 26-1, enabling them to carry on the activity of "Professional Depositary of Assets Other Than Financial Instruments".

As at 31 December 2019, the most widely granted license is still Article 28-6 "Family Office".

Figure 9: Change between 2019, 2018 and 2009 in the main seven PSF licenses



4 licenses (3 in 2018) have not been granted to any entity as at 31 December 2019.

These are licenses under articles:

- 24-5 Market Maker
- 24-9 Investment Firms Operating an MTF in Luxembourg
- 28-2 Currency Exchange Dealers
- 28-5 Professionals Performing Securities Lending

Between 2009 and 2014, we observe a consistent increase in the number of PSF licenses. This period represents a dynamic phase in the granting of licenses for the sector.

Up until 2014, PSF often tended to apply for more licenses than necessary when they were setting up, thereby hoping to avoid having to make a subsequent application to the CSSF to extend their license, which would become necessary if they decided to expand their range of activities.

Since 2015, we have also seen the number of licenses shrink, in line with the decline in the number of PSF. We can also note that PSF are refocusing on their core business and some are shedding the costs and requirements inherent in certain licenses.

All categories considered, the total number of licenses has slightly increased by 1% in 2019, i.e. there are 8 more licenses than in 2018 (1,198 in 2019, versus 1,190 in 2018).

For the sixth year running, the most widely granted licenses are those of specialized PSF (41% of licenses in 2019, compared to 27% in 2009). Figure 11 details the factors of change in the number of licenses in activity between 2019 and 2018.

These changes break down as follows:

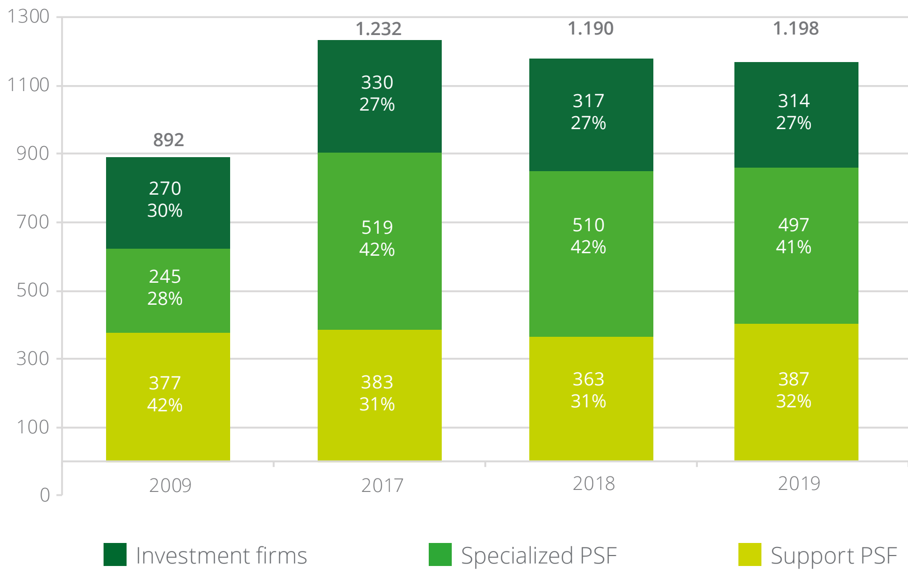
- PSF created during the year
- PSF that already existed and obtained supplementary licenses or decided to relinquish certain licenses
- Entities that totally gave up their PSF status

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

Investment firms mostly hold five licenses (mainly Articles 24 to 24-3, as well as 28-6 Family Office). Specialized PSF mostly hold Articles 28-6, 28-9 and 28-10. This homogeneity is less pronounced for support PSF. While most specialized PSF hold six or seven licenses, a significant number of them use only three or less.

Most support PSF hold two licenses (Articles 29-3 and 29-4).

Figure 10: Change in and breakdown of licenses in 2009, 2017, 2018 and 2019



The most widely granted licenses are those of specialized PSF.

Figure 11: Change in PSF licenses over 2018 and 2019

Source of increases and declines in licenses	Investment firms 2019	Specialized PSF 2019	Support PSF 2019
PSF created	96	24	6
Existing PSF	(43)	(8)	1
PSF withdrawals	(29)	(29)	(10)
Total change in the number of licenses 2019	**24**	**(13)**	**(3)**
Total change in the number of licenses 2018	**(20)**	**(9)**	**(13)**

Figure 12: Distribution of PSF by number of licenses as at 31 December 2019

Number of licenses	Investment firms 2019	Specialized PSF 2019	Support PSF 2019
1	1	13	**30**
2	6	4	**27**
3	2	15	7
4	4	8	7
5	**23**	3	1
6	**32**	**31**	1
7	6	**25**	1
8	9	6	
9	6		
10	2		
11	3		
12	5		
Total	**99**	**105**	**74**

1.2 The PSF: a consistent and steady employer

PSF employ 16,878 people as at 31 December 2019, versus 5,948 for management companies and 26,337 for banks.

Evolution of employment in PSF
Using the latest figures available from the CSSF (September 2020), we find the following distribution of employment in Luxembourg in the financial sector: for a total number of employees of 47,663, all financial sectors considered (banks, management companies according to chapter 15, and PSF), 55% work in banks, 10% in management companies, and 34% in PSF, of which 55% work in support PSF.

With 16,878 jobs as at 31 December 2019, a new record in the number of PSF jobs was reached.

Between 2009 and 2019, employment in PSF increased by 25%, whereas employment in banks remains stable between December 2009 (26.420) and December 2019 (26.337).

PSF employment figures were relatively stable in 2019, with a slight increase compared to the previous year of 2%.

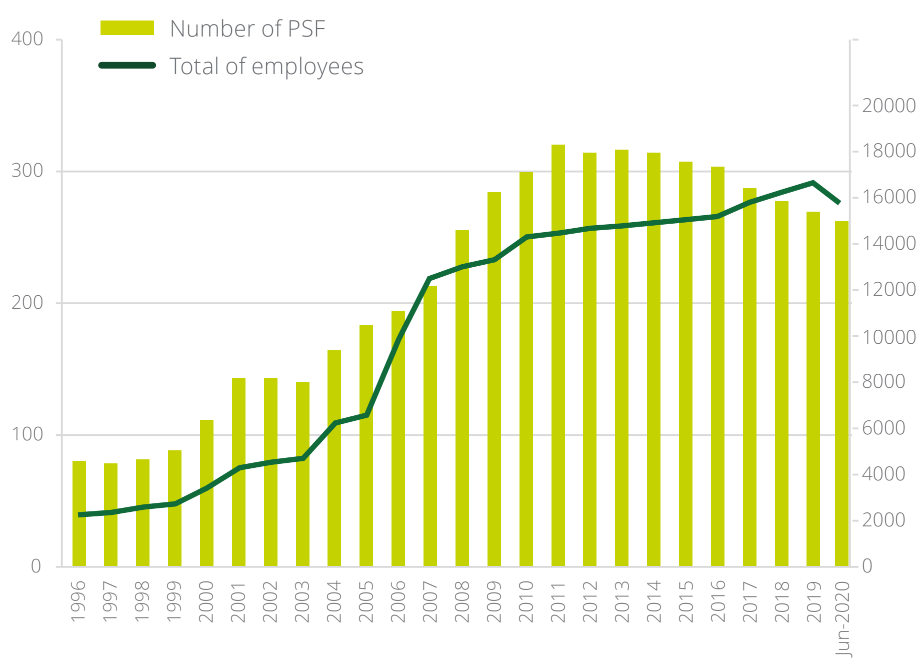
The breakdown of employees by category of PSF has changed in 2019, with a large decrease of employees of investment firms (-20%). This coincides with one large investment firm changing its status from investment firm to specialized PSF (European Fund Administration S.A. – 527 employees as at December 31, 2019). Specialized PSF stand out, with the net creation of 703 jobs over 2019 (+16%), compared to 472 (+12%) in 2018. Support PSF saw their employment figures increase during 2019 (+1%).

As of 30 June 2020, the number of employees decreased to 15,979 due to a decrease in the number of PSF (270, 8 withdrawn during the Q2 2020). From 31 December 2019 to 30 June 2020, the number of employees for investment firms and specialized PSF increased respectively by 4% and 3%, while the number of employees for support PSF decreased.

The analysis that we conducted on the basis of PSF 2019 annual financial statements shows that almost 25% of investment firms and specialized PSF have 25 employees or less.

Investment firms employ 17 people on average (22 in 2018), 49 people (41 in 2018) for specialized PSF and 135 people (134 in 2018) for support PSF in 2019.

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



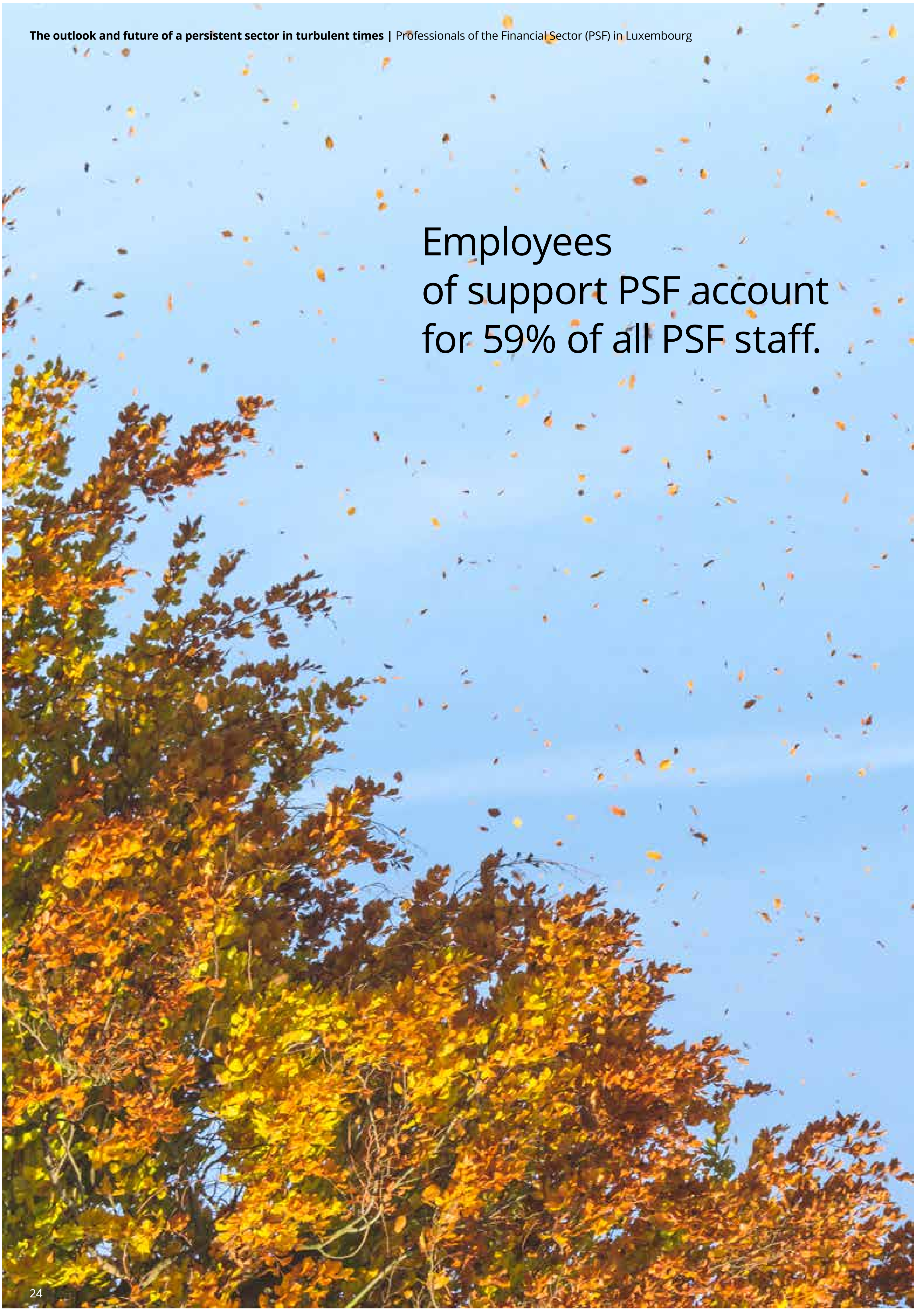
*Source: CSSF statistics based on the most recent available data.

These average figures remain quite high thanks to a handful of entities generating a significant number of jobs:

- In 2019, the four largest investment firms employed 600 people (each with over 100 employees). The workforces of these companies account for 35% of the total number of investment firm employees. Without these four entities, investment firms would have an average workforce of 11 people.
- The number of specialized PSF employing more than 100 people is the same as last year (12 in 2018). Among them, there are nine PSF with over 150 employees, totaling 5,111 people. They are POST Luxembourg, European Fund Administration, Intertrust (Luxembourg) S.à.r.l., International Financial Data Services (Luxembourg) S.A., IQ EQ (Luxembourg) S.A., Alter Domus Alternative Asset Fund Administration S.à r.l., Aztec Financial Services (Luxembourg) S.A., TMF Luxembourg S.A. and Arendt Services S.A.. In total, their workforces account for nearly 99% of specialized PSF employees.
- The number of support PSF employing more than 250 people is six, totaling 3,048 people (30% of the total number of support PSF employees). They are SOGETI Luxembourg S.A. (723), Proximus Luxembourg S.A. (684), Clearstream Services S.A. (654), POST Telecom S.A. (463), KNEIP communication S.A. (271) and IBM Luxembourg S.àr.l (253).

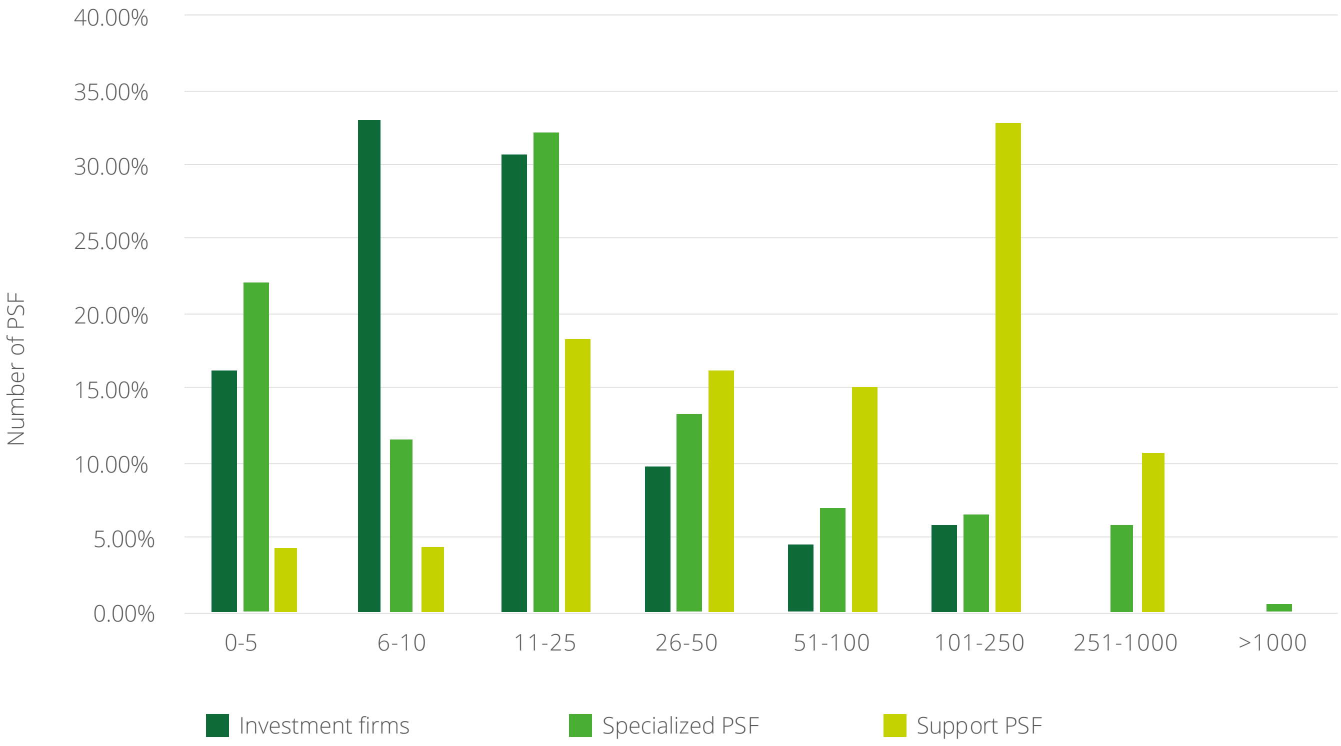
Figure 14: Changes in the number of employees by PSF category

	2018		2019		Evolution		September 2020	
	Total	Share	Total	Share	Total	Change	Total	Share
Investment firms	2.115	13%	1.690	10%	-425	-20%	1.761	11%
Specialized PSF	4.480	27%	5.183	31%	703	16%	5.380	34%
Support PSF	9.931	60%	10.005	59%	74	1%	8.923	55%
Total	**16.526**	**100%**	**16.878**	**100%**	**352**	**2%**	**6.064**	**100%**



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

Figure 15.1: Distribution of PSF by number of employees bracket as at 31 December 2019

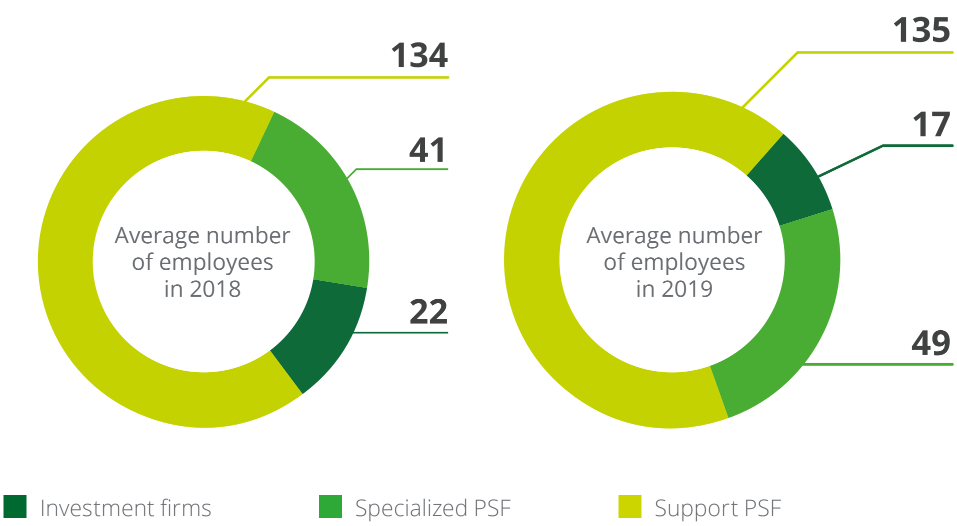


Most support PSF employ between 101 and 250 people, and the average number of employees per support PSF was 135 in 2019 and 134 in 2018.

