Deloitte.

Edition 2014

Professionals of the Financial Sector (PSF) in Luxembourg
Overview and outlook of a lively sector

Content

Foreword

In a post-recession climate still awaiting economic recovery, Professionals of the Financial Sector (PSF) stand out as an essential and solid pillar of Luxembourg's industry. Posting stable business and staff numbers, this sector has met with great success and continuously managed to rise to the challenges it faces. Here, we analyse the changes occurring and the place that PSF hold in Luxembourg.

Our 2014 edition not only comprises studies of the latest PSF figures, but it is also **enhanced with interviews** with key people in the marketplace and articles on topical issues. It provides an overview of PSF and **illustrates the existing various types** and their developments. It confirms the industry's importance in the Luxembourg economy.

At the end of 2013, the number of PSF in existence – which had risen slightly – reflects the relative stability of each of the three categories of PSF. The first few months of 2014 confirmed this **trend**. Naturally, there are some contrasting situations. While new specialised PSF are established each year, the number of investment firms and the number of support PSF decrease slightly, but steadily.
The sector has been quite stable since 2011, contrasting greatly with the noteworthy changes recorded between 2004 and 2011, when the number of PSF soared, almost increasing two-fold.

Although the industry is reaching a certain degree of maturity, it continues to develop and **the basis of its business appears to be expanding**. This is evidenced by the development of the latest two licences created: Family Offices, adopted by almost 200 PSF; and special depositaries. The later are now arousing considerable interest following the introduction of the AIFM law in July 2013. They should fully contribute to the sector's development in coming years. Furthermore, we note that, even disregarding these two events, total number of licences worked continues to increase, confirming the **dynamism** of PSF.

After the abundant regulatory changes seen in 2012 (Regulation 12-02, Circular 12/552, Circular 12/544), **2013 and 2014 have mainly been spent taking them on board**. The new challenges relate to the FATCA, to MiFID II and the significant shift in OECD paradigm, focussing resolutely on tax transparency and prompting players to review their business model. We nonetheless believe that all these changes are also opportunities. The sector in Luxembourg has always been highly dynamic and inventive, and above all displays pioneering spirit to attract more clients and business.

Hence the title of this brochure: 'Overview and outlook of a lively sector'. We wanted to demonstrate that while the PSF industry appears stable, its business is constantly growing and, beyond the challenges, there are a great many opportunities.

We kindly thank Messrs Vincent J. Derudder, Nicolas Mackel, Eric Magrini and Bernard Moreau for their valuable contributions to this brochure. Their wide-ranging experience in this industry provided us with an enlightened opinion of the latest PSF news and the sector's prospects.

We hope you will enjoy reading our publication.

Stéphane Césari
Partner – PSF Leader

Raphaël Charlier
Partner – Audit

Introduction

PSF: A considerable range of services in a secure environment

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

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

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** (Art. 24 to 24-9 of the Law)

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

  These are mainly:

  1. Investment advisers
  2. Brokers in financial instruments
  3. Commission agents
  4. Private portfolio managers

- **Specialised PSF** (Art. 25 to 28-11 of the Law)
  Specialised PSF as defined in the Law of 28 April 2011 are entities active in the financial sector but which do not offer investment services. These mainly include:

  1. Corporate domiciliation agents
  2. Registrar agents
  3. Family Offices

- **Support PSF** (Art. 29-1 to 29-4 of the Law)
  Support PSF act principally as subcontractors offering operational services on behalf of banks or other Professionals of the Financial Sector. These include:

  1. Support PSF not involved in information technology, namely client communication agents (Art. 29-1) and financial sector administrative agents (Art. 29-2). The Law of 28 April 2011 extends the activities of these PSF to Specialised Investment Funds (SIF), SICAR (Société d'Investissement en CApital à Risque or Venture Capital Companies) and approved securitisation entities.
  2. 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).

This brochure presents the scope of this industry in Luxembourg and gives a clear view of the very different types of PSF and how they have evolved. Deloitte has for many years been developing the expertise necessary to enable it to support and advise all forms of PSF during their development stages from the time of creation and throughout their growth period. These services are described in the appendix to this brochure.

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

1. Scope of PSF in the Luxembourg economy

1.1 An economic player with staying power

Analysis of the importance of PSF and review of their economic and social dimensions

Market size

After posting steady growth close to 95% between 2004 and 2011, the number of PSF has since stabilised. The Grand Duchy identified 318 PSF* as at 31 December 2013, against 316 at the end of 2012.

The main category of PSF in 2013 remains specialised PSF accounting for almost 40% of entities in the industry. Growth of this category was dazzling between 2007 and 2012 at 85% and it continues to develop each year.

Investment firms account for 34% of PSF. Initially in the majority, their progress has slowed since the financial crisis. After reaching a peak in 2011, the number has dropped slightly to its 2008 pre-crisis level.

Numbers of support PSF have also progressed since the creation of this status (+49% since 2007). However, since 2011, the number of support PSF has shrunk. They represent 26% of PSF as at 31 December 2013.

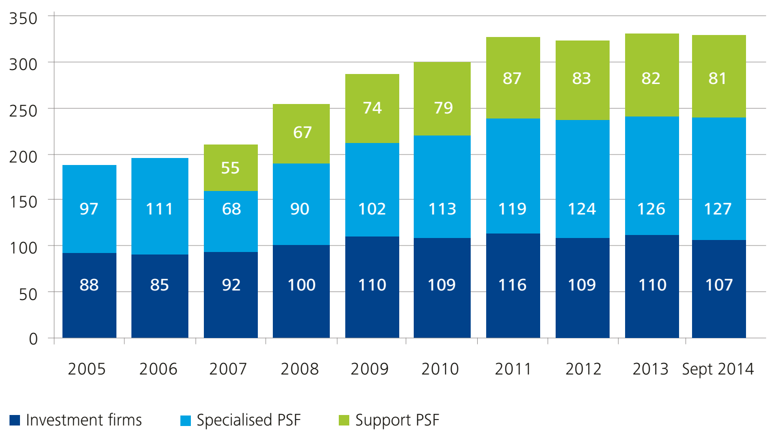
While the number of PSF stabilised in 2013, we note that:

- At the time of writing this brochure, this trend is further confirmed. **Mid-September 2014, there were 315 PSF** (down by less than 1% from 2013)
- The overall change in the number of PSF over the last 10 years is outstanding, with growth in excess of 90%

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

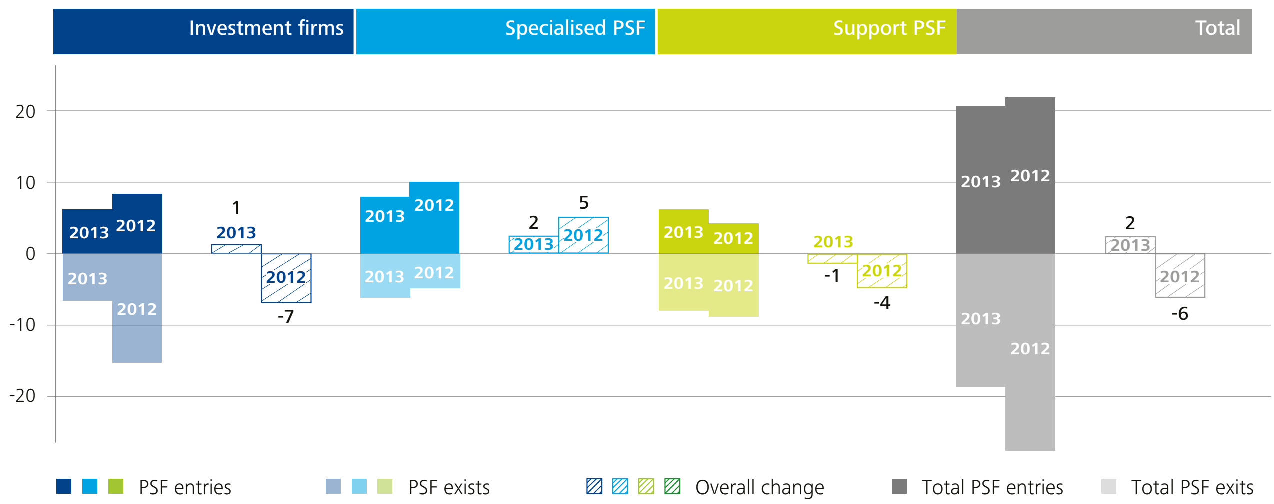
- Growth of the financial marketplace, particularly in investment funds and corporate domiciliation agents, which broadens the scope of services a PSF is able to offer
- The growing number of financial and non-financial services for which approved PSF status is now mandatory
- Recognition of a quality label, as PSF are regulated by the CSSF
- The attractiveness of Luxembourg. Since 2007, more than 50% of PSF created in Luxembourg have been of foreign origin and this figure is still rising

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



Source: PSF list from CSFF on Decembre, 2013

Figure 2: PSF change by category - entries and exits in 2013 and 2012



The change in the number of PSF over the year was relatively stable. The sector was nonetheless dynamic with numerous PSF being formed and as many withdrawals (21 new entities in 2013 and 22 in 2012), indicating that the industry is still attractive and full of vitality.

This stems from the creation of new companies, but also from the conversion of existing entities into PSF. The rise in PSF numbers may also be due to a change of PSF category. This is particularly the case of Oddo Services Luxembourg S.A. and Quilvest Luxembourg Services S.A., which were support PSF in 2012 and respectively earned investment firm and specialised PSF status in 2013.

PSF exits were less frequent in 2013 than 2012. They are mainly due to liquidations, mergers, or entities relinquishing their PSF status. This is the case of Carmignac Gestion and Franklin Templeton, which changed from PSF status to Management Companies in 2013, and the Gazprom group which, after obtaining status as a bank, wound up its asset management entity.

For support PSF, exits mainly correspond to a better understanding of the Law which is not intended to regulate all financial sector support activities.

Overall in 2013, we note very similar numbers of PSF creations and disappearances across the various categories. Ultimately, the number of PSF increased by less than 1% over the year.

Place of PSF in the Luxembourg financial industry

The biennial analysis carried out by the *Haut Comité de la Place Financière* (HCPF) on the situation as at 31 December 2012 shows an overall decline in the financial industry in Luxembourg. And PSF have not escaped the trend. Investment firms and specialised PSF nonetheless contribute 3% to national production (this analysis does not take support PSF into account).

- Added value per employee (excluding support PSF) fell significantly (-35%) from 2010, when it was clearly higher than in the banking sector (with a difference of almost 30% between the two sectors in 2010). In 2012, the added value per employee of PSF was fairly similar to that of Banks
- The contribution of PSF (excluding support PSF) to tax revenue was 6.5% of total tax contribution made by the financial industry, versus 8% in 2010
- PSF (excluding support PSF) account for 14% of jobs in the financial industry (and more than a third including all PSF), down very slightly from 2010

Figure 3: Summary of financial industry data as at 2012, compared to 2010

	2012 added value (€bn)	2010 added value (€bn)	2012 GDP (%)	2010 GDP (%)	2012 jobs (employees)	2010 jobs (employees)	2012 jobs (%)	2010 jobs (%)
Financial PSF (except support PSF)	1.25	1.98	3%	5%	5,635	5,824	1.4%	1.6%
Banks	6.69	6,96	15%	17%	26,537	26,254	7%	7%
Insurance companies	2.48	2.49	6%	6%	4,133	4,668	1%	1%
Management companies	2.35	2.18	5%	5%	2,743	2,339	1%	1%
Total financial industry	**12.78**	**13.61**	**29%**	**33%**	**39,048**	**39,085**	**10%**	**11%**

	2012 added value/ employee (€,000)	2010 added value/ employee (€,000)	2012 taxes (€bn)	2010 taxes (€bn)	2012 tax revenues (%)	2010 tax revenues (%)
Financial PSF (except support PSF)	222.36	339.97	0.13	0.14	1%	1%
Banks	252.25	265.10	0.94	1.00	8%	10%
Insurance companies	599.81	533.42	0.59	0.50	5%	5%
Management companies	857.09	932.02	0.36	0.33	3%	3%
Total financial industry	**327.21**	**348.22**	**2.01**	**1.97**	**17%**	**19%**

Aggregated balance sheets and net profits of PSF

The sum of the balance sheets of all PSF amounted to €15 billion as at 31 December 2013, compared to €14 billion at the end of December 2012, i.e. a 7% rise in one year.

The only significant movements identified are a noteworthy increase – €1.4 billion – in the balance sheets of two entities already in operation in 2012 (€0.6 billion at one investment firm and €0.8 billion at a specialised PSF). This figure is reduced by the exit of two investment firms (bringing balance sheets down by €1.1 billion).

The concentration of business was stronger as at 31 December 2013. The three PSF with the highest balance sheet totals (one investment firm and two specialised PSF) accounted for nearly 50% of the balance sheet total of all PSF, compared to 43% in 2012.

