The outlook and future of a sector adapting to the change

Professionals of the Financial Sector (PSF) in Luxembourg

December 2021

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Foreword

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

Competitiveness is inherent in all markets. In a regulatory and technological environment that is constantly **adapting to changes**, 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.

In 2020, PSF, no different from any other financial market actor, experienced turbulence from the unprecedented COVID-19 pandemic. However, as of today, **PSF has shown amazing resilience**, having successfully implemented measures recommended by the CSSF.

Despite a temporary decrease of the number of employees in 2020 compared to 2019, a post COVID-19 trend is clearly appearing, with an increase of employees almost back to the pre COVID-19 levels (more than 16,500 professionals employed by 265 entities as of October 2021).The reduction of net results in 2020 were ultimately driven by the decrease in the dividend income of a major player, which was mainly kept in reserve during the crisis. However, things are looking brighter here also.

This resilience is further illustrated by the bounce back in 2021 of the number of employees and the total net result of the industry. If the crisis did bring additional challenges, many opportunities have also risen, ranging from internal reorganization perspectives tackling historical talent management questions, to external opportunities arising from the private equity sector as well as sustainability-related matters.

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.

We kindly thank **Christophe Dermine, Christophe Gaul, Manuel Ghidini, Sébastien Respaut**, and **Michaël Zianveni** for their valuable contributions to this report. 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 enjoy the read.

Raphaël Charlier
Partner, PSF Leader

Adil Sebbar
Director, Audit

Introduction

PSF: A wide range of services in a regulated environment

Professionals of the Financial Sector (PSF) are defined as regulated **entities offering financial services apart from the receipt of deposits from the public** (a function 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

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.

* The above licenses' numbering and denominations are based on the version of the Law of the Financial Sector dated April 5, 1993 as applicable as at December 31, 2020.

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 2020, the Grand Duchy of Luxembourg identified 267 PSF, representing a decrease of 4% compared the end of 2019.

The main categories of PSF in 2020 remain specialized PSF and investment firms, which account for 37% each. The decrease in the number of PSF between 2019 and 2020 was mainly driven by the net decrease of specialized PSF by seven entities, while the number of investments firms only decreased by one entity.

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.)

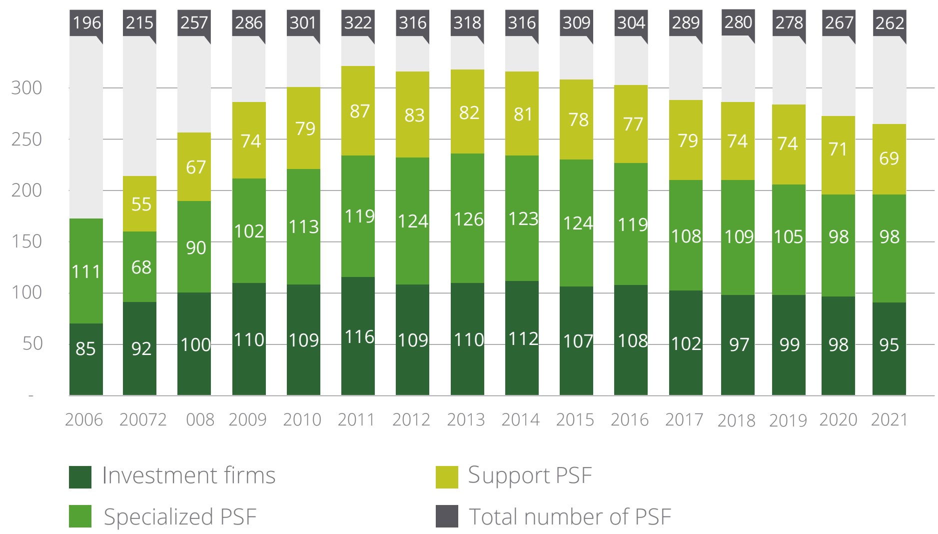
From 2012 to 2016, the number of PSF stabilized, a trend that was mainly due to a better understanding of licensing requirements according to the services provided.

- Since 2017, the number of PSF has seen a drop, from 289 in December 2017 to 267 in December 2020. 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 reach critical size. 2018, 2019 and 2020 were three years of consolidation for investment firms.

It should be noted that the minor dip in the number of PSF was not the driving factor for the decrease in the net result during 2020, which is derived mainly from the decrease in the net result of one player, further analyzed in the following sections of this report. Also, if the number of employees has decreased from 16,878 at the end of 2019 to 16,248 by the end of 2020, it has increased back in June 2021 to 16,544.

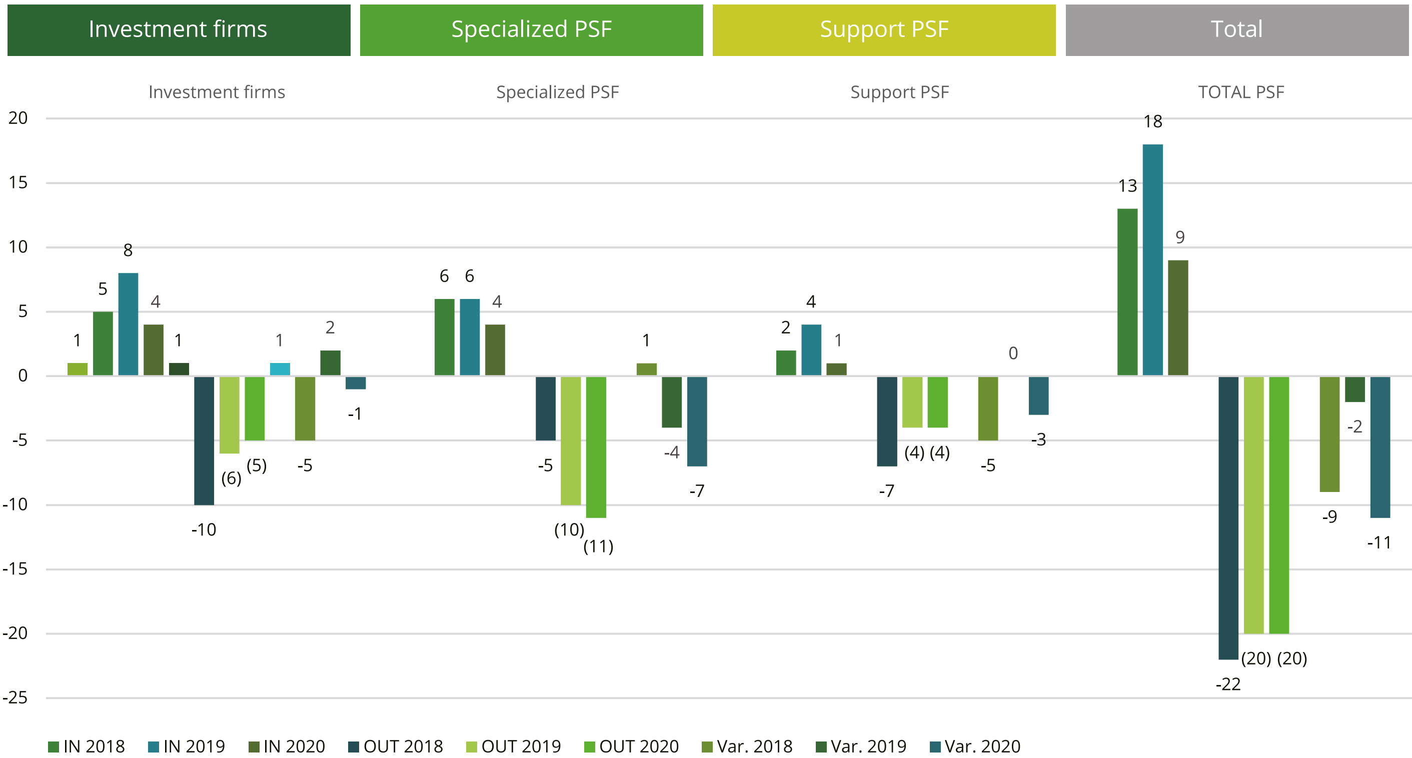
In the course of 2021, the number of PSF has slightly decreased by 2% (262 PSF as of 31 December 2021) while the net profit on year-to-date basis increased (€254 million as of 30 November 2021 compared to €223 million as of 30 November 2020, representing a 14% increase.

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



Source: CSSF list of PSF as at 31 December 2021

Figure 2: PSF changes by category: Entries and exits 2018, 2019, and 2020



Source: CSSF list of PSF as at 31 December 2020

Changes within each PSF category
The number of PSF varied across all PSF categories between December 2019 and December 2020, with the number of mergers and ending of activities being roughly equal to twice the number of creations of new PSFs.

This new PSF result can be attributed to 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 activities and adapted their status accordingly (two investment firms changed into specialized PSF in 2020, one of which was subsequently released from the list of specialized PSF).

We note that the decrease in the number of PSF is mainly driven by specialized PSF with a net decrease of seven PSF compared to 2019, despite the four additional ones during the year. Six of them were deleted from the Trade Register.

The final impact is a slight drop in the number of players in 2020, with a total decrease of 4% in the total number of PSF.

Overview of the PSF' contribution to the financial sector[1]

- The Luxembourg financial sector remains the key strength of the Luxembourg economy and the country's main contributor with 25% of value produced.
- Financial sector employment has grown by approximately 6,164 jobs since 2007, to reach a total of 47,827 employees in 2020, equivalent 11% of total Luxembourg employment.
- The Luxembourg financial sector has rebounded since the financial crisis at a faster rate than that of other European countries, with growth of nearly 10 times that of the European financial sector at large.

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

- During 2020, the international economic and political context was less predictable mainly after the health crisis related to COVID-19. However, 2021 highlighted the relevance of Luxembourg's stability and resilience.

PSF balance sheets and net aggregate results

The total balance sheet of all PSF amounted to €8.6 billion as at 31 December 2020, which represented a slight decrease of 2.2% compared to 31 December 2019. However, the total balance sheet increase back to €9.1 billion as at 30 November 2021, representing a significant increase of 6% compared to 31 December 2020 showed promise.

The decrease between 2019 and 2020 was mainly driven by specialized PSF (-€82 million representing a 1% decrease) and support PSF (-€204 million representing a 11% decrease), partially compensated by an increase of the total balance sheet of investments firms of €90 million (+8%).

The decrease in the total balance sheet of specialized PSF is mainly attributable to the release of the PSF licenses of Partners Group (Luxembourg) S.A., who opted for a license of Alternative Investment Fund Manager and PK Air Finance S.à r.l., with respectively €86 million and €151 million total balance sheet as at 31 December 2019. The decrease for support PSF is mainly driven by a sharp decrease in the total assets of Proximus Luxembourg S.A. by €273 million.

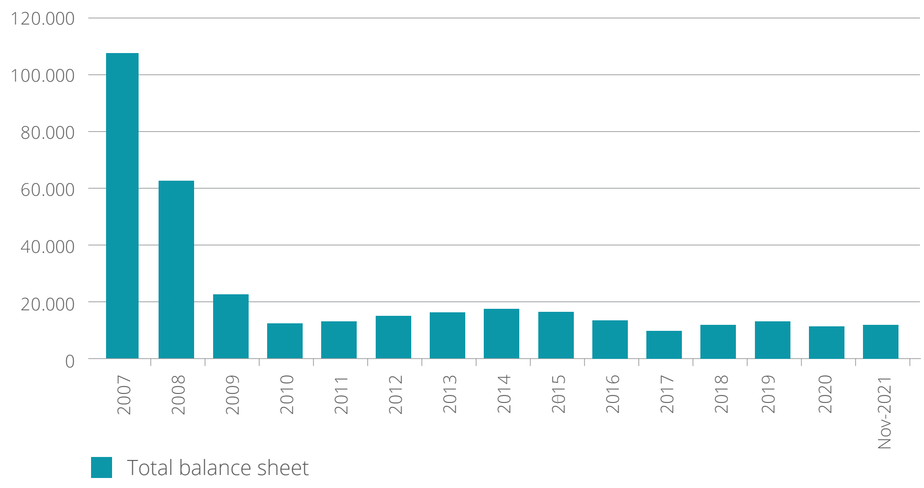
The increase in the total balance sheet of investment firms between the end of 2019 and the end of 2020 is mainly attributable to an increase in the total assets of Interactive Brokers Luxembourg S.à r.l. by €67 million, and to MFEX Luxembourg S.A. by €22 million, which registered as investment firm in 2020.

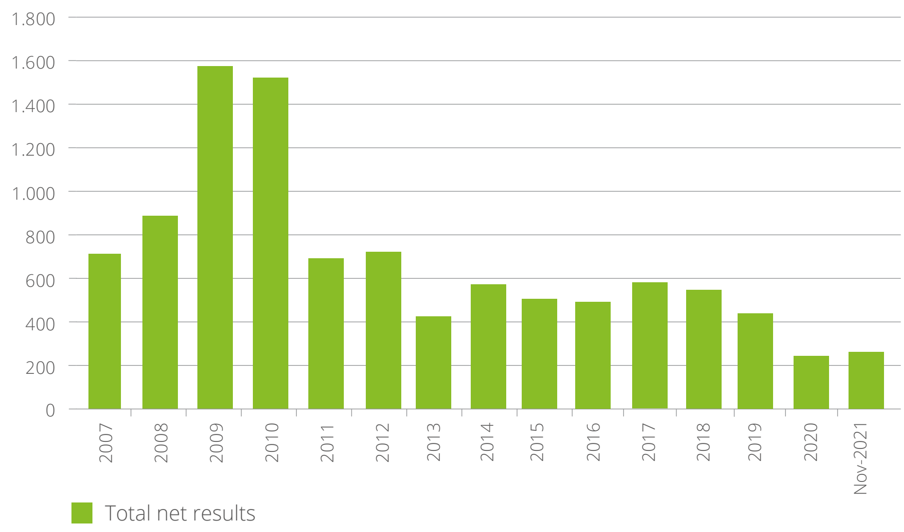
The balance sheet concentration of PSF increased between 2019 and 2020. The three PSF with the largest balance sheet totals are specialized PSF with a combined balance sheet value of €5.815 million (2019: €5.423 million) accounting for 21% (2019: 57%) of the balance sheet total of all PSF.

Similarly, the net result for 2020 decreased sharply by 48% down to €233 million) compared to 2019, mainly as a result of COVID-19, and the time required by PSF to adapt. Similarly, a standby position was adopted by many clients, limiting the activity of existing entities and refraining the development of new ones.

However, according to CSSF data as at 30 November 2021, PSF overall have a provisional net profit of €254 million for eleven months of activities in 2021 (investment firms accounting for €109 million, specialized PSF accounting for €82 million, and support PSF accounting €63 million), a rather positive trend as compared to the PSF result totaling €223

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 € Millions

	2018		2019		2020		November 2021	
	Volume	Relative share	Volume	Relative share	Volume	Relative share	Volume	Relative share
Investment Firms	876	10%	1,155	13%	1,249	14%	1,032	11%
Specialized PSF	6,732	75%	5,864	66%	5,779	67%	6,469	71%
Support PSF	1,344	15%	1,820	21%	1,616	19%	1,571	17%
Total	**8,952**	**100%**	**8,839**	**100%**	**8,645**	**100%**	**9,072**	**100%**

Total Net Profit in € Millions

	2018		2019		2020		November 2021	
	Volume	Relative share	Volume	Relative share	Volume	Relative share	Volume	Relative share
Investment Firms	66	13%	100	22%	94	40%	109	43%
Specialized PSF	372	71%	290	63%	96	41%	82	32%
Support PSF	83	16%	68	15%	44	19%	63	25%
Total	**520**	**100%**	**458**	**100%**	**233**	**100%**	**254**	**100%**

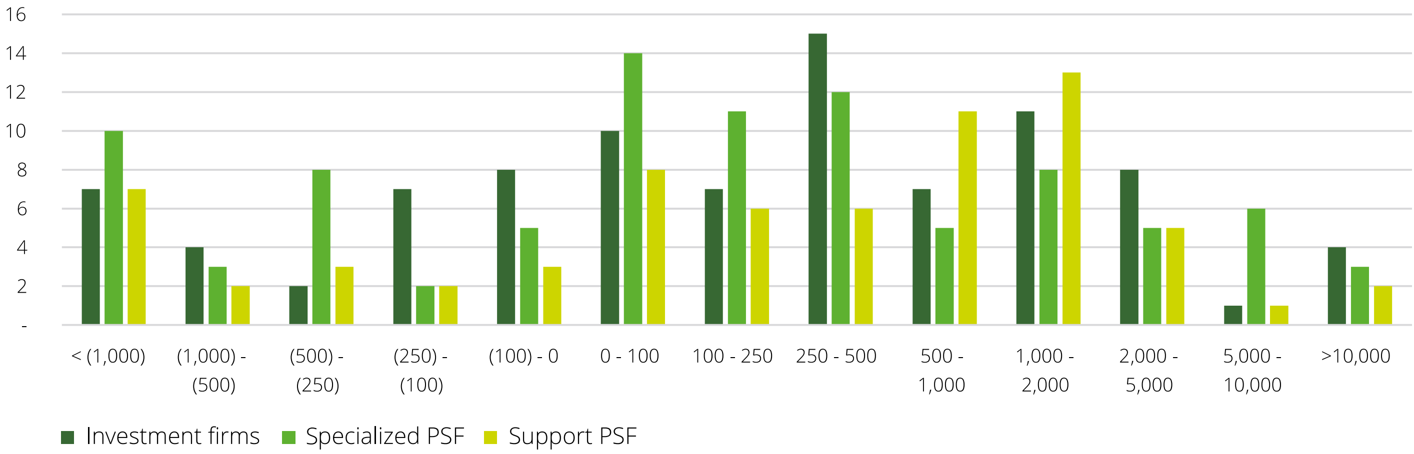
Source: Statistics of the CSSF

An analysis of profits by category shows that:

- The net profits of **investment firms** decreased by 6% over 2020, while their relative shares rose from 22% in 2019 to 40% in 2020.
- The net profits of **specialized PSF** decreased in 2020 by 66%. Its share of net profits decreased sharply in 2020, and accounted for 41% (63% in 2019).
- The net profits of **support PSF** decreased by 36%. Their relative shares increased from 15% in 2019 to 19% in 2020.