This average is boosted by three PSF, which each employ more than 500 people, totaling 2,061 employees, i.e. 20% of the sector's total workforce.

Without these three PSF, the average workforce of support PSF would be 112 employees (88 in 2018).

Figure 15.2: Average number of employees by PSF category in 2018 and 2019



Review of the results of PSF per employee

Following our analysis of the 2019 CSSF annual report we were able to calculate the average profit per employee. The report signaled a decrease of 14% compared to 2018 for all PSF, (€31 thousand in 2018 to €27 thousand in 2019).

Specialized PSF show highly variable result figures per employee: between a loss of €11 million and a profit of €189 million. The average profit by employee amounts to €56 thousand in 2019 (€83 thousand in 2018).

The decrease in average profits per support PSF employee is due to a decrease in maximum and minimum average profits and an increase in the number of employees in 2019.

Average profits/employee for investment firms amount to €59 thousand in 2019, compared to €30 thousand in 2018. This increase is mainly explained by investment firms created in 2019 (2 new investment firms), and an increase in net result of certain players year-on-year.

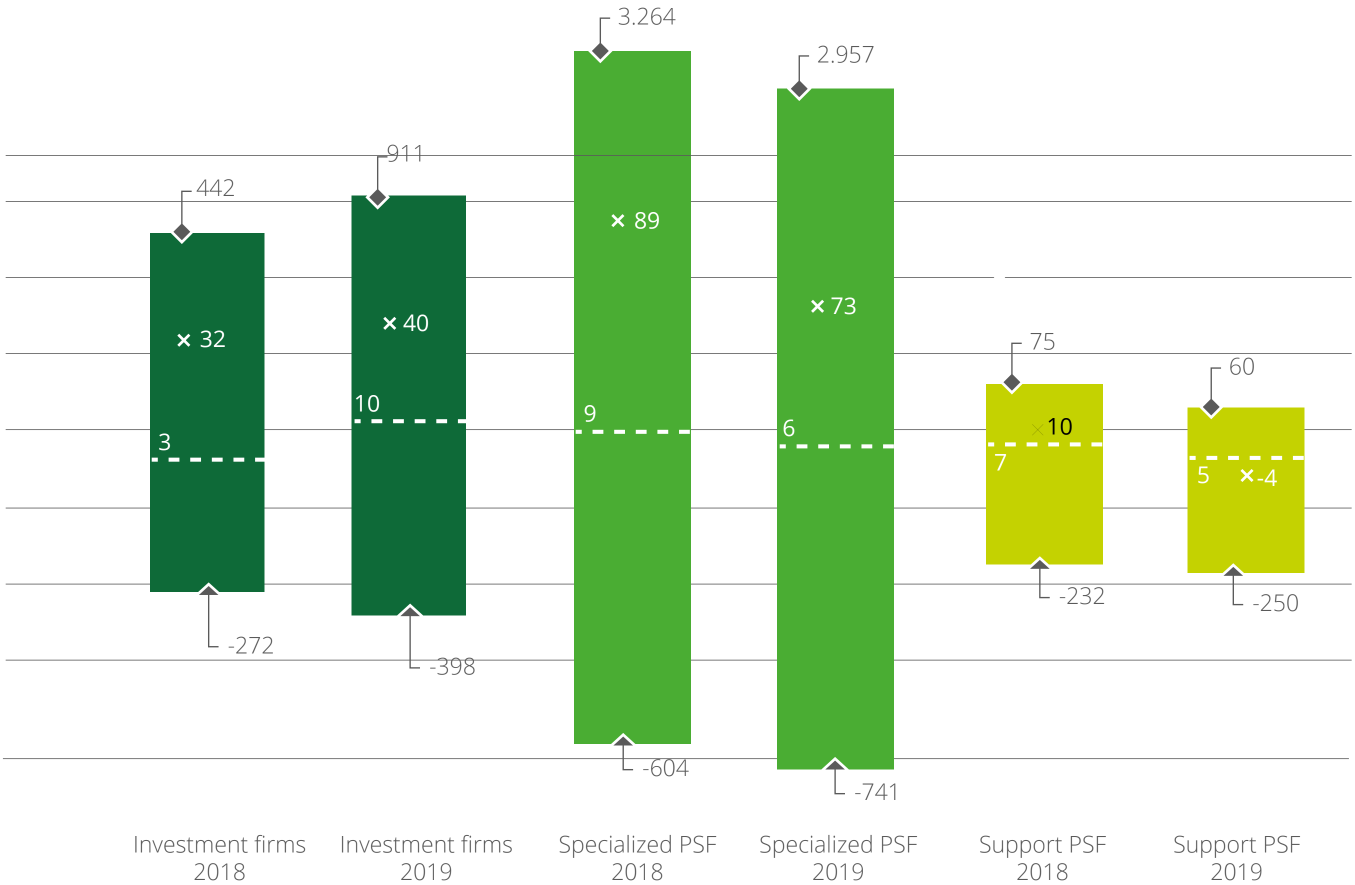
Details of the support PSF workforce

We can see that employees of support PSF account for 59% of all PSF staff. Telecommunication and IT services are the activities that generate a majority of the jobs. These organizations include :

- Proximus Luxembourg S.A. and Post Telecom S.A. (in the telecommunication sector) alone employ more than 1,000 people
- Sogeti Luxembourg S.A., Clearstream Services S.A (which offer IT solutions and services) and KNEIP Communications S.A (Security) all together employ more than 1,600 people.

These five companies account for 28% of all support PSF jobs.

Figure 16: Review of PSF results per employee as at 31 December 2019 and 31 December 2018 (in € thousands)



	Investment firms 2018	Investment firms 2019	Specialized PSF 2018	Specialized PSF 2019	Support PSF 2018	Support PSF 2019
× Average	32	40	89	73	10	(4)
- - - Median	3	10	9	6	7	5
▲ Minimum	(272)	(398)	(604)	(741)	(232)	(250)
◆ Maximum	442	911	3.264	2.957	75	60

2 Types of PSF

2.1 Licenses in detail

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

Article License
Minimum capital or financial base

Authorized to act as →

Investment firms

- **24** Investment advisers **€50,000**
- **24-1** Brokers in financial instruments **€50,000**
- **24-2** Commission agents **€125,000**
- **24-3** Private portfolio managers **€125,000**
- **24-4** Professionals acting for their own account **€730,000**
- **24-5** Market makers **€730,000**
- **24-6** Underwriters of financial instruments **€125,000** (€730,000 if they carry out placements with a firm commitment)
- **24-7** Distributors of shares/units in UCIs **€50,000** (€125,000 if they accept or make payments)
- **24-8** Financial intermediation firms **€125,000**
- **24-9** Investment firms operating an MTF in Luxembourg **€730,000**
- **24-10** Investment firms operating an OTF in Luxembourg **€730,000**

Specialized PSF

- **25** Registrar agents **€125,000**
- **26** Professional depositaries of financial instruments **€730,000**
- **26-1** Professional depositaries of assets other than financial instruments **€500,000**
- **27** Operators of a regulated market authorised in Luxembourg **€730,000**
- **28-2** Currency exchange dealers **€50,000**
- **28-3** Debt recovery -
- **28-4** Professionals performing lending operations **€730,000**
- **28-5** Professionals performing securities lending **€730,000**
- **28-6** Family Offices **€50,000**
- **28-7** Mutual savings fund administrators **€125,000**
- **28-9** Corporate domiciliation agents **€125,000**
- **28-10** Professionals providing company incorporation and management services **€125,000**
- **28-11** Central account keepers -

Support PSF

- **29-1** Client communication agents **€50,000**
- **29-2** Administrative agents of the financial sector **€125,000**
- **29-3** Primary IT systems operators of the financial sector **€370,000**
- **29-4** Secondary IT systems and communications networks operators of the financial sector **€50,000**
- **29-5** Dematerialization service providers of the financial sector **€50,000**
- **29-6** Conservation service providers of the financial sector **€125,000**

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

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

Figure 17 below groups together licenses by major category of PSF, and the overlaps between categories as at 31 December 2018 and 31 December 2019. It should be noted that branches operating in Luxembourg are only investment firms. PSF have the option of combining several licenses, but it is the principal license of the PSF, allocated by the CSSF, which determines the PSF category.

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

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

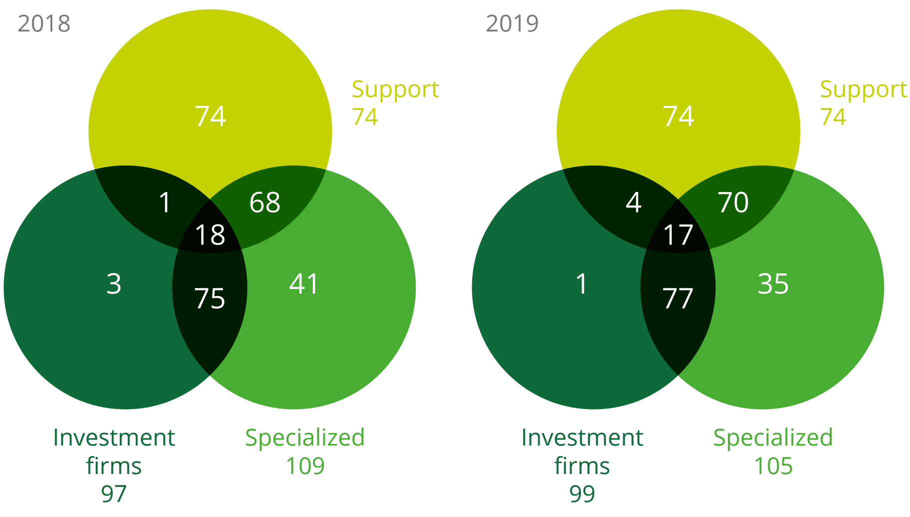
Accordingly, only PSF that do not hold the investment firm or specialized PSF license are support PSF.

The total number of PSF included in this analysis as at 31 December 2019 was therefore 278, including:

- 99 investment firms
- 105 specialized PSF (the 94 players with investment firm status too have already been identified above and are therefore not counted as specialized PSF)
- 74 support PSF (the 91 players with investment firm and specialized PSF status too have already been identified above and are therefore not counted as support PSF)

Entities with a status pursuant to at least Articles 24 to 24-10 have been classified as investment firms. Specialized PSF are entities with a license under Articles 25 to 28-11. Support PSF are entities that only have licenses under Articles 29-1 to 29-6.

Figure 17: Licenses of PSF by category



2.2 Investment firms

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

The number of investment firms included in the analysis as at 31 December 2019 was 99.

At year-end 2019, nearly all the investment firm PSF have one or more, or even all of the following four licenses:

- 90 hold an investment adviser license (Art. 24)
- 90 have a license as brokers in financial instruments (Art. 24-1)
- 87 have a license as commission agents (Art. 24-2)
- 82 have a license as private portfolio managers (Art. 24-3)

Another license widely held in investment firms corresponds to the status of distributor of shares/units in UCIs (Art. 24-7). This status is indeed held by 31 investment firms as at 31 December 2019.

Many of these PSF also hold additional licenses relating to other PSF categories and particularly to the Family Office license (Art. 28-6). However, of the 92 investment firms holding this license, only 39, or less than half, actually carry on this activity.

The other additional activities are quite uniform and primarily concern providers of company incorporation and management services (Art. 28-10), client communication agents or financial sector administrative agents (Art. 29-1 and 29-2), registrar agents (Art. 25) and corporate domiciliation agents (Art. 28-9) (Figure 18). An increase is seen in licenses held by investment firms between 2018 and 2019 (see Figure 18) from 558 to 577 mainly due to the PSF created in 2019.

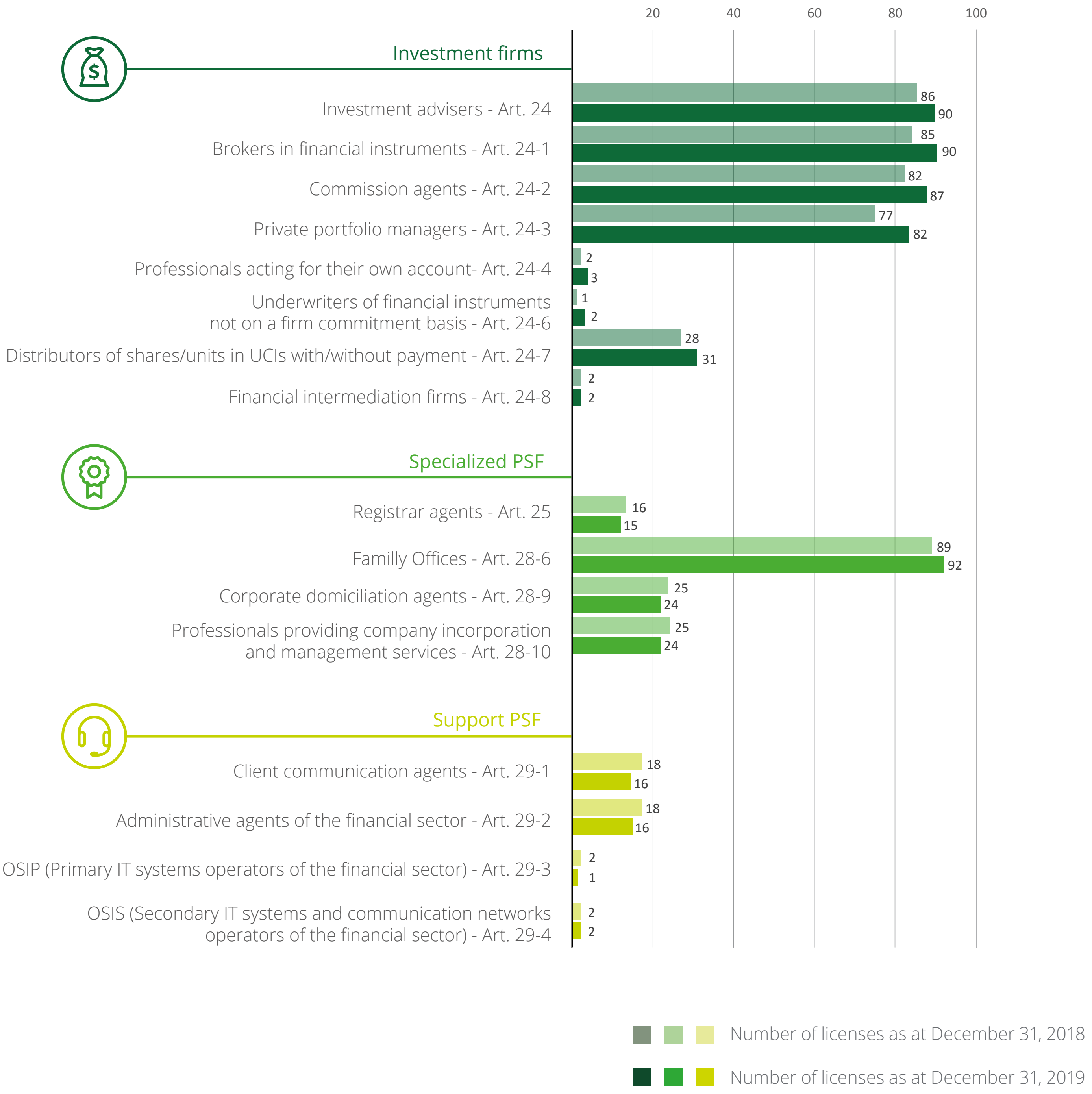
Among investment firms, we now distinguish two categories, those governed by the CRR (Common Reporting Regulation) and those that are not. In practice, the former are subject to a closer supervision and fall within the province of the European Central Bank.