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

Thus, PSF post a significant decline in net profits in excess of 41% in one year, with total net revenues going from €715 million as at 31 December 2012 to €419 million as at 31 December 2013. This situation is, however, misleading. Restated by the two specific elements below, it actually points to an overall rise in the profits of PSF:

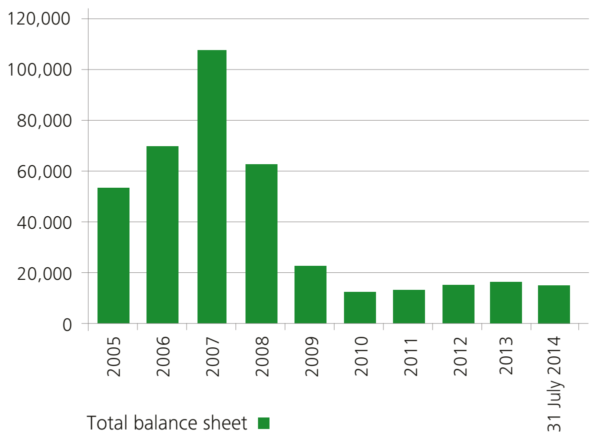
- The exit of two investment firms reducing 2013 profits by €330 million
- The drop in the profits of one specialised PSF by €134 million between 2012 and 2013

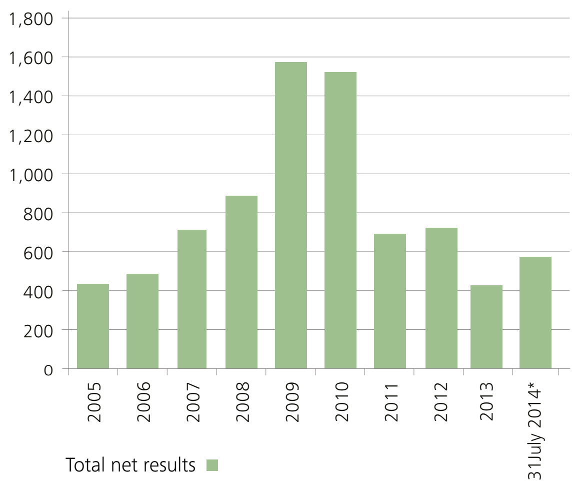
We note that two PSF (specialised PSF) account for 38% of total profits in the sector (compared to 42% in 2012).

Note that according to CSSF data as at 15 September 2014, pro-rated over 12 months, PSF should generate €580 million in net revenues in 2014, i.e. an expected increase of 40% compared to 2013.

Investment firms and specialised PSF contribute 3% to national production

Figure 4: Total balance sheets and results of PSF (in € million)





Source: CSSF Newsletter of Septembre 2014, latest information dated 31 July 2014.
**For comparison purposes, profit as at 31 July 2014 has been pro-rated over 12 months-*

An analysis of profits by category (figure 5) shows that:

- Although profits dropped by more than 80% between 2009 and 2013, the weight of net profits posted by specialised PSF has been stable over the past three years, accounting for more than 50% of the profits of all PSF
- Net profits of investment firms account for almost 38% of profits of all PSF, compared to 45% in 2012. The decrease is due to the transformation of two investment firms into management companies
- However, the relative weight of net profits of support PSF rose from 5 to 10% between 2012 and 2013. While this increase is modest in value (+€7 million), it is significant in terms of variation (+20%)

Figure 5: Breakdown of balance sheet totals and profits by PSF category

In €M	Balance sheet total						Net profits					
	2011		2012		2013		2011		2012		2013	
	Amount	Relative share	Amount	Relative share	Amount	Relative share	Amount	Relative share	Amount	Relative share	Amount	Relative share
Investment firms	2,629	20%	3,616	26%	3.092	21%	296	43%	319	45%	157	38%
Specialised PSF	9,419	73%	9,457	67%	10,875	72%	353	51%	360	50%	219	52%
Support PSF	910	7%	1,007	7%	1,085	7%	44	6%	36	5%	43	10%
Total	12,958	100%	14,080	100%	15,052	100%	693	100%	715	100%	419	100%

Figure 6: Breakdown of PSF by net profit bracket as at 31 December 2013 (in €,000)

Following our analysis of the 2013 financial statements that we received, the structure of the main profit trends is as follows:

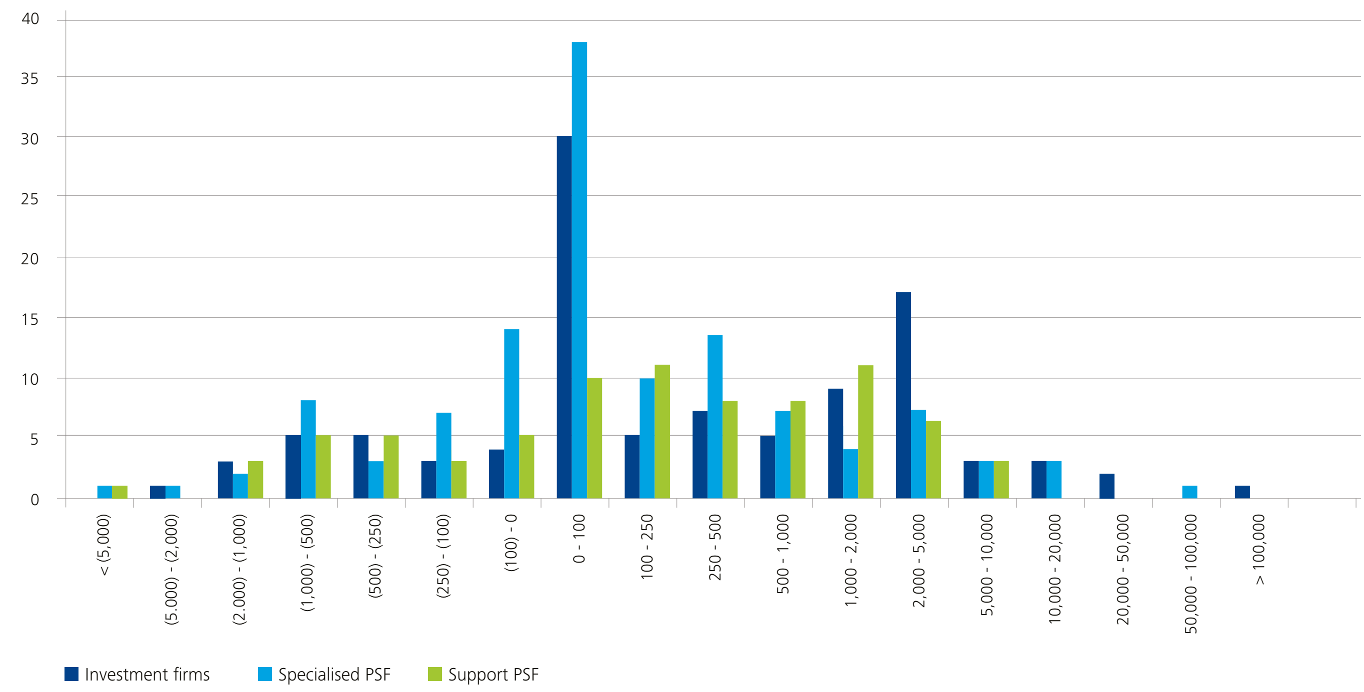


Figure 6.2: Distribution of PSF by net profit on 2012 and 2013 (in €,000)

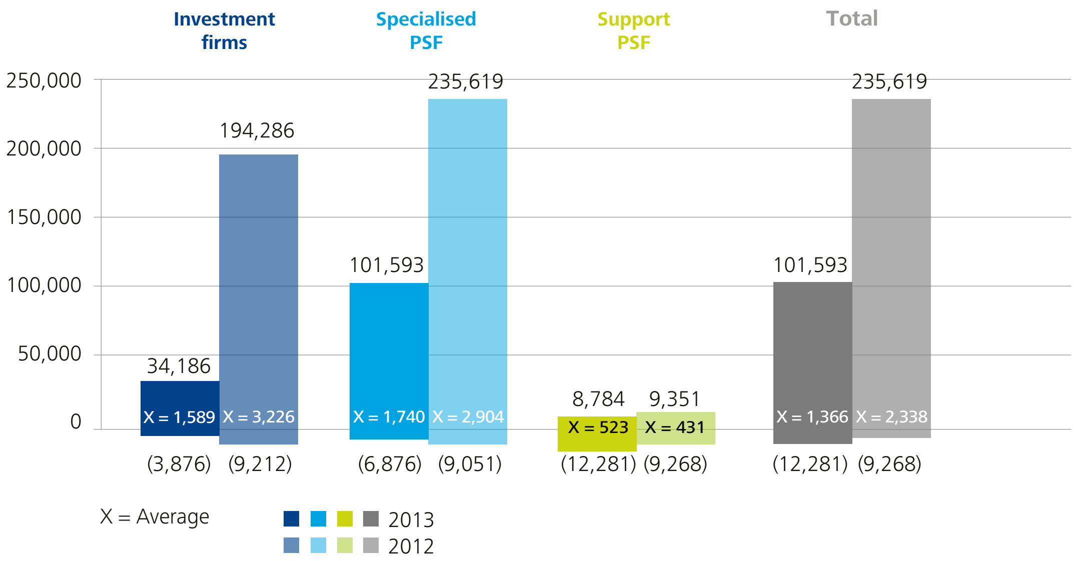
	Investment firms		Specialised PSF		Support PSF	
	2013	2012	**2013**	2012	**2013**	2012
Losses	**22%**	23%	**29%**	30%	**28%**	27%
Net profits between 0 et 100	**31%**	26%	**31%**	32%	**13%**	18%
Net profits between 100 et 5.000	**39%**	42%	**33%**	31%	**55%**	54%
Net profits > 5.000	**8%**	9%	**7%**	7%	**4%**	1%

Extreme results, i.e. a loss of more than €10 million and a profit above €100 million, are respectively achieved by one support PSF and one specialised PSF.

The average net profit of a PSF as at 31 December 2013 is €1.4 million.
Investment firms and specialised PSF have average profits of respectively €1.6 and €1.7 million (compared to €3.2 and €2.9 million in 2012). Support PSF post an average profit of €0.5 million (up from €0.4 million in 2012) with a greater spread in the profits of this category.

Together with the reduction in profit spread, this data also shows that the sector is moving towards greater stability and homogeneity.

Figure 7: Range and average net profit by PSF category as at 31 December 2013 (in €,000)



Distribution of the number of licences

As at 31 December 2013, the most widely granted licences are those under Article 28-6 'Family Office'. Created in 2013, this new licence is extremely popular. It has been granted to over 60% of PSF: 96% of investment firms and 78% of specialised PSF (including 99% of corporate domiciliation agents). It alone accounts for 15% of licences as at 31 December 2013.

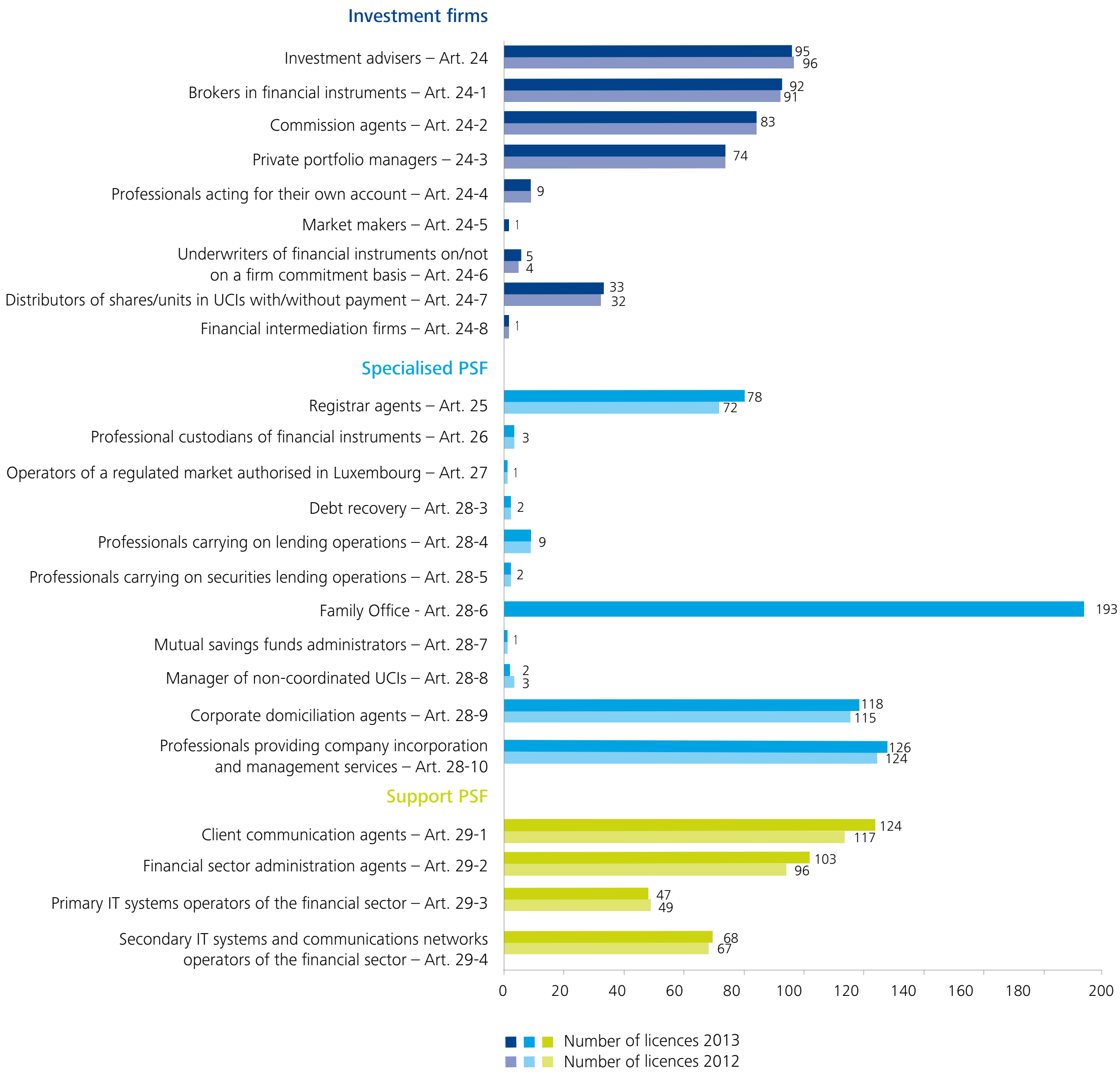
Nonetheless, not all of these PSF have begun working the licence and only 76% of companies with 'Family Office' status actually carry on this activity. The market therefore looks set to further invest and develop in this sector.

Apart from this remarkable rise, the three most frequent licences in 2013 are those under Articles 28-10 'professionals providing company incorporation and management services', 29-1 'Client communication agents' and 28-9 'Corporate domiciliation agents'.