Figure 5.1: Breakdown of PSF by net profit bracket as at 31 December 2020 (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 2020 significantly decreased from €1.62 million in 2019 to €0.87 million in 2020 based on the CSSF 2020 Annual Report.

Figure 5.2: Comparison of breakdown of PSF by net result bracket in 2019 and in 2020 (in € thousands)

	Investment firms		Specialized PSF		Support PSF	
	2019	2020	2019	2020	2019	2020
Loss	23%	31%	30%	30%	30%	25%
Profit between 0 & 100	26%	11%	21%	15%	10%	12%
Profit between 100 & 1,000	35%	32%	19%	31%	31%	33%
Profit between 1,000 & 5,000	11%	21%	19%	14%	23%	26%
Profit > 5,000	5%	5%	11%	10%	6%	4%
	100%	**100%**	**100%**	**100%**	**100%**	**100%**

Investment firms:
The net results of investment firms ranged from a loss of €6.9 million to a profit of €25 million. The difference between the highest and lowest net results remains consistent with the prior year (€4 million and €24 million respectively). The three highest net results were attributed to Attrax S.A., M&G International Investments S.A. and Fund Channel S.A. for a total amount of €47 million. The average profit remained stable at €1m while the median increased from €117,000 to €254,000 in 2020. 31% of investment firms were making losses in 2020.

Specialized PSF:
The highest net results for specialized PSF sharply decreased from €283 million in 2019 to €22.5 million mainly triggered by the decrease in the net result of Clearstream International S.A. from €189 million to €2 million. This was mainly driven by the absence of interim dividend paid by Clearstream Banking S.A. in 2020. However, a dividend amounting to €236 million was proposed in 2021 in respect of the result of the year ended 31 December 2020, and Clearstream Banking disclosed a €236 million net result for the same financial year. The absence of dividend though paid in 2020 explains the decrease in the average net result from €3.6 million to €1.1 million, considering as well that the median increase from €85,000 to €134,000. 30% of specialized PSF were making losses in 2020.

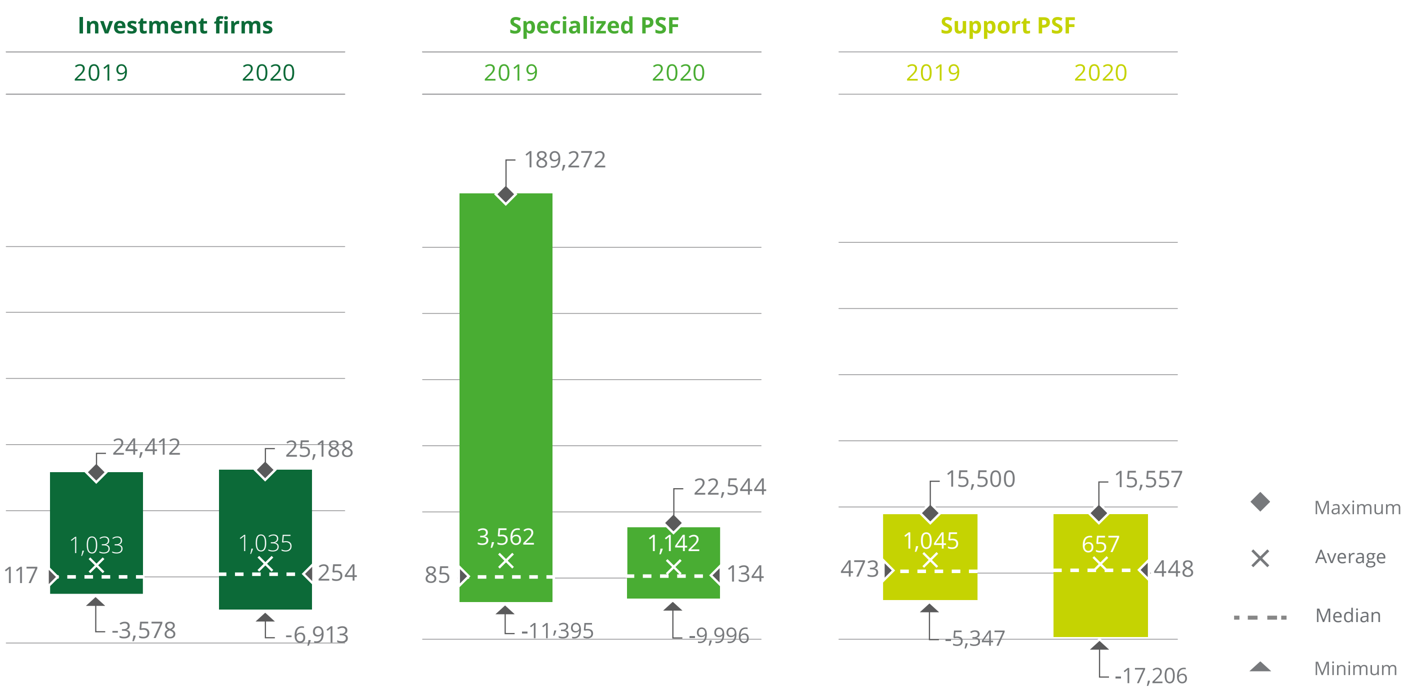
The two specialized PSF with the highest net results in 2020 are Intertrust (Luxembourg) S.à r.l. with €23 million and Credit Suisse Fund Services (Luxembourg) S.A. with €20 million. Arendt Services S.A. is in third position with €14 million.

Support PSF:
Net results of support PSF ranged from a loss of €17 million to a profit of €16 million. The average net result decreased by 37% mainly due to the €17 million loss posted by Kneip Communications S.A. in 2020. We note however that 30% of support PSF generated profits above or equal to €1 million in 2020. Despite this, 25% of support PSF were making losses in 2020.

The average net profit of a PSF for 2020 amounts to €0.87 million compared to €1.62 million in 2019.

Figure 6: Range and average net results by PSF category as at 31 December 2019 and 31 December 2020 (in € thousands)

For presentation purposes, the scales should be considered separately for each PSF category



Main expenses of PSF

From the financial statements that we examined, we isolated and subsequently analyzed the main expenses of PSF as:

- Staff costs;
- External expenses and other operating expenses; and
- Tax on profit.

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 51% of identified expenses in 2020. They are followed by external expenses and other charges representing 44%.

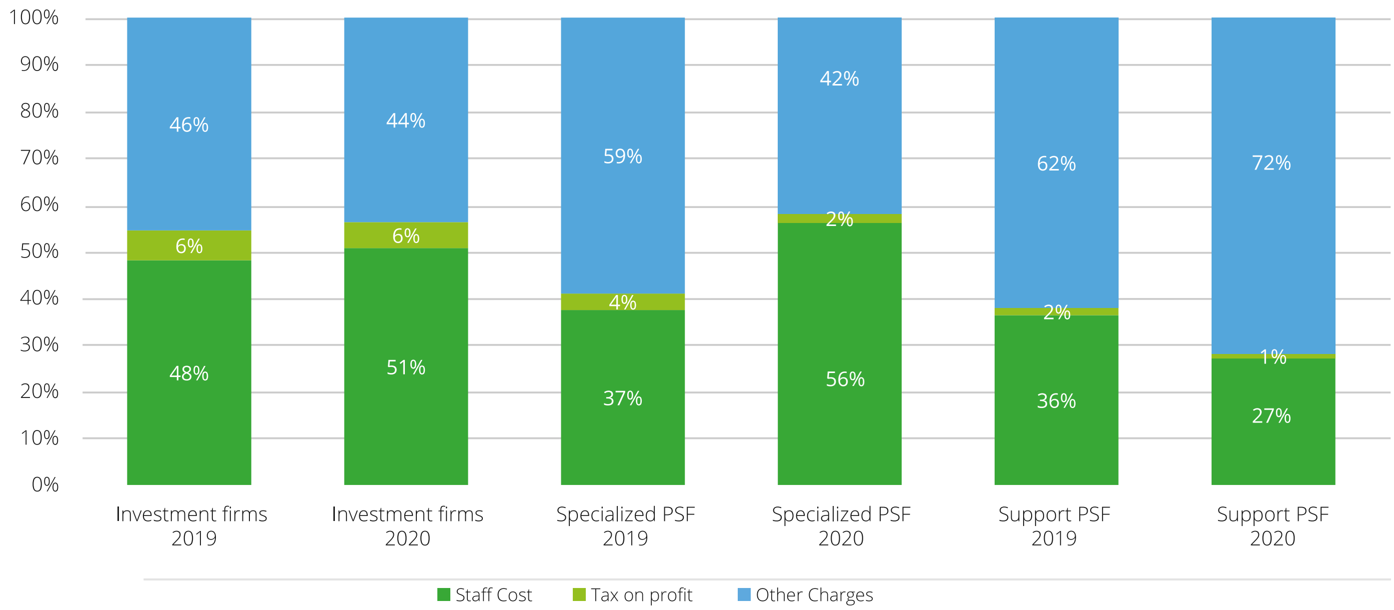
For **specialized PSF**, external expenses and other operating expenses and personnel costs account for the vast majority of identified costs in 2020. The weight of staff costs increased in 2020 compared to 2019.

Among **support PSF**, external expenses and other charges rank first and account for 72% of identified expenses for 2020. They are followed by personnel expenses representing 27% in 2020.

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

- For investment firms: €146 (134 in 2019)
- For specialized PSF: €164 (80 in 2019)
- For support PSF: €72 (70 in 2019)

Figure 7: Breakdown of the main expenses per PSF category as at 31 December 2019 and as at 31 December 2020 (in %)

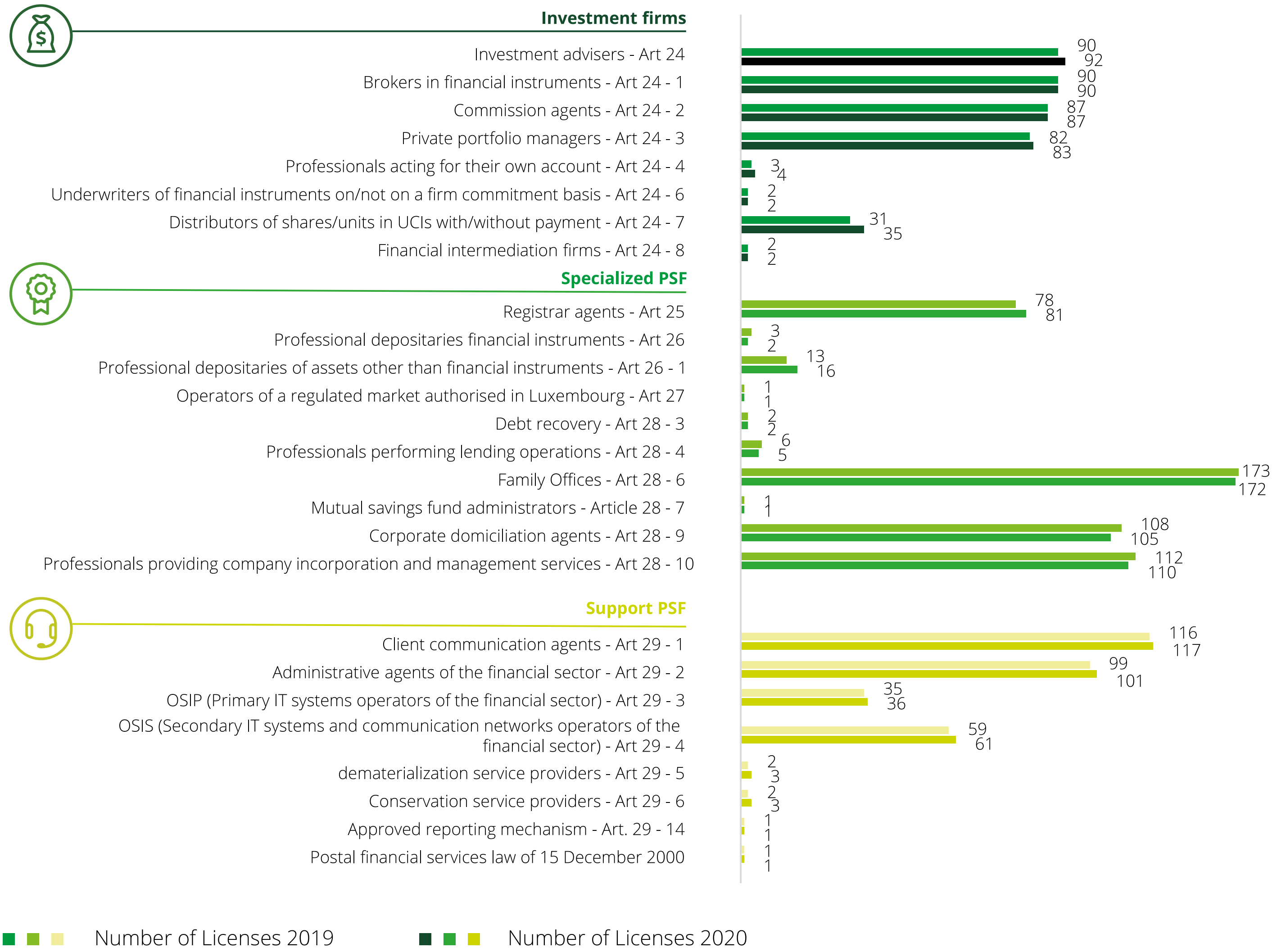


Source: CSSF and Deloitte statistics

Among investment firms, personnel expenses rank highest and account for 51% of identified expenses in 2020.

They are followed by external expenses and other charges, representing 44%.

Figure 8: Total number of PSF licenses as at 31 December 2019 and 31 December 2020



Distribution of licenses

As at 31 December 2020, the most widely granted license was Article 28-6 or Family Offices. Created in 2013, this license was met with great success as soon as it was published. It has been granted to 64% of PSF, 96% of investment firms and 80% of specialized PSF. This license remained relatively stable with a very slight decrease in 2020 (172) compared to 2019 (173).

The subsequent most frequent licenses were as follows: Art.29 -1 or Client communication agents; Art. 28-10 or Professionals providing company incorporation and management services; Art. 28-9 or Corporate domiciliation agents; Art. 29-2 or Administrative agents of the financial sector; Art. 24 or Investment advisers; and Art. 24-1 or Brokers in financial instruments.

These account for 65% of licenses as at 31 December 2020.

The number of licenses relevant to these remained relatively stable, with a slight decrease by 1 license in 2020 (787 licenses) compared to 2019 (788 licenses).

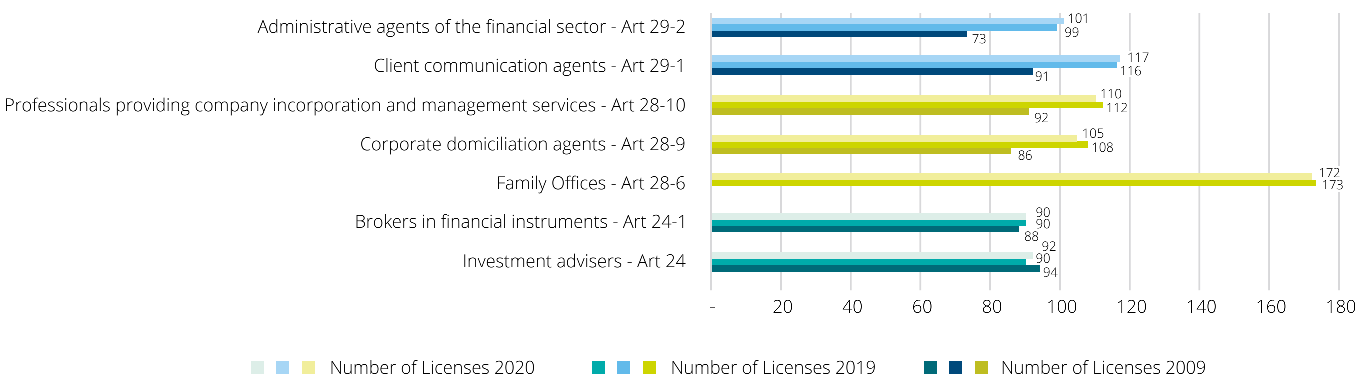
After the significant rise in the distribution of licenses between 2009 and 2014, a tendency towards concentration on core business has been observed since 2015, which is continuing in 2020, with merger operations occurring with effective date in 2021, not yet reflected as of 31 December 2020.

The 'Corporate domiciliation agent' license (Art. 28-9) has also risen sharply, from 86 licenses in 2009 to 105 in 2020 (+22%). Similarly, the 'Administrative agents of the financial sector' license (Art. 29-2), has risen from 73 to 101 licenses between 2009 and 2020 (+38%).

Finally, in 2020, 16 specialized PSF held the license under Art. 26-1, enabling them to carry on the activity of 'Professional depositary of assets other than financial instruments', increasing the number of entities acting in this area by one.

As at 31 December 2020, the most widely granted license is still Art. 28-6, Family Offices.

Figure 9: Change between 2009, 2019, and 2020 in the main seven PSF licenses



The six following licenses were not granted to any entity as at 31 December 2020:

- Art. 24-5, Market maker;
- Art. 24-6, Underwriting of financial instruments and/or placing of financial instruments on a firm commitment basis;
- Art. 24-9, Investment firms operating an MTF in Luxembourg;
- Art. 28-2, Currency exchange dealers;
- Art. 28-5, Professionals performing securities lending; and
- Art. 28-7, Mutual savings fund administrator.

Between 2009 and 2014, we observed a consistent increase in the number of PSF licenses. This period represented 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. This was usually done in the hope to avoid making subsequent applications to the CSSF to extend licenses, which would become necessary if firms 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 2020, i.e. there are 14 additional licenses than in 2019 (1,213 in 2020, versus 1,199 in 2019).

For the seventh year running, the most widely granted licenses are those of specialized PSF (41% of licenses in 2020, compared to 27% in 2009). (See Figure 11) details the factors of change in the number of licenses in activity between 2020 and 2019.