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

CRR investment firms are subject to specific rules, in particular with regard to supervision on a consolidated basis, to specific prudential reporting requirements – such as the Liquidity Coverage Requirements (LCR) or Net Stable Funding Requirements (NSFR) – and to regulatory equity.

Overall, between the end of 2018 and the end of 2019, the number of CRR-governed investment firms is quite stable, 24 entities in 2019 compared to 23 in 2018.

Figure 18: Licenses granted to investment firms as at 31 December 2019 and as at 31 December 2018



The number of licenses held by investment firms has increased by 3% between 2018 and 2019.

Excerpt from our report entitled "Wealth Management Response to COVID-19: how wealth managers can recover and thrive"

This year, the world was confronted by the COVID-19 pandemic. As a result, economic, social, and political challenges quickly became apparent across the Globe. The abrupt spread of the virus shook the global economy due to the closure of industries and businesses arising from social distancing measures.

These abrupt circumstances affected both investors and wealth management firms. Investors saw direct impacts on their portfolios, given initial market drops and historic levels of volatility. Firms' top lines were affected as transactional revenues rose with trading volumes, while overall net interest income and fees tied to assets under management (AUM) declined in consistency with market performance.

Though backstop and contingency efforts have been implemented to appease uncertainty, there remains questions about the short- and long-term impacts of COVID-19 on wealth management. Many existing wealth management trends have been accelerated, while others have slowed, and firm strategies have quickly pivoted to respond to client needs in a new environment.

The trajectory and direction of industry trends observed in wealth management up to the COVID-19 pandemic have been altered by the current global health and economic conditions—some wealth management trends have accelerated.

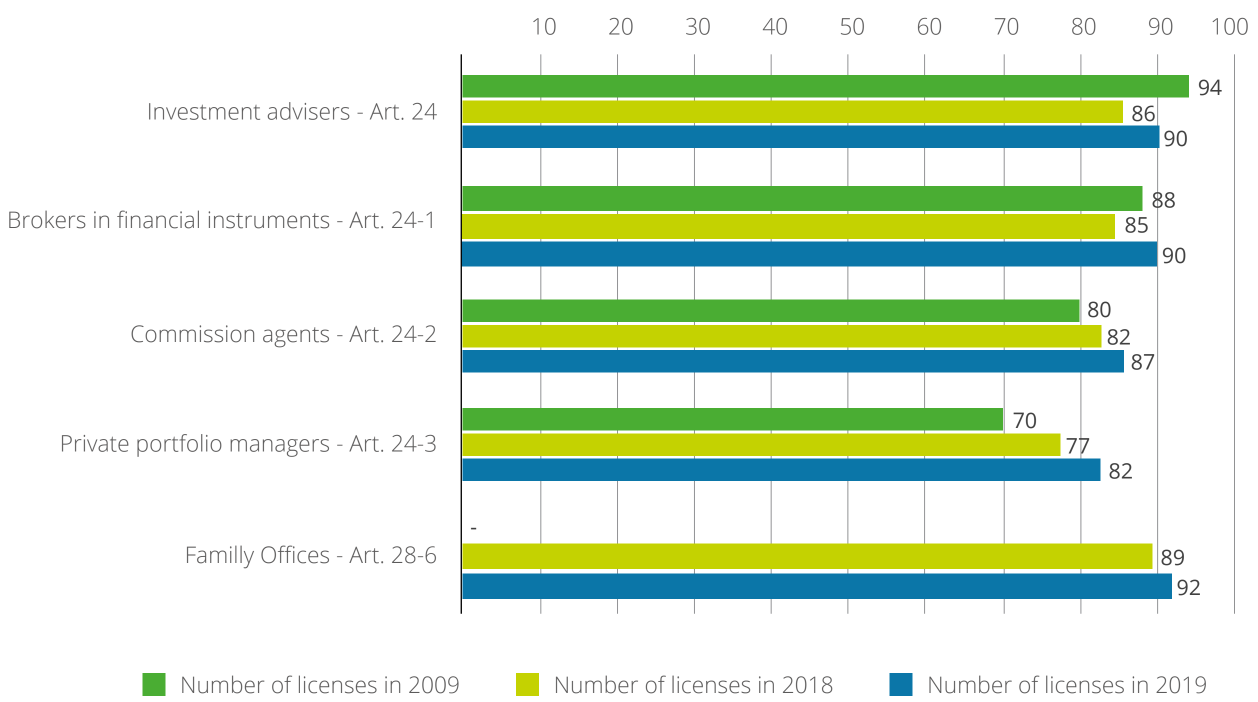
The three accelerated wealth management trends of note are:

- Investor preferences for lower-cost, passive strategies;
- The adoption of digital channels across generational divides;
- Advisers' shifts toward holistic financial planning.

While there are several future scenarios to consider as the pandemic plays out, wealth management firms should consider several actions as they begin their recovery in order to position themselves to thrive in the new normal. Otherwise, they may risk losing market share and relevance during an already turbulent time.

Firms should position themselves to thrive in the "new normal" or risk losing market share and relevance.

Figure 19: Change between 2019, 2018 and 2009 in the five main licenses held by investment firms as at 31 December 2019



Questions to Manuel Ghidini and Patrick Useldinger
Managing Directors of Fiducenter S.A.

INTERVIEW CONDUCTED BY RAPHAËL CHARLIER
13 OCTOBER, 2020

WHAT CHANGES DO YOU EXPECT FOR SPECIALISED PSF IN THE AREA OF PRIVATE PORTFOLIO MANAGEMENT?
A crisis is always an opportunity and brings major changes. The one we are currently facing brings a lot of opportunities to redefine our working methods and adopt more efficient modes of communication, not only within teams but also with partners and clients. The situation means we must be more flexible and prompts us to make more extensive use of new tools and technologies. Working remotely has become the norm without affecting operations.

A crisis is also an opportunity to stand out from the competition, in terms of flexibility, adaptability and service offering, which must evolve towards niche markets for our businesses. In terms of customer relationship management, we must introduce and develop use of digital communication tools, such as video-conferencing, to work around bans on travelling, and report more and with better quality to clients, particularly to reassure them.

In terms of talent, some managers will no doubt attempt to move from large firms to smaller entities in order to retain real flexibility and regain a certain degree of freedom in the investment choices they offer clients, thanks to an open architecture.

While certain large players are concentrating on reducing operating costs to make up for expenditure in compliance and reach a certain level of profit, other smaller asset managers are investing, as we do, in securing close customer relations and providing a bespoke service. This close relationship with clients and prospects guarantees greater transparency and a better response to their expectations.

Small organisations also need to focus on cost control. The need to reach a certain size will undoubtedly prompt the smallest firms to join forces.

WHAT ARE THE MAIN CHALLENGES FACING LUXEMBOURG IN THE BUSINESS SECTOR YOU REPRESENT?
Luxembourg has made extensive efforts to improve its image, particularly by rapidly transposing European legislation into domestic law, unlike some of our neighbours. But other Member States still try to take advantage of Luxembourg's former reputation. We hope to see

Luxembourg's efforts pay off in the medium term, because from a regulatory and fiscal standpoint, everything has been done to show how the country is a star pupil. Today, Luxembourg is transparent, and plays by the same - and sometimes stricter - rules as the other Member States.

WHAT ARE THE MAIN OPPORTUNITIES FOR THE PSF THAT YOU REPRESENT?

Digital transformation has improved and will continue to improve the way we report to clients, by giving them almost instant access to all their assets via different media.

As regards products, the offer of sustainable investments is already dense and client demand is clearly there and growing. Private Equity and Real Estate still offer some opportunities, although the initial outlay is not suited to all budgets.

Some promising sectors can offer some good opportunities for investment, particularly in technologies and healthcare.

International expansion, for example by opening a branch or through services passport, is beneficial in terms of access to local expertise and leveraging our recognised brand image, while complying with the country's domestic legislation.

The financial sector can rely on the government, particularly through the work done by Luxembourg For Finance. Even in times of crisis, Luxembourg has maintained its AAA rating which has drawn and will continue to attract foreign investors in search of financial stability and security.

We are also striving to promote a corporate spirit, with shareholders who are involved in managing the company and its staff. Fiducenter celebrated its 40 years in 2020, and we hope to continue our development thanks to the opportunities Luxembourg can offer.

WHAT EXPECTATIONS DO YOU HAVE?

Everything is managed very well at present. Luxembourg enjoys an image of political and social security and to a certain extent, fiscal stability.

From a regulatory perspective, Luxembourg has often been one of the first Member States to transpose European regulations into national law while remaining as flexible as possible and retaining a competitive edge over other Member States. This approach contributes to the strategy of promoting the financial market at the international level.

Circular CSSF 20/750

Requirements regarding information and communication technology and security risk management

Onur Ozdemir
Director - Risk Advisory
Deloitte

Background

The emergence of ever-evolving risks regarding the management of information and communication technology (ICT) and security is a major concern of the financial industry. Until recently, financial entities operating in the European Economic Area (EEA) were unable to consult a uniform and up-to-date catalog of requirements regarding ICT and security risks. Instead, they were forced to analyze and refer to numerous and often fragmented regulatory frameworks.

To meet this demand for new, coherent and uniform ICT and security risk management principles, the European Banking Authority (EBA) published, on 28 November 2019, the Final Report on the Guidelines on information and communication technology and security risk management (EBA/GL/2019/04, "the Guidelines"). The Guidelines establish requirements on the mitigation and management of ICT risks, according to the Fourth Capital Requirement Directive (CRD IV) and the Second Payments Directive (PSD2). They address the ICT and security risks that have surged in recent years due to the increasing digitalization of the financial sector.

Not long after the Guidelines were published, the Commission de Surveillance du Secteur Financier (CSSF), the Luxembourg financial sector regulator, expressed its intention to comply with the Guidelines through a CSSF circular. Consequently, on 25 August 2020, the CSSF published Circular 20/750 on the requirements regarding ICT and security risk management ("the Circular").

While the Guidelines establish the requirements for credit institutions, investment firms, payment institutions and electronic money institutions to mitigate and manage their ICT risks to ensure a consistent and robust approach across all European Union Member States, the Circular extends the scope of the Guidelines to include all professionals of the financial sector (PSF).

Key topics

As for the content of the Circular, it updates the existing CSSF Circular 12/552 as amended by the Circular 20/758 to align it with the Guidelines; repeals Circular CSSF 19/713, which implemented EBA/GL/2017/17; and includes additional requirements for payment service providers (PSPs), which are required to provide a yearly up-to-date and exhaustive risk assessment to the CSSF. Apart from these updates and additions, the Circular implements the Guidelines without any modifications.

The Circular and the Guidelines are principle-based and outline expectations in the following areas to mitigate ICT and security risks:

- ICT governance and strategy
- ICT and security risk management frameworks
- Information security
- ICT operations management
- ICT project and change management
- Business continuity management
- Payment service user relationship management

The Guidelines establish requirements on the mitigation and management of ICT risks, according to the Fourth Capital Requirement Directive (CRD IV) and the Second Payments Directive (PSD2).

ICT governance and strategy

The Guidelines set out that ICT governance and strategy is one of the key areas that organizations should implement and review regularly. The management body is fully accountable for establishing an effective ICT and security risk management framework through adequate internal governance, clear roles and responsibilities for ICT functions, and committees.

The management body should also ensure that the financial institution has enough adequately skilled staff, has arranged appropriate training for staff and has allocated sufficient budget for the implementation of ICT strategy. The ICT strategy should be aligned with the financial institutions' overall business strategy.

It should define (i) how ICT should evolve to support the business strategy, including the evolution of its organizational structure, ICT system changes, and key dependencies with third parties; ii) the planned strategy and evolution of the ICT architecture; and iii) information security objectives.

Risk management framework

The Guidelines outline a risk management and internal control framework that is compatible with the three-line-of-defense model.

The first line of defense is the ICT operational units, which should have the appropriate processes and controls in place to ensure that all risks are identified, analyzed, measured, monitored, managed and reported.

At the same time, the Guidelines shift the responsibility for overseeing ICT and security risks to a control function in the second line of defense. Financial institutions should ensure this control function's independence and objectivity by appropriately segregating it from ICT operations. The function should be directly accountable to the management body and responsible for monitoring and controlling adherence to the ICT and security risk management framework. Also, financial institutions must ensure that the control function is not responsible for any internal audits.

The internal audit function should, following a risk-based approach, be able to independently review and provide objective assurance that all ICT and security-related activities and units comply with the financial institution's policies and procedures and external requirements.

Information security

It is critical that financial institutions establish an information security policy and implement security measures to mitigate their exposure to ICT and security risks. This should comprise:

- Organization and governance of the ICT function
- Logical security (e.g., identity and access management)
- Physical security
- ICT operation security (e.g., secure configuration baselines of network components, network segmentation, and vulnerability and patch management)
- Security monitoring (e.g., network traffic analysis)
- Information security reviews, assessment and testing
- Information security training and awareness

ICT operations management

ICT operations must be managed based on the internal procedures implemented, documented and approved by the management body.

Financial institutions should maintain an up-to-date inventory of their ICT assets, including ICT systems, network devices, and databases. This inventory should be sufficiently detailed to allow the prompt identification of an ICT asset and its location, security classification and ownership. Financial institutions should also document the interdependencies between assets to help in the response to security and operational incidents, including cyber-attacks.

Moreover, financial institutions should define and implement data and ICT system backup and restoration procedures, while also ensuring that they are stored securely and are sufficiently remote from the primary backup site so they are not exposed to the same risks.

Finally, institutions should establish and implement an incident and problem management process to monitor and log operational and security ICT incidents.

ICT project and change management

The Guidelines state that adequate governance of projects and changes is another key element to ensuring operational resilience. For example, financial institutions should implement an adequate ICT program and/or project governance process, develop systems, and implement hardware/software changes in a controlled manner. To minimize security risks, institutions should ensure that their project and change management governing processes include at least (i) the analysis of information security requirements during the lifecycle of projects or developments, (ii) the segregation of production environments from testing and nonproduction environments, and (iii) the testing and approval of any changes.

Financial institutions should establish and implement an ICT change management process to ensure all changes to ICT systems are recorded, tested, assessed, approved, implemented and verified in a controlled manner.

Business continuity management (BCM)

The Guidelines consider ICT as an essential part of BCM; therefore, ICT BCM is an integral part of an institution's overall BCM. As a result, institutions should:

- Conduct a business impact analysis (BIA) that includes the impact on confidentiality, integrity and availability;
- Consider a range of different scenarios in its business continuity plan (BCP), including a cyber-attack scenario;
- Establish plans to ensure business continuity and develop response and recovery plans that should consider both short-term and long-term recovery options; and
- Test their BCPs periodically and ensure BCP testing representativeness.

Payment service user relationship management

The Guidelines lay down additional requirements for PSPs, which should help payment service users to better understand transaction security risks. These include the option to receive alerts on initiated and/or failed attempts to initiate payment transactions and disabling of specific payment functionalities regarding the payment services offered by the service provider to the user.

Impact on third-party providers

To ensure the continuity of ICT services and systems, the Guidelines state that financial institutions' contracts and service level agreements with providers (outsourcing providers, group entities, or third-party providers) should include the following:

- Minimum cybersecurity requirements;
- Specifications of the financial institution's data life cycle and the requirements regarding data encryption, network security and security monitoring processes; and
- The location of data centers.

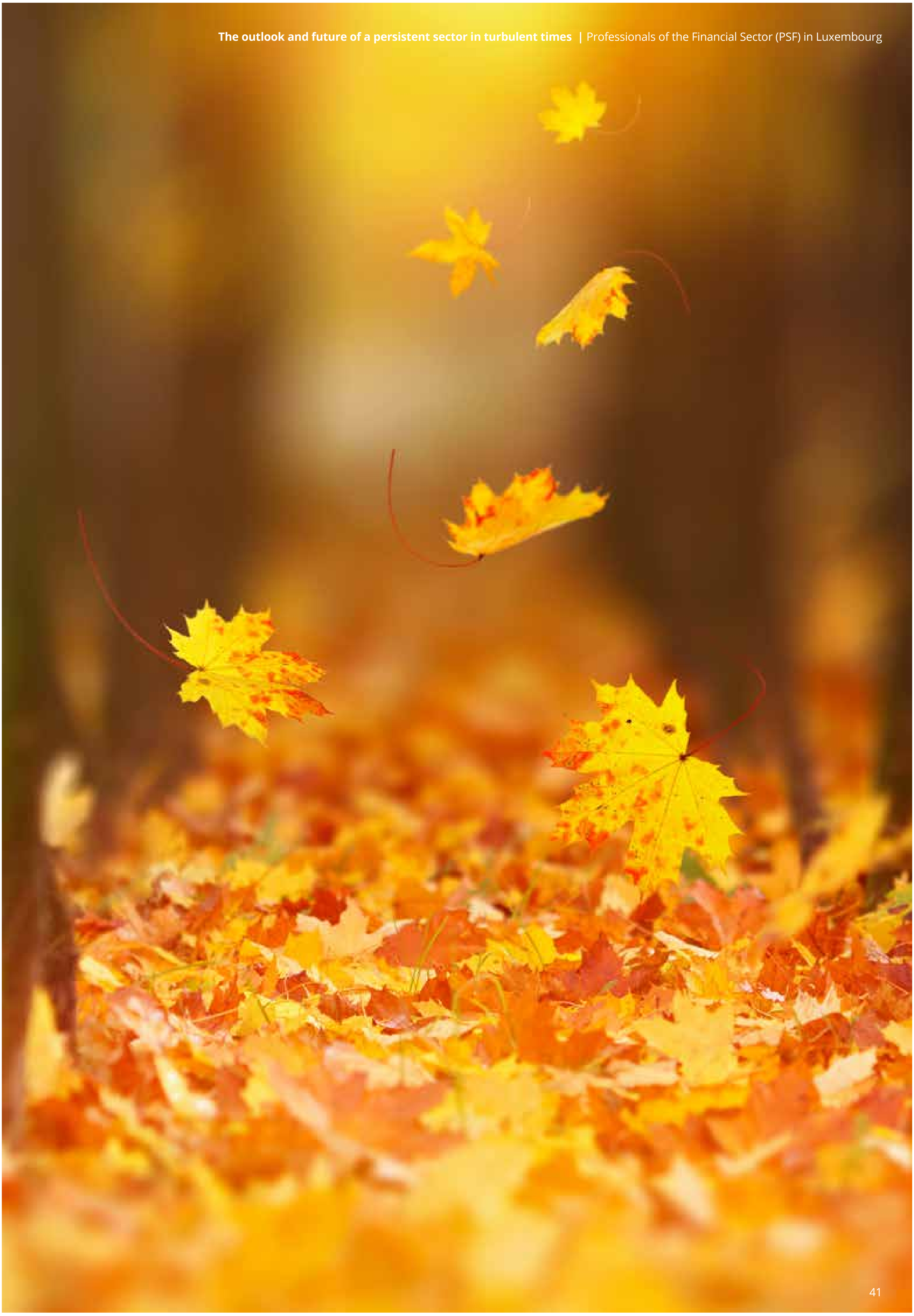
The Guidelines are aligned with the EBA Guidelines on outsourcing arrangements (EBA/GL/2019/02) and refer to them for detailed outsourcing requirements.