These three articles account for nearly 30% of licences granted as at 31 December 2013. Licence applications for these three activities increased by 100%, 38% and 35% respectively between 2009 and 2013 (see Figure 9).

The 'Registrar agents' licence (Article 25) has also risen sharply, going from 51 in 2009 to 78 in 2013, i.e. +53%, as the 'Financial sector administrative agents' licence (Article 29-2) which went from 73 to 103 between 2009 and 2013, up 41%.

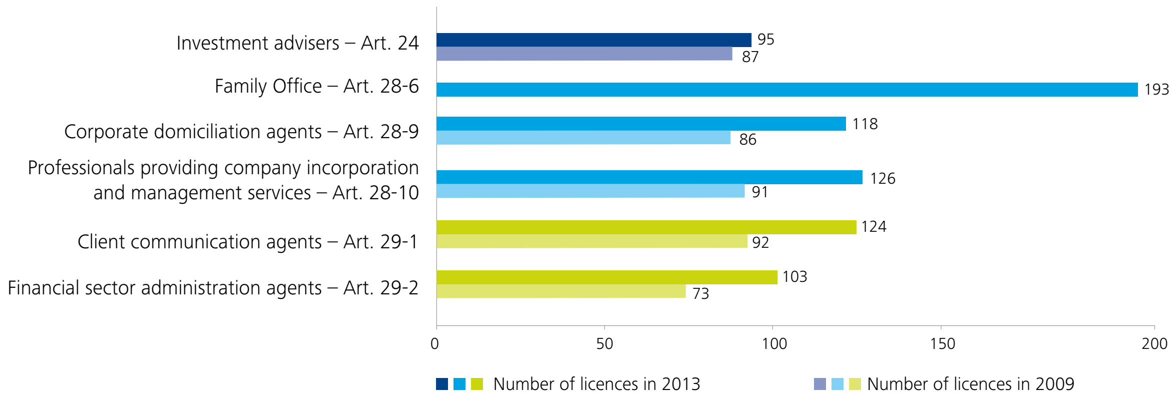
Figure 8: Total number of PSF licences as at 31 December 2012 and 31 December 2013



We can see that four of the licences have not been granted as at 31 December 2013.
These are licences under articles:

- 24-9 Investment firm operating an MTF in Luxembourg
- 26-1 Depositary of assets other than financial instruments
- 28-2 Person carrying out foreign exchange cash operations
- 28-11 Central account agent

Figure 9: Change between 2009 and 2013 in the main six PSF licences as at 31 December 2013



PSF are facing up to recession by broadening their range of services

PSF often tend to apply for more licences than necessary when they are setting up. They thereby hope to avoid having to make a subsequent application to the CSSF to extend their licence, which would become necessary if they decided to expand their range of activities.

The number of PSF licences granted is steadily rising (+42% between 2009 and 2013). An exceptional increase of 21% was seen in 2013, which represents 219 additional licences, including 193 Art. 28-6 Family Office licences.

For the first time since 2009, the most widely granted licences as at 31 December 2013 are those of specialised PSF (42% of licences in 2013, compared to 32% in 2012).

Figure 10: Change in and breakdown of licences since 2009

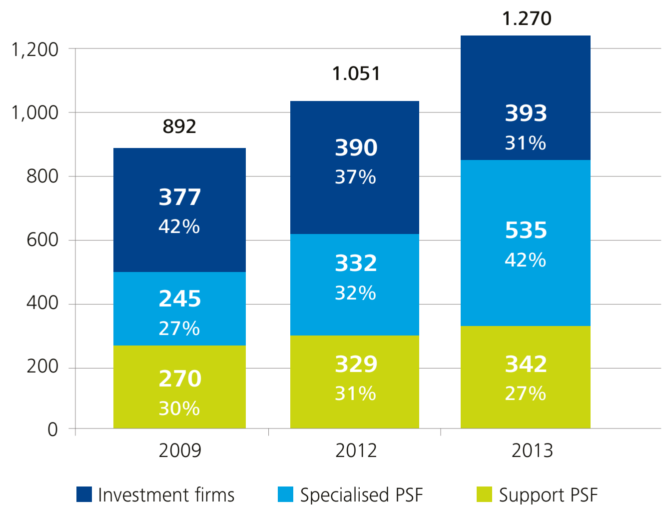


Figure 11 shows the licences granted or withdrawn by the CSSF in 2012 and 2013. They relate to:

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

In the past, the main changes seen have mainly been due to the creation or abandonment of PSF status. However, in 2013, a considerable number of PSF which already existed in 2012 applied for supplementary licences. They are mainly the Article 28-6 Family Office licence, granted to 182 existing PSF in 2013.

In addition to a certain "catch-up" effect relating to this licence, a trend is emerging: PSF are facing up to recession by broadening their range of services, an observation evidenced by the increase in the average number of licences held per PSF.

Investment firms mostly hold five licences (mainly Articles 24 to 24-3, as well as 28-6 Family Office). This distribution is less clear-cut for specialised PSF.

While most hold six licences, a significant number of specialised PSF hold only three. Lastly, a clear majority of support PSF have two licences (Articles 29-3 and 29-4).

Figure 11: Change in PSF licences over 2012 and 2013

Source of increases and declines in licences in 2013	Investment firms	Specialised PSF	Support PSF
PSF created	15	28	14
Existing PSF	10	189	9
PSF withdrawals	(22)	(14)	(10)
Total change in the number of licences	**3**	**203**	**13**

Figure 12: Distribution of PSF by number of licences as at 31 December 2013

Number of licences	Investment firms	Specialised PSF	Support PSF
1	1	22	**32**
2	2	6	**34**
3	4	**40**	5
4	5	2	11
5	**38**	5	-
6	**15**	**51**	-
7	9	-	-
8	5	-	-
9	5	-	-
10	10	-	-
11	2	-	-
12	3	-	-

Number of the most represented licences

Interview with Nicolas Mackel CEO of LuxembourgforFinance

In May 2013, you were appointed CEO of LuxembourgforFinance. Looking back, how do you view the past year?

I regard the year as one of spadework. A lot of work was done, including organising economic missions, attending several conferences, reviewing communication around the image of Luxembourg, running a new website with 150,000 visitors per year, introducing a strategy adapted to social networks, redefining our newsletter, etc., and all that in the context of the major paradigm shift. Transparency is now a widely established principle and an area in which Luxembourg must stand out.

Is there any key principle that guides your action?

Yes, the principle of highlighting the expertise available in Luxembourg's financial sector, in all lines of business such as banking and law, as well as the other professions like consulting, accounting, IT services, tax and audit. Luxembourg is a mature marketplace with a wealth of available expertise to offer the broadest range of services in the financial sector.

In other words, I would say that my main aim is to promote the entire Ecosystem of the Luxembourg financial marketplace.

Do you have a specific vision as regards Professionals of the Financial Sector?

PSF are a perfect example in this ecosystem. They provide a broad range of services and boast extensive expertise in many areas. PSF clearly demonstrate possibilities for development and they are a significant component in our communication to highlight the degree of expertise we have in Luxembourg.

My goal is also to attract new PSF players to Luxembourg by creating a virtuous circle: drawn by the leading entities already operating here, they will in turn attract others.

Therefore, PSF are clearly players that LuxembourgforFinance is keen to promote. I am also available to them and their representatives to develop useful initiatives for the marketplace.

1.2 The PSF: a consistent and steady employer

PSF employ 14,786 people according to the latest CSSF estimates as at 30 June 2014, i.e. 11,518 more employees than Management Companies and 11,168 less employees than Banks

Employment in PSF

Based on the survey carried out by the HCPF on the situation as at 31 December 2012, we estimate that the PSF sector (including support PSF) accounts for almost 4% of jobs of the working population in the Grand Duchy.

PSF are Luxembourg's second-largest employers in the financial industry, ahead of Insurance and Management Companies (figure 3).

The overall number of PSF employees was stable during 2013. Between 2008 and 2013, employment in this sector increased by more than 14%, whereas employment in banks declined globally by more than 3% over the same period. The first half of 2014 confirmed the erosion in banking sector employment (-1.1%) while employment in PSF continued to grow, albeit modestly (+0.4%).

The breakdown of employees by category of PSF remains stable year over year. Support PSF are represented most with 61% of jobs in the sector. Employees in investment firms and specialised PSF are equivalent.

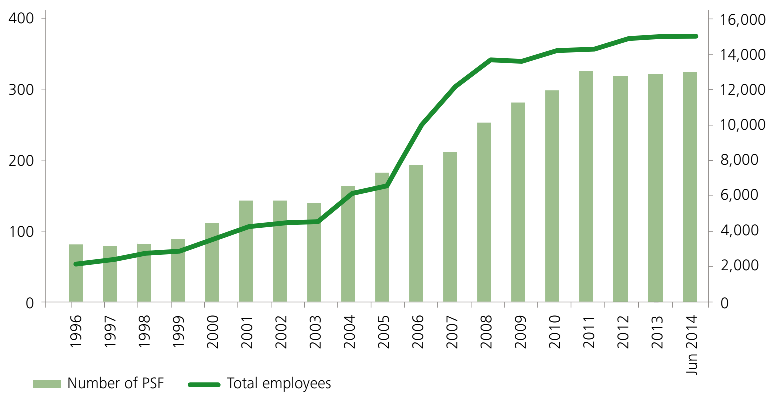
The number of employees of specialised PSF grew the most during the year (up by 5%, i.e. an additional 155 people). The workforces of investment firms and support PSF show a slight decline, respectively of 4% and 0.5%, in line with changes in the number of PSF per category.

In 2013, the change in the number of investment firm employees (-101 people) is partly due to three entities dropping their PSF status, representing almost 238 people. Taken individually, hiring in other investment firms remained low during the year.

The number of employees in specialised PSF increased by 155 reflecting an overall tendency to hire. However, significant hiring initiatives are cancelled out by equally significant exits.

Just like specialised PSF, the change in the number of support PSF employees (down by 52) is due to an overall decline in hiring. And again, significant hiring initiatives are cancelled out by equally significant exits.

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



The analysis that we conducted on the basis of PSF 2013 annual financial statements shows that most investment firms and specialised PSF have between 0 and 25 salaried employees. Investment firms employ 28.5 people on average, and specialised PSF 27.4. These average figures remain quite high thanks to a handful of entities generating a significant number of jobs:

- EFA, Intertrust and Union Investment Financial Services are three of the five investment firms which alone employ nearly 1,150 people (with over 100 employees each, EFA having more than 500). The workforces of these companies account for almost 45% of the total number of investment firm employees. Without these five entities, investment firms would have an average workforce of 15 people
- The number of specialised PSF employing more than 100 people is higher (nine as at 31 December 2013). Among them, there are five PSF with over 150 employees, totalling more than 960 people. These are particularly TMF, UBS Fund and SGG. Their total workforce accounts for more than 30% of specialised PSF employees. For comparison, without these five entities, the average staff of specialised PSF would be 18.5 people

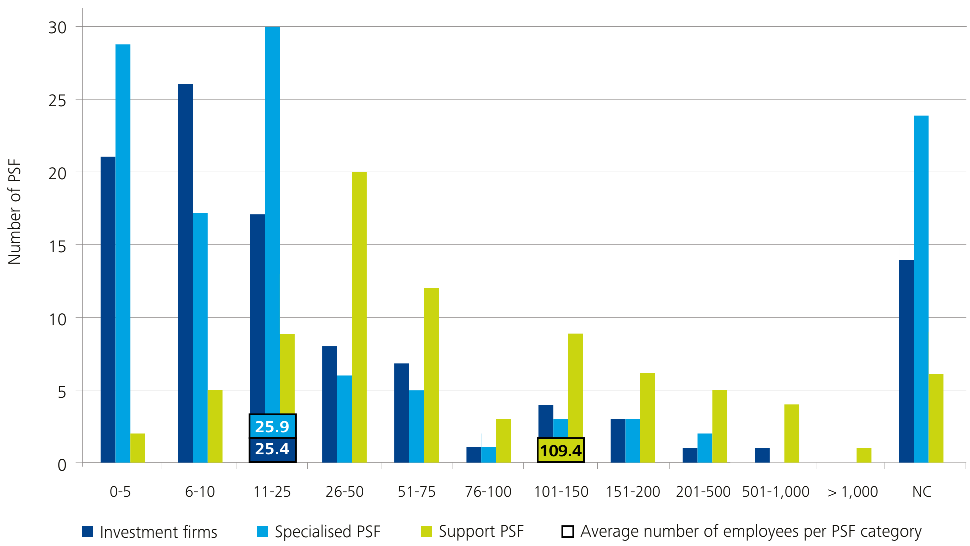
The dispersion in the average number of employees is the greatest among support PSF, most of which employ between 10 and 75 people. However, the average number of employees per support PSF is 123.1, a figure boosted by five PSF which each employ more than 500 people (totalling more than 3,700 employees, i.e. 41% of the sector's total workforce). See our analysis below for details of support PSF employees.

Without these five PSF, the average workforce of support PSF would be practically divided by two (with an average of 68.3 employees per PSF).