These changes break down as follows:

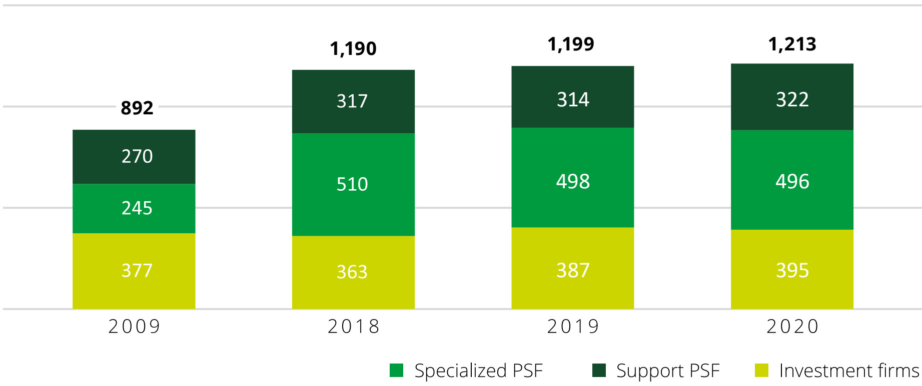
- PSF created during the year;
- PSF that already existed and obtained supplementary licenses or decided to relinquish certain licenses; and
- Entities that totally gave up their PSF status.

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 Art. 24 to 24-3, as well as Art. 28-6, Family Offices). Specialized PSF mostly hold Art. 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 one or two licenses (Art. 29-3 and 29-4).

Figure 10: Change in and breakdown of licenses in 2009, 2018, 2019 and 2020



The most widely granted licenses are those for specialized PSF.

Figure 11: Change in PSF licenses over 2019 and 2020

Source of increases and declines in licenses	Investment firms 2020	Specialized PSF 2020	Support PSF 2020
PSF created	16	21	2
Existing PSF	12	17	4
PSF withdrawals	(14)	(38)	(6)
Total change in the number of licenses 2020	**14**	-	-
Total change in the number of licenses 2019	**(24)**	**(13)**	**(3)**

Figure 12: Distribution of PSF by number of licenses as at 31 December 2020

Number of licenses	Investment firms 2020	Specialized PSF 2020	Support PSF 2020
1	2	12	27
2	5	5	27
3	1	15	5
4	2		9
5	41	5	2
6	15	45	1
7	13	16	
8	6		
9	5		
10	2		
11	3		
12	3		
Total	**98**	**98**	**71**

1.2 The PSF: A consistent and steady employer

The PSF employs 16,612 people as of 30 September 2021, versus 5,018 employed by management companies and 26,147 by banks.

Evolution of employment in PSF

Using the latest figures available from the CSSF, the following figures show the distribution of employment across Luxembourg's financial sector: for a total number of employees of 48,467, all financial sectors considered (banks, management companies according to chapter 15 of the Law of 17 December 2010, payment institutions/electronic money institutions and PSF), 54% work in banks, 10% in management companies, and 34 % in PSF, of which 55% work in support PSF.

With 16,248 jobs as of 31 December 2020, the number of employees decreased by 4% compared to December 2019. PSF employment figures were relatively stable in 2020. Yet, as of 30 September 2021, the number of employees increased back to 16,612, representing an increase ranging from 6% to 7% compared to 2020 for investment firms and specialized PSF, and a decrease by 1% for support PSF.

The breakdown of employees by category within PSF has changed in 2020, with a large decrease of support PSF (-10%) employees. This is explained by a voluntary waiver of one PSF company with a large workforce.

The analysis that we conducted on the basis of PSF 2020 annual accounts shows that almost 65% of investment firms and specialized PSF have 25 employees or less.

As of 31 December 2020, Investment firms employed 18 people on average (17 in 2019), 56 people (49 in 2019) for specialized PSF and 127 people (135 in 2019) for support PSF.

As a comparison, between 2009 and 2020, employment in PSF increased by 20%, whereas employment in banks remains stable between December 2009 (26,420) and June 2021 (26,293).

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

*Source: CSSF statistics derived from the CSSF annual report and CSSF newsletters

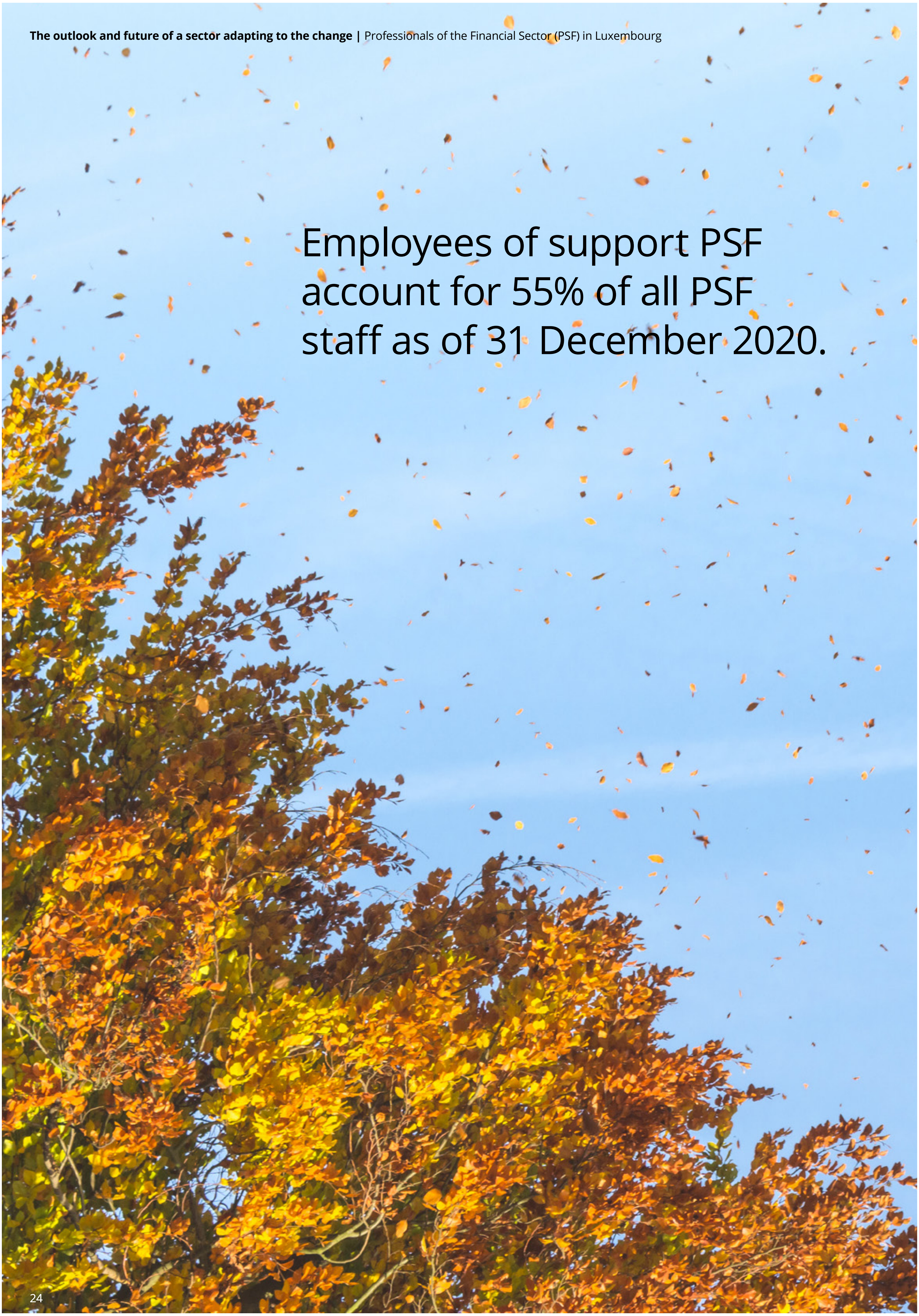
These average figures remain quite high thanks to a handful of entities generating a significant number of jobs:

- In 2020, the top five largest investment firms employed 551 people (three of them with over 100 employees). The workforces of these companies account for 31% of the total number of investment firm employees. Without these five entities, investment firms would have an average workforce of only 13 people.
- The number of specialized PSF employing more than 100 people is 14 (12 in 2019). Among them, there are 10 PSF with over 150 employees, totaling 5,500 people. They are POST Luxembourg, Intertrust (Luxembourg) S.à r.l., European Fund Administration S.A., Alter Domus Alternative Asset Fund Administration S.à r.l., International Financial Data Services (Luxembourg) S.A., Aztec Financial Services (Luxembourg) S.A., TMF Luxembourg S.A., IQ EQ (Luxembourg) S.A., Vistra (Luxembourg) S.A, Societe de la Bourse de Luxembourg S.A. and Arendt Services S.A.
- The number of support PSF employing more than 500 people is 4, totalling some 2,896 people (32% of the total number of support PSF employees). They are Brink's Security Luxembourg S.A. (793), Proximus Luxembourg S.A. (743), Sogeti Luxembourg S.A. (691), and Clearstream Services S.A. (669).

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

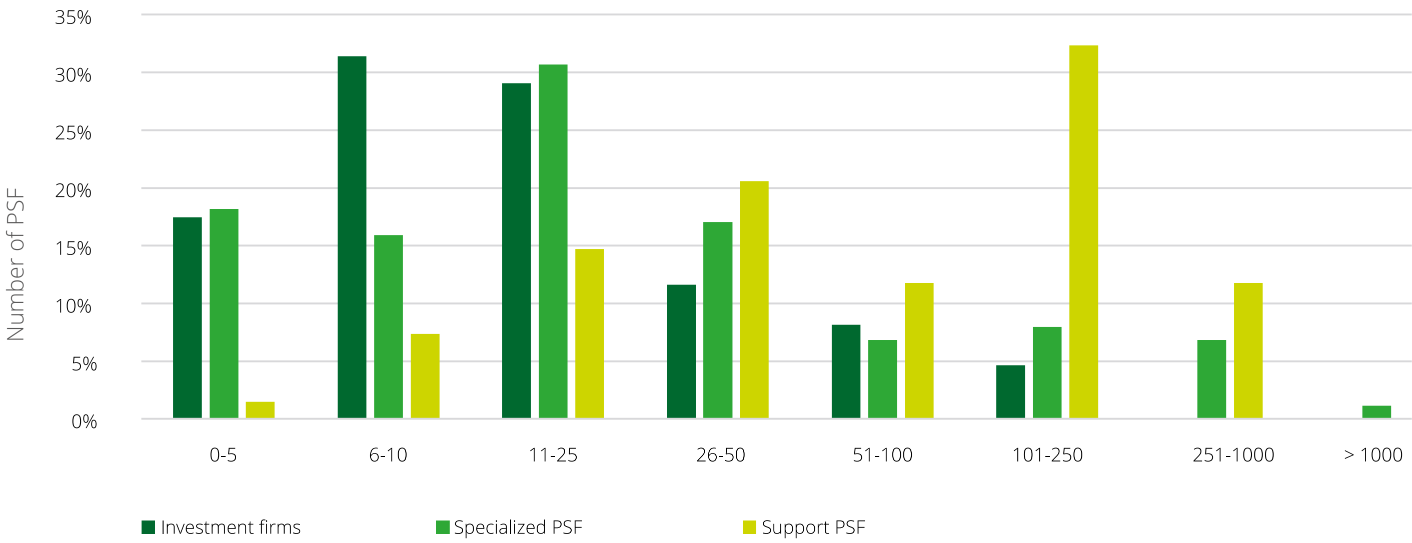
	2019		2020		Evolution 2019 - 2020		September 2021	
	Total	Part	Total	Part	Total	Change	Total	Part
Investment firms	1,690	10%	1,785	11%	95	6%	1,906	11%
Specialized PSF	5,183	31%	5,476	34%	293	6%	5,787	35%
Support PSF	10,005	59%	8,987	55%	-1,018	-10%	8,919	54%
Total	**16,878**	**100%**	**16,248**	**100%**	**-630**	**-4%**	**16,612**	**100%**

*Source: CSSF statistics derived from the CSSF annual report and CSSF newsletters



Employees of support PSF account for 55% of all PSF staff as of 31 December 2020.

Figure 15.1: Distribution of PSF by number of employees bracket as of 31 December 2020

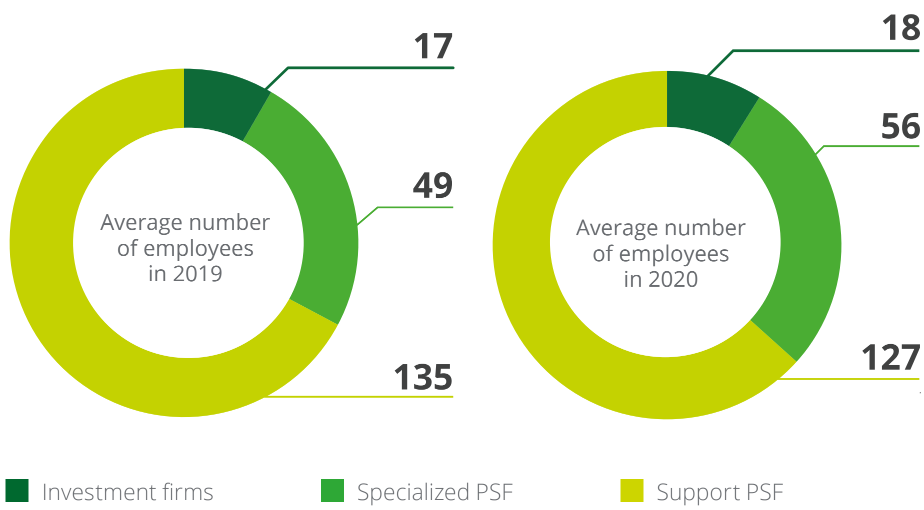


Most support PSF employ between 101 and 250 people, and the average number of employees per support PSF was 127 in 2020 and 135 in 2019.

This average is boosted by four PSF, which each employ more than 500 people, totaling 2,896 employees, i.e. 18% of the sector's total workforce.

Without these four PSF, the average workforce of support PSF would be 91 employees (112 in 2019).

Figure 15.2: Average number of employees by PSF category in 2019 and 2020



Review of the results of PSF per employee

Following our analysis of the 2020 CSSF annual report we were able to calculate the average profit per employee. The report signaled a decrease of 46% compared to 2019 for all PSF, (€27,000 in 2019 to €14,000 in 2020).

Specialized PSF show highly variable result figures per employee: between a loss of €496,000 and a profit of €248,000. The average profit by employees amounts to €17,000 in 2020 (€53,000 in 2019).

The decrease in average profits per support PSF employee is driven by a decrease in maximum and minimum average profits and an increase in the number of employees in 2020. The decrease in maximum profits is driven mainly by Clearstream International S.A.

The average profits per employee for investment firms amount to €53,000 in 2020, compared to €55,000 in 2019, which shows a relative stability in the performance by employees.

Details of the support PSF workforce

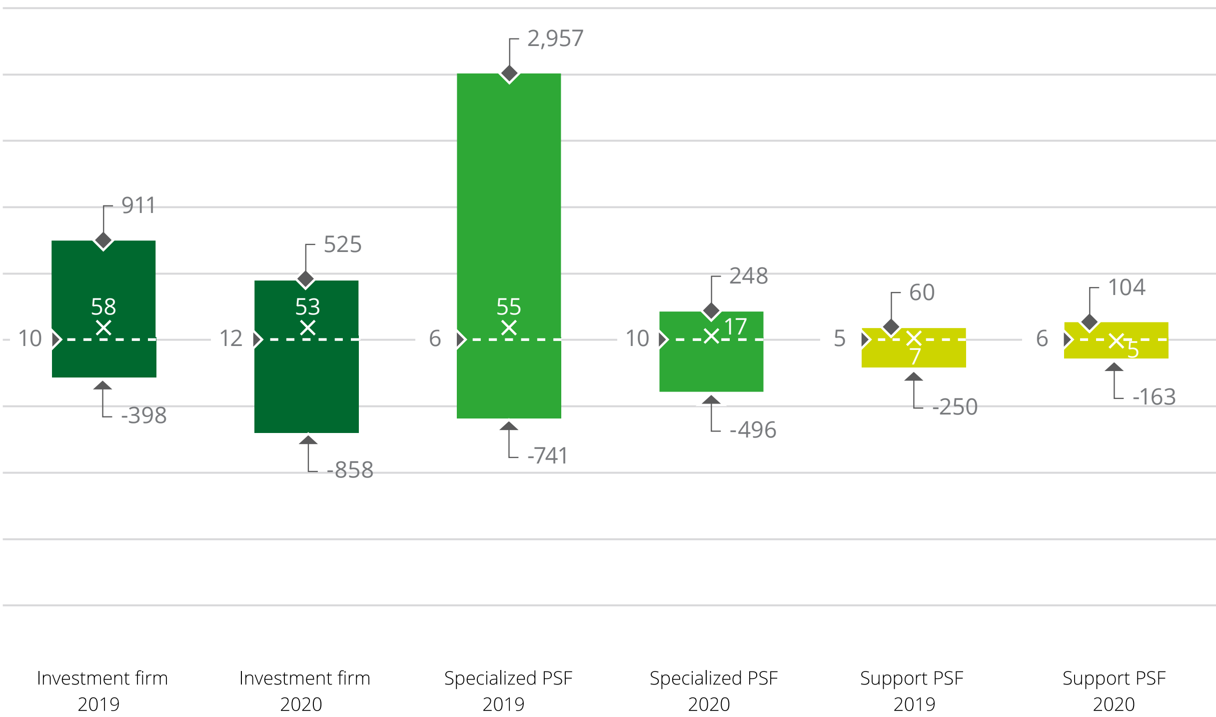
We can see that employees of support PSF account for 55% of all PSF staff. Telecommunication and IT services are the activities that generate the majority of jobs.

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., Proximus Luxembourg S.A. Clearstream Services S.A. (which offer IT solutions and services) and Brink's Security Luxembourg S.A. employ together more than 2,800 people.

These five companies account for 18% of all support PSF jobs.