In addition, financial institutions should monitor and seek assurance of the level of compliance of third-party providers with the financial institution's security objectives, measures and performance targets.

Next steps

To better manage their risks and remain compliant with the Guidelines and the Circular, financial institutions should assess their ICT security and risk management framework and then implement a plan to improve their risk management framework.

Both Luxembourgish and European supervisory authorities are monitoring how organizations are managing their ICT risks more than ever before. Regulatory on-site IT inspections have significantly increased in recent years, focusing on hot topics such as cybersecurity, governance, business continuity, change management, data integrity, IT operations, and outsourcing. These inspections can result in noncompliance or breach reports, with strict remediation deadlines.



A tale of two pillars

IFD/IFR introduces new capital requirements for investment firms

Jean-Philippe Peters
Sponsoring Partner - Risk Advisory
Deloitte

Arnaud Duchesne
Director - Risk Advisory
Deloitte

Benoit Sauvage
Director - Risk Advisory
Deloitte

The investment firm regulation and directive aim to cover what regulatory authorities perceived as a missing piece in the regulatory puzzle. Credit institutions are regulated from a prudential perspective via CRD/CRR, financial activities and products are regulated either through organizational regulation i.e. MIFID, MAR or along product regulations namely UCITS, AIFs, securitizations or others. But if a bank can provide MIFID services, not every MIFID firm is a bank, therefore, to mitigate the impact of potentially failing entities and solving a long-standing regulatory struggle around shadow banking EU authorities introduced the concept of IFR/IFD.

The purpose pursued by this duo of regulation is to transpose the CRD/CRR rules of the banking world into the investment firm universe, and accordingly target brokers, or other PSF active in investment services as we know them in Luxembourg. Given the starting point, the regulation proposes bare minimum capital for the smallest entities until a near one to one to the CRD/CRR for the largest.

The prudential capital regulation for investment firms

In order to solve the issue raised by the concept of shadow banking and the lack of EU-wide regulation of investment firms other than banks (credit institutions), the EU authorities took the view that it was necessary to create a regulation similar to the banking prudential regulation so that any investment firm in the EU will be regulated according to prudential standards, whatever the member state, whatever its status. Firms not being equal in terms of size or activity and in order not to impose an unreachable objective that would ultimately destroy the ecosystem or at the very least dramatically undermine it.

The IFR and IFD for investment firm regulation and directive are a duo of regulations as we know it for the banks' capital requirements regulation and directive, in this case, the approach is even more gradual and will create accordingly obligations that grow up the ladder of requirements, four categories are created, with associated capital levels.

Categorization of investment firms

The new IFR/IFD framework is built upon the principle of proportionality and classifies investment firms alongside four categories:

- **"Class 1":** Investment firms that have over €30 billion in assets and perform services that carry bank-like exposures, such as underwriting or dealing on own account will be required to apply for a banking license and will be subject to the CRD IV/CRR rules (including SREP under the Single Supervisory Mechanism)
- **"Class 1 minus":** Similar to Class 1 firms, but with balance sheet sizes between €15 billion and €30 billion. These firms will also be subject to the CRD IV/CRR regime but will remain authorized as investment firms
- **"Class 2":** All investment firms that do not meet the criteria for the other categories. They will fall under the remit of the new IFR/IFD framework
- **"Class 3":** These are the "small and non-interconnected firms" which do not undertake any high-risk activities and whose activities fall below relevant thresholds. Firms in these categories will be subject to the new IFR/IFD, but with lighter requirements and exemptions (proportionality)

The challenges introduced by the IFR

Capital & Business model

While many investment firms will see a tailored regime as a positive step, the implications of the new regime will differ from firm to firm. Each firm will need to assess what the regime change means for it and take action accordingly.

As outlined in the previous section of this article, Class 2 investment firms will be subject to higher capital requirement. In order to reach the new level imposed by the framework, the investment firm will benefit from a five-year transition period to organize the capital increase. Most importantly, investment firms should use that period to review and assess the sustainability of their business models as the new capital regime might put their revenue under pressure. To illustrate our comment, let's consider an entity authorized to provide a range of MIFID services (see figure 2) that is running a business model presenting the characteristics displayed in figure 1. Under the new framework, this entity will be subject to capital requirement corresponding to 6 basis points of the asset under management held by this entity .

Figure 1 - Business model characteristics

- Cost/Income ratio 60%
- Tax rate of 20%
- 50% of client assets are reinvested over a 1-year cycle
- 5% of client assets are in the form of "client money held"

Figure 2 - MiFID Services

- Reception and transmission of orders in relation to one or more financial instruments
- Execution of orders on behalf of clients and the ancillary services
- Safekeeping and administration of financial instruments for the account of clients, including custodianship and related services such as cash/collateral management

When comparing this figure with the net revenue that the entity should generate to overcome the capital requirement, we estimate that a service fee above 20 bps should be collected. This figure suggests the following:

- Investment firms charging 5 bps for the delivery of the service would need four years to reach the target level of capital
- Investment firms running a strategy based on the volumes rather than on the fees will be more impacted by the IFR/IFD framework and might not have enough time during the transition period to reach the new capital level. In this situation, the investment firm will need to adjust its business model to ensure a sustainable evolution

Finally, similarly to the CRR/CRD IV, union investment firm groups will have to apply the regulation on a consolidated basis and this will lead to the following challenges:

- Under the consolidation perspective, the group might be subject to higher capital requirement by application of the K-factor methodology to all group entities
- Applying EU rules on operating entities located in third countries where local rules are less stringent will create profound competitive challenges for EU groups

The Guidelines establish requirements on the mitigation and management of ICT risks, according to the Fourth Capital Requirement Directive (CRD IV) and the Second Payments Directive (PSD2).

Nevertheless, as long as an investment firm group is sufficiently simple, and there are no significant risks to clients or to the market due to the group structure, group members may opt for one of the proposed simplified approaches which consist, among others, of the application of the own funds requirements on an individual basis. The application of the abovementioned consolidation rules will have to be carefully managed in order to avoid an over-complexification of the capital management.

From a liquidity perspective, a competent authority may exempt groups from meeting the liquidity requirements on a consolidated basis when deemed appropriate.

Pillar 2 requirements

IFD/IFR contains an internal capital adequacy assessment (ICAAP) and supervisory review process (SREP) very similar to the one under CRD IV/CRR. Based on the outcome of this review, the competent authority may require the firm to hold additional own funds.

Additional own funds may be imposed if:

- The firm is exposed to risks not properly covered by the K-factor requirements
- The firm has insufficient measures in place to monitor and manage risk exposures, and is unlikely to be able to improve this within a reasonable timeframe
- The valuation of trading book positions is such that these cannot be sold or hedged in normal market conditions without material losses
- Internal models used are inadequate
- Own funds are considered insufficient to absorb cyclical economic fluctuations
- There are insufficient own funds for an orderly wind down if needed
- Interest rate risks emerge through the holding of a liquid portfolio

As the K-factor requirements are expected to be a closer match to the risk exposures resulting from the plethora of activities deployed by investment firms, we expect competent authorities will, on the whole, impose smaller pillar 2 related add-ons to own funds requirements. As competent authorities tend to take extra care, we expect the reduction in pillar 2 add-ons to exceed the pillar 1 increase, and lead to a slight overall reduction in total own funds requirement.

CONCLUSION
The IFR/IFD introduces a form of harmonization on the minimum levels that financial firms, banks and non-banks are required to meet. The underlying logic, proposed by the banking world (by the Basel Committee), will now extend to all investment firms across the EU. If the underlying aim is to set a common EU floor applicable to investment firms based on a logic well known in banking, there are several elements of attention to highlight:

- The IFD/IFR regime represents a significant change in the way capital requirements are calculated for investment firms
- Several exemptions apply for small and non-interconnected firms
- Business models like investment advisory and execution brokerage incur much higher pillar 1 capital requirements than in the current regime. Conversely trading firms and custodians incur lower pillar 1 capital requirements
- IFD/IFR contains an ICAAP and SREP very similar to the one under CRD IV/CRR. Based on the outcome of this review, the competent authority may require the firm to hold additional own funds

In a very broad and basic conclusion, overall, we expect the pillar 1 requirements to be higher under IFD/IFR and the pillar 2 requirements to be lower.

2.3 Specialized PSF

Unlike investment firms, specialized PSF do not benefit from the European passport, but may carry out financial activities in Luxembourg. There are 105 specialized PSF as at 31 December 2019, versus 10 as at 31 December 2018.

This category covers three main sub-groups. The first sub-group includes the 82 corporate domiciliation agents (Art. 28-9) at year-end 2019 (86 in 2018).

We note that:

- They also hold licenses under Art. 28-10 as professionals providing company incorporation and management services (in 81 of 82 cases) and Art. 28-6 as Family Offices (in 77 of 82 cases)
- About 76% of them hold licenses as registrar agents (Art. 25), and about 78% of them are client communication agents and financial sector administrative agents (Art. 29-1 and 29-2)

The second sub-group includes 63 registrar agents (Art. 25):

- All have the support PSF licenses under Art. 29-1 and 29-2 respectively as client communication agents and financial sector administrative agents
- Almost all have the specialized PSF licenses as corporate domiciliation agents (Art. 28-9), as professionals providing company incorporation and management services (Art. 28-10), and as Family Office (Art. 28-6)
- Only one holds a license as a primary IT systems operator of the financial sector (European Fund Administration S.A).
- Only two hold a license as a secondary IT systems and communication networks operator of the financial sector (Art. 29-4).
- The third and last sub-group includes the six professionals practicing lending operations (Art. 28-4). This license appears to be unique in that, apart from one case, it is not held together with any other license.

These are mainly subsidiaries of banks such as BIL, ING or BNP, and subsidiaries of international groups. These entities carry out financial or operational leasing activities.

The number of licenses held by specialized PSF has decreased, 471 in 2019 in comparison to 488 in 2018.

Between 2009 and 2019, the number of specialized PSF licenses rose from 254 to 471, which is an 85% growth over ten years. Apart from the Family Office license launched in 2013, the most spectacular increase in specialized PSF licenses between 2009 and 2019 is that of licenses specific to support PSF, and more particularly under Art. 29-1 and 29-2 respectively for 100% and 97%.

Figure 20: Licenses granted to specialized PSF

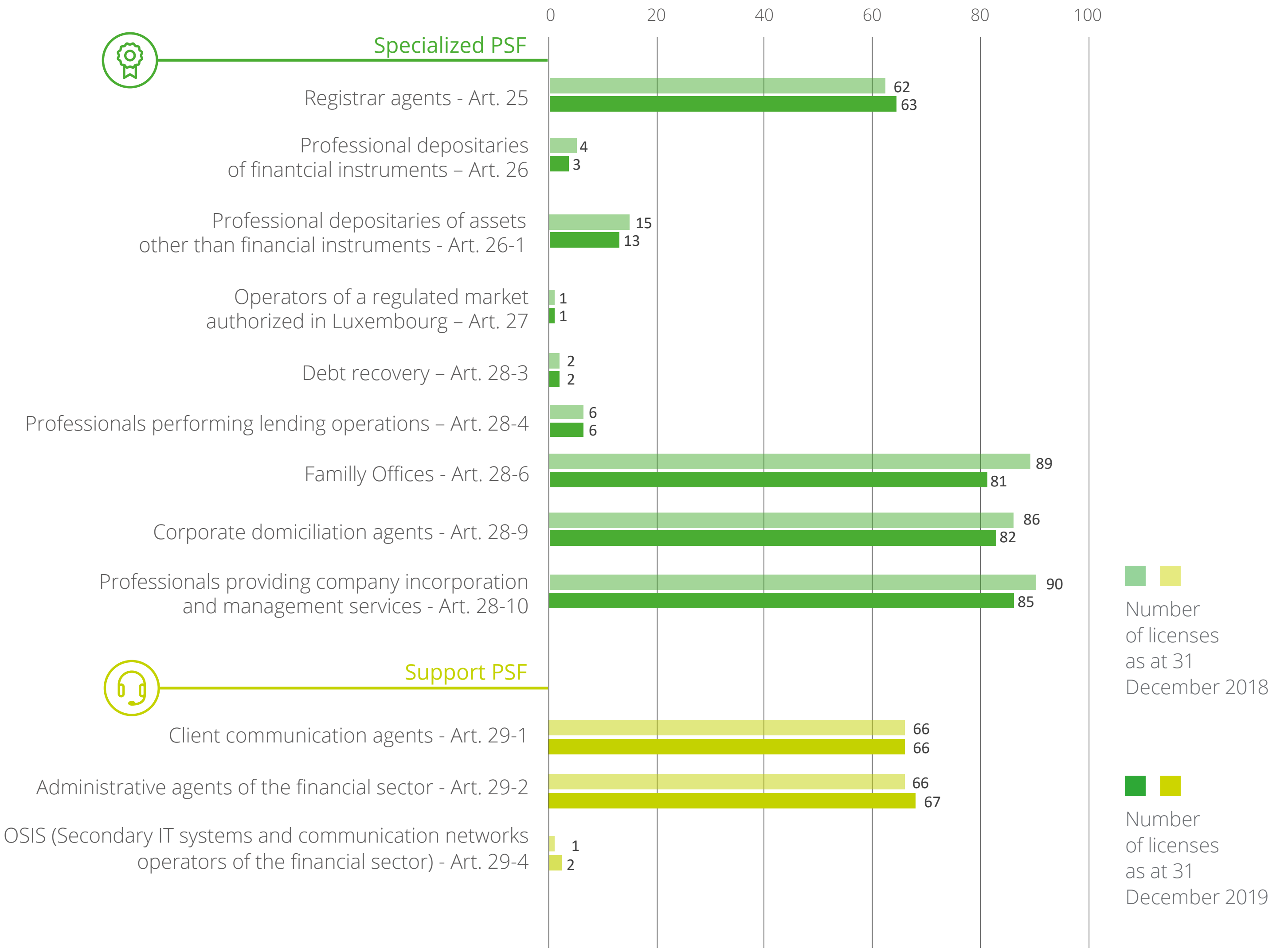
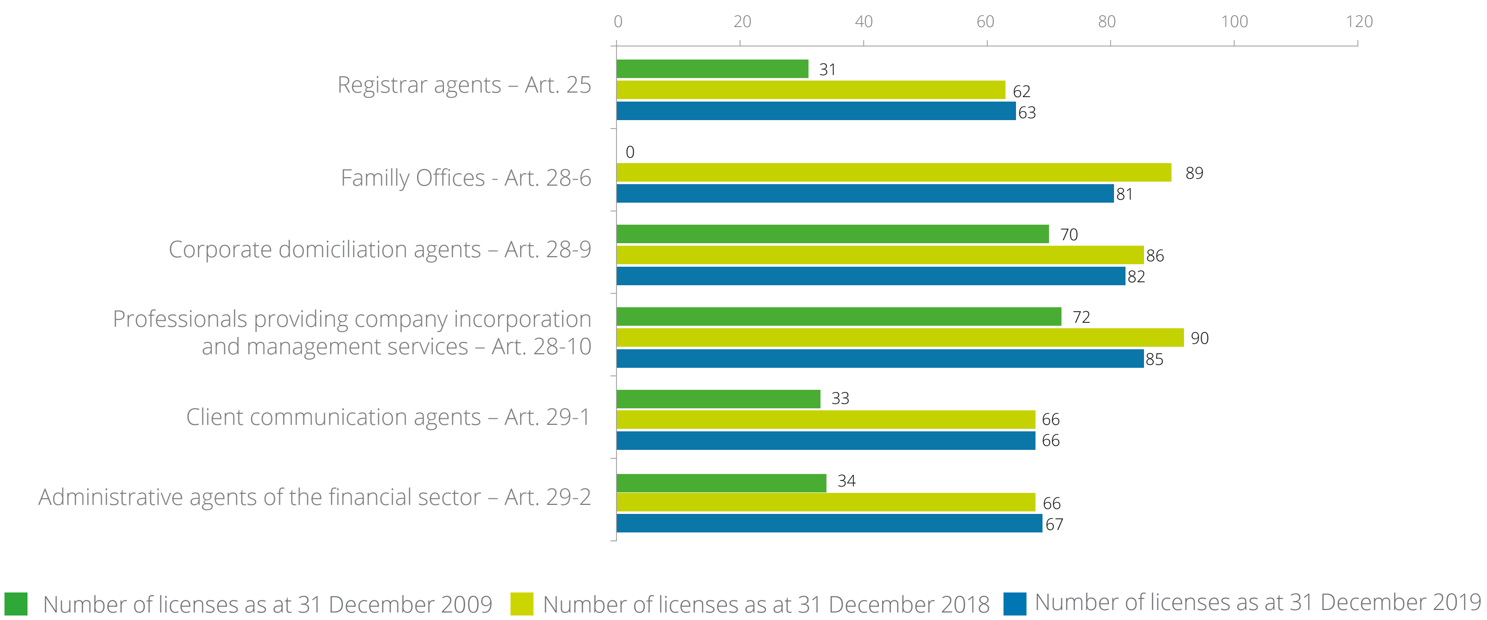


Figure 21: Change in the six main licenses held by specialized PSF as at 31 December 2019



Questions to Christophe Gaul
Regional Head of Europe & Managing Director – Luxembourg at Ocorian

INTERVIEW CONDUCTED BY
RAPHAËL CHARLIER
1 OCTOBER, 2020

WHAT CHANGES DO YOU EXPECT FOR SPECIALISED PSF IN THE AREA OF CORPORATE DOMICILIATION AND CENTRAL ADMINISTRATION?