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

	2012		2013		Change	
	Total	Part	Total	Part	Total	%
Investment firms	**2,661**	**18%**	**2,560**	**17%**	**(101)**	**-4%**
Specialised PSF	**3,046**	**21%**	**3,201**	**22%**	**155**	**5%**
Support PSF	**9,023**	**61%**	**8,971**	**61%**	**(52)**	**-1%**
Total	**14,730**	**100%**	**14,732**	**100%**	**2**	

Figure 15: Distribution of PSF by employee bracket as at 31 December 2013



While the average profits of investment firms and specialised PSF are similar, employees of support PSF have relatively low average yield

Review of the results of PSF per employee

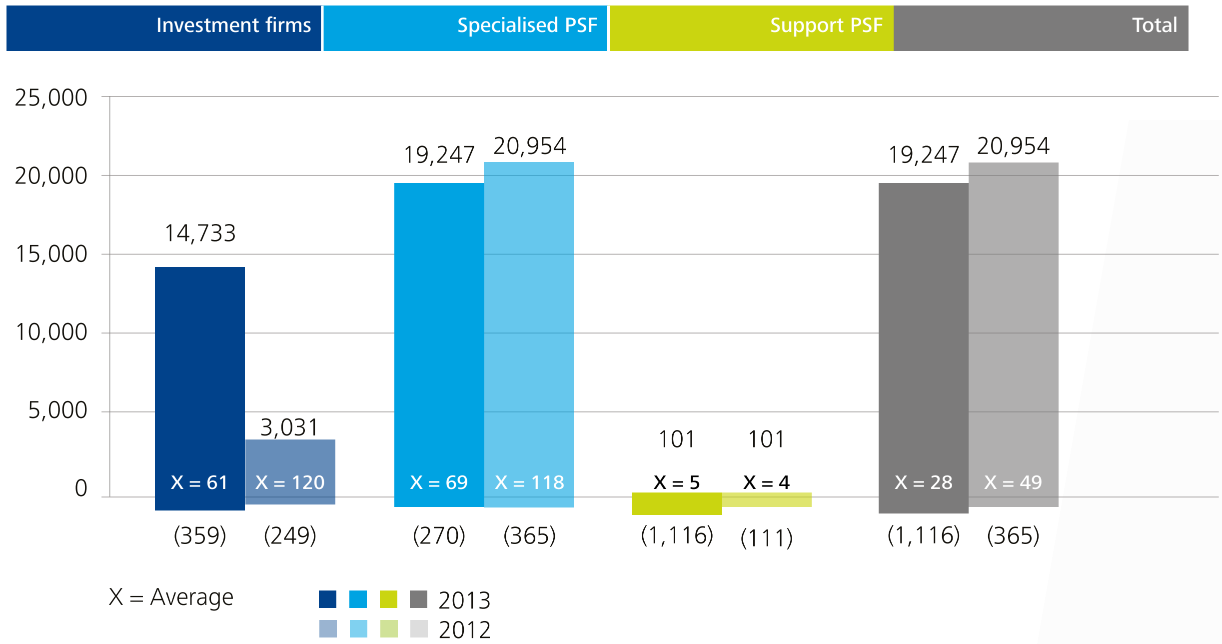
Following our analysis of PSF annual financial statements, we were able to calculate the average profit per employee.

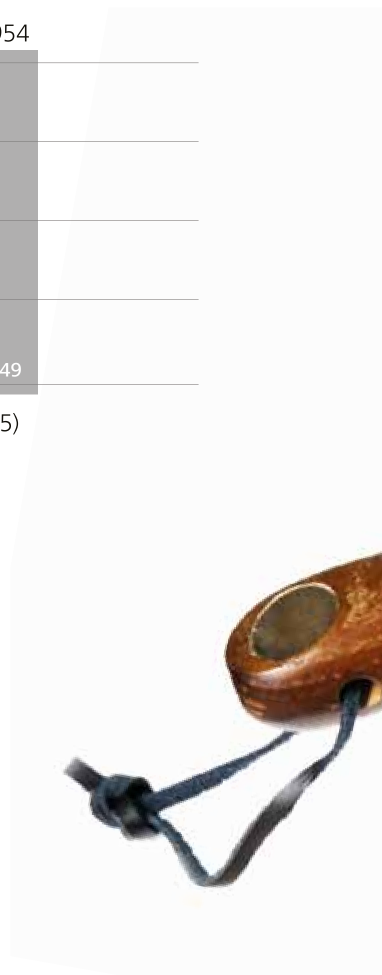
For all PSF, it amounts to €28.500 in 2013, against €48.600 in 2012. Specialised PSF show highly variable profit figures per employee (between -€270.000 and more than €19 million per employee).

Average profits per employee were almost divided by two between 2012 and 2013 for investment firms (€61.000, compared to €120.000 in 2012) and specialised PSF (€68.000, compared to €118.000).

Average profits per employee of support PSF remained stable (€4.800 in 2013, versus €4.000 in 2012).

Figure 16: Range and average net profit per employee as at 31 December 2012 and 31 December 2013 (in €,000)





Details of the support PSF workforce

We can see that employees of support PSF account for 61% of all PSF staff. Security and IT services are the activities that generate so many jobs. Thus:

- G4S and Brink's Security (in the security sector) alone employ more than 2,000 people (almost 14% of total PSF staff and 23% of the support PSF workforce)
- Clearstream Service, Sogeti and IS4F (which offer IT solutions and services) also employ almost 1,700 people (i.e. nearly 12% of the total PSF workforce and 29% of the support PSF workforce)

The employees of these five entities account for more than half the employees of support PSF and more than a quarter of the total PSF workforce.

The rate of female employment in 2013 was 21.2%. It remains stable compared to previous years, but well below the rate in banks, which was 46% at the end of 2013. The nature of support PSF, which mainly focus on IT or protection, largely explains this situation.

Figure 17: Breakdown of jobs by employee category in support PSF

	2013	2012	2013/2012 change
Executives	586	585	1
Employees	8.385	8.431	(46)
Including part time	*850*	*849*	1
Total	**8.971**	**9.016**	**(45)**
Including men	**7.067**	**7.058**	**9**
Including women	**1.904**	**1.958**	**(54)**
Female employment rate	**21,2%**	**21,7%**	

PSF and employee taxation

ARTICLE

Pierre-Jean Estagerie
Partner
GES-Global Employer
Services Leader
Deloitte Luxembourg

Following our analysis detailing the employment structure of PSF in Luxembourg (change in employee numbers, distribution by category of PSF, gender diversity, etc.), this year, we address the topic of tax on their salaries.

A carefully worked out salary structure not only increases employees' net pay, it also helps secure their loyalty and, in some cases, reduce the total cost for employers. In this respect, we should immediately add that there is no justification for the basic premise that an employer must be sufficiently large to offer a fiscally attractive salary structure.

Not forgetting traditional meal vouchers, company cars and expat schemes, we will focus on three key components: bonus/warrant schemes, supplementary pension schemes and interest subsidies. An optimal combination of the three systems can significantly reduce an employee's average rate of taxation.

Bonus or warrant schemes

Cash bonuses are taxable in full and subject to the employee's marginal tax rate which can reach up to 45% (dependency contribution included), whereas discretionary bonuses paid as warrants (requiring at least six months' payment deferral) are taxed at between 13 and 15%. Therefore, for any gross bonus of €1,000, up to €300 tax savings can be made.

These schemes thus boost employees' net bonuses or reduce the cost for the employer for the same level of net pay. In practice, an intermediate or 'win-win' solution is most often adopted.

While in the past some uncertainty remained as to the future of these schemes, they are now governed by various provisions (administrative circulars, Ministerial notes, and replies to parliamentary questions). Their implementation is thus accepted by the tax authorities provided that the "reasonableness" criterion defined by the various documents are met (e.g. scheme applicable to executives within a maximum proportion of their salary).

Supplementary pension schemes

Although often used by employers of a large workforce, this solution is adapted to any employer, regardless of size.

As supplementary pension schemes are set up at the employer's discretion, the lawmaker sought to grant employers significant freedom of action. These schemes may benefit a company's entire workforce or only certain employee categories (provided the categories are objectively selected). They may provide pension cover, death, disability and survival insurance, and be fixed-premium or fixed-benefit plans.

The employee salary structure is beneficial both for the employee and the employer

As regards taxation:

- Employer premiums are subject to a fixed tax of 20% (plus a contribution of 0.9%) paid and borne by the employer. This tax and the employer contributions are deductible as operating expenses insofar as they concern premiums that do no exceed 20% of the employee's ordinary annual pay
- The employee's personal contributions are deductible, as special expenses, up to an annual amount of €1,200. The benefits subsequently received by the employee under the scheme are exempt from tax for taxpayers who are residents of Luxembourg. This exemption also applies to Belgian and German residents under tax treaties signed by Luxembourg with these countries (provided that the employer premiums were subject to tax at the time they were paid into the scheme by the employer)

Interest subsidies

An interest subsidy is a refund by the employer of the interest that an employee pays on loans taken out in a private capacity (with their partner or otherwise). The subsidy corresponds to the interest the employee has effectively paid during the current year. The loan may be either a mortgage or a consumer loan.

Subject to conditions, this interest refund may be exempt from tax: (i) €3,000 or €6,000 exemption per year depending on the taxpayer's family situation and country of residence for a mortgage and (ii) €500 or €1,000 per year depending on the taxpayer's family situation and the country of residence for a consumer loan.

The employer's refund of interest paid by an employee is generally associated with payment to the employee of a discretionary bonus. This system allows employees to receive a part of their bonus tax free.

Lastly, it is worth noting that no social security contributions are payable in respect of interest subsidies, either by the employer or the employee, even when the refunded amounts exceed the tax exemption ceilings. Refunding employee interest is therefore advantageous both for employees and the employer in terms of social security taxes.

To conclude, studying the employee salary structure is beneficial both for the employee and the employer as it can increase net pay, reduce employer costs and secure employee loyalty. The "secret" lies in awarding each component of the package in the right proportions!

2. Types of PSF

2.1 Licences in detail

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

Article Licence
Minimum capital or financial base

Authorised to act as →

Investment firms

24
Investment advisers
€50,000

24-1
Brokers in financial instruments
€50,000

24-2
Commission agents
€125,000

24-3
Private portfolio managers
€125,000

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

24-5
Market makers
€730,000

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

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

24-8
Financial intermediation firms
€125,000

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

Specialised PSF

25
Registrar agents
€125,000

26
Professional depositaries of financial instruments
€730,000

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

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

28-2
Currency exchange dealers
€50,000

28-3
Debt recovery

28-4
Professionals performing lending operations
€730,000

28-5
Professionals performing securities lending
€730,000

28-6
Family Offices
€50,000

28-7
Mutual savings fund administrators
€125,000

~~**28-8**
Managers of non-coordinated UCIs
€125,000~~

Repealed by the law of 12 July 2013 on alternative investment fund managers

28-9
Corporate domiciliation agents
€125,000

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

28-11
Central account keepers
€730,000

Support PSF

29-1
Client communication agents
€50,000

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

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

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

29-5
Draft legislation on dematerialised PSF

29-6
Draft legislation on conservation PSF

The appendix includes a summary table of the key information on PSF by type of licence, the legal definition of the licence and products and services offered, the minimum required capital and, where applicable, the amount of civil liability insurance required by law in order to carry out the activity.

Due to the high number of statuses that are largely unrelated to one another, there are theoretically billions of possible combinations of licences. Yet, as at 31 December 2013, there were only 318 PSF. It is therefore interesting to look at the main combinations of licences that these PSF hold.

Figure 18 shows the licences by main category and the overlaps between categories as at 31 December 2012 and 31 December 2013. PSF have the option of combining several licences, but it is the principal licence of the PSF, allocated by the CSSF, which determines the PSF category.

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

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

By deduction, support PSF do not have investment firm or specialised PSF status.

The total number of PSF included in this analysis as at 31 December 2013 was 307:

- 99 investment firms
- 126 specialised PSF (96 players with investment firm status have already been identified above and are therefore not counted as specialised PSF)
- 82 support PSF (88 players with investment firm and specialised PSF status have already been identified above and are therefore not counted as support PSF)

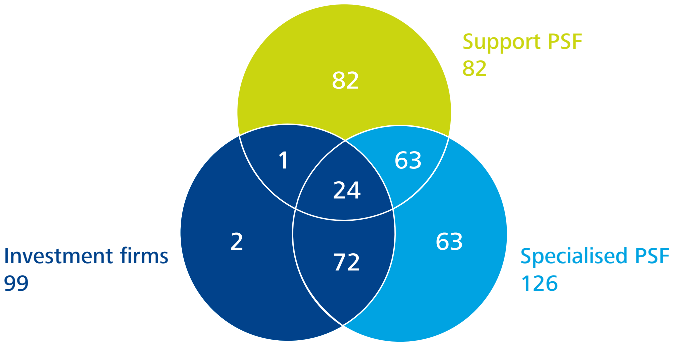
Entities with a status pursuant to Articles 24 to 24-9 have been classified as investment firms. Specialised PSF are entities with a licence under Articles 25 to 28-11. Support PSF are entities that only have licences under Articles 29-1 to 29-4.

Of the 318 PSF in existence as at 31 December 2013, 11 PSF that are branches of European entities have been excluded (as in 2012).

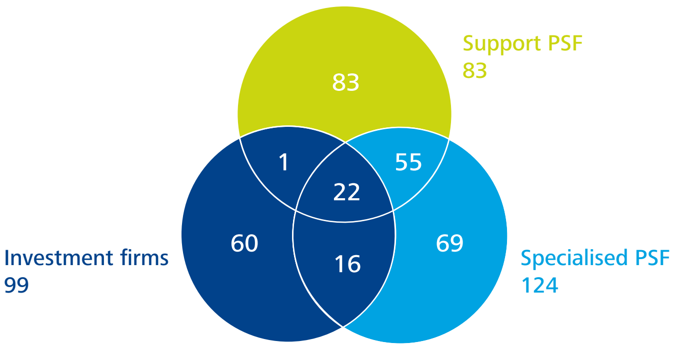
These branches are part of foreign entities that are not subject to the Luxembourg Law of 5 April 1993, as amended.

Figure 18: Licences of PSF by category

At 31 December 2013



At 31 December 2012



2.2 Investment firms

Unlike the other two categories of PSF, investment firms have a European passport for the distribution of their products and services. They 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 2013 and 31 December 2012 was 99.

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

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

Only one investment firm does not hold any of these four licences.

Almost 75% of investment firm PSF have all four licences.

The other licence widely held in investment firms corresponds to the status of distributor of shares/units in UCIs (Art. 24-7), in one third of investment firms.

Many of these PSF also hold additional licences relating to other PSF categories. While all investment advisers have applied for the Family Office licence (Art. 28-6), half say that they do not (yet) carry on this activity as at 31 December 2013 (and in August 2014). They do, in principle, intend to do so.