Figure 16: Range and average net results by PSF category as at 31 December 2020 (in € millions)



	Investment firm 2019	Investment firm 2020	Specialized PSF 2019	Specialized PSF 2020	Support PSF 2019	Support PSF 2020
× Average	58	53	55	17	7	5
--- Median	10	12	6	10	5	6
▲ Minimum	(398)	(858)	(741)	(496)	(250)	(163)
◆ Maximum	911	525	2,957	248	60	104

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

Investment firms based on the law of 21 July 2021

24-5
Investment advisers
EUR 75,000
(EUR 150.000)[1)]

24-1
Reception and transmission of orders in relation to one or more financial instruments **EUR 75,000 (EUR 150.000)**

24-2
Execution of orders on behalf of clients
EUR 75,000
(EUR 150.000)

24-4
Portfolio management
EUR 75,000 (EUR 150.000)

24-3
Dealing on own accounts
EUR 750,000

24-6
Underwriting of financial instruments and/or placing of financial instruments on a firm commitment basis. **EUR 125,000**

24-7
Placing of financial instruments without a firm commitment basis
EUR 75,000
(EUR 150.000)

24-8
Operation of an MTF in Luxembourg
EUR 150,000

24-9
Operation of an OTF in Luxembourg
EUR 150,000
(EUR 750.000)[2)]

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
IT systems and communication networks operators of the financial sector
€125,000

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

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

1) It shall be conditional on the production of evidence of a subscribed and fully paid-up share capital of not less than €75,000, where the investment firm is not permitted to hold client money or securities belonging to its clients.
It shall be conditional on the production of evidence of a subscribed and fully paid-up share capital of not less than €150,000, where the investment firm is permitted to hold client money or securities belonging to its clients.
2) €750,000, where this firm engages in dealing on own account or is permitted to do so.
* Article 28-3 is only applicable until the issuance of the new law of 21 July 2021.

The appendix to this brochure features the key information on PSF by license type, 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 combination of licenses are theoretically possible. It is therefore interesting to look at the main combinations of licenses held by the various PSF.

Figure 17 groups together licenses by major category of PSF, and how the categories overlap as at 31 December 2019 and 31 December 2020. 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. For example:

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.

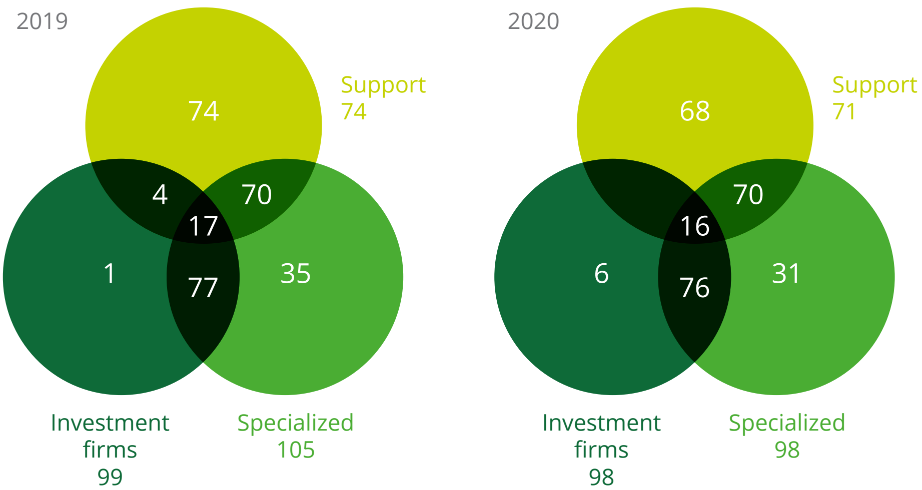
Accordingly, only PSF that do not hold the investment firm or specialized PSF license are support PSF.

The total number of PSF included in this analysis as at 31 December 2020 was 267, including:

- 98 investment firms (o/w 76 have specialized PSF licenses and 16 have specialized PSF and support PSF licenses);
- 98 specialized PSF (o/w 67 have support PSF licenses); and
- 71 support PSF (o/w three players have specialized PSF license).

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 a 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 2020 was 98.

At year-end 2020, nearly all the investment firm PSF have one or more, or even all of the following four licenses:

- 92 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); and
- 83 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 held by 35 investment firms as at 31 December 2020.

Many of these PSF also hold additional licenses relating to other PSF categories and particularly to the Family Offices license (Art. 28-6). Also, over the 94 investment firms holding this license, 30, or 32% 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). We noted a relative stability in the number of licenses held by investment firms between 2019 and 2020 (see Figure 18) with a slight increase from 577 to 592.

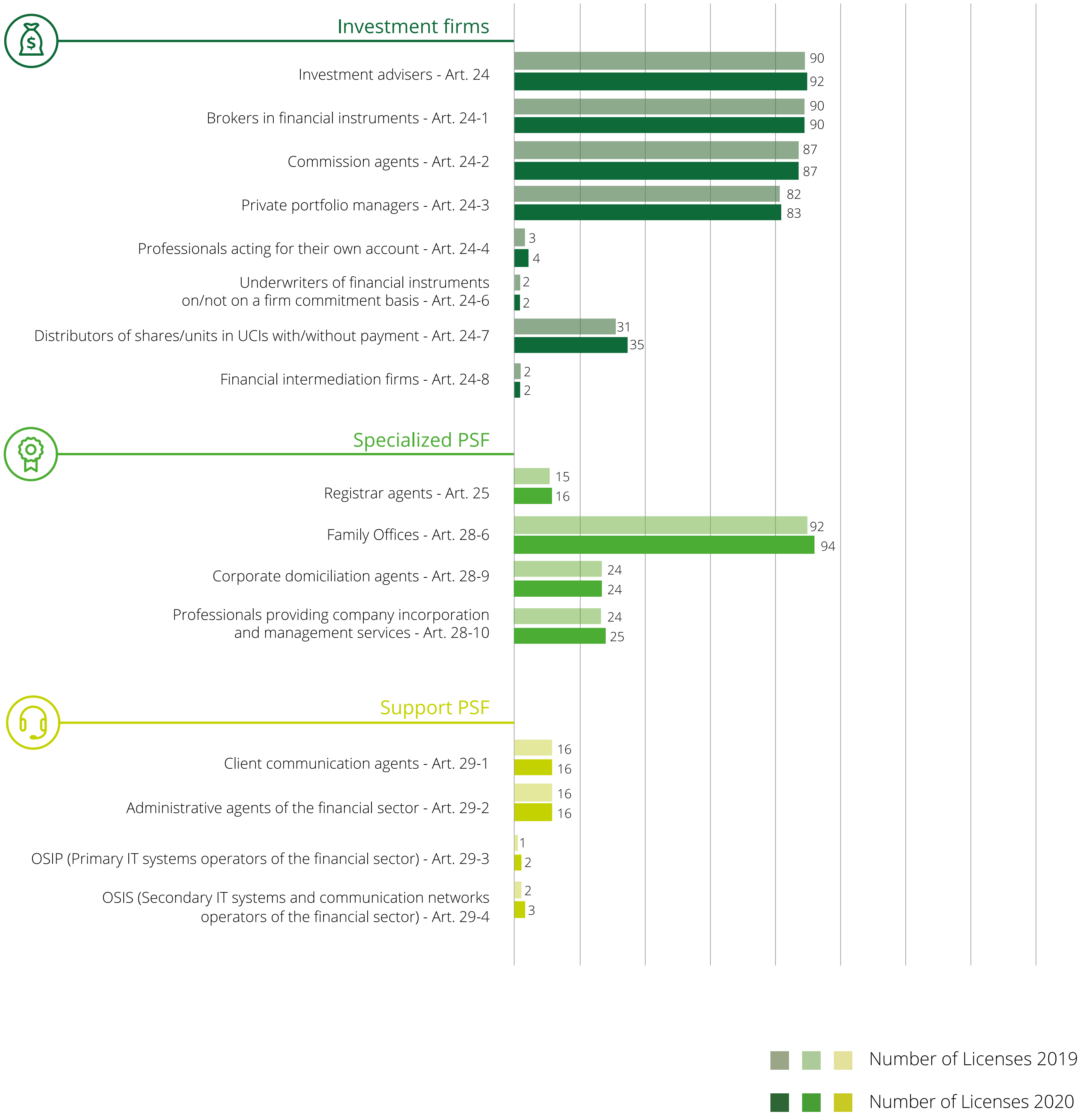
Among investment firms, we now distinguish two categories, those governed by the CRR (Common Reporting Regulation) and those that are not. In practice, the former are subject to a closer supervision and fall within the province of the European Central Bank.

The scope of the CRR is limited by the definition of investment firms under Art. 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 2019 and the end of 2020, the number of CRR-governed investment firms proved quite stable, with 24 entities in 2020 compared to 24 in 2019.

Figure 18: Licenses granted to investment firms as at 31 December 2019 and as at 31 December 2020



The number of licenses held by investment firms has remained stable between 2019 and 2020.

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 struggling in a world of uncertainty.

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.

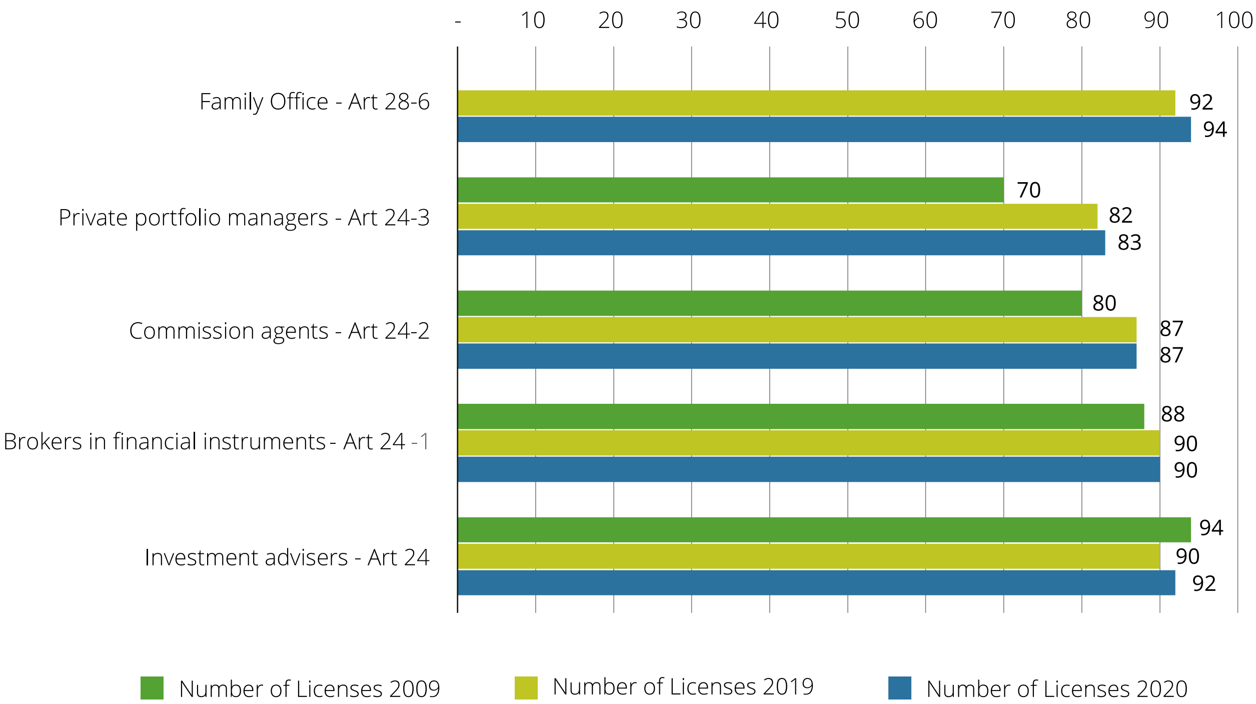
The three accelerated wealth management trends of note are:

- 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 2020, 2019 and 2009 in the five main licenses held by investment firms as at 31 December 2020





Questions to Manuel Ghidini, Christophe Dermine and Michaël Zianveni

Managing Directors of Fiducenter S.A.

INTERVIEW CONDUCTED BY
RAPHAËL CHARLIER, ADIL SEBBAR AND KEVIN VENTURA
6 OCTOBER 2021

HAS YOUR BUSINESS CHANGED OVER THE PAST YEAR?

With regard to investment management, the pandemic has further emphasized our clients' needs to keep in touch. We've noticed that fund managers at bigger firms have cut back on this contact, and that their clients have been more inclined to turn to smaller companies, such as our own, which provide more support. Besides, COVID-19 restrictions have limited the big hitters' power, accelerating clients' switch to smaller players, who can point to the quality of their services, their availability, responsiveness, and flexibility.

Nor did the pandemic have the negative impact on corporate services that one may have feared. Service quality and responsiveness are vital in this area. We adjusted very quickly, providing all of our staff with the same equipment they had in the office. Productivity and quality actually increased. Our employees appreciated the time saved on their commute and the improvement in their quality of life, and, in return, showed even more commitment to their work.

We initially feared that COVID-19 restrictions might weaken the relations we had built, but securing the loyalty of talent recruited over several years, and providing efficient means of communication, ensured that our teams remained tight-knit. We asked new staff to come into the office so that we could give them proper support during training—and they actually wanted this, knowing that they would enjoy the benefits of homeworking once they had settled in.

WILL YOU STICK WITH THESE NEW WORKING CONDITIONS, AND EVEN CONSIDER APPLYING NEW CHANGES, IN THE FUTURE?

Like everyone in the financial industry, we were pretty much obliged to take these measures when the pandemic broke out, given the emergency situation. Looking back, though, we and our employees have rather liked these new ways of working. This has also led us to contemplate other changes, such as carpooling so that more staff can use the car park when they have to come in to the office, and—in particular—our decision to open satellite offices. These will be in Luxembourg out of respect for our workers' tax situation, but will be close to the border to limit their commute. As a growing company, we needed to increase floorspace. Given the cost of branching out in Luxembourg city,

this satellite-office solution is financially sound and meets the expectations of our staff, benefiting their wellbeing at work and helping to secure their talent.

DO YOU THINK THE PANDEMIC WILL CREATE OTHER OPPORTUNITIES FOR YOUR BUSINESS?

Developments that we highlighted last year have, for the most part, continued. These include our clients' growing demand for products placing a greater emphasis on sustainable finance (ESG), with European and national regulations in the pipeline, and for products centered more closely around real estate and new technologies. Looking beyond the buzz around all things green, we are seeing a refinement of selection methods to give quality products that meet demand.

In corporate and fund services, there has been greater call for regulatory support (e.g. AML/CTF procedures for counterparties) on alternative vehicles, especially regarding governance considering the regulator's higher expectations.

WHAT ARE THE MAIN DIFFICULTIES?

Regulation is still a real challenge. One example is seeing how intransigently custodian banks are applying their regulatory compliance cost-benefit assessments, especially outside Luxembourg. For the investment firms that we represent, IFD/IFR could shuffle the deck by introducing different levels of oversight according to the firms' classification. As explained in the CSSF Circular, this new classification reflects a number of criteria including size and field, and, depending on the class, introduces new requirements for capital, European reporting, governance, and transparency.

However, the mounting problem, which could become a real issue for the development of the sector in Luxembourg, lies in finding banks that are willing to open accounts for our clients. Traditional banks are increasingly reluctant to offer this service if there is no guarantee of sufficiently high assets under deposit, or profitability. A few alternatives, such as the new online banks, are sometimes possible but cannot always meet all of our clients' needs. We'll have to make sure that this doesn't mean lost opportunities for the Luxembourg market. There's always the risk that clients will look elsewhere. London, for example, may be more accommodating post-Brexit.

WHAT ARE YOUR EXPECTATIONS?

We should highlight the Luxembourg government's running of the country, especially during this pandemic. Its support has been extensive at financial, tax, and social levels. The work-from-home agreements reached with neighboring countries have made the lives of our many cross-border workers much easier, and have enabled the marketplace as a whole to keep serving its customers. Even during the crisis, Luxembourg has managed to retain its AAA rating.

And for a while now, taxation has no longer been a key consideration in decisions on whether to move to Luxembourg. It's important to recognize the important work that Luxembourg has done in this area. It is also worth noting that the recent Pandora Papers contained very few references to Luxembourg. It's the expertise that the financial sector in this country has developed and sustained (as well as our ability to liaise with the various market participants, banks, lawyers, and auditors) that attracts investors and fund managers from all over the world.

Maybe one expectation would be the development of transparent regulation for the establishment of sustainable finance. Well aware of the constraints that the new regulations impose (especially CSSF 21/773, which applies to banks, and the recent MiFID updates), we—unlike some others—believe that appropriate regulation would greatly contribute to the industry's development in Luxembourg. We are seeing a clear trend emerge, and the creation of new green offers must coincide with clear and transparent regulation, establishing a common language.

Sustainability journey for PSF

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Background

In recent years, there has been a growing awareness from stakeholders of the necessity of addressing environmental, social, and governance (ESG) matters. Recognizing that challenge, the Commission presented the European Green Deal in December 2019. The Green Deal aims to transform the Union into *"a fair and prosperous society with a modern, resource-efficient and competitive economy where there are no net greenhouse gas emissions from 2050 onwards and where economic growth is decoupled from resource use"*.[2] That objective requires that clear signals are given to investors with regard to their investments to avoid stranded assets and to raise sustainable finance.

It has also become increasingly essential for stakeholders and financial regulators/supervisors to obtain reliable, transparent, and sufficient information on the impact of climate-related risks on actual and future financial performances for their decision-making.

In recent years, Luxembourg has implemented several measures to position itself as a leader in the EU's transition to a more sustainable economy, and the PSF sector is not immune to the change.

Regulatory update

Fragmented across different acts and time scales, and intertwined with new sustainability disclosure processes across economic players, regulatory updates impose a challenging transition for market players. However, the application of various regulatory acts requires practitioners to interpret regulatory requirements and translate them into their day-to-day processes.