In corporate domiciliation and related services, a growing need for outsourcing with greater substance is a clear trend. Until recently, certain clients adopted the approach of hiring and internalising services, but this is no longer the case. The industry is increasingly seeking to become a one-stop-shop where corporate domiciliation players offer a comprehensive, bespoke offering including traditional domiciliation services and, as required, those of a management company, transfer agent, fund administration and custodian. This is drawing new players to Luxembourg (particularly in alternative asset management) and creating great opportunities for the corporate domiciliation market, while allowing end clients to focus on their core business managing deals.

WHAT ARE THE MAIN CHALLENGES FACING LUXEMBOURG IN THE BUSINESS SECTOR YOU REPRESENT?

In corporate domiciliation industry, attracting talent to Luxembourg is still difficult. Relationships should be developed at source, through partnerships with graduate schools and universities, particularly in Luxembourg and our neighbouring countries. The lockdown due to Covid-19 was also a challenge, in terms of team cohesion (particularly onboarding remotely new talents into teams) and cyber security (equipping staff to work from home and securing their systems remotely).

Corporate domiciliation agents also regularly, not to say increasingly, encounter difficulties opening accounts for their clients with local banks. The financial centre will suffer if foreign banks capture more and more of these accounts.

With the standardisation of rules on transparency and reporting, Luxembourg must continue to promote the sector, guarantee stability and keep its flexibility, because Luxembourg stands out for the skills, products and services that are available here.

WHAT ARE THE MAIN OPPORTUNITIES FOR THE PSF THAT YOU REPRESENT?

Today, growth is clearly driven by the regulated sector. Corporate domiciliation agents need to develop their integrated service offering for players from the regulated market. To develop their business, domiciliation players must also build a global presence, to be able to serve clients everywhere they operate.

Luxembourg's political, fiscal and regulatory stability and central location in Europe allow investors to make plans over a period of five to seven years.

The world-class expertise available in the financial centre, and the quality of the financial services provided, are also significant assets for attracting new clients.

In a fiercely competitive sector in which mergers are frequent, an organisation can stand out from the competition through the quality of its services and the capacity of smaller entities to maintain the stability of their teams. In the right circumstances, outsourcing within a group can also be an avenue worth exploring, particularly if it leads to economies of scale.

WHAT EXPECTATIONS DO YOU HAVE?

The government of Luxembourg must continue to promote our financial sector, our expertise and our relative political and fiscal stability internationally, particularly to other European Union Member States. Continuing the gradual reduction in corporate taxation would be beneficial for the national economy.

As regards attracting and retaining talent, agreements should be negotiated for cross-border workers to achieve greater flexibility, notably for the post-Covid period. We saw during the lockdown that home-working works well in the financial sector. Employees proved they could be agile in continuing to serve clients and just as productive as they are in the office.

The Luxembourg tax framework for Professionals of the Financial Sector in a post-BEPS era – the new normal

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The BEPS project goes live

Following the request of the G8 and G20, in July 2013, the OECD launched extensive programs called BEPS ("Base Erosion and Profit Shifting") to fight against international tax evasion and harmful tax competition. These actions aim to bring more coherence, more substance and more transparency to international tax.

In Luxembourg, these recommendations came into effect through EU coordinated BEPS implementation e.g., the Anti-Tax Avoidance Directive (ATAD). On 18 December 2018, the law implementing the ATAD I entered into force, effective as of 1 January 2019 (except for the exit tax provisions). Certain measures, such as the introduction of a limit on the deductibility of interest and the rule on controlled foreign companies had a significant impact on certain Luxembourg Professionals of the Financial Sector (PFS) who do not benefit from the restriction, contrary to banks or insurance companies. The law contains the following main provisions:

a. The adoption of specific rules regarding controlled foreign companies (CFC rules)

b. The limitation of interest deductibility

c. Taxation at the exit

d. The fight against hybrid arrangements

e. The introduction of an anti-abuse clause General (GAAR) through the amendment of the existing Luxembourg GAAR provisions

In order to augment the impact of the BEPS Action Plan, the OECD has foreseen the introduction of certain measures through a Multilateral Agreement for the Implementation of the Tax Treaty Measures (MLI). The MLI aims to modify, through a single multi-party agreement, multiple bilateral tax treaties without further negotiations.

The law implementing MLI in Luxembourg was voted on the 15 February 2019 and the ratification instrument was deposited on the 9 April 2019 with the OECD. MLI entered into force in Luxembourg on 1 August 2019. Implementation of these provisions will follow the pace of transposition of the other signatory States of the bilateral tax treaties referred to in the MLI and started having its substantive impacts as from 1 January 2020. The objective of the MLI is mainly to implement some of the BEPS actions quickly, without waiting for bilateral negotiations on the existing double tax treaty.

This willingness to have more coherence, more substance and more transparency in international tax is also reflected in all recent legislations included in the Luxembourg tax law as mentioned below.

Transfer Pricing documentation is the new key information document for taxpayers

For a few years now, the ultra-globalized environment is heading in a direction where transfer pricing (and the related "arm's length principle") is a priority for companies involved in intra-group transactions, supply of goods or services and payment thereof.

Under the "arm's length principle", intra-group transactions are treated by reference to the profit that would have arisen if the transactions had been carried out under comparable circumstances by independent parties. Luxembourg revamped its TP framework, dealing with transfer-pricing issues, starting from 1 January 2015 upon which any taxpayers (among which PSF) carrying out intra-group transactions must be able to deliver, upon request, the appropriate transfer-pricing documentation demonstrating that the remuneration applied with the related party is arm's length . In practice, we see more and more tax authorities requesting the TP documentation when assessing tax returns. We also see a rise in isolated transfer pricing requests with more and more tax audits being launched!

FATCA and CRS updates

As a result of the global move towards transparency and the important catalyst effect of US imposed Foreign Account Tax Compliance Act (FATCA) voted on in 2010, the Common Reporting Standard (CRS)—developed by the OECD—very quickly became the undisputed global standard for automatic exchange of information in tax matters.

Luxembourg introduced FATCA into its domestic law on 24 July 2015 (FATCA agreement entered into force on 29 July 2015) and transposed the EU Directive on mandatory automatic exchange of information in tax matters (i.e. CRS Directive) in its domestic law on 18 December 2015.

On 18 June 2020, a new law (hereafter "New Law") amended the Luxembourg FATCA and CRS legislation. The New Law follows the formal request of the Luxembourg Tax Administration (LTA) sent to several Luxembourg financial institutions in October 2019 requesting a list of documentation and further information to assess whether they are compliant with CRS and FATCA regulation. The main amendments proposed are as follows:

- New explicit obligations for Luxembourg reporting financial institutions:

  i. To keep records of actions taken and supporting evidence used to ensure the due diligence and reporting obligations for a period of ten years

  ii. To set up policies, controls, procedures, and IT systems to ensure the fulfilment of FACTA and CRS due diligence and reporting obligations. These policies, controls, procedures, and IT systems must be proportionate to the size and specificities of these financial institutions

- Currently, in the absence of reportable accounts, Luxembourg reporting financial institutions must send a nil reporting to the LTA for FATCA. For CRS, this nil report is not mandatory but recommended. The New Law introduced an obligation to send a nil report for CRS in the absence of reportable accounts. A Luxembourg reporting financial institution that would fail to comply with this obligation (i.e. no information communicated or zero-value message sent to the LTA) within the legal reporting deadline could suffer a lump sum fine of €10,000 alongside the existing fine of €250,000 for non-compliance.

- The LTA may have access, upon request, to records of actions taken, supporting evidence, policies, controls, procedures, and IT systems. Powers of investigation of the LTA will expire ten years after the end of the calendar year in which the Luxembourg reporting financial institution is required to communicate the information.

Following the health crisis, Luxembourg government has deferred the automatic exchange of information under CRS by three months and thus until December 2020. Luxembourg financial institutions should also closely monitor the list of reportable jurisdictions for the purpose of CRS.

Enhanced administrative cooperation

Administrative cooperation could relate to cooperation between different tax authorities within the same country or cooperation between tax authorities of different EU countries to fight against tax evasion. In this respect, Council Directive (EU) 2018/822 amending Directive 2011/16/EU ("DAC 6") as regards mandatory automatic exchange of information in the field of taxation in relation to reportable cross-border arrangements, provides for mandatory disclosure of cross-border arrangement by intermediaries or taxpayers to the tax authorities and mandates automatic exchange of this information among the EU member states. DAC6 was implemented in Luxembourg on 25 March 2020. The stated purpose of DAC 6 is to enhance transparency, reduce uncertainty over beneficial ownership and dissuade intermediaries from designing, marketing and implementing harmful tax structures.

DAC 6 mainly focuses on intermediaries who may have new reporting obligations. It defines an intermediary as "any person that designs, markets, organizes or makes available for implementation or manages the implementation of a reportable cross-border arrangement". This is a very broad definition. It may include lawyers, tax advisers, accountants and other professionals that advise taxpayers on cross-border arrangements (e.g., trust companies). A cross-border arrangement is reportable if it: (a) has an EU nexus (i.e., at least one counterparty is based in an EU Member State); and (b) contains at least one characteristics or features, known as "hallmarks" which may be generic or specific. Generic hallmarks, and some specific hallmarks, may only be taken into account if they meet the "main benefit test". That test will be satisfied if it can be established that the main benefit, or one of the main benefits, is that a person expects to derive a tax advantage from an arrangement. Broadly, the hallmarks are intended to limit the application of the regime to only those arrangements for which there is a potential risk of tax avoidance. As an EU directive, DAC 6 must be transposed by EU member states into domestic legislation, which has been done in Luxembourg through the law dated 25 March 2020. Due to the health crisis, certain Member States (including Luxembourg) opted for a deferral period of six months. As a result, the new application deadlines are as follows:

- For reportable cross-border arrangements the first step of which was implemented between 25 June 2018 and 30 June 2020 the filing deadline is 28 February 2021

- For reportable cross-border arrangement where the triggering event took place between 1 July 2020 and 31 December 2020, the period of 30 days for filing information starts on 1 January 2021

- For marketable arrangements, the first periodic report will be made by intermediary by 30 April 2021

- The first automatic exchange of information between EU Member States will take place by 30 April 2021

Please note that all EU Member States except Austria, Finland and Germany have opted for the implementation of a deferral period.

Conclusion

With the EU and domestic tax legislation emerging from BEPS, governments are more equipped to address tax avoidance, ensuring that profits are taxed where economic activities generating the profits are performed and where value is created. Although BEPS was first released several years ago, the real impact has only started recently (in 2019 and onwards). Further changes can be expected as the European Union is already working on a new directive in the framework of the new tax package on DAC 7, focusing on digitalization (action 1 of BEPS) and its VAT impacts. Additionally, the OECD took action to revamp the international tax system given the current digitalization of the globe.

All this shed light on the quest for more tax transparency and the focus of tax authorities on tax compliance and documentation in its broader context (CRS, DAC 6, substance, TP documentation), not only for PFS' own purpose but also for their clients. Bearing in mind the current pandemic and the level of public spending, one may expect increased tax audits and regulations to appear. A range of PFS would be diversely impacted by these actions, but there is no doubt that it will impact their internal policies and governance as well as their tax compliance.

2.4 Support PSF

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

Our analysis shows that three main licenses co-exist in this category.

The first group includes client communication agents under Art. 29-1 (34 entities at year-end 2019 and 32 entities at year-end 2018), coupled in 41% of cases with Art. 29-2 as administrative agents (16 entities at year- end 2019 and 2018). Administrative agents are automatically authorized to carry out activities as client communication agents.

The second group includes 55 IT PSF under Art. 29-4 as OSIS (57 at year-end 2018) which are supplemented:

- In 33 cases by OSIP licenses (Art. 29-3). OSIP (Art. 29-3) are automatically authorized to carry on OSIS activities (Art.29-4)
- In 17 cases by licenses under Art. 29-1 and 11 cases by licenses under Art. 29-2

The third group includes providers of dematerialization services of the financial sector (Art. 29-5) and of conservation services of the financial sector (Art. 29-6). At year-end 2019, two PSF simultaneously held both of these licenses (two at year-end 2018).

The number of licenses held by support PSF remained stable with 143 in 2018 and 142 in 2019.

Figure 22: Distribution of support PSF licenses as at 31 December 2019

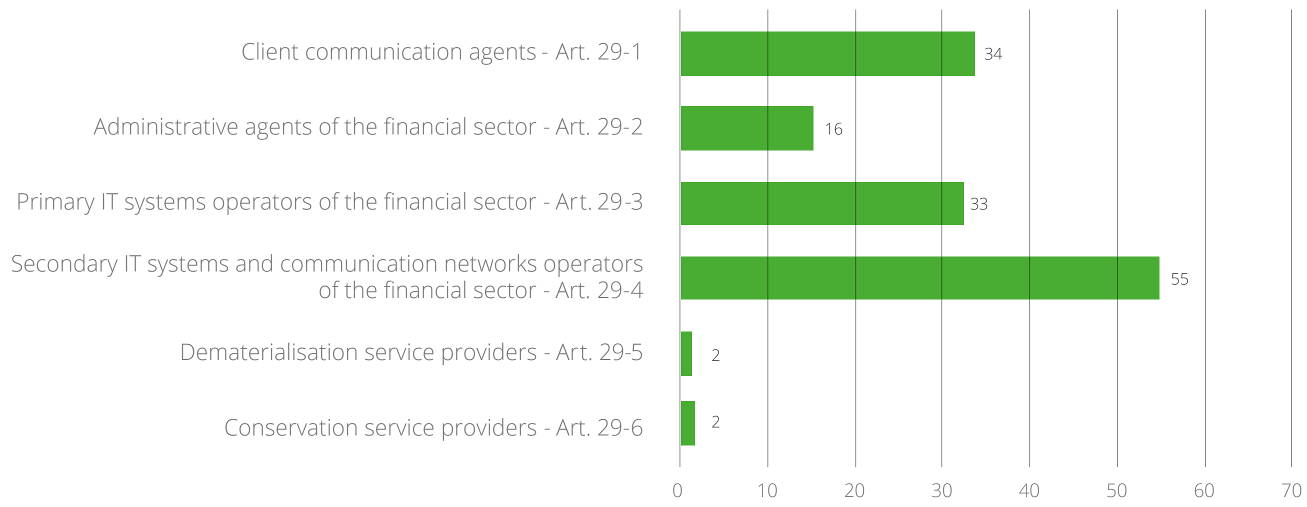
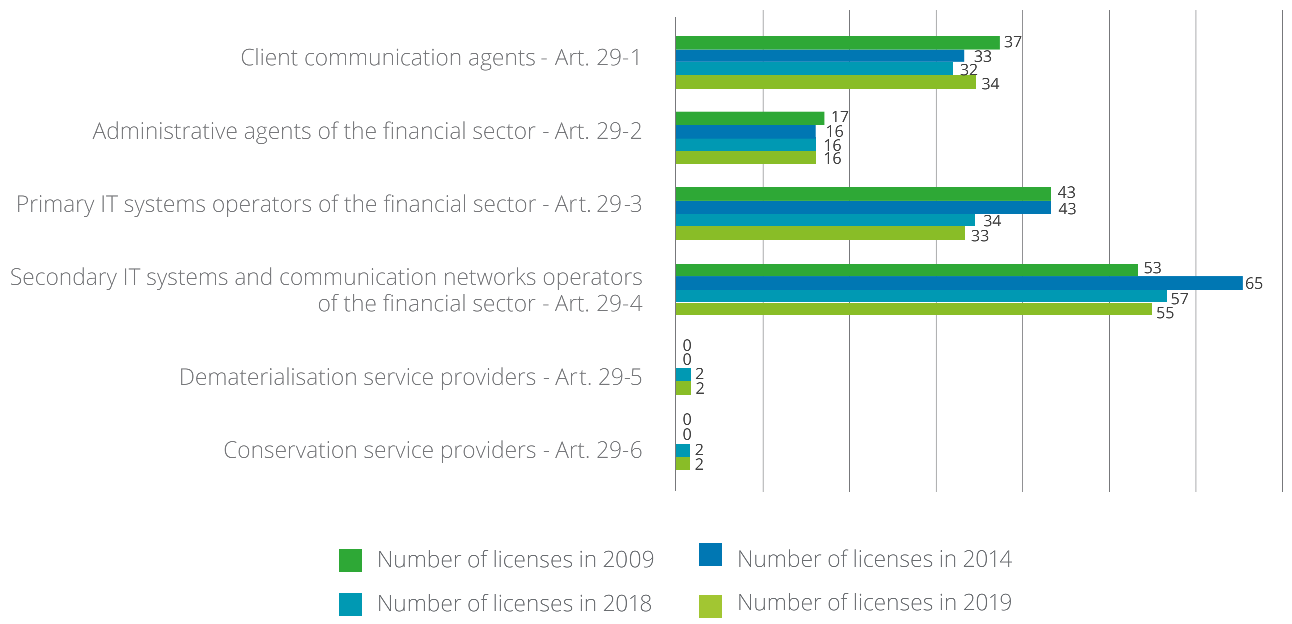


Figure 23: Change between 2019, 2018, 2014 and 2009 of licenses granted to support PSF



Questions to Mukesh Prayagsing

Managing Director of Global IT Services PSF - (GITS)

INTERVIEW CONDUCTED BY
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30 SEPTEMBER, 2020

WHAT CHANGES DO YOU EXPECT FOR SUPPORT PSF?