The other additional activities are quite uniform and primarily concern providers of company incorporation and management services (Art. 28-10), administrative or client communication agents (Art. 29-1 and 29-2), registrar agents (Art. 25) and corporate domiciliation (Art. 28-9) (Figure 19).

While the licences held by investment firms remained flat between 2012 and 2013, except for Art. 28-6 Family Office (see Figure 19), we have nonetheless seen an overall increase in licences since 2009.

Figure 19: Licences granted to investment firms as at 31 December 2013

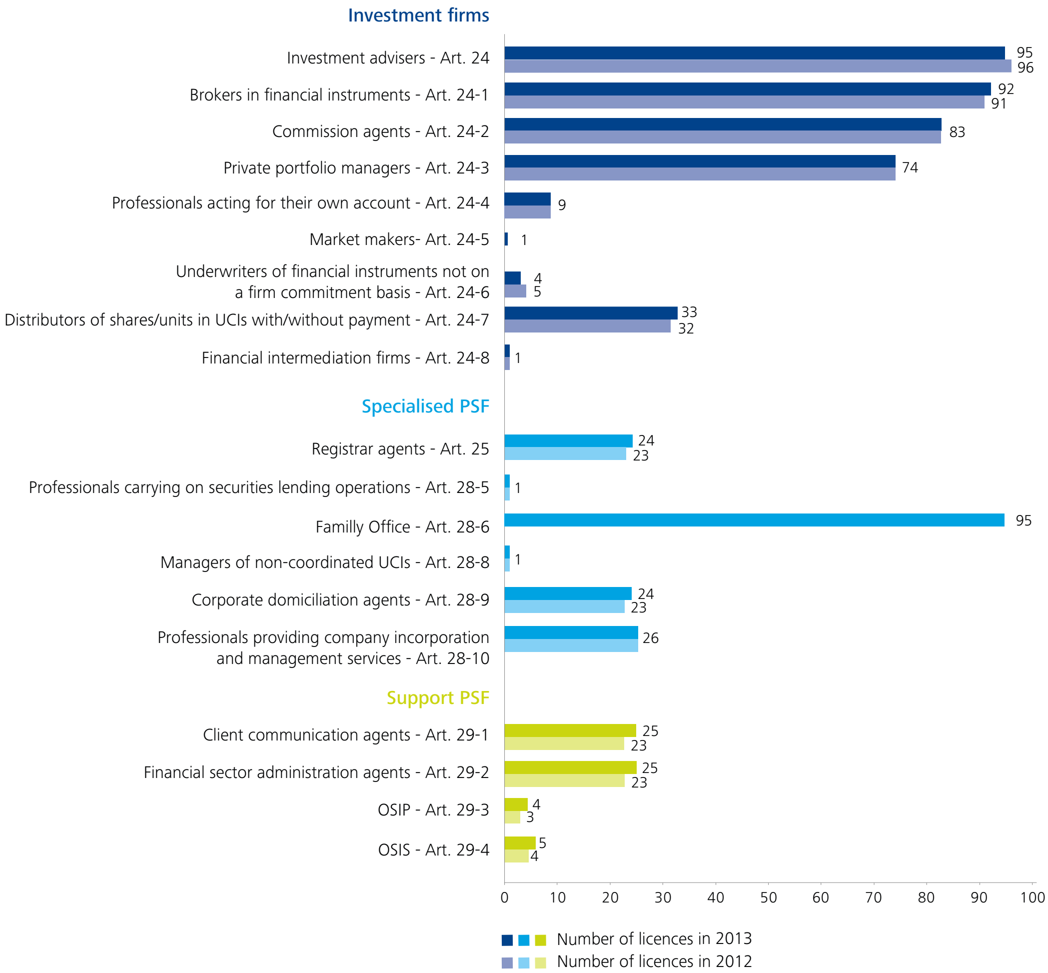
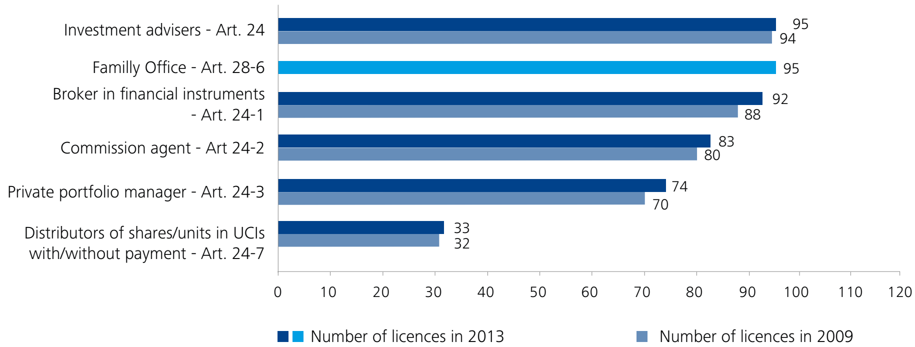


Figure 20: Change between 2009 and 2013 of the six licences held by the main investment firms as at 31 December 2013



Three questions to Vincent J. DERUDDER Chairman of the NUCLEUS Group Honorary President *(and founder)* of the FECIF *(European Federation of Financial Advisers and Financial Intermediaries)*

What are your feelings about the Luxembourg financial market, and especially about brokers and private portfolio managers?

November 2014 will be an important month for all FECIF members, and maybe for our Luxembourg members in particular. In Luxembourg, the FECIF concerns the members of the ALPP and life insurance brokers. A new European Commission will be elected and we will then know who is succeeding Mr. Barnier and have an idea of his policy and roadmap.

As to my feelings about the situation of private portfolio manager PSF and brokers, it varies! Sometimes, I think I can see the beginnings of regulatory simplification and I even feel that the profession and the Luxembourg marketplace are less viciously portrayed as an evil. This situation clearly stems from the political posturing of European Member States which are all in need of more money to cover their deficits, causing Luxembourg's image to be exploited outside our borders.

The future role of England remains the major point of uncertainty. Mr. Junker will no doubt take the necessary steps so that England remains in the EU, but many concessions will have to be made. England itself is not sure of its position –swaying between some liberal and anti-European populist pressures and the demon 'nanny state' driven by the Labour Party, certain intellectual circles and the FCA (Financial Conduct Authority), which supports these progressive concepts and defends tighter regulations and a stricter interpretation of European standards.

In the end, there are no longer any 'Belgian dentists' in Luxembourg and non-professional investors have packed their bags. The motives of Luxembourg's private banking clients are different today. They are no longer focused on direct taxation which is less important to many because they already live elsewhere.

What are the real challenges facing the Luxembourg financial marketplace?

Clients above all used to come to Luxembourg for the confidentiality they were assured of. But why would they come today? The real challenge lies in drawing real new clients to Luxembourg.

In other words, Luxembourg has lost its 'captive' client base of Belgians, Germans, French, Italians, etc. The country must now find other clients. South Americans? Why would they come? Russians? They must no doubt manage their stability risk and envisage a 'post-Putin' era for which Luxembourg wouldn't be of any particular benefit.

Can a €10-million client bring in as much as ten clients each worth €1 million?
A change is also needed in the services that Professionals of the Financial Sector must provide. Because a €10-million client does not expect the same services. He is probably more informed, more challenging about the services he receives and fees he pays. And most importantly, he is much more mobile and potentially less loyal.

The challenge lies in drawing real new clients to Luxembourg

What opportunities can the marketplace place its hopes in to rebuild its future?

If Luxembourg were in a fully harmonized Europe, it would shut up shop. But then... there are two kinds of harmonization: tax harmonization and regulatory harmonization.

Complete tax harmonization would be a problem for Luxembourg; of course there are taxes, but in the rivalry between Members States to attract business, low taxes are still an asset. And the situation in the U.S. is the best evidence of that.

Paradoxically, regulatory harmonization would be a plus, as Luxembourg would have unrestricted access all round. What's more, Luxembourg is one of the countries in which regulations are already the most strictly enforced. More catholic than the Pope, the Luxembourg marketplace has made every effort possible, under the critical eye of its larger neighbours. So it has no fear now of this trend becoming widespread in Europe, quite the reverse! Regulations come at a cost, so if its bigger neighbours apply them as strictly as Luxembourg does, that would enhance the country's relative competitiveness.

Furthermore, the marketplace has not lost all its assets and can still rely on them: a good 'toolkit' with everything you need to provide asset structuring, a pool of experts (managers, business lawyers, consultants, bankers, corporate domiciliation agents, auditors, etc.), a European passport, an attractive geographical and cultural location (at the heart of Europe), a good image as being worthy of trust and the ability to serve all foreign clients whatever language they speak.

ISAE 3402 and SSAE 16: Boost confidence and transparency

ARTICLE

Laurent Berliner
Partner
Governance, Risk & Compliance Leader
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In response to the development of outsourcing combined with the confidence crisis that has shaken the international economic and financial system, the use of *"assurance reports on controls at a service organisation"* has steadily increased for more than two decades.

Further to the American SAS 70 standard, the leading international reference until 15 June 2011, the two new standards -one international (ISAE 3402) and one American (SSAE 16)- have confirmed this trend. This process is part of the aim for greater transparency.

With a view to cost efficiency and rationalisation, companies are focusing more on their core skills and increasingly outsourcing those activities where their competitive advantages are weaker.

However, the risks involved in outsourcing activities must be managed. Therefore, companies using third-party services which have a direct impact on the presentation of financial information must make sure that appropriate and adequate controls are in place at their service providers.

The ISAE 3402 / SSAE 16 report addresses the description, design and operational effectiveness of internal controls relating to the wide range of services that service providers can offer.

There are two kinds of report:

- A type-1 report: which provides independent assurance on the suitability of the design and implementation of controls;
- A type-2 report: which provides independent assurance on the suitability of the design, implementation and operational effectiveness of controls over the period covered by the report (at least six months).

Marketing tool and competitive advantage

A service provider with an ISAE 3402 / SSAE 16 report has a real competitive advantage as regards client expectations.

The report boosts the service provider's image, the aim being to independently demonstrate to clients that the company's procedures provide adequate control of its activities with regard for internationally recognised standards.

The report also provides clients with key information about the service provider organisation and governance.

> A service provider with an ISAE 3402 / SSAE 16 report has a real competitive advantage as regards client expectations

Risk management tool

The ISAE 3402 / SSAE 16 report provides an overview of the organisation allowing a better understanding of its risks and related control environment. It is therefore a real risk control and governance tool for senior management.

Continuous assessment and improvement

The ISAE 3402 / SSAE 16 report also drives continuous improvement. It assesses the adequacy of control procedures and gives reasonable assurance of the operational effectiveness of controls in place. It identifies the main shortcomings of processes and systems, thus providing leads for improvement within the framework of an ongoing process quality enhancement initiative.

Examination extended to new service providers and future prospects

The ISAE 3402 / SSAE 16 report is currently used widely in the financial instrument investment fund industry, particularly at PSF operating as financial sector administrative agents, and registrar agents, but also among depositary banks and management companies. Further with the growth of Alternative Investment Funds (AIF), its use will no doubt extend to *"professional depositaries of assets other than financial instruments"*, more commonly referred to as 'special depositaries'.

Since 2012, this official examination initiative has also become the standard among other PSF, in particular corporate services providers such as 'corporate domiciliation agents' and 'professionals providing company incorporation and management services'. There is no doubt that other categories of PSF will follow suit.

2.3 Specialised PSF

Unlike investment firms, specialised PSF do not benefit from the European passport, but may carry on financial activities in Luxembourg. There are 126 specialised PSF as at 31 December 2013, versus 124 in 2012.

This category covers three main sub-groups.

The first sub-group includes 98 Family Offices (Art. 28-6). We note that:

- They also hold licences under Art. 28-10 as professionals providing company incorporation and management services (in 100% of cases) and Art. 28-9 as corporate domiciliation agents (in 95% of cases)
- Half of them hold licences as registrar agents (Art. 25), client communication agents and financial sector administrative agents (Art. 29-1 and 29-2)

The second sub-group includes 54 registrar agents (Art. 25):