First of all, in relation to MiFID II, the Commission Delegated Regulation (EU) 2021/1253 of 21 April 2021 amending the Delegated Regulation (EU) 2017/565 included further requirements regarding the integration of "sustainability factors, risks and preferences into certain organizational requirements and operating conditions for investment firms", which will apply as from August 2, 2022. This regulation will require investments firms to considering "sustainability preferences" of their clients while providing investments advice or discretionary portfolio management. To that end, investments firms will have to classify financial instruments and investment strategies taking into account "sustainability factors"[3] and "sustainability risks"[4]. They will also have to deliver Suitability Reports on how the services provided meet any sustainability preferences expressed by their clients. This may require investment firms to have access to ESG data, and is expected to impact the upcoming product approval processes as well.

From a governance point of view, the regulation also points out that this will require investment firms to establish, implement, and maintain adequate risk management policies and procedures which identify the risks relating to the firm's activities, processes, and systems, and, where appropriate, set the level of risk tolerated by the firm.

As Financial Market Participants (FMPs), investment firms providing portfolio management services and investment advisors are also in the scope of the Sustainable Finance Disclosure Regulation (SFDR). This regulation requires FMPs to:

- Classify financial products according to their level of ambition regarding sustainability and inform about how these sustainability ambitions are met in pre-contractual documents and periodic reports;
- Disclose how sustainability risks are integrated into investment processes or advice, as well as remuneration policies; and
- Ensure transparency on adverse sustainability impacts of investment decisions or advice.

SFDR is intertwined with the EU Taxonomy Regulation aiming at building a common classification of economic activities contributing to environmental objective and using science-based criteria.

Taxonomy Regulation is also amending the Non-Financial Reporting Directive (NFRD) requiring the entities within its scope to undertake a deep investigation of their

[2] Commission Delegated Regulation (EU) 2021/1253 of 21 April 2021.

[3] Article 2, point (24), of Regulation (EU) 2019/2088: "environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters".

[4] Article 2, point (22), of Regulation (EU) 2019/2088: "an environmental, social or governance event or condition that, if it occurs, could cause an actual or a potential material negative impact on the value of the investment".

or their investee companies' activities. They need to assess whether they make a substantial contribution to any of the six environmental objectives listed, to what degree, and whether any of their activities cause any significant harm to any of the other taxonomy objectives. The NFRD is expected to be replaced by the Corporate Sustainability Reporting Directive (CSRD) in 2023: the scope and the reporting requirements will significantly increase. (More details are provided in the reporting section).

Sustainability reporting

Non-financial reporting has evolved considerably in recent years, whether through formal regulations such as the NFRD in Europe or through a large adoption of voluntary international frameworks worldwide. Many large companies have adopted reporting standards such as the Global Reporting Initiative (GRI), the International Integrated Reporting Council (IRRC), the Task Force on Climate-Related Financial Disclosures (TCFD), the Sustainability Accounting Standards Board (SASB), Climate Disclosure Standards Board (CDSB) and CDP, and international pledges such as the United Nations Global Compact and OECD Guidelines for multinational enterprises. As of 2021, over 90% of the S&P 500 report on at least one of the aforementioned frameworks[5]. These reporting frameworks enable companies to effectively communicate on their non-financial performance by standardizing ESG indicators and, to varying degrees, require the disclosure of additional information such as materiality matrices and sustainability risk management.

However, the absence of binding guidelines on the content of extra-financial reports has left a significant margin of maneuver that still leads to large disparities in reporting from one company to another. This is especially problematic with regard to the definition and consistency of ESG indicators published and in terms of external assurance provision. The observation is unanimous: the information published by companies does not meet investors' needs, often due to a lack of consistency, reliability or comparability.

It's a journey—start early!

It is in an effort to standardize and strengthen sustainability information, the European Commission (EC) introduced the Corporate Sustainability Reporting Directive (CSRD). Under CSRD, the EC proposes to extend the scope of NFRD to around 50,000 companies, to standardize the disclosure requirements and make them mandatory, to impose an external assurance on the non-financial information, and to digitalize the information reported. With an application date of January 2023, it leaves the firms with only one year to prepare. The Directive will place ESG reporting under the same obligations of quality, control, and audit as financial information, so we encourage business leaders to start preparing for CSRD now.

The sustainability reporting journey starts by identifying material ESG topics at geographical, industry, and company level and choosing the appropriate reporting standard that will best position the company to comply with the upcoming regulatory and market trends. It also extends to business leaders engaging in integrated thinking and putting sustainability at the heart of the business model. Not only because it is moral to do so, but also because it is sound business practice. This requires a number of practical steps, too. In selecting material topics, firms have to consider how sustainability issues such as physical and transition risks impact them, as well as how their business activities impact the environment and society. Once the KPIs are defined, companies will need to implement a solid reporting process required to collect, measure, and aggregate data from varying sources to ensure sustainability disclosures meet the same level of accuracy as financial data disclosed just next to them. Enhancing quality while shortening the reporting timeline to align with the publication of the financial statements may sound daunting, but this is why leveraging on the maturity of the financial reporting is key to setting up sound processes and controls for non-financial information.

5 Center for Audit Quality, "S&P 500 and ESG Reporting", 2021, https://www.thecaq.org/sp-500-and-esg-reporting/

Since SFDR and the EU Taxonomy will apply prior to CSRD, financial players will put pressure on their investees to collect non-financial information. Moreover, retail investors and customers are showing a deep and sustained interest in ESG products, showing that sustainability is more than a passing fad[6]. It will now be the role of the Boards and management to respond to their clients' needs for accurate financial and non-financial data for decision making. They can do this by supporting the emancipation of sustainability teams through focused investments in people and technology and enhanced collaboration with finance teams.

Time is ticking and we urge companies to get started with their sustainability transformation journey.

Accounting and climate risk

The industry has recently seen a growing exposure to climate-related risks of companies and financial institutions, as demonstrated by the TCFD in December 2016[7] (the best-known example being the bankruptcy of Pacific Gas and Electric following the 2019 wildfires in California). The TCFD also commented in the same report that, not only all sectors are expected to be impacted, but climate-related risks are expected to impact the assets, liabilities revenues, and expenditures as well as capital and financing of companies.

In its November 2020[8] publication, IASB already mentioned that; *"Climate change is a topic in which investors and other IFRS stakeholders are increasingly interested because of its potential effect on companies' business models, cash flows, financial position and financial performance"*. In its September 2021[9] publication, IFAC consequently recalled the crucial role of professional accountants and auditors in presenting a true and fair view of the financial situation of companies and the necessity for professional accountants to help them appropriately understand and communicate climate-related financial impacts. In particular, these acztors are key in:

- *"Aligning and integrating climate-related information and disclosures with company climate commitments, targets, and strategic decisions";*
- *"Quantifying, where appropriate, financial impacts of climate-related risks and opportunities";*
- *"Ensuring climate-related reporting complies with reporting requirements without material omissions or misstatements. In this regard, we note that some regulators are currently discussing the possibility of requiring an audit opinion on this information[10] in order to combat fraud"; and*
- *"Supporting global initiatives to enhance climate and broader sustainability-related reporting".*

To that end, professional accountants and auditors can rely on recent publications by the IASB, the FASB, the Climate Disclosure Standards Board, and the IAASB which detail how climate-related risks are accounted for, both from a quantitative and a disclosure perspective, by IFRS and US GAAP, as well as the audit procedures which could be implemented.

6 Cornell, Bradford. 2020. "ESG Preferences, Risk and Return." European Financial Management. https://doi.org/10.1111/eufm.12295

7 TCFD, Recommendations of the Task Force on Climate-related Financial Disclosures, December 2016

8 Effects of climate-related matters on financial statements

9 Global Accountancy Profession on Corporate Reporting: Climate Change Information and the 2021 Reporting Cycle

10 The Business Time Singapore, Climate disclosures important, but audit assurance must also focus on fraud, Sept. 2021

IFR/IFD: A new regime

Arnaud Duchesne
Risk Advisory Director
Deloitte Luxembourg

On 26 June 2021 a new prudential regime entered into force for investment firms, composed of the Regulation (EU) 2019/2033 (hereinafter IFR) and the Directive (EU) 2019/2034 (hereinafter IFD). The reason for introducing a new prudential regime rests on the evolution of the regulatory framework towards a structure that is better suited to investment firms' activities, containing specific reporting requirements that are proportionate to the relative size, nature, complexity of their business model, and their risk profile.

Investment firm categories

Investment firms are categorized into three different classes (Class 1, Class 2 and Class 3). Essentially the IFR/IFD regime applies to small and non-interconnected investment firms i.e. Class 3; and other than small and non-interconnected investment firms i.e. Class 2. Large and systemically relevant investment firms, or Class 1s, will continue to fall under the prudential regime of the CRR/CRD VI.

Primarily, the categorization process is designed to consider industry specificities when estimating minimum regulatory capital requirements, as it considers indicators such as AuM, value of client orders handled, assets safeguarded and administered, and total daily trading flow, among others. As a result, implications of the new prudential regime will differ among entities, requiring each individual firm to assess what the change means for its own operations and to take actions accordingly.

Three-pillar approach

The new prudential regime for investment firms is consistent with the three-pillar model of Basel. Fundamentally the Pillar I requirements include minimum regulatory capital, liquidity buffer, and concentration risk limits, while Pillar II regulates the dialogue between firms and the competent authorities via the Supervisory Review and Evaluation Process (SREP). In particular, the IFD introduces an Internal Capital Adequacy and Risk Assessment (ICARA) process as a new requirement for investment firms, with similar objectives as for the ICAAP/ILAAP in the CRR/CRD framework. Finally Pillar III relates to market transparency, calling for disclosures with respect to prudential requirements, risk management, internal governance principles, and remuneration policy.

(a) The permanent minimum capital requirement;
(b) The overheads requirement; and
(c) The k-factor requirement.

Part (c) does not apply to Class 3 investment firms.

As for the liquidity, investment firms must hold liquid assets, such as cash or government bonds, for an amount at least equal to one third of the overheads requirement. In addition, investment firms that belong to Class 2 have the obligation to constantly monitor and manage its concentration risk as they are limited to hold an exposure to an individual client or group of connected clients, up to 25% of their own funds. Finally IFR/IFD also lay out a comprehensive set of remuneration practices and rules.

In line with the increased focus of the EU regulatory framework on sustainability and the impacts of climate change, the EBA will produce by the end of 2021 a report introducing technical criteria for assessing exposures to activities primarily related to ESG. In addition, from the end of 2022, Class 2 investment firms will have to publish a report containing details about ESG-related risks.

A closer look at k-factors

The k-factor requirement is deemed to be a better fit for the risks typically incurred by the broad range of investment firms. The k-factor requirement will lead to different capital requirements than those observed under CRD IV/CRR, as the three Pillar I blocks (credit, market, and operational risk) are replaced by quantitative indicators that represent the risks that an investment firm can pose to customers, market/liquidity ,and the firm itself. These include:

Risk-to-Client (RtC)

- AuM
- Client money held
- Asset safeguarded
- Client orders handled

\+

Risk-to-Market (RtM)

- Trading book exposure; or-
- CCP margin requirement

\+

Risk-to-Firm (RtF)

- Counterparty exposure
- Concentration risk
- Operational risk

The K factors must be calculated using a specific methodology, to which applies the following coefficients:

Category	K-Factor	Captured assets	Applicable coefficient *(pursuant to Art. 15 IFR)*
Risk-to-Client(RtC)	K-AUM	Client assets under management and ongoing advice	0.02%
	K-CMH	Client money held(on segregated accounts)	0.04%
		Client money held(on non-segregated accounts)	0.05%
	K-ASA	Assets safeguarded and administered	0.04%
	K-COH	Client orders handled(cash trades)	0.1%
		Client orders handled(derivatives)	0.01%
Risk-to-Market(RtM)	K-CMG	Totains required by an investment firm's clearing member	n.a.
	K-NPR	Net position risk	n.a.
Risk-to-Firm(RtF)	K-TCD	Default of trading counterparties	n.a.
	K-CON	Concentration risk in an investment firm's large exposures to specific counterparties	n.a
	K-DTF	Operational risks from an investment firm's daily trading flow(cash trades)	0.1%
		Operational risks from an investment firm's daily trading flow(derivatives)	0.01%.

Summary table

The summary table below provides a broad overview of the actual regulatory framework considering the changes inherent to IFR/IFD's new prudential regime for investment firms.

Requirement | IF Class	Class 1	Class 2	Class 3
Pillar I: Capital requirements	CRR/CRD regime, similar to banks: **CET1 Cap.** = 4.5% + CCyB + CCoB **Tier 1 Cap.** = 6.0% + CCyB + CCoB **Total Cap.** = 8.0% + CCyB + CCoB Where: *CCyB is applicable, countercyclical buffer* *CCoB is applicable, conservation buffer*	IF should meet all the following conditions at all times: (a) [CET 1] / D **≥ 56%** (b) [CET1 + Additional Tier 1] / D **≥ 75%** (c) [CET1 + Additional Tier 1 + Tier 2] / D **≥ 100%** Where D is the higher of: **- Initial capital requirements;** **- Fixed overhead requirements; and/ or** **- K-factor requirement.**	IF should meet all the following conditions at all times: (a) [CET 1] / D **≥ 56%** (b) [CET1 + Additional Tier 1] / D **≥ 75%** (c) [CET1 + Additional Tier 1 + Tier 2] / D **≥ 100%** Where D is the higher of: - ***Initial capital requirements; and/ or*** ***- Fixed overhead requirement.***
Pillar I: Reporting requirements	Depending on the nature of the IF, requirements will be: - Own funds; - Capital requirements; - Exposures and losses from lending collateralized by immovable property; - Asset encumbrance; - Liquidity reporting (LCR, NSFR); - Leverage ratio; - Large exposure.	Subject to **quarterly** reporting as from 30 September 2021: - Level and composition of own funds; - Own funds requirements; - Own funds requirement calculations; - Level of activity; - Balance sheet and revenue breakdown by investment service; - Applicable k-factor; - Concentration risk; - Liquidity requirements.	Subject to **annual** reporting as from 31 December 2021: - Level and composition of own funds; - Own funds requirements; - Own funds requirement calculations; - Level of activity; - Balance sheet and revenue breakdown by investment service; - Applicable k-factor; - Liquidity requirements*. * Subject to exemption in some specific cases
Pillar II: Internal Capital and Risk Assessment (ICARA)	**Not applicable** Subject to **ICAAP/ILAAP**	Mandatory for IF to assess and permanently maintain levels of internal capital and liquid assets they consider adequate to cover their risks. The assessment must consider: - Risk-to-Clients; - Risk-to-Market; - Risk-to-Firm; - Liquidity risk.	Firms must possess robust processes and systems to manage risks for their clients and for themselves in terms of own funds and liquidity. However, **not subject to a formal documentation obligation.**

Requirement | IF Class	Class 1	Class 2	Class 3
Pillar III: Public disclosures	Disclosure requirement topics: - Definitions and applications; - Overview of risk management, key prudential metrics and RWA; - Comparison of modelled and standardized RWA; - Composition of capital and TLAC; - Capital distribution constraints; - Links between financial statements and regulatory exposures; - Asset encumbrance; - Remuneration; - Credit risk; - Counterparty credit risk; - Securitization; - Market risk; - Credit valuation adjustment risk; - Operational risk; - Interest rate risk in the banking book; - Macroprudential supervisory measures; - Leverage ratio; - Liquidity.	Disclosure requirements topics: - Risk management objectives and policies; - Governance; - Own funds; - Own fund requirements; - Remuneration policy and practices; - Investment policy; - ESG risks.	Disclosure requirements topics: - Risk management objectives and policies; - Own funds; - Own fund requirements.

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 98 specialized PSF as at 31 December 2020, versus 105 as of the previous year.

This category covers three main sub-groups. The first sub-group includes the 80 corporate domiciliation agents (Art. 28-9) at year-end 2019 (82 in 2019).

We note that:

- They also hold licenses under Art. 28-10 as professionals providing company incorporation and management services (all of them) and Art. 28-6 as Family Offices (in 75 of 80 cases);
- About 80% of them (64) hold licenses as registrar agents (Art. 25), and about 83% of them (66) are client communication agents and financial sector administrative agents (Art. 29-1 and 29-2).

The second sub-group includes 65 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 Offices (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 five 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 remained stable between 2019 and 2020 (474 in 2020).

Between 2009 and 2020, the number of specialized PSF licenses rose from 254 to 474, which represents an 86% growth over eleven years. Apart from the Family Offices license launched in 2013, the most spectacular increase in specialized PSF licenses between 2009 and 2020 is that of licenses specific to support PSF, and more particularly under Art. 29-1 and 29-2.