A number of factors influence changes in the support PSF business, including primarily regulatory changes

REGULATIONS

Regulations have changed the state of play in terms of solutions now available for financial sector clients and the resources used to address their IT needs. Recent regulatory developments now mean they can turn to service providers overseas. But what is true for financial sector clients is also true for support PSF who can also use solutions located beyond the country's borders. This is obviously the case with cloud solutions available from leading market players, but also with "material" and "non-material" software that will contribute to the financial sector's digital transformation. This transformation should mainly impact small and mid-sized banks, investment companies, specialized PSF and AIFMs, etc.
These regulations also introduce an obligation to manage risks inherent in the use of ICT (Circular 20/750) whether they are in Luxembourg, Europe or elsewhere.
Governance must be kept in the regulated entity, clients' data must be protected, protection against cyber-attacks must be implemented and the resilience of operations guaranteed. The COVID-19 health crisis showed companies that they were not prepared for this type of threat, because the back-up site is no longer the one they test each year, but their employees' homes. The pandemic is global and therefore put all businesses and governments on an equal footing.

The great agility and flexibility of all the players in the value chain, particularly support PSF and short channels in Luxembourg, helped to mitigate the effects of the widespread lockdown that no one had identified as a risk in their BCP. The mobility solutions that support PSF have been offering their regulated (and non-regulated) clients for many years now, while meeting regulatory requirements on privacy and data protection by means of encrypted solutions with two-factor authentication (2FA), were no doubt an advantage for continuing business.

TECHNOLOGY

Public, private and hybrid Cloud solutions provided by the big names in cloud computing, plus the circular on cloud computing, are prompting clients to look beyond the borders of Luxembourg. Cloud technology combined with these players' management tools and encryption solutions for protecting data in transit or at-rest now offer the flexibility, agility and security that clients expect with short deployment times. For support PSF, this considerably reduces the investment needed to build their own technical architecture with the necessary protections.

Although the CSSF has facilitated access to the cloud and to outsourcing in general, Luxembourg must strategically give priority to efficient, regulated, local IT players to support the financial centre's development.

CLIENT NEEDS AND EXPECTATIONS

The regulatory context and technological solutions have changed greatly in the past three years, prompting financial sector clients to adopt a risks-based management approach to selecting technologies and IT service providers. Support PSF and their service offering are evolving to help clients assess risks, and to choose the best solutions from a wider-ranging portfolio of options. They will therefore no longer be limited to a single offer.
Through its circulars, the CSSF regularly emphasizes the obligation for financial institutions in Luxembourg to retain governance that is capable of controlling its production system, even if it means calling on independent experts.

The health crisis has created new needs and brought new risks to light, including operating with staff working off-site, or even with smaller teams. This new paradigm is accelerating demand for the digital transformation of business, through process automation, zero paper initiatives and remote access security.

WHAT ARE THE MAIN CHALLENGES FACING LUXEMBOURG IN THE BUSINESS SECTOR YOU REPRESENT?

Uncertainty over how the financial centre will evolve and, more generally, whether the volume of business will be sufficient in Luxembourg, could incite support PSF to be cautious in terms of material investments and to turn to flexible on-demand solutions too. The risk in future, for support PSF, but especially for clients and Luxembourg, is that the service offering will be essentially based on solutions provided by major cloud computing firms. If there are no other options, they could become dependent on these multinationals in five to ten years' time.

The close relationship between economic actors and political leaders and decision-makers is one of Luxembourg's long-standing assets. Today, economic actors and especially support PSF face the challenge of anticipating the future, both in terms of regulatory changes and decisions that could affect the very existence of support PSF. Although the CSSF has facilitated access to the cloud and to outsourcing in general, how long will it continue to give support PSF a key role in the offer of services for the financial sector? However, clients will always need to have a close relationship with their IT service provider, which is why it is important to find competent resources who pay as much attention to quality of service as the interest they take in technology.

WHAT ARE THE MAIN OPPORTUNITIES FOR THE PSF THAT YOU REPRESENT?

These IT-related regulatory challenges will affect our clients in the financial sector and we see it as an opportunity for firms in our category. The aim is to support clients who do not necessarily have the regulatory IT expertise in-house; this is the approach we have adopted at GITS.

A first opportunity lies in adopting cloud solutions which are very popular with clients and have become essential in deploying projects and controlling costs. Shared platforms are vital tools to keep up the relationship, guarantee remote transactions and quality of service while also protecting data.

Secondly, thanks to the close relationship that support PSF have with their clients, and their extensive knowledge of local regulations, they will always be consulted in calls for bids. A more flexible service offering is therefore required with resources who fully understand regulatory requirements and business processes. Bespoke services are necessary, at prices compatible with budget constraints, not only to be the preferred partner for the banking sector, but for other sectors too, such as insurance, lawyers and other professions needing to guarantee the confidentiality of their data.

Automating processes for financial sector clients and, more generally, contributing to the digital transformation of companies, represents a third opportunity. Operations must be made more efficient at every stage in a firm's value creation, by reducing the use of paper and making processes more seamless, particularly by automating workflows and certain repetitive tasks.

Business continuity is undeniably a fourth opportunity. This involves deploying technologies, processes and procedures that are compatible with domestic and European legislation to guarantee business resilience. With the health crisis, digitalising processes has become a necessity given the productivity gains it subsequently generates.

Finally, the last opportunity consists in preparing for the arrival of new technologies such as 5G and AI ("Artificial Intelligence") that will impact organisations by redistributing the workload geographically or even between man and machine.

WHAT EXPECTATIONS DO YOU HAVE?

What matters is that the financial sector in Luxembourg should continue to grow and become the leading European country for alternative investments and payment and electronic money institutions.
The close relationship between economic actors and political leaders and decision-makers is a long-standing asset in Luxembourg. This situation must continue and they must work together to understand their respective challenges and constraints, to speed up the digital transformation for Luxembourg's entire ecosystem.
Support PSF have fully understood the importance of offering a more flexible choice of solutions to financial institutions already based in Luxembourg or looking to locate to the country. Otherwise it could be increasingly less pertinent for these institutions to maintain their activities here, or even to consider establishing any.

Although the CSSF has facilitated access to the cloud and to outsourcing in general, Luxembourg must strategically give priority to efficient, regulated, local IT players to support the financial centre's development.

The cost and shortage of qualified IT resources in Luxembourg is an obstacle to agility and flexibility, and even to improving quality of service. Although other countries face the same problem, it has a bigger impact in Luxembourg. It also requires major investments in training. We know that businesses and countries that have enough well-trained, competent IT specialists are more competitive, and generate higher profits and GDP. In this context, relaxing rules on home-based working would no doubt be beneficial for the whole financial centre.

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Business Continuity Management Setup, updates and management

An effective Business Continuity Management (BCM) program is a critical component of successful business management. Experience shows that typically over 50 percent of businesses without an effective business continuity plan will ultimately fail following a major disruption.

How to build or improve business continuity plans? Deloitte's methodology allows the development and update of an effective BCM, with the following phases:

01 Analyze

Before an in-depth analysis or updating the recovery strategies, plans and procedures, a depth analyze phase should be performed on:

- The organization's current state of preparedness
- The risk of continuity of operations (concrete scenarios)
- The impact on business, including the time it would take for adverse impact, the level of services and products acceptable to achieve the business objectives, etc.

Experience shows that typically over 50 percent of businesses without an effective business continuity plan will ultimately fail following a major disruption.

02 Develop or update

Develop or update the strategies for attaining the organization's continuity goals and for anticipating outages and failures (disasters, scandals, pandemics, etc.).

The strategies should be defined based on the "Analyze" phase outputs and should consider people protection, brand and values protection, profit protection, but also the legal and regulatory constraints. The strategies should be built using a cost–effective approach and must pragmatically consider key resources to critical activities: people, ICT, suppliers, facilities.

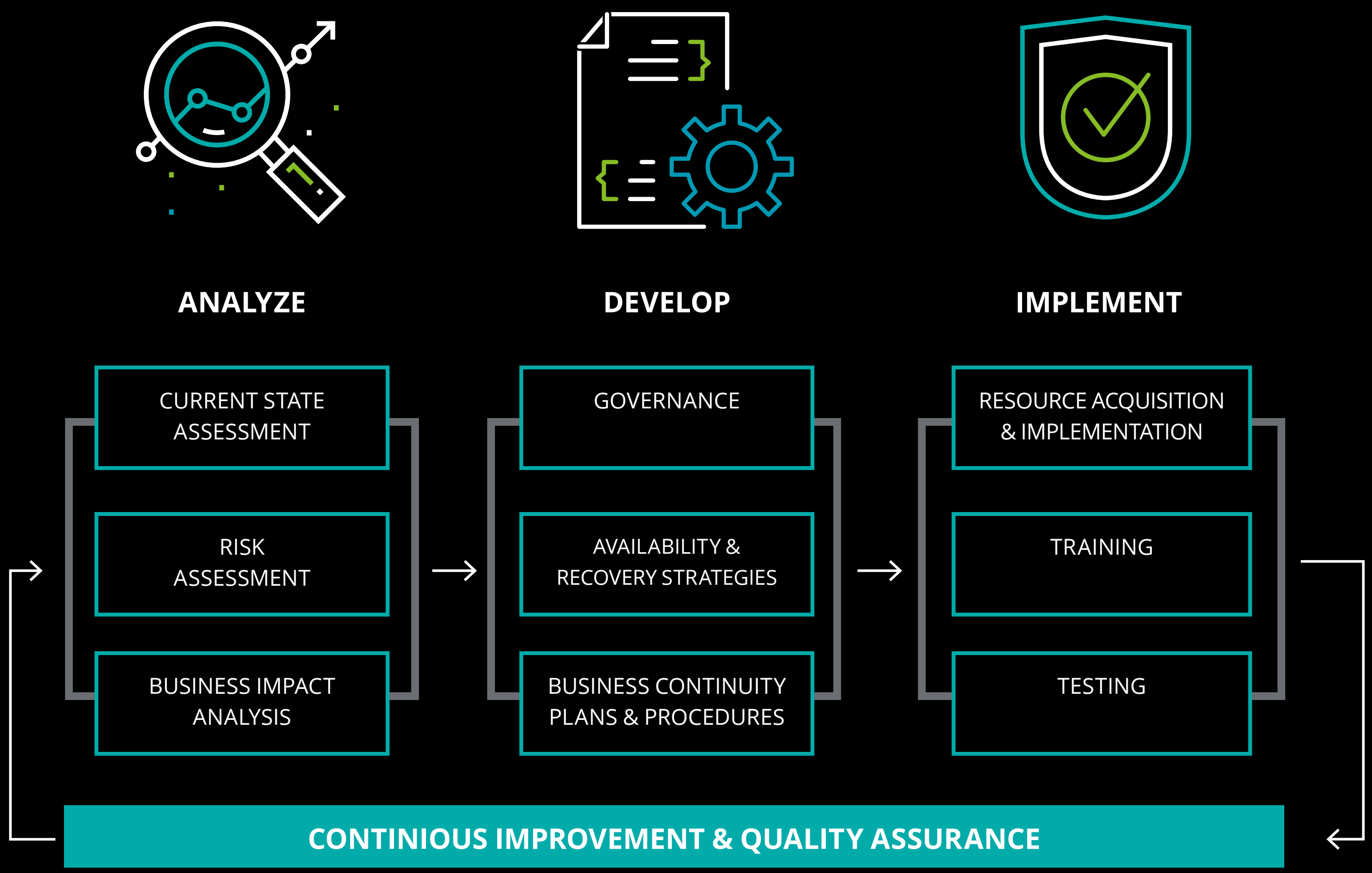
Without a proper documentation ensuring a common language in case of a crisis, the recovery cannot be effective. Incident/crisis management, business continuity and recovery management processes and plans must be documented in each organization.

03 Implement

The strategies developed in the previous phase often require acquisition of resources, implementation of technical solutions and security measures, and negotiation of contracts. The efforts related to the implementation should not be underestimated. Exercises, testing and training are critical components of any Business Continuity Management program. An effective BCM can be run only if the people involved in the recovery activities understand it and if the exercises demonstrate its effectiveness.

04 Maintain & improve

Because of the continuous evolvement of risks and the evolution of the crisis situations, it is important to regularly review and update the BCM through a continuous improvement/quality assurance program.



Crisis response plan
An organization preparedness guide

Disruptive events can be:

Natural disasters
(e.g. fire, flood, earthquake)

Cyber attacks

Terrorism

Geopolitical events
(e.g. destabilised market)

Health risks
(e.g. pandemics, virus)

Here are some specific topics related to crisis management due to health risks:

01 What is the organizational impact?

- **Mass absenteeism:** e.g. employees who fear they may have contracted a disease may refrain from coming to the office, which results in a halt of critical business processes
- **Loss of key personnel:** e.g. as a result of casualties, we may lose personnel in key positions, which could result in strategic uncertainty, reduced confidence and impact on business processes
- **Affected suppliers or business partners:** e.g. the inability to procure critical resources, outsourced services or any supply-chain disruption could bring daily operations and processes to a halt
- **Significant decline in market demand:** e.g. key markets, if affected, could see a demand slump in the short-to-medium-term, resulting in unsold inventory

02 How to respond to a crisis?

- **Documented information:** having documented information, such as employee contact details, a crisis playbook and clear communication plan and templates, is crucial to respond to a crisis. The other BCM documents should also be present
- **Response capabilities:** having the capability to respond to a crisis is another crucial part of the crisis response plan. This includes not only on-site medical assistance and preventive aids, but also incident/crisis management, business continuity plans and recovery management
- **Communication:** the ability to efficiently communicate with employees, shareholders, customers through alerts and updates is an essential part of a crisis response plan. Managing communication with the different stakeholders, media and regulators is also a critical part of the crisis response plan
- **Monitoring capabilities:** a crisis response plan must have strong monitoring capabilities. Efficient monitoring should include the monitoring of the external environment, of the updates on the recovery efforts (global and local), but also intelligence sharing with peers

Key components of a crisis response plan

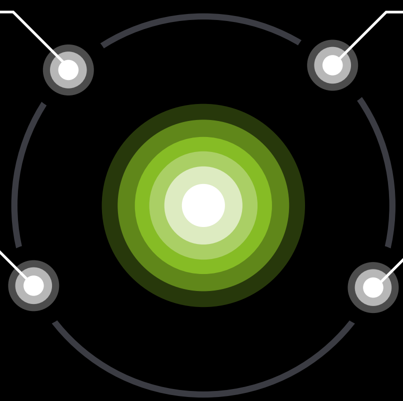
A crisis such as a pandemic outbreak can escalate quickly, crippling an organization's business operations and threatening the life and safety of its employees. It is, therefore, imperative to have an effective crisis response plan, integrated in the Business Continuity Management, which includes:

DOCUMENTED INFORMATION

- Updated employee contact details
- Crisis playbooks
- Communication templates

RESPONSE CAPABILITIES

- On-site medical assistance
- Business continuity plans
- Preventive aid like masks, anti-bacterial wipes, etc.