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

Figure 21: Licences granted to specialised PSF

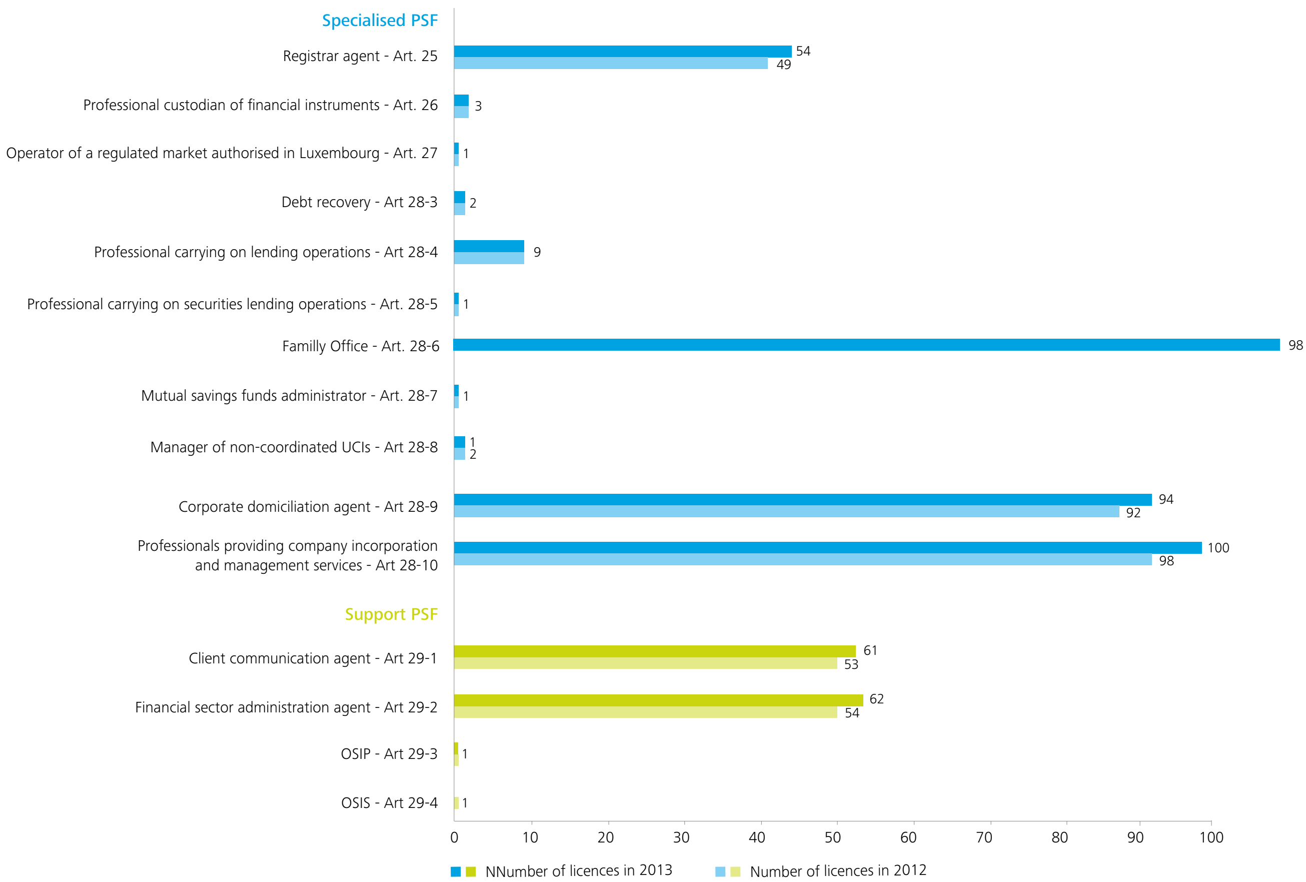
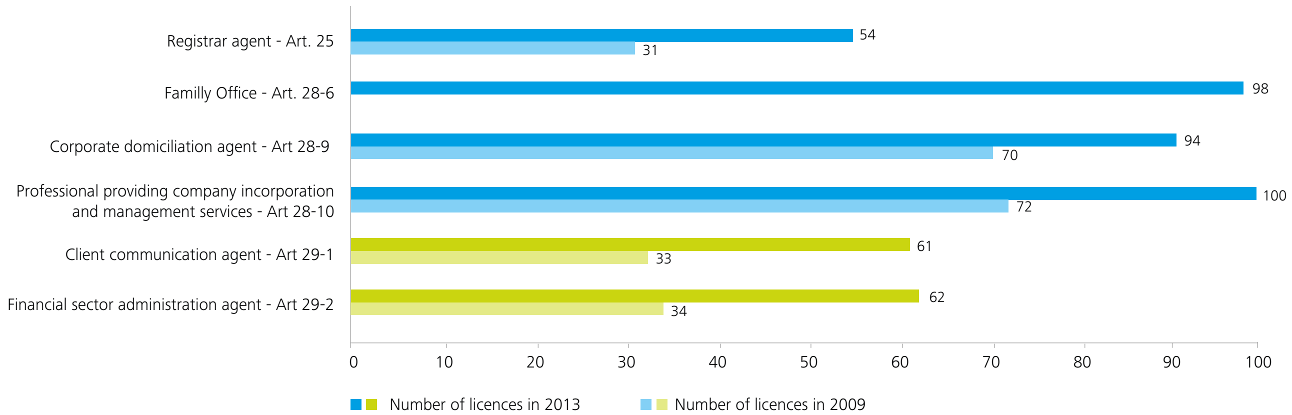


Figure 22: Change between 2009 and 2013 in the six licences held by the main specialised PSF, as at 31 December 2013



The third and last sub-group includes 9 professionals carrying on lending operations (Art. 28-4). This licence appears to be unique in that, apart from one case, it is not held together with any other status. These are mainly subsidiaries of banks such as BIL, ING or BNP, and also subsidiaries of international groups such as PK Airfinance. These entities carry on financial or operational leasing activities.

The number of licences held by specialised PSF increased from 367 in 2012 to 488 in 2013 (Figure 21). This 33% growth is particularly due to the success of the Family Office licence under Art. 28-6.

Between 2009 and 2013, the number of specialised PSF licences rose from 255 to 488, which is a 91% growth over 4 years. Except for the Family Office licence launched in 2013, the most spectacular increase in specialised PSF licences over this period is that of licences specific to support PSF, under Art. 29-1 and 29-2 (+85 and +82% respectively).

Three questions to Eric Magrini, CEO of Corporate & Private Client solutions – Capita Asset Services

What are your feelings about the Luxembourg financial market and specifically that of corporate domiciliation agents?

The corporate domiciliation agents market is constantly changing, and today, true to its reputation, it is taking yet another corrective and somewhat sluggish turn. The profession is tentatively feeling its way forward and adapting. Long-term visibility in our business is a challenge. It hinges on so many external factors that professionals would be tempted to keep themselves to only medium-term strategic decisions. However, this strategy is essentially based on short-term returns, which does not ensure any business sustainability and does not bring the positive momentum that a long-term project can generate. When I wonder what our business will be like tomorrow and I imagine myself in the future world of domiciliation, the image of the Atomium comes to mind, representing the radiation of our one-stop-shop concept.

According to this principle of atomization, corporate domiciliation companies which used to provide a client with a range of services in a single place, would now offer a very diverse range of services. The client would use the services of specialised professions, under a charter centrally organised at the headquarters of a multipurpose structure encompassing all the professions directly related to corporate domiciliation, and thus meeting clients' changing needs and all the specific, legal and regulatory quality criteria. The true nature of clients is changing. The market now attracts fewer but larger clients, operating on the whole in various countries; the client base is more international and more corporate. This change requires sophisticated, almost tailor-made services and the right professional resources providing top-quality services, all for much narrower margins. The impact on profitability mainly stems from the drop in prices induced by competition within the profession, as the various crises have repeatedly disrupted international finance and made investors more nervous; but it is also due to the structural costs incurred to comply with and apply the regulatory requirements imposed by regulators.

The challenge not only lies in coping positively with future uncertainties and turning any change into a professional opportunity. We must also make sure that all entities are supervised by the same body, to avoid any form of unfair competition and conflicts of interest, and that they are treated on an equal footing as regards both requirements and development.

Is 'fiscal driver' still an appropriate description? Taxation is no longer the only or the main goal. Tax optimization is still of course an important factor when groups choose Luxembourg for their holding company or financial vehicle. However, there is no doubt that this point would not be sufficient without the other attractions and tools available to us that contribute to Luxembourg's appeal: its central geographical location, the multilingual aspect, the variety of professionals offering real expertise, the performing banking system, and the stable, accessible and proactive government. All these factors contribute to the excellence of the Luxembourg marketplace whose reputation extends far beyond the borders of Europe.

What are the real challenges facing the Luxembourg financial marketplace?

The challenges we face are no different from those facing the other financial sector professions. There is the same constant need to attract, retain and develop as much human capital as clients; the need to cope with the changeability and uncertainty caused by the instability of the financial environment which comes up against legal and regulatory obstacles that disrupt all continuous positive momentum; and finally, the constant need to innovate in a relatively compartmentalized profession in which competition is fierce.

Indeed, one of the challenges is ensuring that the typical employee profile continually adapts to the changing needs of clients with specific, new or more specialised skills. It is therefore crucial to integrate quality training plans tailored to real needs, not only to improve skills, but also to strengthen the legitimacy of the corporate domiciliation agent's role, as it is always at the forefront in strategic international transactions. The development framework must be as varied as our profession can be and respond to needs for learning in accounting, tax, compliance, and legal and regulatory matters, all in an international context.

The question arises of how companies can attract high value-added human resources and bear the cost of retaining them and their families, without affecting profitability. And here, the authorities have a role to play.

We then note that while the severity of some laws, the increase in prudential controls and the reports required by regulations or directives do lend credibility to our economy, they also generate significant committed costs.

The application of different rules between different market players is also a point that demands attention. PSF operating under the authority of the CSSF incur significantly higher regulatory and committed costs than other entities carrying on domiciliation activities as self-regulated professionals. The criminal liability of directors is also worrying and should be clarified.

Lastly, we feel that innovation and creativity will allow us to offer services and solutions that meet the needs expressed by our clients who expect PSF to be much more active and committed.

We have further proven our responsiveness and our ability to innovate -and thus preserve our leading role- by offering a multitude of new services stemming from substantive tax issues, corporate governance, AIFMD, FATCA, BEPS, but also in connection with Trusts, Foundations, Family Offices, Freeport, and Data-protection centres, etc.

What opportunities can the marketplace place its hopes in to build its future?

Luxembourg has two major assets: its clients, who are the best channel for advertising our skills, and its professional and competent human capital. Luxembourg can and must leverage its excellent location in the centre of Europe; its diversity and its multilingual and multicultural facet, which allow us to welcome clients from all over the world; its young, but nonetheless skilled labour force; its government that has long been prepared to support the marketplace and encourage its development; and the professionals who are ever committed to building a successful financial marketplace known for its outreach, professionalism and dynamism.

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We should not be ashamed of what we have accomplished and the skills we possess - quite the contrary

The Luxembourg Special Depositary: a success story?

ARTICLE

Simon Ramos
Partner - Strategy, Regulatory & Corporate Finance
Deloitte Luxembourg

Alongside, AIFMD transposition into Luxembourg law in July 2013, Luxembourg decided to exercise the directive's member state option to allow certain Alternative Investment Funds to use a professional entity that does not necessarily qualify as a bank or investment firm as its depositary. Newly added Article 26-1 of the Luxembourg Financial Sector Act of 5 April 1993, introduces a new specialised PFS (professional of the financial sector) category, called *"professional depositary of assets other than financial instruments"*, or more commonly known as 'special depositary'.

This new special depositary can either be appointed directly by the AIF, or act as a delegate of the AIF's single depositary. It may however only be appointed as a special depositary of Specialised Investment Funds (SIF), Investment Companies in Risk Capital (SICAR), or other Luxembourg or foreign AIFs as per the AIFMD, provided that these have no redemption rights exercisable for at least five years after the date of the initial investment, and that they mainly invest in assets that cannot be held in custody or invest in issuers or non-listed companies as a means to acquire control thereof.

Luxembourg, thereby accounts for the specific expertise required to perform the AIF depositary duties for alternative assets which go beyond brick and mortar safekeeping functions for real-estate, private equity and other infrastructure assets: bottles of wines, art, life settlement policies, race horses, antique weapons, musical instruments, photographs, diamonds, rare books or manuscripts.

Increased diversification of non-financial assets comes with an increased, if not exponential, complexity to fulfil depositary duties under AIFM. The actual safe keeping typically involves a specialised 3rd party (e.g. a bank's vaults for precious stones or metals, a horse stable for race horses, or special tanks for petrol storage) and the Special Depositary must implement processes to ensure verification of ownership rights over the non-financial assets, the monitoring of these assets and the transactions involving them, record keeping and the monitoring of cash inflows and outflows. On top of these duties, the depositary needs to assume oversight of Net Asset Value Calculation, of the independent valuation of the assets, and of the AIF's income calculation and distribution process.

A need for evolution

An entire thinking, acquisition and recordkeeping process initially designed for financial products needs to be transposed to such an asset class. Ultimately, investors should benefit from an equivalent due care from the depositary irrespective of whether their assets are financial instruments or not.

Answers to these questions might sound obvious. They are not. On the contrary, addressing them in a professional manner across the entire value chain and in the spirit of a depositary of assets under AIFMD requires the thorough understanding of a highly specialised service provider, and strong processes that are entirely adapted to the specific needs of an asset class. Both large banks and small firms will face considerable operational challenges in order to meet special depositary requirements.

Established Depositary Banks dealing with conventional investments such as equities, bonds or mutual funds today do not possess the specific expertise and knowledge of such alternative assets, but also lack the adequate organisation, infrastructure, and legal framework to take into account the very specific needs of the different types of non-financial assets.

Similarly, specialised PSF providing central administration will have to adapt its organisation not so much to cope with the specifics of the asset class but rather on its organisation and governance, evidencing the required Chinese wall between central administration and the depositary bank departments. The latter could explain the rather low number of PSF special depositary licences granted by the CSSF within the first nine months: 7.

Nevertheless, entrepreneurs in Luxembourg have recognized and increasingly seize the new opportunity to establish special depositaries: new applications have been filed with the regulator and more are to come as internal projects are still on-going for some actors in the marketplace, in addition to potential newcomers still sizing the real opportunity to have a Luxembourg presence.

Towards a Pan European approach

Regional coverage starts to be at the forefront to address cross-regional client demand. Offering products from multiple jurisdictions, fund promoters and asset managers are targeting to construct an efficient service provider landscape to streamline communication flows and benefit from equivalent service level standards for their products in different domiciles.

United Kingdom and the Netherlands have similarly to Luxembourg, also adopted the optional AIFMD provisions for AIF Depositaries. It ought not to be of any surprise that groups which have obtained the new PSF depositary licence in Luxembourg, have or are currently in the process to obtain the equivalent licence in some other jurisdictions to extend their service offering capabilities to address pan-European client demand.

One key element to keep in mind when launching your Special Depositary service is how to deal with the up-to 30% of the portfolio invested in financial assets and/ or cash. We are talking here mainly about cash management including currency overlay, money market instruments and time deposits.

With more than 120 fund promoters with focus on Private Equity and Real Estate, with over 250 funds invested in alternative assets, we see particular competitive advantage in crafting a holistic service proposal through the combination of several licenses, offering comprehensive solutions tailored to the needs of an AIF including a strong relationship with a 'traditional' bank that offer a comprehensive cash management capacity.