Figure 20: Licenses granted to specialized PSF

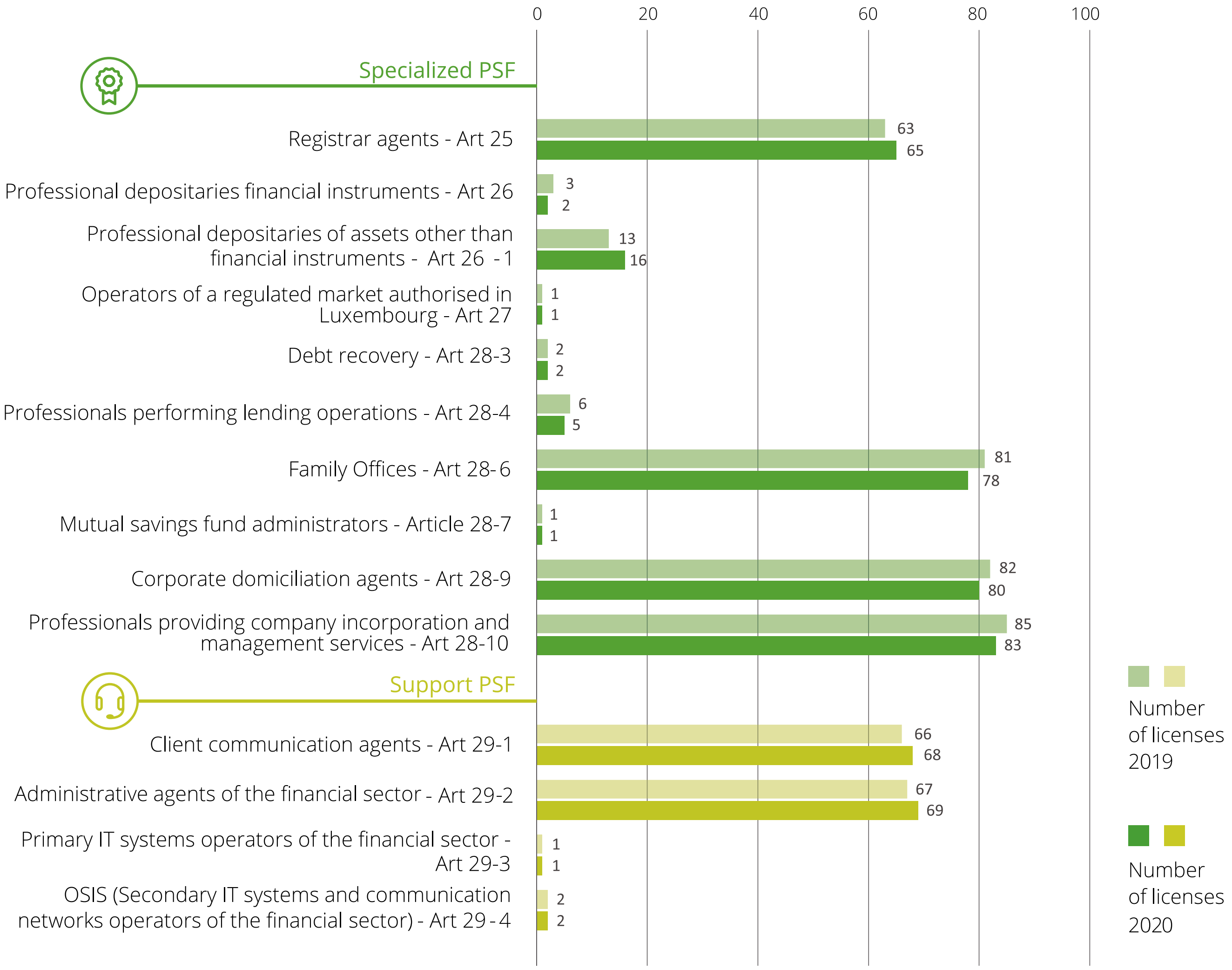
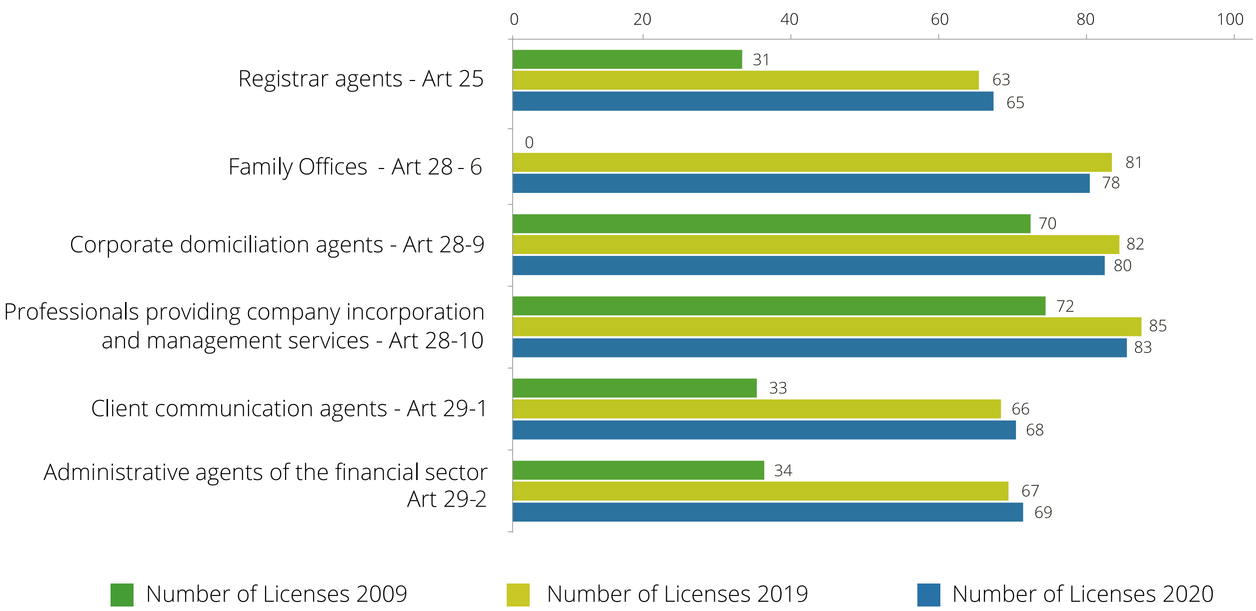


Figure 21: Change in the six main licenses held by specialized PSF as at 31 December 2020



Questions to Christophe Gaul

Regional Head of Europe and Managing Director, Luxembourg at Ocorian

INTERVIEW CONDUCTED BY
RAPHAËL CHARLIER AND KEVIN VENTURA
6 OCTOBER 2021

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

The corporate domiciliation and central administration service providers are currently reshaping their operating models in order to meet new expectations in the industry. To start with, we observe an increased demand in the delivery of streamlined global solutions from clients operating in different jurisdictions. In that respect, Ocorian is restructuring its operations globally around its five main pillars: fund services, capital markets, private clients, corporate, and regulatory compliance/legal, with the objective to offer a consistent experience to its clients amongst the different jurisdictions. Secondly, the industry keeps seeking to become a 'one-stop-shop', offering bespoke solutions including domiciliation services, directorship services, transfer agent services, and fund administration as well as custodian services.

Moreover, during the COVID-19 crisis we observed a slowdown in the investments/ divestments activities of private equity vehicles. However, we have witnessed a clear recovery trend in the past months, translated into significantly increased demand in the private equity domiciliation

and central administration services. The industry is currently adapting to this growing demand, especially from a human resources management point of view.

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

People management and talent acquisition remain key challenges for the industry. Attracting and retaining talent was already complex in the past; now, with the anticipated development of the private equity sector, it has become more crucial than ever to place this topic in the spotlight, especially to upskill our talent to respond to higher competency demands.

Meanwhile, the COVID-19 pandemic has generated risks and opportunities in terms of HR management. On the one hand, the development of teleworking has represented a great opportunity to offer an increase in the quality of life of our employees and has contributed to the increase in their efficiency/chargeability. On the other hand, it remains challenging to find the right balance between the expectations of employees who appreciated the possibilities that teleworking offered, and the legal landscape, especially in the areas of tax and social security.
The onboarding of new employees and the organization of social events also still needs to be carefully addressed by the industry, considering the risk that the development of teleworking and sanitary rules are posing on the integration of teams. This is especially significant considering the difficulties that the industry is facing attracting and retaining talent. Additionally, the development of teleworking required greater vigilance with regards to cybersecurity. On a more positive note, the COVID-19 pandemic has ultimately allowed the industry to significantly accelerate an already initiated transition, while demonstrating the resilience and flexibility of Luxembourg, as a market place.

Lastly, we may point out that in recent years, corporate domiciliation agents have been facing increasing difficulties opening accounts for their clients with local banks. However, new digital banks are making their way through and offer alternative solutions for their clients to be granted a Luxembourg IBAN.

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

The private equity sector is, without any doubt, the most promising one. The standby position that most players adopted during the COVID-19 crisis generated a decrease in investment activities, causing a steep increase in liquidities. The private equity sector is now seeking to reinvest these liquidities.

With a constant growth of the complexity of the regulatory landscape, regulatory reporting and compliance services are also expected to become key drivers for growth. In a complex regulatory environment, keeping abreast of local reporting and market or asset specific compliance requirements can be a challenge, pushing for external growth strategy.

More generally, if external acquisition opportunities are expected to remain a key driver growth for the largest players, with observed significant Price-to-EBITDA ratios during recent transactions on the market, this will remain a threat to smaller players. The market tends to concentration rather than extend to new entrants.

WHAT EXPECTATIONS DO YOU HAVE?

The fiscal, political, and economic stability remained key success factors for Luxembourg and have continuously attracted financial institutions and investors from across the world. The Luxembourg government has demonstrated great agility and resilience in the way it has successfully managed the COVID-19 crisis. We can only hope that the Luxembourg government will continue promoting the country as a creative, innovative, and forward-looking financial hub.

From a regulatory perspective, increased expectations from the CSSF is noticeable. Although this is anticipated to positively impact the industry, and improve the trust stakeholders will have in the market place, this will require additional resources, and talent retention remains a hot topic in the industry.

Ocorian is moving to Cloche d'Or and is planning the development of satellite offices closer to the borders. Additional bilateral agreements between Luxembourg and its neighbors may help transitioning, but this will most likely not remain a long-term strategy. Digitalization and development of satellite offices will however offer an alternative form of flexibility for employees.

Luxembourg income tax impacts on PSF[11] employers, during and after COVID-19

Frederic Scholtus
Personal Tax Director
Deloitte Luxembourg[12]

Cross-border relations between Luxembourg and its neighboring countries are still bearing the brunt of the COVID-19 crisis, which, since March 2020, forced many Luxembourg non-resident employees to work from their homes in Belgium, Germany, or France. International tax and business communities, governments, and the EU social security authorities quickly categorized the crisis as a "cas de force majeure" and decided to temporarily freeze the thresholds that would normally trigger a change of affiliation. The financial sector was not exempt from this situation and PSF may find odd situations in which the usual rules were bent to adapt.

During this exceptional situation, to mitigate the risk of the employees, notably of PSF, being taxed in their home state and/or affiliated in its social security system, Luxembourg concluded amicable tax agreements and bilateral social security agreements with its neighbors. As a result, these non-resident cross-border employees remain taxable and affiliated to the Member State's social security system where they would have normally worked (i.e. Luxembourg).

It is worth highlighting that these agreements must be checked on a case-by-case basis, as they are limited in duration and subject to specific conditions that are not always fully known by the public.

Here is a simplified view on the relevant amicable tax and social security agreements expiry dates:

	Tax agreements	Social security agreements
France	Start date: 14 March 2020 Extended until 31 March 2022*	Start date: 19 March 2020 Extended until 30 June 2022
Germany	Start date: 11 March 2020 Extended until 31 March 2022*	Start date: 17 March 2020 Extended until 30 June 2022
Belgium	Start date: 11 March 2020 Extended until 31 March 2022*	Start date: 13 March 2020 Extended until 30 June 2022

*Potentially extendable until 30 June 2022

11 PSF: Professionals of the Financial Sector

12 Special thanks to Maxence de Lorgeril, Consultant in the Tax GES Department of Deloitte Luxembourg.

Employees require additional effort and discipline to regularly complete and deliver their work schedules to their employer, while HR officers must spend more time caring for their employees. Employers must check:

- The type of employment activities performed abroad (i.e. no contract signatures by employees abroad and no person who acts on behalf of an enterprise and has, and habitually exercises, in its state of residence an authority to conclude contracts in the name of the enterprise);
- Maintain proper documentation of working activities in and out of Luxembourg during and after the crisis (which can be part of a defense file in case of tax audits); and
- Know whether these activities were performed from the employee's home office or elsewhere. In that respect, it must be noted that notably private expenses incurred by the cross-border employee for his home working activities, and/or for the acquisition of specific home office equipment, remains most of the time left at the sole discretion of the employee.

The aforementioned allows the employer to err on the side of caution and be able to demonstrate, in line with OECD guidelines on the definition of the permanent establishment (PE) and mitigation aspects, that the employee's home office would not be seen as a location permanently available to the employer or a location where an employee (who acts on behalf of an enterprise) has, and habitually exercises, an authority to conclude contracts in the name of the enterprise.

Indeed, these significant changes to the normal course of business has exposed Luxembourg businesses to corporate tax challenges and potential double-taxation risks with the neighboring states of the Greater Region as their Luxembourg non-resident cross-border employees worked from their home offices. Under the usual international tax rules and in certain conditions, such situations may indeed create a taxable presence for Luxembourg businesses in these neighboring countries through the tax concept *of fixed place of business or permanent establishment* as mentioned above. This, in turn, would lead to corporate tax charges imposed by the French, Belgian, or German tax authorities on the portion of profits attributable to such a permanent establishment (determined based on transfer pricing rules) besides the taxation already requested in Luxembourg. In this case, a reimbursement could be obtained to avoid the double taxation, but it is a heavy, long, and uncertain procedure. Therefore, it is recommended to proactively assess the risk of a permanent establishment recognition in the state of residence of the concerned employees and to proactively take appropriate measures mitigating the risk of double taxation.

Recent studies[13] have shown that personal tax implications, if thresholds[14] are exceeded, may have a more moderate impact than the usually weightier social security implications. Based on EU social security regulations, cross-border commuters working for a Luxembourg employer (PSF) should be affiliated to the Luxembourg social security system if less than 25% of their working time (or remuneration) over 12 months (hereafter "the 25% threshold") is performed in their state of residence.

In principle, homeworking is counted as working time in the state of residence and is included in the 25% threshold calculation; therefore, some cross-border employees may risk exceeding this threshold during the COVID-19 crisis. Normally, the employer and employee would need to register with the employee's home country social security authority, and likely remit higher social security contributions than in Luxembourg.

However, as working from home due to the COVID-19 pandemic can be considered as an exceptional situation (cas de force majeure), it, therefore, does not count towards the 25% threshold during the period agreed between Luxembourg and each of its neighboring states.

In this respect, and to mitigate negative employer and employee consequences, best practices need to be respected, including the golden rule: maintain constant employee-employer communication.

Since the COVID-19 crisis began, employees are seeking increased flexibility in both their everyday lives and in their work environment. To ensure the wellbeing of their employees, employers must take several elements into account, including fixing clear limits on the number of working-from-home days, and setting rules regarding health, security, and data protection among others.

Also, employers must stay laser-focused on identifying exceptional cases more likely to trigger personal tax and social security issues or questions. These include employees taking special leave, part-time employees, vulnerable workers who are unable to work in the office for longer periods, and high-profile executive directors and managers.

Employers must also stay aware of the specifics of certain tax treaty provisions that apply to newly implemented working-from-home policies. Properly managing these new standards requires long-term efforts and best practices—not just during but, most importantly, after the COVID-19 crisis, when the current social security and tax tolerance and amicable agreements will no longer be relevant.

Looking ahead, these topics are expected to heat up in the approaching year:

- Belgium and Luxembourg renegotiated their tax treaty to increase the workday threshold to 34 days per year as from 1 January 2022 for 10 years onwards.
- Based on recent communications[15], Germany may also want to explore this route with a likely 52 day-a-year threshold; however, this is still subject to discussion at the federal level.
- Although there seems to be recent signs in this regard from France, a push from their direct neighbors could motivate them to re-enter the race for better working conditions for their cross-border workers. They may possibly renegotiate the current tax treaty with Luxembourg for an increased number of workdays at home for their French resident cross-border workers working to the benefit of a Luxembourg-based employer. France will soon take the EU Presidency and may want to spread best practice and some innovative test cases, such as offering two workdays at home per week to French resident workers as per the French Senate's decision in the summer of 2021. Nevertheless, in the meantime, the threshold of 29 workdays is till applicable when the special COVID-19 period will be ended. This needs to be carefully managed considering that the new double tax treaty, that provides for the 29 days' threshold, entered into force as of 1 January 2020 while the special COVID-19 period took effect as of mid-March 2020, meaning that no one really has a practical view on this new rule yet... Luxembourg employers will also observe the wage tax withholding requirements in France (PASRAU) in respect of employment activities performed by their French resident employees exceeding the said threshold[17].

Finally French resident, cross-border workers deriving Luxembourg and French source income, who are suffering a higher tax liability on their 2020 and/or 2021 income, may be interested to explore the possibility of mitigating this increase in personal income tax considering specific conditions and limits[18].

[13] UEL, Taxation: Cross-border employees working from home, November 2020.

[14] Thresholds are usually 29 days working in France or in a third country for French tax residents working in Luxembourg; 24 days working in Belgium or in a third country for Belgian tax residents working in Luxembourg; and 19 days working in Germany or in a third country for German tax residents working in Luxembourg. As of 2022, the threshold for the France-Luxembourg tax treaty would likely be increased to 34 workdays subject to further treaty developments.

[15] Andreas Steier, "Das war der Digitalgipfel zum Doppelbesteuerungsabkommen mit Luxemburg," www.andreas-steier.de, 25 June 2021.

VAT impacts arising from company cars put at disposal by PSF[1] employers to their employees

Michel Lambion
Indirect Tax Managing Director
Deloitte Luxembourg

In its decision QM (C-288/19, 20 January 2021), the Court of Justice of the European Union has examined the VAT treatment applicable to private use of a company car. The Court has decided that it should be considered as a hiring of a means of transport when the following conditions are met:

a) The employee has the right:
- To use the car for private purposes;
- To exclude other persons from using the car;
- For an agreed period of more than 30 days.

b) Against a rent; and
c) The car remains permanently at the employee's disposal, including for private purposes.

This implies that the provision of the car should be taxable in the country of the employee when he resides in a country other than the one where his employer is established and that the taxable basis should be the "rent paid" by the employee. This contrasts with the traditional interpretation that the private use should be considered as a "self-supply" always taxable in the country of the employer and generally based on a lump sum method. On 11 February 2021, the Luxembourg VAT authorities issued a circular (n°807[19]) that recalled the principles of this decision, that the taxable basis should be the "rent collected" (loyer perçu) from the employee" and that Luxembourg employers may have obligations in other Member States in order to pay the VAT due, if any, in those Member States.

Luxembourg employers should examine whether their car policies are affected or not by this decision as it may imply a possible increase of the VAT due (including for cars of Luxembourg resident employees) and additional VAT obligations in other countries when they have non-resident employees.