MONITORING CAPABILITIES

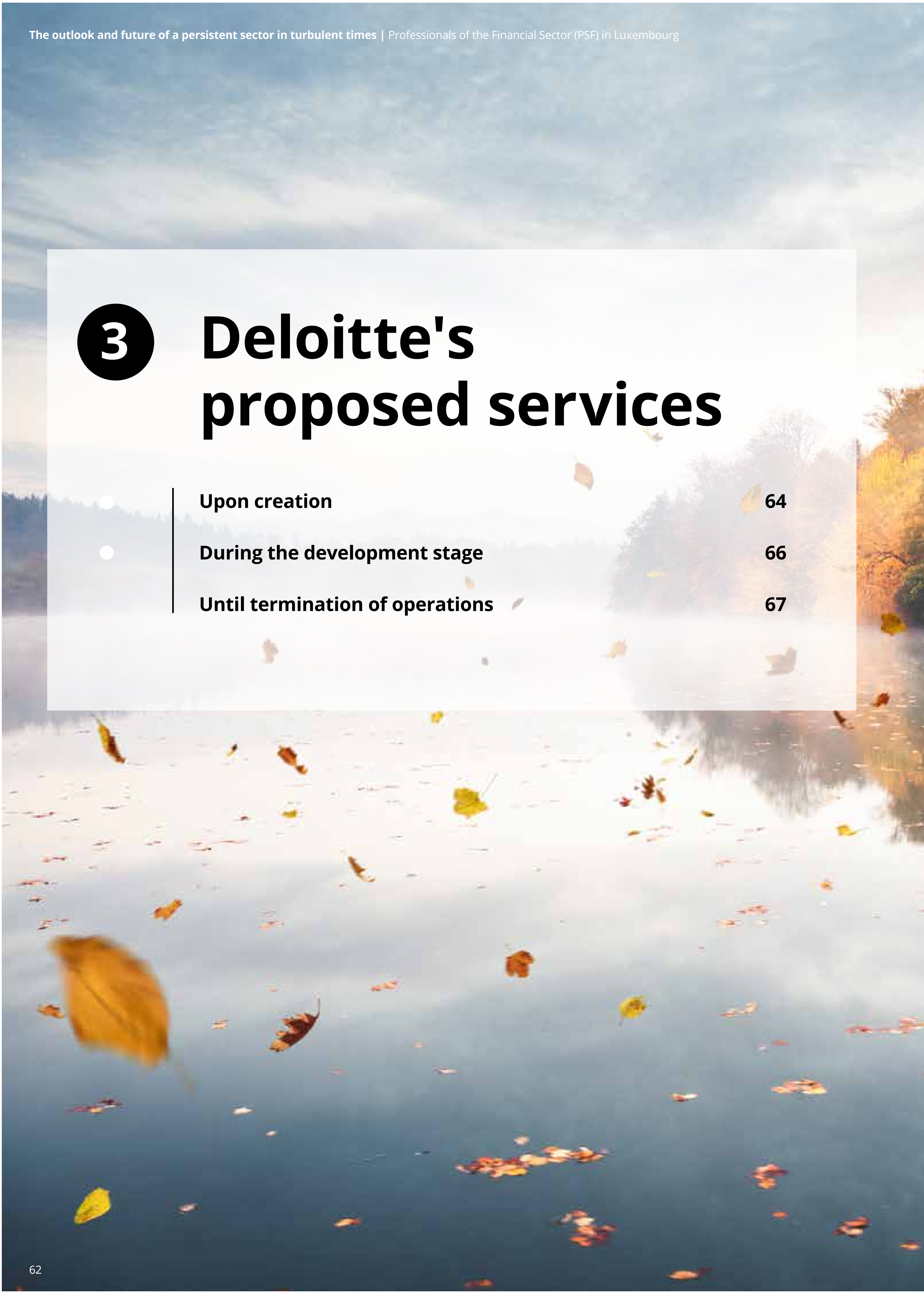
- External environment monitoring
- Updates on recovery efforts (local & global)
- Intelligence sharing with peers

COMMUNICATION

- Staff advisories, alerts, updates
- Shareholder and customer updates
- Media management (social & print)

03 Examples of key actions to be taken immediately within the crisis management due to health risks

Immediate actions: Activate Crisis Command Centre (CCC) and set-up periodic status update calls with the Crisis Management Team, gauge the extent of exposure the crisis poses to the organization, notify employees and contractors, initiate awareness campaigns, review the Business Impact Assessments focused on mass absenteeism of employees and suppliers, invoke business continuity plans and recovery management, etc.



3 Deloitte's proposed services

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

Upon creation

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

During the development stage

Regulatory strategy
- Administrative and accounting organization, and review of the compliance of services offered to clients in line with the requirements of the CSSF, in particular review the compliance with CSSF circular 12/552 as amended by the Circular 20/758 (gap analysis, training, implementation)
- Procedures manual covering the following aspects: administrative, IT, accounting, internal controls, etc.
- Proposing compliance tools such as uComply
- Rules of conduct in line with best practice of the financial centre and MiFID rules
- Training in all the above areas
- Assistance in relations with the authorities
- Provision of a regulatory hotline
- Within the framework of subcontracting, inventory of services to be provided and drafting of Service Level Agreements (SLA)
- Support for regulatory intelligence
- Digital strategy

Governance, risks & compliance
- Subcontracting or co-sourcing of the internal audit function
- Advisory services for the definition of relations with third-parties and suppliers, and definitions of the corresponding risks
- ISAE 3402 and SOC 1
- ISAE3000
- Regulatory health checks
- Assistance on regulatory compliance obligations
- Assistance in developing internal control plans (risk management, compliance monitoring program
- Assistance in building the governance model
- Compliance Risk Assessment (CRA)
- Training in internal control functions

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

Financial risks
- Calculation and optimization of solvency ratio, production of CoREP reporting and regime relating to broad exposure
- Advice, analysis and assistance regarding establishment of the ICAAP
- Implementation of a framework for liquidity monitoring and monitoring of Basel regulations, in particular in respect of the advanced method relating to operational risk
- Development of quantitative models relating to credit, market and operational risks
- Provision of training in all the above areas
- Assistance with the set-up of finance operations
- Finance diagnostics and improvement of financial reporting processes
- Internal control remediation
- Assistance with the selection and implementation of accounting software
- Accounting diagnostics workshops to enhance the closing process

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 optimization
- Assistance with all IT projects in terms of banking secrecy, exchanges with authorities and subcontracting
- Business Continuity Plan and Disaster Recovery Plan
- Projects and assistance in IT security (Security governance, risk management, ISO27001 implementation and cyber-security)
- IT audits and IT investigations, Forensic, eDiscovery and Data Analytics
- Assistance on compliance with the data protection law

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

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

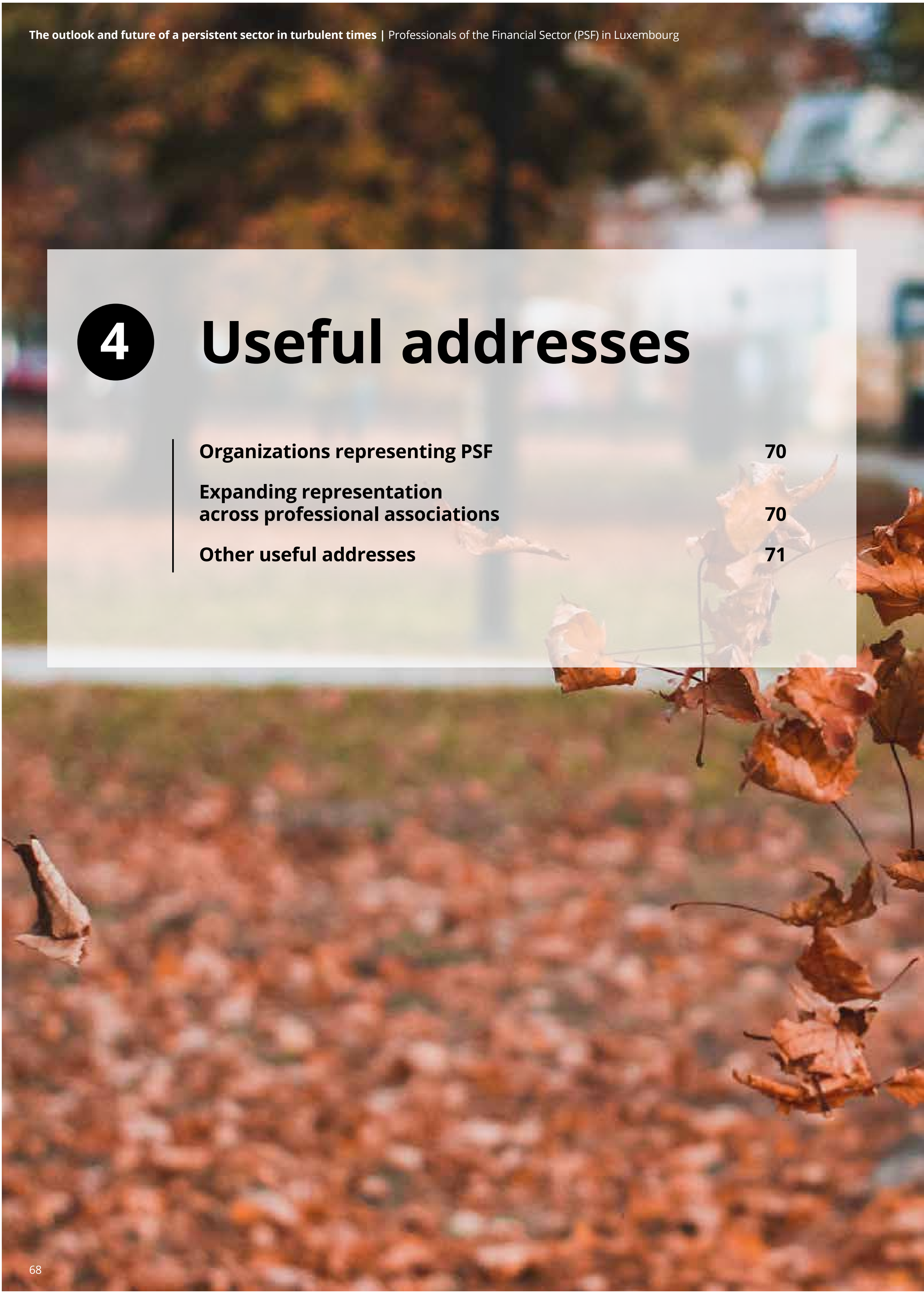
Human resources
- Organizational transformation of the HR function
- Definition of HR TOM (Target Operating Model)
- Career and succession plan management and development
- Performance management and compensation system modelling
- Recruitment and skills assessment of specialized
- profiles
- Implementation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

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

Accounting	• Implementation of new accounting laws and standards • Analysis of complex accounting treatments under different GAAPs • Provision of accounting opinion based on analysis of transactions under different GAAPs • Assistance with transition from one GAAP to another • Review of Financial Statements for compliance with accounting laws and standards • Provision of external training sessions on accounting laws and standards • Creation of e-learnings under IFRS • Accounting and finance function outsourcing • Support with accounting expertise in the context of mergers and acquisitions, carve-outs or listings • Account reconciliation
Direct taxation & VAT	• Assistance with tax returns (IRC [corporate income tax], ICC [municipal business tax], IF [wealth tax], withholding tax, VAT) • Ad hoc tax advice on direct taxation and VAT • Customized fiscal assistance and optimization analyses when creating the operational structure • Assistance with the tax aspects to consider in the context of operating procedures and assistance in introducing manuals of procedures taking account of the applicable tax framework and its evolution • Assistance in respect of transfer pricing • Verification of practical aspects of tax residence • Optimization of profit distribution to shareholders • Operational assistance (also in respect of problems linked to the EU Savings directive, until the termination of operations FATCA, the exchange of tax information (CRS), tax treatment of investors, QI etc.) • Tax reclaim for private clients until the termination of operations • Evaluation of the fiscal structures of the clients • Due diligence • Personalised training and tax hotlines • Assistance on tax optimization of the salary package of directors • Assistance on tax optimization of the salary • Evaluation of the impact of BEPS on the client portfolio
Business Risk	• Training on regulatory requirements • IA outsourcing • Hot line on risk and regulatory subjects • HR support • Ongoing Corporate, VAT and personal Tax consulting • Any other support as required in each specific case • Attest services for non-financial information (ISAE 3000, ISRS 4400) • Certification of compliance with regulatory frameworks, guidelines or laws • Health and safety certificate • Validation of training costs (INFPC)
Private Wealth Services and Family Office	• Support and implementation of customized financial structures for private clients (sales of companies, international transfer of assets, transfers of residence, etc.) • Family and corporate governance • Financial strategy and compliance • Development of specific vehicles and products (philanthropy, art funds, Islamic finance, etc.)
Technology & Enterprise application	• Define a director plan • Implement the director plan • Define and establish an IT governance • Design a sourcing strategy • Selection of packages • Application development and maintenance • Define and implement analytical solutions
External audit	• Audit of company accounts • Review of compliance with circulars and preparation either of analytical audit reports (for investment firms), or compliance reports (for specialized and support PSF) • Consultation on regulatory and accounting issues, conversion to IFRS, agreed procedures and other normative aspects • Support relating to requests made by the CSSF • Certification of continuous training records in order to obtain related subsidies

Until the termination of operations

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



4 Useful addresses

Organizations representing PSF

Expanding representation across professional associations

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

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

Finance & Technology Luxembourg (FTL)

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

Association Luxembourgeoise des Family Office (LAFO)

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

Luxembourg Association of Wealth Managers (LAWM)

Luxembourg Association of Wealth Managers or LAWM aims to bring together all wealth managers by facilitating relations and contact between them.
In addition, LAWM promotes, organizes and disseminates scientific, technical, ethical, and educational information referring to Wealth Management techniques and its related branches by all appropriate means to its members.
LAWM encourages exchanges between all wealth managers based in Luxembourg and abroad.
email: lawm.info@gmail.com
Linkedin.com/company/lawm

Luxembourg Alternative Administrators Association (L3A)

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

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

It has contacts with authorities, other professional organizations, professional chambers and other corporate institutions.
Tel : +352 621 33 98 98
contact@l3a.lu
www.l3a.lu

Numerous other organizations pertain to PSF, including the following:

The International Facility Management Association (IFMA)

Founded in 1980, IFMA is the largest international association for facility management professionals. With over 24,000 members in more than 100 countries, it is open to facility managers to give them the skills necessary for their business.
www.ifma.org

Fédération de l'IML - Information Lifecycle Management, du Stockage et de l'Archivage (FedISA)

Established on 26 November 2009, FedISA Luxembourg is a not-for-profit association serving innovation in matters of dematerialization and electronic archiving. Its aim is to bring together the players in the Luxembourg market experts, users and suppliers of information lifecycle management, dematerialization, electronic archiving and storage products and services, such as OSIPs and OSISs (support PSF). www.fedisa.lu

ISACA

With more than 145,000 members in over 188 countries, ISACA is a major global provider of knowledge, certifications, exchange, sponsorship and training in terms of security and assurance of information systems, corporate governance concerning information technologies, IT risk control and conformity. Founded in 1967, ISACA sponsors international conferences, publishes a review, and develops international auditing and control standards for IT systems.
The institution is open to IT auditors likely to be involved with PSF.
www.isaca.org

Foundation LHoFT (Luxembourg House of Financial Technology)
The foundation LHoFT is an initiative by the public and private sectors to stimulate technological innovation for the financial services sector in Luxembourg, connecting up the national and international Financial Technology community to develop the solutions that will shape tomorrow's world.
Tel.: +352 28 81 02 01
www.lhoft.com

Luxembourg Capital Markets Association (LuxCMA)
LuxCMA, constituted on 1 March 2019, is as a not-for-profit association (a.s.b.l.). LuxCMA has established four Working Groups and three Task-Forces. The main goal of the association is to bring all players in the primary capital markets around the table and materialize their common interests. In particular, LuxCMA will focus on facilitating the access to a wide network of capital market professionals; exchanging views about the future of the industry; sharing best practices with peers; sharing the latest information concerning legal and regulatory developments; setting market standards and providing input for capital markets sector proposals in cooperation with other industry associations, thereby influencing future policy- making.
Tel: +352 47 79 36 1
www.luxcma.com

Other useful addresses

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

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

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

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

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

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

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

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

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

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

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

Système d'indemnisation des investisseurs Luxembourg (SIIL)

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

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

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

Institut Luxembourgeois des Administrateurs (ILA)
Tel.: +352 26 00 21 488
www.ila.lu

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

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

5 Appendices

5.1 PSF in a nutshell

Investment firms

PSF	Article	Minimum capital or capital base EUR	Professional indemnity insurance EUR	Activity covered by the status
Investment advisers	24	50,000	EUR 1,000,000 per claim and an aggregate of EUR 1,500,000 per year	"Investment advisers are professionals whose activity consists in providing personal recommendations to a client, either at the initiative of the investment firm, or upon request of that client, in respect of one or more transactions relating to financial instruments. Investment advisers are not authorized to intervene directly or indirectly in the implementation of the advice provided by them. The mere provision of information is not covered by this law."
Brokers in financial instruments	24-1	50,000	EUR 1,000,000 per claim and an aggregate of EUR 1,500,000 per year	Brokers in financial instruments are professionals whose activity consists in receiving or transmitting orders in relation to one or more financial instruments, without holding funds or financial instruments of the clients. This activity includes bringing two or more parties together with a view to the conclusion of a transaction between the parties.
Commission agents	24-2	125,000		Commission agents are professionals whose activity consists in the execution on behalf of clients of orders in relation to one or more financial instruments. Execution of orders on behalf of clients means acting to conclude agreements to buy or sell one or more financial instruments on behalf of clients.
Private portfolio managers	24-3	125,000		Private portfolio managers are professionals whose activity consists in managing portfolios in accordance with mandates given by clients on a discretionary client-by-client basis where such portfolios include one or more financial instruments.
Professionals acting for their own account	24-4	730,000		Professionals acting for their own account are professionals whose business is in trading against proprietary capital resulting in the conclusion of transactions in one or more financial instruments where they also provide investment services or perform in addition other investment activities or deal on own accounts outside a regulated market, a Multilateral Trading Facility (MTF) or an Organized Trading facility (OTF) an organized, frequent and systematic basis, by providing a system accessible to third parties in order to engage in dealings with those third parties.
Market makers	24-5	730,000		Market makers are professionals whose business is to hold itself out on the financial markets on a continuous basis as being willing to deal on own account by buying and selling financial instruments against its proprietary capital at prices fixed by it.
Underwriters of financial instruments	24-6	125,000 or 730,000 (if they carry out placements on a firm commitment basis)		Underwriters of financial instruments are professionals whose business is to underwrite financial instruments and/or place financial instruments with or without a firm commitment.

