

## Financial services



### **Did you know...**

With €3.5 trillion in assets under management, Luxembourg is the number one investment fund centre in Europe and second worldwide.

## Financial services

### Building on cross-border expertise

Luxembourg has developed its financial centre by demonstrating its excellence in cross-border financial services.

As early as the 1960s, Luxembourg had the vision and openness to merge local expertise with international talent and developed a financial centre offering a diverse range of multicurrency services and products to the international business community.

This unique **cross-border expertise is central to various segments of the financial centre**. Luxembourg is the perfect EU onshore hub for banking activities, wealth management, investment funds, private equity and insurance.

#### Banking

Banks in Luxembourg have established several areas of expertise, including:

- private and institutional wealth management;
- corporate banking;
- retail and commercial banking;
- a full range of investment fund services.

The EU passport allows banks in Luxembourg to offer their services throughout the European Single Market. The majority of banks operate under a universal banking license and offer a wide range of financial services to private, corporate and SME clients. In addition to services related to the launch, acquisition, transfer or sale of a company, they offer intragroup treasury and liquidity management services, as well as international wholesale lending. They also organise and structure syndicated loans to finance international projects. Banks in Luxembourg have developed strong expertise in global custody, fund administration and offer a full range of fund services from product creation, management company services to custody.

Whether in private banking, fund services, commercial or corporate banking activities, Luxembourg is the ideal location for banks to set up a pan-European hub to offer financial products and services on a cross-border basis.

- Private banking figures for 2014: AuM €318 billion (up 4% compared with 2013).

#### Wealth management

Clients with international interests, who have their families and business spread across several countries, benefit from Luxembourg's diverse financial centre ecosystem and find the right cross-border expertise **to manage their wealth and businesses from a central location**.

Luxembourg is also one of the first countries in the world to have implemented a specific regulatory framework for **family office** activities to ensure a high level of service quality and investor protection.

Thanks to its toolbox of cross-border investment vehicles, Luxembourg provides a one-stop shop for international wealth management, with a service offer that ranges from investment advice, asset management and family office services to wealth structuring, real estate services, succession planning or philanthropy. It is quite common for Luxembourg private banks to act as the **centre of competence** within their group.

# 143

Luxembourg is home to 143 banks from 27 countries.

# 70%

Liquidity ratio (EU minimum = 30%).

# 67%

Clients with assets over €5 million represented 67% of total AuM in Luxembourg private banking in 2014.

# 778 bn

Total assets of banks in Luxembourg.

# 20.8%

Solvency ratio: (EU minimum = 8%).

#### Automatic exchange of information

Luxembourg applies current OECD standards on exchange of information and on 1 January 2015 introduced the automatic exchange of information on EU residents' income savings. Reportable information from 2016, including all types of investment income such as interest, dividends, specific insurance contracts, annuities and account balances, will be reported in 2017.

## Trailblazer



# CHINA'S BRIDGE TO EUROPE AND THE WORLD

The six largest Chinese banks (Bank of China, ICBC, China Construction Bank, Agricultural Bank of China, China Merchant Bank and Bank of Communications) have set up their continental European hubs in Luxembourg.

From the Grand Duchy, Chinese banks manage a network of branches in other European countries and **serve the needs of their Chinese clients doing business in Europe as well as their European clients doing business in China.**

The strong presence of Chinese banks has helped Luxembourg develop into one of Europe's leading renminbi centres, with the highest volumes in deposits, loans and trade finance. In September 2014, **China designated ICBC as the RMB clearing bank in Luxembourg.**

As Europe's largest investment fund centre, Luxembourg also hosts most RMB-denominated investment funds outside Asia. Some of the most prominent fund managers use their Luxembourg platform to tap into the large pool of RMB-hungry investors in Europe and beyond. **The Chinese authorities have granted Luxembourg a 50 billion renminbi qualified foreign institutional investor (RQFII) quota.**

The Luxembourg Stock Exchange is today the leading listing centre for yuan-denominated bonds in Europe and the third in the world after Hong Kong and Singapore.

### CHINESE FIRSTS IN LUXEMBOURG

- Bank of China chose Luxembourg in 1979 for its very first international presence anywhere in the world since the People's Republic of China was created.
- Luxembourg was the first European country to authorise a RMB-denominated investment vehicle.
- Luxembourg's regulator was the first European regulator to authorise a mutual fund to invest through the Shanghai-Hong Kong Stock Connect scheme.
- Luxembourg's Stock Exchange was the first to list a Dim Sum bond outside Greater China. ●

# 6

The six largest Chinese banks have set up their continental European hubs in Luxembourg.

# 43%

The Luxembourg Stock Exchange has a market share of 43% of Dim Sum bond listings outside Asia.

# 1979

In 1979, Bank of China chose Luxembourg to set up its very first international presence in the world since the creation of the People's Republic of China.

## Financial services

### Funds for growth

Luxembourg is the **second largest investment fund centre in the world** and is the undisputed global leader in the cross-border distribution of funds. Luxembourg has not only played a crucial role in establishing a truly European financial product, UCITS, but it has turned UCITS into a globally recognised brand.