Entrepreneurs in Luxembourg increasingly seize the new opportunity to establish special depositaries

2.4 Support PSF

Just like specialised PSF, support PSF do not have the benefit of a European passport. More than a quarter of these entities are local and are not part of a group.

In a few isolated cases they belong to banks, but the majority belong to specialist IT groups (such as Xerox, IBM, HP, Tata, Atos, CSC).

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

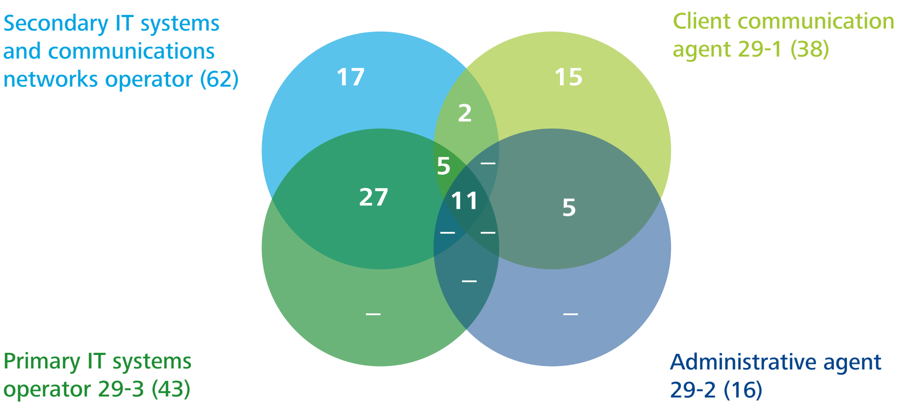
The first group includes client communication agents under Art. 29-1 (38 entities), coupled in 50% of cases with Art. 29-2 as financial sector administrative agents.

Remember that administrative agents are automatically authorised to carry on activities as client communication agents.

The second group includes 62 IT PSF under Art. 29-4 as OSIS which are supplemented:

- In 43 cases by OSIP licences (Art. 29-3). OSIP (Art. 29-3) are automatically authorised to carry on OSIS activities (Art. 29-4).
- In 22 cases by licences under Art. 29-1 or 29-2

Figure 23: Distribution of support PSF licences as at 31 December 2013



The number of licences held by support PSF decreased from 167 in 2012 to 159 in 2013 (figure 24).

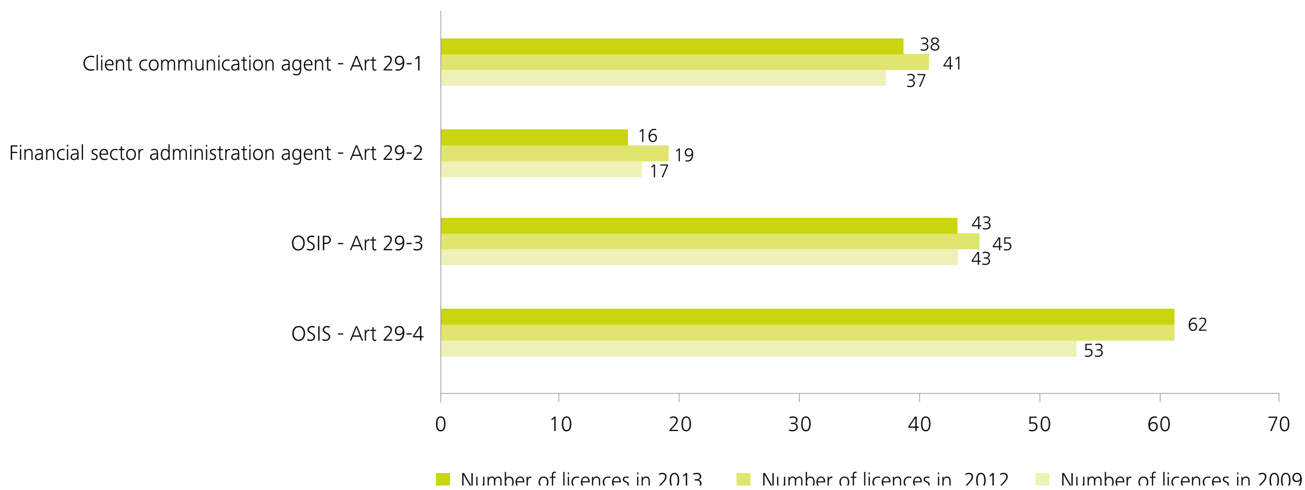
This change is due to a combination of:

- The creation of six support PSF in 2013 generating 6 new support PSF licences
- The withdrawal of five entities, holding 8 licences, which renounced their PSF status, as well as abandonments of six support PSF licences by entities continuing business

The overall change in licences between 2009 and 2013 remains positive with a 6% increase in the number over four years.

We also note the significant 17% increase in the licence under Art. 29-4 between 2009 and 2013.

Figure 24: Change between 2009 and 2013 of licences awarded to support PSF



Three questions to Bernard Moreau, Director of the *Association des PSF de Support* CEO of Labgroup

How do you see the Support PSF that you represent evolving in the Luxembourg Economy?

Developments in the sector will depend on how the companies themselves integrate a development strategy. Let's take the example of Labgroup. At the outset, we were a data archiving firm archiving paper documents, and then we gradually developed electronic archiving. We opened up to 'online backup' and to providing a cloud system for our clients. Thanks to these IT skills, we have grown and now have new skills that expand our core business from the paper world to the data sphere. While there is no decline in paper archiving, data archiving is fast expanding and, in both cases, this is simply information archiving.

Should the new law on electronic archiving continue the process?

Yes, but paradoxically, not necessarily for documents that are covered by the law first. They only represent 5% ('scan to store') according to the most optimistic view. However, having a legal framework should boost the market's confidence and stimulate demand for electronic archiving for the other 95% ('scan to use'). It's worth noting that Fedisa is considering issuing a white paper on the impact of this new law on an international level. As to whether or not and how it can apply abroad...

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

Support PSF have the same regulatory body, but that's the only thing they have in common. The challenges relate primarily to the diversity of activities, sizes, and goals. The *Association des PSF de support* tries to promote the sector, but with this diversity, it is not always an easy task. Some have international targets, while others see fewer opportunities on an international scale. Some also have more time to devote to developing the sector.

Despite this difficulty in federating the various players, the Association has managed to develop its activities and bring more entities together. It thus provides members with a lot of useful information via a website and -shortly- a newsletter. It also organises meetings on topics of common interest. Representation is advancing and we must continue along these lines.

On top of the need to take technological developments into account, the client base must be enlarged by adapting to the market and diversifying products and services. More particularly, alongside the challenge of developing abroad, another challenge must be taken up: that of developing our skills -all related to subcontracting- towards other markets, such as the medical or legal spheres. These markets have the specific feature of producing a lot of data and being very sensitive to confidentiality, a notion that we have learned to master thanks to the banking sector.

Another major challenge stems from the increasingly significant requirements facing the sector; not only is formalisation becoming important, for example with the risks analysis report (RAR) and the descriptive report (DR), but the CSSF is more and more tooled up and increasingly security conscious. This has an impact on costs, which is prompting some entities to question retaining their licence, and dissuading others from applying for it.

One last challenge concerns current standards, and in particular ISO 27001 and 9001. It would be a good idea to synchronize these standards with the support PSF licence. Firstly, it would reduce the administrative costs of monitoring each one and, secondly, it would be more effective, because the market, whether international or national, is more aware of these standards than the requirements inherent to the support PSF licence.

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

Regarding the status itself, nothing obvious. Intrinsically, the status does not create any opportunities; it's up to us to create them. Nevertheless, the PSDC (dematerialization or conservation service provider) status should, indirectly and as mentioned above, increase confidence and thus create new opportunities in electronic archiving of data not covered by PSDCs ('scan to use').

Structurally, pressure to reduce costs could also lead to more outsourcing to support PSF, with a handful of players holding the best skills.

However, more generally, it is clear that the country is run rather liberally and constantly creates benefits for its companies. For example, the creation of two public telecommunications operators (Post and LuxConnect) increased the quality of services while reducing prices. Other examples are the establishment of the university, investments in sectors such as biotechnology, or even the creation of data centres. And here in Luxembourg, we can of course rely on the fact that we are a multicultural and multilingual society.

"Pressure to reduce costs could also lead to more outsourcing to support PSF

Get rid of papers! Outlook and latest updates with the upcoming changes on e-Archiving

ARTICLE

Stéphane Hurtaud
Partner
Informations &
Technology Risk
Deloitte Luxembourg

The foreseen change in the legal framework

A legal framework concerning electronic archiving already exists in Luxembourg. However, this framework does not provide sufficient legal guarantee regarding the destruction of an original document that had already been digitalised.

To overcome this limitation, a team of experts was gathered to design a new legal framework based a new law on electronic archiving and an update of other impacted laws (Civil code, Commercial code, Financial sector law) and of the related *Règlement Grand Ducal* (RGD).

The proposed legal framework puts forward three major considerations:

- **Creation of the Dematerialisation and Conservation service provider (defined as 'PSDC' in the draft law) status:** the objective is to organise the activity of digitalisation and archiving and thus to build trust on activities for service receiving companies, as well as for judges, ministries, administrations and courts. PSDCs will be monitored by the **ILNAS** with a specified **accreditation scheme**. An organisation can choose to become accredited for digitalisation and/or for archiving
- **Reversal of the charge of proof:** In case of faithful copy of the original document produced and archived by a PSDC under conditions set forth in the RGD, it would be up to the charging party to evidence that the copy is not a faithful or sustainable reproduction of the original document
- **Technical and organisational requirements:** The RGD, and more specifically, the accreditation scheme will set precise technical requirements, organisational constraints and implementation conditions

Technical regulation requirements and measures

As part of the accreditation scheme, technical requirements have been published by the ILNAS. The framework is based on 3 layers. The first layer is the foundation and applies ISO/IEC 27001[1] and 27002[2]. The second layer provides more details into a number of ISO/IEC 27002 controls and tailors them to reflect digitalisation/archiving activities. The third layer contains controls additional to the ISO/IEC 27002 that are specific to the digitalisation/archiving activities and systems. The accreditation scheme also includes documents related to supervision of PSDCs and audit guidelines.

What if digitalisation and archiving services are provided to financial institutions?

Whenever digitalisation/archiving services are provided to financial institutions, all PSDCs are required to obtain a PSF status. Two new Support PSF statuses (Articles 29-5 and 29-6) would be added to the law of 5 April 1993 on the financial sector. Conditions set forth for the PSF status include a share capital forecasted at EUR 50,000 for digitalisation service providers (PSF/PSDC-D) and at EUR 125,000 for archiving service providers (PSF/PSDC-C).

Consequently, the PSDC will be supervised by both ILNAS for its PSDC status and by CSSF for its PSF status. As of yet, other than those circulars already applicable to Support PSF, no regulation/circulars specific to PSF/PSDCs have been published by the CSSF.

Things are moving

The draft bill, draft updates to impacted laws, and draft updates to the RGD were initially submitted in February 2013 and had received four major objections from the State Council in November 2013. Xavier Bettel's government has set this draft bill as one of its priorities and actions have been taken in that direction. One of the key actions is a communication to European Commissions enabling recognition of a dematerialised evidence outside of Luxembourg's borders.

The economical commission is currently reviewing updates and an expected date for adoption is December 2014.

ILNAS, on its side, is considering updating the *"Technical regulation requirements and measures"* to the 2013 version of the ISO27001.

Whenever digitalisation/archiving services are provided to financial institutions, all PSDCs are required to obtain a PSF status

1 ISO/IEC 27001:2005, part of the growing ISO/IEC 27000 family of standards, is an information security management system (ISMS) standard published in October 2005 by the International Organization for Standardization (ISO) and the International Electrotechnical Commission (IEC). As of July 2013, a new version is in draft: ISO/IEC 27001:2013.

2 ISO/IEC 27002 provides best practice recommendations on information security management for use by those responsible for initiating, implementing or maintaining information security management systems (ISMS).