PSF	Article	Minimum capital or capital base EUR	Professional indemnity insurance EUR	Activity covered by the status
Distributors of shares/units in UCIs	24-7	50,000 or 125,000 (if they accept or make payments)		Distributors of shares/units in UCIs are professionals whose business is to distribute units/shares of UCIs admitted to trading in Luxembourg.
Financial intermediation firms	24-8	125,000	EUR 2,000,000 per claim and an aggregate of EUR 3,000,000 per year	Financial intermediation firms are professionals whose business is to: a) provide personal recommendations to a client, either at their own initiative, or upon request of the client, in respect of one or more transactions relating to financial instruments or insurance products, and b) receive and transmit orders relating to one or more financial instruments or insurance products without holding funds or financial products of the clients. This activity includes bringing two or more parties together with a view to the conclusion of a transaction between the parties, and c) perform on behalf of investment advisers and brokers in financial instruments and/or insurance products affiliated to them administrative and client communication services which are inherent to the professional activity of these affiliates, by means of an outsourcing contract.
Investment firms operating an MTF in Luxembourg	24-9	730,000		Investment firms operating an MTF in Luxembourg are those professionals whose business is to operate an MTF in Luxembourg, excluding the professionals that operate markets within the meaning of point (23-2) of article 1 of the amended law of April 5, 1993.
Investment firms operating an OTF in Luxembourg	24-10	730,000		Investment firms operating an OTF in Luxembourg are those professionals whose business is to operate an OTF in Luxembourg, excluding the professionals that operate markets within the meaning point (23-2) of article 1 of the amended law of April 5, 1993.

Specialized PSF

PSF	Article	Minimum capital or capital base EUR	Professional indemnity insurance EUR	Activity covered by the status
Registrar agents	25	125,000		Registrar agents are professionals whose business is to maintain the register of one or more financial instruments. The maintaining of the register includes the reception and execution of orders relating to such financial instruments, of which they are the necessary accessory.
Professional depositaries of financial instruments	26	730,000		Professional depositaries of financial instruments are professionals who engage in the receipt into custody of financial instruments exclusively from the professionals of the financial sector, and who are entrusted with the safekeeping and administration thereof, including custodianship and related services, and with the task of facilitating their circulation.
Professional depositaries of assets other than financial instruments	26-1	500,000		"Professional depositaries of assets other than financial instruments are professionals whose activity consists in acting as depositary for: – specialized investment funds within the meaning of the law of 13 February 2007, as amended, – investment companies in risk capital within the meaning of the law of 15 June 2004, as amended, – alternative investment funds within the meaning of Directive 2011/61/EU, which have no redemption rights that can be exercised during five years as from the date of the initial investments and which, pursuant to their main investment policy, generally do not invest in assets which shall be held in custody pursuant to Article 19(8) of the law of 12 July 2013 on alternative investment fund managers or which generally invest in issuers or non-listed companies in order to potentially acquire control thereof in accordance with Article 24 of the law of 12 July 2013 on alternative investment fund managers."
Operators of a regulated market authorised in Luxembourg	27	730,000		Operators of a regulated market in Luxembourg are persons who manage and/or operate the business of a regulated market authorised in Luxembourg, excluding investment firms operating an MTF or an OTF in Luxembourg.
Currency exchange dealers	28-2	50,000		Currency exchange dealers are professionals who carry out operations involving the purchase or sale of foreign currencies in cash.
Debt recovery	28-3	-		The recovery of debts owed to third parties, to the extent that it is not reserved by law to certificated bailiffs, shall be authorized only with the assent of the Minister for Justice.
Professionals performing lending operations	28-4	730,000		"Professionals performing lending operations are professionals engaging in the business of granting loans to the public for their own account. The following, in particular, shall be regarded as lending operations for the purposes of this article: (a) financial leasing operations involving the leasing of moveable or immoveable property specifically purchased with a view to such leasing by the professional, who remains the owner thereof, where the contract reserves unto the lessee the right to acquire, either during the course of or at the end of the term of the lease, ownership of all or any part of the property leased in return for payment of a sum specified in the contract;

PSF	Article	Minimum capital or capital base EUR	Professional indemnity insurance EUR	Activity covered by the status
Professionals performing lending operations (continued)	28-4	730,000		(b) factoring operations, either with or without recourse, whereby the professional purchases commercial debts and proceeds to collect them for his own account "when he makes the funds available to the transferor before maturity or before payment of the transferred debts". This article shall not apply to persons engaging in the granting of consumer credit, including financial leasing operations as defined in paragraph (a) above, where that activity is incidental to the pursuit of any activity covered by the law of 2 September 2011 regulating the access to the professions of craftsmen, salesmen, industrials as well as to some liberal professions, as amended. This article shall not apply to persons engaging in securitization operations."
Professionals performing securities lending	28-5	730,000		Professionals performing securities lending are professionals engaging in the business of lending or borrowing securities for their own account.
Family Offices	28-6	50,000		Those persons carrying out the activity of Family Office within the meaning of the law of 21 December 2012 relating to the Family Office activity and not registered in one of the other regulated professions listed under Article 2 of the above-mentioned law are Family Offices and regarded as carrying on a business activity in the financial sector.
Mutual savings fund administrators	28-7	125,000		"Mutual savings fund administrators are natural or legal persons engaging in the administration of one or more mutual savings funds. No person other than a mutual savings fund administrator may carry on, even in an incidental capacity, the business of administering mutual savings funds. For the purposes of this article, “mutual savings fund” means any undivided fund of cash deposits administered for the account of joint savers numbering not less than 20 persons with a view to securing more favourable financial terms."
Corporate domiciliation agents	28-9	125,000		Corporate domiciliation agents referred to as other professionals of the financial sector in the list of paragraph 1 of Article 1 of the law of 31 May 1999 governing the domiciliation of companies and referred to in this Article, are natural or legal persons who agree to the establishment at their address by one or more companies of a seat and who provide services of any kind connected with that activity. This Article does not refer to the other persons listed in the above-mentioned list.
Professionals providing company incorporation and management services	28-10	125,000		Professionals providing company incorporation and management services are natural and legal persons engaging in the provision of services relating to the formation or management of one or more companies.
Central account keepers	28-11	-		Central account keepers are persons whose activity is to keep issuing accounts for dematerialized securities.

Support PSF

PSF	Article	Minimum capital or capital base EUR	Professional indemnity insurance EUR	Activity covered by the status
Client communication agents	29-1	50,000		"Client communication agents are professionals engaging in the provision, on behalf of credit institutions, PSF, payment institutions, electronic money institutions, insurance undertakings, reinsurance undertakings, pension funds, UCIs, SIFs, investment companies in risk capital (*sociétés d'investissement en capital à risque*) and authorized securitization undertakings established under Luxembourg law or foreign law, of one or more of the following services: – the production, in tangible form or in the form of electronic data, of confidential documents intended for the personal attention of clients of credit institutions, PSF, payment institutions, electronic money institutions, insurance undertakings, reinsurance undertakings, contributors, members or beneficiaries of pension funds and investors in UCIs, SIFs, investment companies in risk capital and authorized securitization undertakings; – the maintenance or destruction of documents referred to in the previous indent; – the communication to persons referred to in the first indent, of documents or information relating to their assets and to the services offered by the professional in question; – the management of mail giving access to confidential data by persons referred to in the first indent; – the consolidation, pursuant to an express mandate given by the persons referred to in the first indent, of positions which the latter hold with diverse financial professionals."
Administrative agents of the financial sector	29-2	125,000		Administrative agents of the financial sector are professionals who engage in the provision, on behalf of credit institutions, PSF, payment institutions, electronic money institutions, UCIs, pension funds, SIFs, investment companies in risk capital, authorized securitization undertakings, reserved alternative investment funds, insurance undertakings or reinsurance undertakings established under Luxembourg law or foreign law, pursuant to a sub-contract, of administration services forming an integral part of the business activities of the originator.
Primary IT systems operators of the financial sector	29-3	370,000		Primary IT systems operators of the financial sector are those professionals who are responsible for the operation of IT systems allowing to draw up accounts and financial statements that are part of the IT systems belonging to credit institutions, PSF, "payment institutions", electronic money institutions, UCIs, pension funds, insurance undertakings or reinsurance undertakings established under Luxembourg law or foreign law.
Secondary IT systems and communication networks operators of the financial sector	29-4	50,000		Secondary IT systems and communication networks operators of the financial sector are those professionals who are responsible for the operation of IT systems other than those allowing to draw up accounts and financial statements and of communication networks that are part of the IT systems belonging to credit institutions, PSF, "payment institutions", electronic money institutions, UCIs, pension funds, insurance undertakings or reinsurance undertakings established under Luxembourg law or foreign law.

PSF	Article	Minimum capital or capital base EUR	Professional indemnity insurance EUR	Activity covered by the status
Dematerialization service providers of the financial sector	29-5	50,000		Dematerialization service providers of the financial sector are dematerialization or conservation service providers within the meaning of the law of 25 July 2015 on e-archiving in charge of the dematerialization of documents on behalf of credit institutions, PSF, payment institutions, electronic money institutions, UCIs, SIFs, investment companies in risk capital (SICARs), pension funds, authorized securitization undertakings, insurance undertakings or reinsurance undertakings, governed by Luxembourg law or by foreign law.
Conservation service providers of the financial sector	29-6	125,000		Conservation service providers of the financial sector are dematerialization or conservation service providers within the meaning of the law of 25 July 2015 on e-archiving in charge of the conservation of electronic documents on behalf of credit institutions, PSF, payment institutions, electronic money institutions, UCIs, SIFs, investment companies in risk capital (SICARs), pension funds, authorized securitization undertakings, insurance undertakings or reinsurance undertakings, governed by Luxembourg law or by foreign law.

5.2 Summary of main regulations and circulars applicable to PSF

(as at 9 December, 2020)

CIRCULAR/REGULATION	TOPIC			
		Investment firms	Specialized PSF	Support PSF
Organization and internal control				
91/78	Segregation of assets for private portfolio managers	X (1)		
91/80 and 96/124	Staff numbers	X	X	X
93/95 and 11/515	License requirements	X	X	X
93/102	Activities of brokers or commission agents	X (2)		
95/120	Central administration		X	X
96/126	Administrative and accounting organization		X	X
98/143	Internal control		X	X
04/146	Protection of undertakings for collective investment and their investors against Late Trading and Market Timing practices	X (3)	X (3)	X (3)
17/651	Credit agreements for consumers relating to residential immovable property		X	X
Information Technology				
17/654 as amended by 19/714	IT outsourcing relying on a cloud computing infrastructure		X	X
17/656 and 06/240 as amended by 17/657	Administrative and accounting organization; IT outsourcing			
20/750	Requirements regarding information and communication technology (ICT) and security risk management	X		
07/307 as amended by 13/560, 13/568 and 14/585	MiFID: Conduct of business rules in the financial sector	X		
07/325 and 07/326 as amended by 10/442 and 13/568	Branches in Luxembourg or activities exercised in Luxembourg by way of free provision of services; branches in another Member State or activities exercised in another Member State by way of free provision of services	X (3)		

CIRCULAR/REGULATION	TOPIC			
		Investment firms	Specialized PSF	Support PSF
17/669	Prudential assessment of acquisitions and increases in holdings in the financial sector	X	X	X
12/538	Lending in foreign currencies	X	X (4)	
20/758 (replacing from January 1, 2021, 12/552 as amended by 13/563, 14/597, 16/642, 16/647, 17/655, 20/750 and 20/758 for investment firms)	Central administration, internal governance and risk management	X		
12/552 as amended by 13/563, 14/597 and 16/642, 16/647, 17/655, 20/750, 20/758 and 20/759)	Central administration, internal governance and risk management		X (5)	
13/554	Tools for managing IT resources and the management access to these resources	X	X	X
Reg. 16-07 and 17/671	Out-of-court resolution of complaints	X	X	X
15/611	Managing the risks related to the outsourcing of systems that allow the compilation, distribution and consultation of management board/strategic documents	X	X	X
Regs G-D of 25 July 2015	Dematerialization and conservation of documents / Electronic archiving			X (3)
15/631	Dormant or inactive accounts	X	X	X
18/697	Organizational arrangements applicable to fund depositaries which are not subject to Part I of the Law of 17 December 2010 relating to undertakings for collective investment, and, where appropriate, to their branches	X	X(3)	
Remuneration				
10/437	Remuneration policies in the financial sector	X	X	X
11/505		X		
17/658	Adoption of the European Banking Authority's guidelines on sound remuneration policies	CRR only		
Fight against money laundering and terrorist financing				
Reg. 12-02 as amended by CSSF regulation N°20-05	Fight against money laundering and terrorist financing	X	X	X
11/528	Abolition of the transmission to the CSSF of suspicious transaction reports	X	X	X
11/529	Risk analysis regarding the fight against money laundering and terrorist financing	X	X	X
17/650 as amended by 20/744	Application extended to primary tax offences	X	X	X

CIRCULAR/REGULATION	TOPIC	Investment firms	Specialized PSF	Support PSF
Prudential ratios				
06/260 **07/290 as amended by 10/451, 10/483, 10/497 and 13/568** **07/301 as amended by 08/338, 09/403, 11/506, 13/568 and 20/753** **10/494** **11/501** **11/505** **12/535** **13/572**	Capital adequacy ratios / large exposures; assessment process	X		
Reg. 14-01, 15-01 and 15-02 and 13/575, 14/582, 14/583, 15/606, 15/618, 15/620 and 15/622 as well as Regulation (EU) No 575/2013, ad hoc Commission Delegated Regulations (EU) and ad hoc Commission Implementing Regulations (EU)	Supervisory reporting requirements (CRR/CRD IV / FINREP)	X (3)		
09/403	Sound liquidity risk management	X		
11/506 as amended by 20/753	Principles of a sound stress testing programme	X		
16/02	Scope of deposit guarantee and investor compensation	X		
17/03, 17/649	Adoption of the guidelines issued by the European Banking Authority (EBA) on the methods of providing information in summarized or collective form for the purposes of the Banking Recovery and Resolution Directive (BRRD)	X		
Reporting				
05/187 completed by 10/433	Financial information to be submitted to the CSSF on a periodic basis	X	X	X
08/334 and 08/344	Encryption specifications for reporting firms to the CSSF	X	X	X
08/364	Financial information to be submitted to the CSSF on a quarterly basis by the support PSF			X
08/369	Prudential reporting	X	X	X
11/503	Transmission and publication of financial information and relating deadlines	X	X	X
11/504	Frauds and incidents due to external computer attacks	X	X	X
13/577	Table "Responsible persons for certain functions and activities"	X		

CIRCULAR/REGULATION	TOPIC			
		Investment firms	Specialized PSF	Support PSF
Domiciliation				
01/28, 01/29, 01/47 and 02/65	Domiciliation		X (6)	
Supervision				
00/22	Supervision of investment firms on a consolidated basis	X (3)		
08/350 as amended by 13/568	Prudential supervisory procedures for support PSF			X
12/544	Optimization of the supervision exercised on the support PSF by a risk-based approach			X
15/629 as amended by 16/641	Supplementary supervision to be applied to financial conglomerates and definition of structure coefficients to be observed by the regulated entities belonging to these financial conglomerates	X		
19/716 as amended by 20/743	Provision in Luxembourg of investment services or performance of investment activities and ancillary services in accordance with Article 32-1 of the LFS	X		
20/753	Amendment of Circular CSSF 07/301, as amended by Circulars CSSF 08/338, CSSF 09/403, CSSF 11/506 and CSSF 13/568 on the implementation of the Internal Capital and Liquidity Adequacy Assessment Process (ICAAP and ILAAP) and of circular CSSF 11/506 on principles of a sound stress testing programme	X		
External audit				
03/113 and 13/571	Practical rules concerning the mission of external auditors of investment firms	X		

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

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

(3) depending on the activity of the PSF

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

(5) applicable only to professionals performing lending operations (art. 28-4) and only chapter 3 of part III of the circular (except sub-chapter 3.4) and paragraph 12 of chapter 2 of part III of the circular applicable

(6) applicable only to PSF providing domiciliation activities

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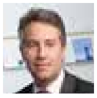

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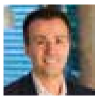

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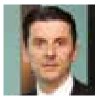

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