[19] https://pfi.public.lu/fr/actualites/2020/circ-8070.html and Deloitte Luxembourg publication: https://www2.deloitte.com/lu/en/pages/tax/articles/cjeu-decision-circular-luxembourg-vat-authorities-provision-vehicules-employers-staff-members-residing-abroad.html

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 (33 entities at year-end 2020 and 34 entities at year-end 2019), coupled in 42% of cases with Art. 29-2 as administrative agents (14 entities at year-end 2020). Administrative agents are automatically authorized to carry out activities as client communication agents.

The second group includes 56 IT PSF under Art. 29-4 as OSIS (55 at year-end 2019) 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). These two licenses were merged in 2021.
- In 18 cases by licenses under Art. 29-1 and 12 cases by licenses under Art. 29-2
- The third group includes providers of dematerialization services to the financial sector (Art. 29-5) and of conservation services to the financial sector (Art. 29-6).
- The number of licenses held by support PSF remained stable between 2019 and 2020.

Figure 22: Distribution of support PSF licenses as at 31 December 2020

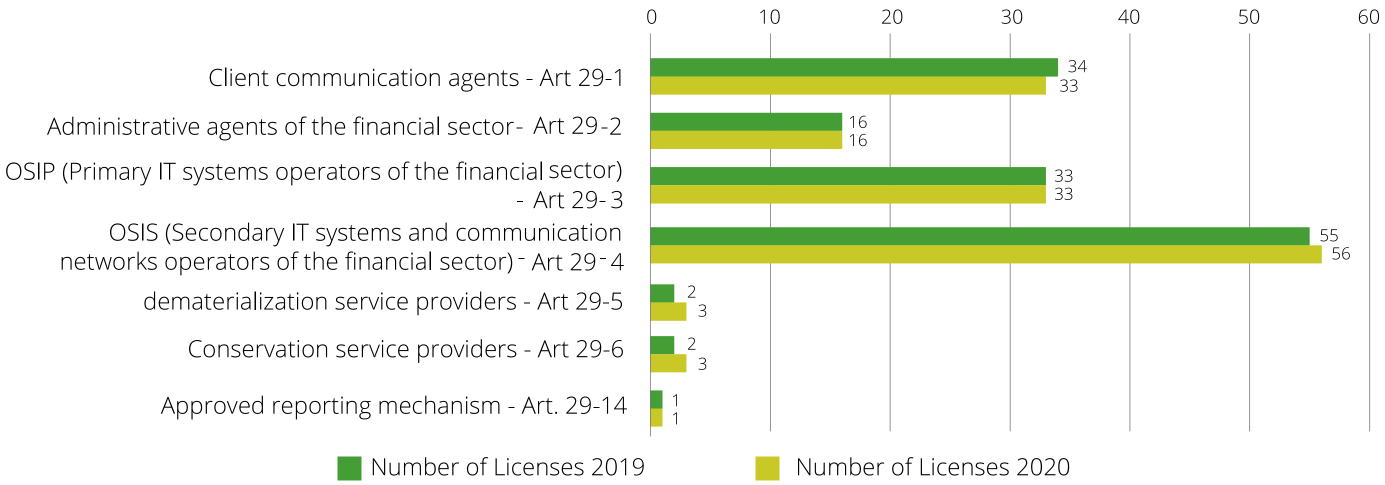
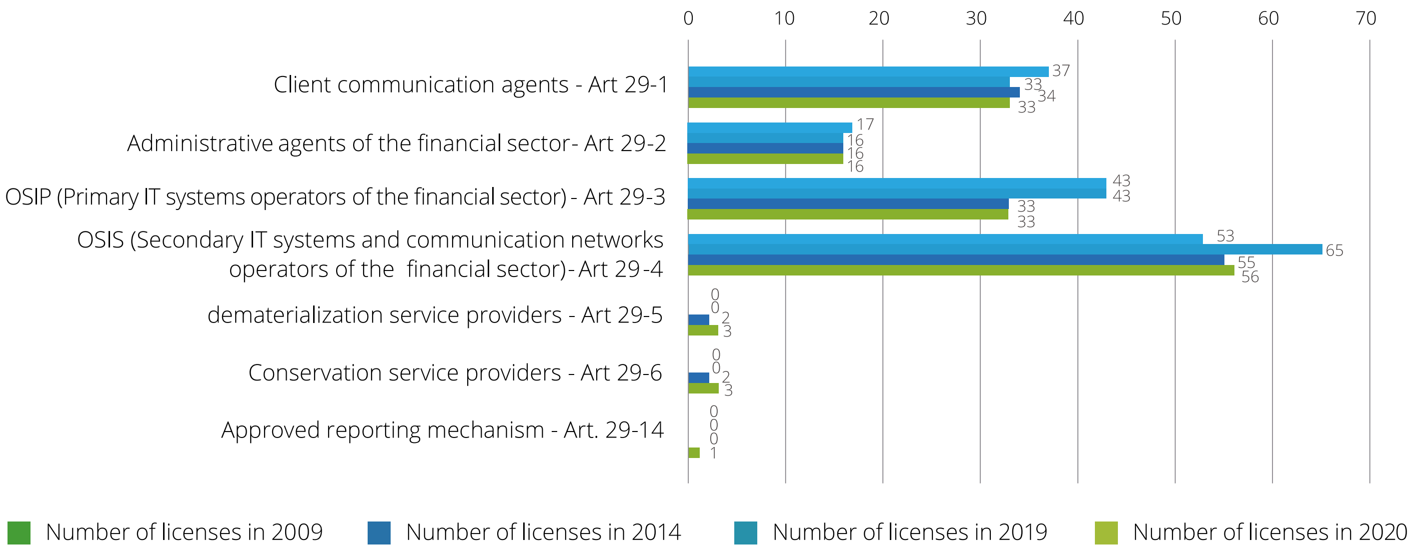


Figure 23: Change between 2020, 2019, 2014 and 2009 of licenses granted to support PSF



Questions to Sébastien Respaut
Managing Director, ATOS Luxembourg PSF S.A.

INTERVIEW CONDUCTED BY
RAPHAËL CHARLIER, ADIL SEBBAR AND KEVIN VENTURA
27 SEPTEMBER 2021

WHAT CHANGES HAVE YOU SEEN AND ARE EXPECTING IN YOUR BUSINESS?
Business picked up in the first half of 2021, mainly due to strong demand for online solutions and some clients' need to rapidly transform their operating model as a direct consequence of COVID. Some finance industry support services were able to take advantage of their group's resources to meet this demand quickly and flexibly. It remains to be seen whether, and under what conditions, this use of talent from elsewhere in an enterprise will be able to continue over the long-term.

Regulatory changes have also stimulated demand. European Banking Authority guidelines, for example, call for greater standardization at a European level, especially for international firms. This is reflected in the strategies of the large groups. Assisting our clients in coping with these changes will help drive our business.

WHAT ARE THE MAIN CHALLENGES FOR THE INDUSTRY?
Given the nature and criticality of our business, it is vital that we establish a partnership with our clients, one based on trust—not just between organizations but also, more importantly, between teams. I think that relations with our existing clients have become closer during the health crisis but, with the restrictions placed on us, we have had to adapt in order to establish the same level of trust with new clients. Despite all the modern resources available to us, nothing really beats the human touch.

In Luxembourg and elsewhere, another of the main challenges facing the industry is talent management, whether in recruitment or in upgrading the skills needed to use new technologies. The Luxembourg government has been making efforts in this area, with a training program under development, notably for the cybersecurity issues surrounding supercomputing and quantum computing. Although we are still at the preliminary stage, initiatives are taking shape through contact between universities and research centers such as the Luxembourg Institute of Science and Technology. While projects involving the finance industry may be limited in number at this point, we can hope that the benefits will also be felt in what is a key sector for Luxembourg.

Regulatory changes—whether in terms of standardization or as a result of CSSF Circular 21/785—will speed up use of the cloud by financial institutions in Luxembourg. This trend will probably reduce demand for traditional managed services and, consequently, affect the strategy followed by financial industry support services, leading to the development of new services—closer to our clients' line of business—so that we can help them through the digitalization process.

The final but most important challenge is environmental: decarbonization. Financial institutions have given substantial pledges on investment—even greater after COP26—but must also decarbonate their own business.

Digitalization is essential if they are to hit their targets and, as special partners, we also need to make a commitment if they are to achieve their Net Zero goals.

WHAT ARE THE MAIN OPPORTUNITIES FOR FINANCE INDUSTRY SUPPORT SERVICES?

As far as regulatory changes are concerned, we need to separate local projects from projects managed at group level. Circulars on outsourcing and use of cloud services have facilitated synergies for companies like ours that can call on the resources of a group.

Demand for cybersecurity services—SOC (Security Operations Centre), MDR (Managed Detection & Response)—has also been rocketing over the past five years or more, particularly since the outbreak of COVID-19. In addition, we are seeing strong demand in areas such as artificial intelligence, machine learning, robotic process automation, and blockchain.

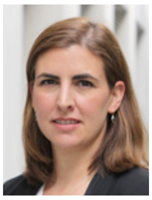
WHAT ARE THE MAIN EXPECTATIONS?

Within finance industry support services, there is a real desire to simplify and standardize our status, which is fully covered by a number of norms (in Europe, for example, by the EBA guidelines, and standards such as ISAE 3000). Cooperation between industry stakeholders, the CSSF, and government will improve efficiency. Plans to modernize the status of finance industry support services, led by FTL (Finance & Technology Luxembourg) at the request of the High Committee for Financial Services, should lead to the introduction of clearer ground rules, ensure that constraints are more limited and proportionate, and make the status of finance industry professionals (PSF) better known and understood abroad.

With regard to talent management, it may be hard to disseminate a corporate culture when staff are working from home. However, having everyone back in the office full-time would be problematic for our industry, and our clients have their own issues of limited space when we visit them on their premises. Changes will have to be made to the tax and social security systems, and we hope that within these areas we will retain the backing of the authorities, as well as of support professionals of the financial sector, as rules are updated. Workplace flexibility has become an important criterion for job applicants.

Digital Operational Resilience Act for financial services

Onur Ozdemir
Risk Advisory Director
Deloitte Luxembourg



Laureline Senequier
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On 24 September 2020, the European Commission published its draft Digital Operational Resilience Act (DORA). The legislative proposal builds on existing information and communications technology (ICT) risk management requirements already developed by other EU institutions and ties together several recent EU initiatives into one regulation. DORA aims to establish a much clearer foundation for EU financial regulators and supervisors to be able to expand their focus from ensuring firms remain financially resilient to also making sure they are able to maintain resilient operations through a severe operational disruption.
The DORA proposal comes as regulators around the world have been looking more closely at how they can strengthen the operational resilience of the financial sector and of the individual firms within it. Most important aspects of the new act include:

- Bringing critical ICT third party providers (CTPPs), including cloud service providers (CSPs), within the regulatory perimeter. These would be supervised by one of the European Supervisory Authorities (ESAs)—composed of the European Banking Authority (EBA), the European Securities and Markets Authority (ESMA), and the European Insurance and Occupational Pensions Authority (EIOPA —who would have the power to request information, conduct off-site and on-site inspections, issue recommendations and requests, and impose fines in certain circumstances.
- With a view to harmonizing local rules across the EU, setting EU-wide standards for digital operational resilience testing, but leaving out automatic cross-border recognition of threat-led penetration testing (TLPT) for the time being.
- Harmonizing ICT risk management rules across financial services sectors, based on existing guidelines.
- Harmonizing ICT incident classification and reporting, and opening the door for the establishment of a single EU-hub for major ICT-related incident reporting by financial institutions.

Although DORA is expected to be negotiated by EU institutions over the next 1-2 years and further secondary legislation needs to be developed, we believe that firms should be pro-active and consider the following actions:

- ICT third-party providers will need to evaluate whether they will deemed 'critical'. Those who are may need to establish new regulatory teams and analyze how they can best comply with the oversight framework being developed.
- Larger firms should closely follow the ESAs as they flesh out the criteria requiring firms to carry out threat-led penetration testing. Those newly in scope will need to develop a strategy to make the best use of these advanced tests.
- While large firms will already be applying many of DORA's ICT risk management requirements, they should assess whether their response and recovery strategies and plans respond appropriately to the expanded rules in these areas.
- All firms will need to develop or amend their incident reporting processes in line with the new rules. Firms may want to consider aligning these to their internal reporting processes to optimize resource allocation.

CTTPS ARE BEING PULLED INTO THE REGULATORY PERIMETER, WITH BROAD POWERS FOR THE ESAS

Regulators have been mulling over how to manage financial services' increasingly large exposure to (CSPs) for some time. The proposed legislation would enable the designation of an ICT third-party provider (TPP) such as CSPs as 'critical', based on criteria such as the number and systemic character of financial entities that rely on the ICT TPP and the TPP's degree of substitutability. Once designated as critical, oversight of the CTPP will be carried out by one of the ESAs, who will be able to conduct on-site and off-site inspections, issue recommendations and, importantly, levy fines of up to 1% of daily worldwide turnover in case of non-compliance or ask financial services firms to terminate their arrangement with the CTPP.

Most financial services firms will welcome the introduction of an oversight framework, as it will give them more legal certainty around what is permissible, and a level of assurance on the security of their assets in the cloud. On aggregate, this will likely increase firms' confidence and appetite for transitioning some of their activities to the cloud, helped by the Commission's development of voluntary standard contractual clauses.

However, the oversight framework for CTPPs does not remove or reduce financial services firms' own regulatory responsibilities to ICT TPPs. DORA contains—in line with existing EBA and EIOPA guidelines—third-party risk management requirements for firms that make use of CTPPs and TPPs, including with regards to auditing rights and mandatory contractual clauses.

DIGITAL OPERATIONAL RESILIENCE TESTING: AN EU-WIDE APPROACH COULD HELP FIRMS OPTIMIZE COSTS

Threat-led penetration testing frameworks (TLPT) have been developed at national level for a number of years, and are already mandatory at EU level for certain types of financial market infrastructures (FMIs).

DORA expands this in two ways. Firstly, the threshold criteria identifying firms where this testing would become mandatory, and the pan-EU application of TLPTs, will likely increase the number of firms in scope to conduct mandatory and regular testing. The exact criteria will be fleshed-out by the ESAs in secondary legislation, but firms in countries that do not yet have a TLPT, or firms that were not in scope for their jurisdiction-led TLPT, may now need to develop an approach (aligned to their ICT risk management frameworks). This will involve working with a third-party penetration tester, educating the governing body on how these tests are run (on live production systems, which requires careful planning and execution), and the use of these tests as part of a wider risk-management approach. Importantly, the tests may require the participation of firms' ICT TPPs, which may add complexity to the exercise.

Secondly, it builds on the voluntary TIBER-EU framework developed by the ECB, which introduced some cross-border recognition of tests, reducing the need for cross-border firms to carry out the same tests twice. DORA builds on this, and asks the ESAs to develop standards and procedures for the mutual recognition of tests across EU Member States. This could mean that, so long as the TLPT tests are carried out according to a set of criteria (which will likely be very close to the requirements contained in TIBER-EU), these tests could more easily be recognized by other EU supervisors in jurisdictions where a firm is active, potentially avoiding the need for duplication. Firms that already carry out TLPTs and have activities in more than one EU jurisdiction will likely face relatively lower compliance costs in future, and may in time no longer have to rely on bilateral agreements for the recognition of tests. For firms that already carry out this activity, the testing function could be further centralized and optimized, and could ultimately become less complex to run.

ICT INCIDENT REPORTING: SIMPLER, BETTER REPORTING?

Firms have highlighted the recent proliferation of ICT incident reporting requirements, arguing that the multitude of requirements, timings, thresholds, and associated fines for non-compliance may hinder their effective management of ICT incidents. DORA will alleviate some of those concerns as it will harmonize reporting templates, as well as the conditions triggering a reporting requirement, that financial services firms will need to follow and provide to their national competent authorities (NCAs). However, the regulation does not align with, or supersede, some other incident reporting requirements, such as those in GDPR.

In time, the reporting requirement may shift from NCAs to an EU-hub, to streamline information-gathering and ensure further supervisory convergence. Before that, however, firms will need to adapt to the new EU reporting rules, including providing root cause analysis reports no later than one month after a major ICT incident occurs. The measures, on average, will provide EU regulators with a better picture of what kind of vulnerabilities are most common across firms, and potentially help them take further action—using their expanded rules and powers around ICT management.

ICT RISK MANAGEMENT RULES: FOUNDATIONS FOR EU SUPERVISORS TO BUILD ON

The streamlined and enhanced rules applying to firms' ICT risk management emphasize the importance of governing body's involvement. Expanding from existing guidelines such as the European Banking Authority's ICT and security risk ones, the governing body will need to determine the appropriate risk tolerance and impact tolerance for ICT disruptions, and review their firm's business continuity and disaster recovery plans. The ICT risk management requirements are organized around:

- Identifying business functions and the information assets supporting these;
- Protecting and preventing these assets;
- Detecting anomalous activities; and
- Developing response and recovery strategies and plans, including communication to customers and stakeholders.

While the first three of these will be fairly familiar to most firms, albeit implemented with various degrees of maturity, the latter should focus minds. The European Commission, recognizing the importance of maintaining business services, or functions, and the increasing reliance of the financial sector on technology to run these, will require firms to spend time and resources developing ways to restore their critical functions when faced with a severe disruption. This will require firms to think carefully about substitutability, including investing in backup and restoration systems, as well as assess whether—and how—certain critical functions can operate through alternative systems or methods of delivery while primary systems are checked and brought back up.

WHAT HAPPENS NEXT?

The DORA legislation proposed by the Commission is an important first step in creating a regulatory framework for financial services operational resilience in EU law. All financial institutions are impacted by DORA. The act has progressed rapidly in political negotiations and a final agreement may be reached in Q2 2022. Financial institutions should closely monitor the updates on DORA and start assessing the compliance of their operating model with it particularly focusing on:

- **ICT risk management framework**, including strategies, policies, and tools necessary to protect ICT infrastructure from risks;
- **ICT related incidents,** including cyber threat intelligence capabilities and cyber security response plans;
- **Digital operational resilience,** by testing the business continuity and disaster recovery plans on a regular basis or following significant changes in the control environment; and
- **Managing ICT third-party risks,** including confidentiality, availability, and integrity risks as well as geopolitical and concentration risks.