3. Deloitte's proposed services

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

Upon creation

Regulatory strategy	• Assistance in compiling licence application documents and submissions to the CSSF • Gap analysis and assistance in establishing a set of procedures covering all administrative aspects and internal controls
Strategy & Corporate finance	• Business plans services including reviews of different scenarios, possibilities of subcontracting administrative and accounting organisation, etc. This business plan is an integral part of the CSSF licence application file
Human resources	• Support in relation to change such as a transfer from another entity, recruitment of specialist employees
Direct taxation and VAT	• Tax advice and assistance, structural implementation • Due diligence

During the development stage

Regulatory strategy	• Administrative and accounting organisation, and review of the compliance of services offered to clients in line with the requirements of the CSSF, in particular review the compliance with CSSF circular 12/552 (gap analysis, training, implementation) • Procedures manual covering the following aspects: administrative, IT, accounting, internal controls, etc. • Proposing compliance tools such as U-Comply • Rules of conduct in line with the best practice of the financial centre and MiFID rules • Training in all the above areas • Assistance in relations with the authorities. Provision of a regulatory hotline • Within the framework of subcontracting, inventory of services to be provided and drafting of Service Level Agreements (SLA)
Operational risk management and internal audit	• Subcontracting or co-sourcing of the internal audit function • Advisory services for the definition of relations with third parties and suppliers, and definition of the corresponding risks • ISAE 3402 and SSAE 16 (assistance in compliance with and examination)

Financial risks	• Calculation and optimisation of solvency ratio, production of CoREP reporting and regime relating to broad exposure • Advice, analysis and assistance regarding establishment of the ICAAP • Implementation of a framework for liquidity monitoring and monitoring of Basel II, in particular in respect of the advanced method relating to operational risk • Development of quantitative models relating to credit, market and operational risks • Provision of training in all the above areas
IT risks (Information Technology)	• One-off advice on long-term implementation, support in terms of IT strategy, review of IT architecture, implementing solutions, IT integration and optimisation • Assistance with all IT projects in terms of banking secrecy, relations with authorities and subcontracting • Business Continuity Plan and Disaster Recovery Plan
Strategy & Corporate finance	• Assistance in terms of external growth (merger, acquisition, strategic alliance) • Due diligence • Evaluation of PSF • Business Model optimisation • Client and market strategy review • Executive search and coaching
Capital markets and financial assets	• Valuation review and independent valuation of complex financial instruments • Coverage of current applicable valuation procedures • Examination of the valuation model used • Review of market data input into tarification models
Human resources	• HR policies, development of HR function, evaluation, development and training, recruitment of employees with specialised experience, employee profit-sharing scheme

Anti-money laundering, anti-terrorist financing and fraud prevention, detection and investigation	• Appropriate organisation to deal with money laundering and the financing of terrorism in terms of training and raising awareness, client knowledge, structuring and procedures • Assistance in selection and implementation of anti-fraud and AML systems • Targeted investigation and due diligence
IMS (Investment Management Services)	• Modular assistance in all issues relating to distribution networks for financial products (cross-border, marketing, regulatory, registration) • Investment policy: review of monitoring systems for investment policies and valuation, support for complex financial instruments, assistance in designing new products and investment strategies, as well as advice and assistance in implementing UCITS V or AIFMD • Corporate governance: advisory services for setting up a code of conduct and assistance with the selection of service providers and domiciles
Accounting	• Assistance in setting up accounting procedures, regulatory reporting and all work in relation to accounting
Direct taxation and VAT	• Fiscal optimisation • Due diligence • Operational assistance (also in respect of problems linked to the EU Savings directive, FATCA, the exchange of tax information, tax treatment of investors, etc.) • Assistance with tax returns (IRC [corporate income tax], ICC [municipal business income tax], IF [wealth tax], withholding tax, VAT) • Assistance in respect of transfer pricing • Tax impact of IFRS • Creation of automated VAT procedures and specific management tools (e.g. VeriVAT) • Personalised training and tax hotlines

Family Office Services	• Support and implementation of customised tax structures for private clients (sales of companies, international transfer of assets, transfers of residence etc.) • Family and corporate governance • Financial strategy and compliance • Development of specific vehicles and products (philanthropy, art funds, Islamic finance etc.)
External audit	• Audit of company accounts • Review of compliance of with circulars and preparation either of analytical audit reports (for investment firms), or compliance reports (for specialised and support PSF) • Consultation on regulatory and accounting issues, conversion to IFRS, agreed procedures, etc. • Support relating to requests made by the CSSF • Certification of continuous training records in order to obtain related subsidies

Until the termination of operations

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

4. Useful addresses

Organisations representing PSF

Expanding representation across professional associations

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

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

Association des PSF de Support (APSFS)
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, synergy between players with a view to securing for Luxembourg projects with an international dimension. It also proactively handles current topics related directly to support PSF.

Tel: +352 43 53 66 – 1
supportpsf@fedil.lu

Association Luxembourgeoise des Family Office (LAFO)
This Luxembourg professional association has about fifty members and is specialised in Family Offices. The Family Officer serves as a service provider for 'families and asset entities', i.e. it coordinates, controls and supervises all professionals involved in the provision of services to its clients (asset management, attorneys, tax advisers, banks, trustees, notaries, etc.).

Tel: +352 621 349 636
www.lafo.lu

Association Luxembourgeoise des Professionnels du Patrimoine (ALPP)
A non-profit organisation including over 100 independent companies, established in Luxembourg, whose interaction with each other covers the entire range of financial and asset-management services for an international clientele.

www.alpp.lu

Luxembourg International Management Services Association (LIMSA)
Created in 2004, the purpose of this association is to promote the Luxembourg trust industry and the representation of the professional interests of its members. It organises seminars and other meetings and develops initiatives on a central level, which would be too costly or difficult for individual members. It safeguards the promotion of the commercial interests of trust companies and defend their interests with the authorities, in particular by participating in commissions and working groups. It enters into and maintains contacts with government bodies, professional organisations and Chambers of Commerce.

Tel: +352 466 111-2749
www.limsa.lu

Numerous other organisations pertain to PSF, including the following:

The International Facility Management Association (IFMA)
IFMA Luxembourg is the local branch of this international association. With over 24,000 members in 94 countries, it is open to facility managers to give them the skills necessary for their business.

Tel: +352 691 141 011
www.ifma.lu

Fédération de l'IML - Information Lifecycle Management, du Stockage et de l'Archivage (FedISA)
Established on 26 March 2010, FedISA Luxembourg is a not-for-profit association serving innovation in matters of dematerialisation and electronic archiving. Its aim is to bring together the players in the Luxembourg market experts, users and suppliers of information lifecycle management, dematerialisation, electronic archiving and storage products and services, such as OSIPs and OSISs (support PSF).

www.fedisa.lu

ISACA
With more than 115,000 members in over 200 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.lu

Other useful addresses

Administration des contributions directes
www.impotsdirects.public.lu

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

Association des Banques et Banquiers, Luxembourg (ABBL)
Tel: +352 46 36 601
www.abbl.lu

Association Luxembourgeoise des Compliance Officers du Secteur Financier (ALCO)
www.alco.lu

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

Association pour la Garantie des Dépôts, Luxembourg (AGDL)
Tel: +352 46 36 60-1
www.agdl.lu

Cellule de Renseignement Financier
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

Institut des Auditeurs Internes Luxembourg (IIA Luxembourg)
Tel: +352 26 27 09 04
www.ufai.org

Institut des Réviseurs d'Entreprises (IRE)
Tel: +352 29 11 391
www.ire.lu

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

Luxembourg for Finance (LFF)
Tel: +352 27 20 211
www.luxembourgforfinance.com

5. Appendice

Investment firms				
PSF	**Article**	**Minimum capital or capital base (€)**	**Professional indemnity insurance (€)**	**Activity covered by the status**
Investment advisers	24	€50,000	€1,000,000 per claim and an aggregate of €1,500,000 per year	Investment advisers shall be professionals engaged in the business of providing personal recommendations to a client, either upon its request or at the initiative of the investment firm, in respect of one or more transactions relating to financial instruments. Investment advisers shall not be authorised to intervene directly or indirectly in the execution of the advice they provide. The simple provision of information is not covered by this Law.
Brokers financial instruments	24-1	€50,000	€1,000,000 per claim and an aggregate of €1,500,000 per year	Brokers in financial instruments are professionals whose activity consists in receiving or transmitting orders in relation to one or more financial instruments, without holding funds or financial instruments of the clients. This activity includes bringing two or more parties together with a view to the conclusion of a transaction between the parties.
Commission agents	24-2	€125,000		Commission agents are professionals whose activity consists in the execution on behalf of clients of orders in relation to one or more financial instruments. Execution of orders on behalf of clients means acting to conclude agreements to buy or sell one or more financial instruments on behalf of clients.
Private portfolio managers	24-3	€125,000		Private portfolio managers are professionals whose activity consists in managing portfolios in accordance with mandates given by clients on a discretionary client-by-client basis where such portfolios include one or more financial instruments.
Professionals acting for their own account	24-4	€730,000		Professionals acting for their own account are professionals whose business is in trading against proprietary capital resulting in the conclusion of transactions in one or more financial instruments where they also provide investment services or perform in addition other investment activities or deal on own account outside a regulated market or an MTF on an organised, frequent and systematic basis, by providing a system accessible to third parties in order to engage in dealings with those third parties.
Market makers	24-5	€730,000		Market makers are professionals engaged in the business of presenting themselves on the financial markets and on a continuous basis as being willing to deal for their own account by buying and selling financial instruments against their proprietary capital at prices defined by them.
Underwriters of financial instruments	24-6	€125,000 (or €730,000 if they carry out placements with underwriting)		Underwriters of financial instruments are professionals whose business is to underwrite financial instruments and/or place financial instruments with or without a firm commitment.
Distributors of shares/ units in UCIs	24-7	€50,000 (or €125,000 if they accept or make payments)		Distributors of shares/units in UCIs are professionals engaged in the business of the distribution of the shares/units of Undertakings for Collective Investment licensed for distribution in Luxembourg.
Financial intermediation firms	24-8	€125,000	€2,000,000 per claim and an aggregate of €3,000,000 per year	Financial intermediation companies are professionals engaged in the business of: a. Providing personal recommendations to a client, either upon its request or at their own initiative, in respect of one or more transactions relating to financial instruments or insurance products b. Accepting and transmitting, on behalf of clients, orders relating to one or more financial instrument or insurance products without holding any clients funds or financial products. Such activity shall also include bringing together two or more parties thereby bringing about a transaction between those parties c. Performing, on behalf of associated investment advisers or brokers in financial instruments and/or assurance products, under a sub-contracting contract, the administrative and client reporting services inherent to the professional activities of these associates
Investment firm operating an MTF in Luxembourg	24-9	€730,000		Investment firms operating an MTF in Luxembourg are professionals engaged in the business of operating an MTF in Luxembourg apart from professionals who are market operators within the meaning of the Law on Markets in Financial instruments.

Specialised PSF				
PSF	**Article**	**Minimum capital or capital base (€)**	**Professional indemnity insurance (€)**	**Activity covered by the status**
Registrar agents	25	€125,000		Registrar agents are professionals whose business is to maintain the register of one or more financial instruments. The maintaining of the register includes the reception and execution of orders relating to such financial instruments, of which they are the necessary accessory.
Professional depositaries of financial instruments	26	€730,000		Professional depositaries of financial instruments are professionals who engage in the receipt into custody of financial instruments exclusively from the professionals of the financial sector, and who are entrusted with the safekeeping and administration thereof, including custodianship and related services, and with the task of facilitating their circulation.
Professional depositaries of assets other than financial instruments	26-1	€500,000		Professional depositaries of assets other than financial instruments are professionals whose activity consists in acting as depositary for: • Specialised investment funds within the meaning of the law of 13 February 2007, as amended • Investment companies in risk capital within the meaning of the law of 15 June 2004, as amended • Alternative investment funds within the meaning of Directive 2011/61/EU, which have no redemption rights that can be exercised during five years as from the date of the initial investments and which, pursuant to their main investment policy, generally do not invest in assets which shall be held in custody pursuant to article 19(8) of the law of 12 July 2013 on alternative investment fund managers or which generally invest in issuers or non-listed companies in order to potentially acquire control thereof in accordance with article 24 of the law of 12 July 2013 on alternative investment fund managers
Operators of a regulated market authorised in Luxembourg	27	€730,000		Market operators operating an MTF in Luxembourg are those persons managing or operating an MTF in Luxembourg authorised in Luxembourg apart from investment firms operating an MTF in Luxembourg.
Currency exchange dealers	28-2	€50,000		Currency exchange dealers are professionals who carry out operations involving the purchase or sale of foreign currencies in cash.
Debt recovery	28-3			The recovery of debts owed to third parties, to the extent that it is not reserved by law to certificated bailiffs, shall be authorised only with the assent of the Minister of Justice.

Professionals performing lending operations	28-4	€730,000	Professionals performing lending operations are professionals engaging in the business of granting loans to the public for their own account. The following, in particular, shall be regarded as lending operations for the purposes of this article: (a) financial leasing operations involving the leasing of moveable or immoveable property specifically purchased with a view to such leasing by the 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 (b) factoring operations, either with or without recourse, whereby the professional purchases commercial debts and proceeds to collect them for his own account "when he makes the funds available to the transferor before maturity or before payment of the transferred debts". This article shall not apply to persons engaging in the granting of consumer credit, including financial leasing operations as defined in paragraph (a) above, where that activity is incidental to the pursuit of any activity covered by the law of 28 December 1988 on the right of establishment. This article shall not apply to persons engaging in securitisation operations.
Professionals performing securities lending	28-5	€730,000	Professionals performing securities lending are professionals engaging in the business of lending or borrowing securities for their own account.
Family Offices	28-6	€50,000	Those persons carrying out the activity of *Family Office* within the meaning of the law of 21 December 2012 relating to the *Family Office* activity and not registered in one of the other regulated professions listed under Article 2 of the above-mentioned law are *Family Offices* and regarded as carrying on a business activity in the financial sector. *Family Office* activity within the meaning of the law of 21 December 2012 consists in providing, as a professional, patrimony advice or services to physical persons, families or patrimony entities belonging to physical persons or families or founded by them or from which they are beneficiaries.

Specialised PSF				
PSF	**Article**	**Minimum capital or capital base (€)**	**Professional indemnity insurance (€)**	**Activity covered by the status**
Mutual savings fund administrators	28-7	€125,000		Mutual savings fund administrators are natural or legal persons engaging in the administration of one or more mutual savings funds. No person other than a mutual savings fund administrator may carry on, even in an incidental capacity, the business of administering mutual savings funds. For the purposes of this article, 'mutual savings fund' means any undivided fund of cash deposits administered for the account of joint savers numbering not less than 20 persons with a view to securing more favourable financial terms.
Managers of non co-ordinated UCIs	*28-8*			*repealed*
Corporate domiciliaton agents	28-9	€125,000		Corporate domiciliation agents, who are by their nature regarded as carrying on a business activity in the financial sector, are natural and legal persons who agree to the establishment at their address by one or more companies of a seat and who provide services of any kind connected with that activity.
Professionals providing company incorporation and management services	28-10	€125,000		Professionals providing company incorporation and management services are natural and legal persons engaging in the provision of services relating to the formation or management of one or more companies.
Central account keepers	28-11	€730,000		Central account keepers are persons whose activity is to keep issuing accounts for dematerialised securities.

Luxembourg is a mature marketplace with a wealth of available expertise to offer the broadest range of services in the financial sector

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

While the PSF industry appears stable, its business is constantly growing. Beyond the challenges, there are a great many opportunities

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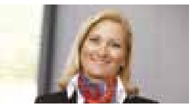

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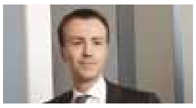

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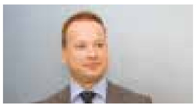

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