Tired of extensive due diligence, client audit, and supervision reporting?

Onur Ozdemir
Risk Advisory Director
Deloitte Luxembourg

Laureline Senequier
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Deloitte Luxembourg

OVERSIGHT AND REPORTING IS NOT GOING TO DECREASE

Financial sector institutions (FSIs) are outsourcing part of their operations to service providers, including IT operations, to support PSF. Over the years, we have seen FSIs demonstrating stronger governance, asking more probing questions, and performing more in-depth focused due diligence. As a result, the oversight performed by all lines of defense is extensive and, for many service providers, can feel duplicative when the same controls are tested throughout the period by a variety of stakeholders and clients.

This stronger governance aligns with:

- A set of regulatory requirements on outsourcing for the financial, investment, and insurance sector by the European Banking Authority (EBA), European Insurance and Occupational Pensions Authority (EIOPA), and European Securities and Markets Authority (ESMA) guidelines on outsourcing being implemented in Luxembourg by the CSSF and the CAA; and
- Recurring on-site inspection comments from the ECB on weaknesses on the oversight exercised by FSIs.

In addition, the CSSF requires support PSF to provide a yearly risk assessment report when exercising its supervisions on support PSF's ICT risk management position. While the CSSF allows the support PSF to share part of this risk assessment report to clients or prospective clients, we note that these reports are not fully utilized by the support PSF clients.

Support PSF have no other choice than to embrace this increasing oversight and reporting demand from their clients and from the regulator. This can be time-consuming, and the amount of effort and resources required to support the review requests from firms and their auditors, as well as additional reporting requested by the CSSF, can be significant. And even more so when it requires information collection from various sources.

However, real efficiencies can be gained when the reporting is supported by a strong risk management governance and when such reports unify under a common language and internationally-recognized standards.

WHAT ABOUT CONVERGING THIS OVERSIGHT AND REPORTING EFFORT?

Due diligence does not have the same purpose as monitoring and oversight. Where due diligence serves as conviction during a selection process, monitoring and oversight works to provide assurance that services meet the expectations and that activities are performed within a controlled environment. CSSF reporting aims at demonstrating the robustness of the organization.

In practice, these three different evaluations cover very similar subjects and have one common pillar for IT services which is the ICT risk management which addresses information confidentiality, integrity, and availability.

There has been recent alignment in ICT risk management approach through the CSSF Circular 20/750. This Circular, implementing EBA Guidelines on ICT Risks (EBA GL 2019/04), provides common ground for PSF, financial institutions, the CSSF, and other financial sector actors in Europe. And this common ground should be the meeting point of oversight and reporting when it comes to IT services in the financial sector.

Our years of experience in ICT risk management and one year down the road from the CSSF Circular 20/750 gap assessment has taught us these lessons:

- When a strong ICT risk management culture is fostered, then the due diligence, oversight, and regulatory supervision will be a reporting exercise and will save time gathering, compiling, and aligning information;
- Despite the convergence to CSSF Circular 20/750, there is no one standard that fits all because each client will have its own evaluation lens and because each service will have its own risk. Therefore mapping your controls not only to CSSF 20/750, but also to other standards, will be an accelerator; and
- 3Once the ICT risk management framework is well implemented, the next step is to obtain assurance on the control environment. There are two dimensions to consider for such assurance: the level of testing and the stakeholder providing such assurance. There are three levels of testing (i) design testing; (ii) implementation testing; and (iii) operation effectiveness. The stakeholder providing such assurance can be an internal stakeholder like the second line of defense, or an external stakeholder performing the role of the service auditor through assurance reports such as ISAE 3000.

WHAT IS AN ISAE 3000?

ISAE 3000 is an international framework for assurance engagements other than audits and reviews of historical financial information. It can act as a general framework for other subject-specific engagements, such as IT, risk management, and security controls.

Other financial sector service providers, such as transfer agents (TAs), fund accountants (FAs), and custodians have been producing internal control reports under varying standards such as the ISAE 3402 and SSAE 18 SOC1 regulations for a number of years. These reports can demonstrate the effectiveness of the control environment to clients highlighting any control exceptions and failings. However, such reports are not specifically scaled for IT services and there are often gaps with ICT risks which are covered in CSSF Circular 20/750.

WHY SHOULD SERVICE ORGANIZATIONS CARE?

The potential use of an ISAE 3000 report seems too valuable to be ignored. One of the most effective ways that service providers can communicate information about their risk management and control environment is through the use of internal control reports. The CSSF requires regulated firms to gain comfort over the effectiveness of such controls. There seems to be a strong argument to have a central IT services report aligned with CSSF Circular 20/750 on ICT risks providing assurance to multiple parties. Some of the benefits to service providers are as follows:

- **Market credibility in the effectiveness of the control environment:** Having an ISAE 3000 report helps to boost the credibility of the service provider and the quality of their control environment to the external market. We have seen that the initial due diligence performed when selecting a new service provider to partner with, is becoming more extensive and often a mature ICT risk management position can be the deciding factor.
- **Value-add differentiator:** Using assurance reports aligned with CSSF Circular 20/750 to demonstrate an effective ICT risk management operating environment, can be seen as a real value-add differentiator and provide confidence to prospective new customers.
- **Lower administrative burden from external audit requests for service providers:** An external client auditor may be able to place reliance on an ISAE 3000 report, thus reducing the number of audit requests from different audit firms throughout the audit cycle.
- **Reducing the need for duplicative on-site visits:** On-site visits are regularly conducted by a variety of stakeholders and FSIs throughout the year. Furthermore, the COVID-19 restrictions over the last year have accentuated the difficulties of hosting such sessions. Having a central report can support in oversight as well as reduce/remove the need for such regular visits to perform due diligence. It is important to know that not all processes can be replaced completely by a report, however FSIs will be able to review the report to inform their own first-, second-, and third-line risk assessments and monitoring reviews which may reduce ad-hoc requests and queries throughout the year. FSIs may even be able to place reliance on the testing performed for in-scope controls and in particular over the IT systems which could further reduce direct testing performed.

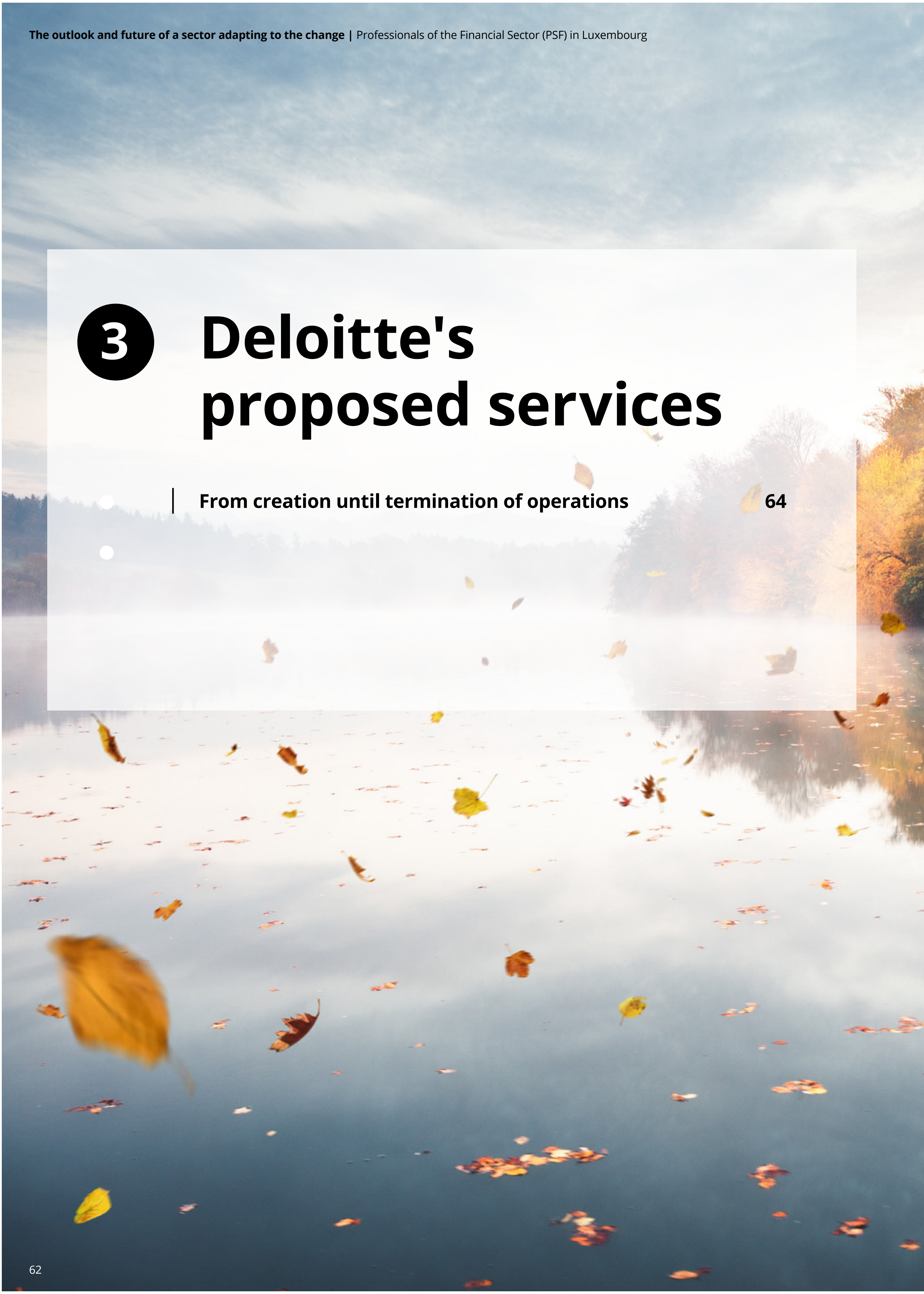
BENEFITS TO FSIS

- **Enhance oversight:** When used correctly, management oversight over systems and controls for outsourced services may be enhanced. FSIs may also have greater visibility on assurance over relevant IT systems.
- **Initial due diligence:** Firms can use the ISAE 3000 to aid due diligence verification on internal controls before outsourcing a business function to a service organization.
- **Compliance "requirements":** Demonstrates to service users and regulatory bodies that controls are in place and operating effectively.
- **Improve overall control awareness:** Generates increased awareness within the organization of the importance of controls and embeds a strong control culture.
- **Stakeholder assurance:** Builds trust and confidence in outsourced systems, processes, and controls. This provides a strong message to clients/potential clients that the firm understands the risks involved and is aware of outsourced controls.

SO, WHAT'S NEXT?

ISAE 3000 assurance reporting is becoming more and more popular due to the benefits associated with it, but what should support PSF do now?

- Identify the key operational and ICT activities or IT systems supporting your clients' operations;
- Plan or perform risk assessment on these activities and IT systems;
- Map-out the risk assessment to CSSF Circular 20/750 ICT risk controls and, if relevant, other security standards;
- Identify potential gaps and define an action plan;
- Initiate communication with clients on their potential use of an ISAE 3000 report and confirm relevance of the scope of controls in their report as well as a relevant period and timing for such reports;
- Start with a Type I report that covers design and implementation of the control environment and thus gives a picture at a defined date; and
- Once sufficient confidence is obtained on the operating effectiveness of these controls, switch to Type II report.



3 Deloitte's proposed services

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

Click here to access our wide range of services, or scan the below QR code

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

Association des Banques et Banquiers, Luxembourg (ABBL)
The ABBL was constituted in 1939. The ABBL represents the majority of financial institutions, regulated financial intermediaries, and other professionals established in Luxembourg, as well as lawyers, consultants, and auditors working in or for the financial sector.

The ABBL is providing its members with guidance and knowledge to operate in the financial market and under its regulatory environment. Furthermore, the ABBL provides a platform to discuss key industry issues and to define common best practice standards.
Tel.: +352 46 36 60-1
www.abbl.lu

Association Luxembourgeoise des Fonds d'Investissement (ALFI)
The ALFI was established in 1988 and represents Luxembourg asset management and investment funds. The objective of the ALFI is to; "Lead industry efforts to make Luxembourg the most attractive international investment fund centre".
Tel.: +352 22 30 26-1
www.alfi.lu

Luxembourg Private Equity and Venture Capital Association (LPEA)
The LPEA was constituted in 2010 and represents the interests of the Luxembourg private equity and venture capital industry. The LPEA provides its members with analysis and industry trends, forums to exchange experiences, and offers of trainings and workshops.
Tel.: +352 28 68 19 602
www.lpea.lu

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

5 Appendices

5.1. PSF in a nutshell – PSF licenses as applicable as from July 21, 2021

Investment firms

PSF activities	Article	Minimum capital or capital base €	Definition of the services
Reception and transmission of orders in relation to one or more financial instruments	24-1	€75,000 where the investment firm is not permitted to hold client money or securities belonging to its clients; otherwise €150,000	**Reception and transmission of orders in relation to one or more financial instruments** means the receiving or transmitting orders in relation to one or more financial instruments, without holding funds or financial instruments of the clients.
Execution of orders on behalf of clients	24-2	€75,000 where the investment firm is not permitted to hold client money or securities belonging to its clients; otherwise €150,000	**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 and includes the conclusion of agreements to sell financial instruments issued by an investment firm or a credit institution at the moment of their issuance
Dealing on own account	24-3	€750,000	Dealing on own account means trading against proprietary capital resulting in the conclusion of transactions in one or more financial instruments
Portfolio Management	24-4	€75,000 where the investment firm is not permitted to hold client money or securities belonging to its clients; otherwise €150,000	**Portfolio management** means 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
Investment advice	24-5	€75,000 where the investment firm is not permitted to hold client money or securities belonging to its clients; otherwise €150,000	**Investment advice** means the provision of personal recommendations to a client, either upon its request or at the initiative of the investment firm, in respect of one or more transactions relating to financial instruments
Underwriting of financial instruments and/or placing of financial instruments on a firm commitment basis	24-6	€750,000	Underwriters of financial instruments are professionals whose business is to **underwrite financial instruments and/or place financial instruments on a firm commitment basis**.

Investment firms

PSF activities	Article	Minimum capital or capital base €	Definition of the services
Placing of financial instruments without a firm commitment basis	24-7	€75,000 where the investment firm is not permitted to hold client money or securities belonging to its clients; otherwise €150,000	This activity comprises the placing of financial instruments **without** a firm commitment basis.
Operation of an MTF	24-8	€150,000	**MTF** or **multilateral trading facility** shall mean a multilateral system, which brings together multiple third-party buying and selling interests in financial instruments – in the system and in accordance with nondiscretionary rules – in a way that results in a contract.
Operation of an OTF	24-9	€150,000 or €750,000 where this firm engages in dealing on own account or is permitted to do so	**OTF** or **organised trading facility** shall mean a multilateral system which is not a regulated market or an MTF and in which multiple third-party buying and selling interests in bonds, structured finance products, emission allowances or derivatives are able to interact in the system in a way that results in a contract.

Specialized PSF

PSF activities	Article	Minimum capital or capital base €	Definition of the services
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.
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 activities	Article	Minimum capital or capital base €	Definition of the services
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 activities	Article	Minimum capital or capital base €	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.
IT systems and communication networks operators of the financial sector	29-3	€125,000	IT systems and communication networks operators of the financial sector are professionals who are responsible for the operation of IT systems and communication networks that are part of the IT and communication systems belonging to credit institutions, PFS, 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. The activity of IT systems and communication networks operator of the financial sector includes IT processing or transfer of data stored in the IT systems. The IT systems and communication networks in question may either belong to the credit institution, PFS, payment institution, electronic money institution, UCI, pension fund, SIF, investment company in risk capital, authorized securitization undertaking, reserved alternative investment fund, insurance undertaking or reinsurance undertaking established under Luxembourg law or foreign law, or be provided to them by the operator.

PSF activities	Article	Minimum capital or capital base €	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 28 October, 2021)

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	X
Information Technology				
17/656 and 06/240 as amended by 17/657	Administrative and accounting organization; IT outsourcing	X	X	X
19/723, 21/779, 21/783 and 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 and 21/765	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	Evolution of the usage and control of the tools for managing IT resources and the management access to these resources	X	X	X
Reg. 16-07, 17/671 and 19/718	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)	
17/654 amended by 19/714, 21/777 and 21/785	IT outsourcing relying on a cloud computing infrastructure	X	X	X
21/769	Governance and security requirements for supervised entities to perform tasks or activities through telework	X	X	X
Reg. 20-04	Measures for a high common level of security of network and information systems		X	

CIRCULAR/REGULATION	TOPIC	Investment firms	Specialized PSF	Support PSF
Remuneration				
10/437	Remuneration policies in the financial sector	X	X	X
11/505	Details relating to the application of the principle of proportionality	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 and the Circulars 10/495, 15/609, 18/701	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
20/740	AML/CFT implications during the COVID-19 pandemic	X	X	X
21/786	FATF statements concerning high-risk jurisdictions on which enhanced due diligence and, where appropriate, counter-measures are imposed and jurisdictions under increased monitoring of the FATF	X	x	x
21/782	Adoption of the revised guidelines, by EBA, on money laundering and terrorist financing risk factors	X		
19/732	Prevention of money laundering and terrorist financing: Clarifications on the Identification and verification of the identity of the ultimate beneficial owner(s)	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, 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, 15/622, 20/756 and 21/784 as well as Regulation (EU) No 575/2013, ad hoc Commission Delegated Regulations (EU) and ad hoc Commission Implementing Regulations (EU)	Supervisory reporting requirements (IFD/IFR/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 and 21/770, 19/709	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
10/457	Electronic transmission to the CSSF of the long-form report and of the management letter	X		
11/503	Transmission and publication of financial information and relating deadlines	X	X	X
11/504	Frauds and incidents due to external computer attacks	X	X	X
13/577	Table "Responsible persons for certain functions and activities"	X		

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 updated by 19/727	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		
External audit				
03/113, 13/571 and 21/768	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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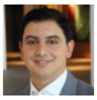

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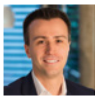

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