At the end of 2014, assets under management in Luxembourg-registered funds topped €3 trillion, with a total of **€3.5 trillion** recorded in June 2015. More than half of this growth, or 52%, was due to inflows of new money from investors.

With its broad range of vehicles, Luxembourg is a major alternative investment fund centre. It has bespoke structures for all the main alternative asset classes and investment strategies including:

- hedge funds;
- funds of hedge funds;
- private equity and venture capital;
- real estate.

Fund initiators can take advantage of an entire ecosystem specialised in cross-border investment services, including product development experts, lawyers, accountants and service providers who are able to assist in the development, launch and distribution of their funds.

The largest **cross-border fund management groups** choose Luxembourg because of its unique and international distribution network. The Luxembourg fund industry has almost 56,000 distribution agreements with points of sale abroad.

Given the vast costs involved with setting up funds in different countries of origin, fund promoters come to Luxembourg to benefit from its global distribution platform to reach international investors.

# €3.5 trillion

assets under management.

# 56,000

distribution points.

### Figures

- Number **1** investment fund centre in Europe
- The world's **2<sup>nd</sup>** largest investment fund centre after the United States
- Fund promoters from **64** countries
- More than **67%** of UCITS funds distributed internationally are based in Luxembourg
- **69** custodians
- Cross-border fund distribution to **69** countries
- An average of **100** new fund initiators choose Luxembourg to domicile their funds in the country each year
- **160** central administrators
- **191** alternative investment fund managers (AIFMs) approved
- **316** professional service firms (PSFs)
- **608** AIFMs registered (below threshold)
- **633** Luxembourg limited partnerships (LLPs)
- **3,893** investment funds
- **12,545** sub-funds set up by multiple compartment funds
- **13,902** investment fund units
- **14,000** people employed in the industry



Out of Luxembourg, Franklin Templeton Investments distributes funds in 50 countries, HSBC in 43 countries and BlackRock in 41 countries.

## Financial services

### Private equity

Luxembourg is an ideal EU onshore hub to domicile both private equity funds and private equity acquisition vehicles in the same jurisdiction.

Assets under management in Luxembourg-domiciled private equity vehicles have **doubled in the last three years**.

Luxembourg offers a host of services for the private equity industry. It provides competitive structures for setting up private equity and venture capital funds, making it possible to facilitate acquisitions both within individual countries or on a pan-European basis.

A large number of the European General Partners have established a presence in Luxembourg. **Over 50 private equity firms are present in Luxembourg.**

To ensure maximum compatibility and flexibility, Luxembourg tapped into the opportunity offered by the implementation of the Alternative Investment Fund Managers Directive (AIFMD) to overhaul and modernise its limited partnership regime and create the special limited partnership. Special limited partnerships do not have a legal personality distinct from that of their limited partners and are widely used by asset managers from the Anglo-Saxon world. This is further proof of Luxembourg's ability to combine the specificities of various jurisdictions to offer clients and financial professionals solutions that they are most familiar with.

Whether clients come from a country whose system is based on common law or civil law, Luxembourg can accommodate their needs.

# 9/10

**Nine out of the ten largest global private equity firms are represented in Luxembourg.**

## Trailblazer



# LUXEMBOURG: FIRST IN FINANCE

Throughout its long history, the Luxembourg financial centre has featured open-mindedness and efficiency. It has continuously adapted to a changing environment and has developed a strong track record in innovation by embracing and implementing change.

1953

**First bond listing in USD** on the Luxembourg Stock Exchange (LuxSE).

1962

**First investment fund listing** on the LuxSE.

1963

Euromarket launches from Luxembourg when the **first Eurobond lists on the LuxSE.**

1978

Luxembourg hosts the **first Islamic finance institution in a western country:** the Islamic Banking System Holdings Limited Luxembourg.

1979

**Bank of China chooses Luxembourg** to set up its first international operations.

1983

The **first sharia-compliant insurance company in Europe** is established in Luxembourg.

1985

The first UCITS Directive is adopted and Luxembourg becomes the **first country to implement the UCITS Directive into national law.**

From this point, most large asset management companies choose Luxembourg as the platform from which to set up and distribute their investment funds worldwide.

1990

**First global depositary receipts listing in Europe** on the LuxSE.

2002

**First Sukuk (sharia-compliant bonds) listing in Europe** on the LuxSE.

2007

**First Green Bond listing worldwide** on the LuxSE.

2008

**First Masala bond listing** on the LuxSE.

2011

**First Dim Sum Bond listing in Europe** on the LuxSE.

2012

Luxembourg was the **first country in Europe** and one of the very few countries in the world **to regulate the family office industry.**

2013

Luxembourg was **one of the first countries to implement the Alternative Investment Fund Managers Directive (AIFMD).** All other funds that are non-UCITS – notably hedge funds – now fall under the scope of the AIFMD. This means that they are also granted a “European passport” enabling funds to be sold in all EU Member States.

2014

The **first offshore RMB bond, or Schengen bond, in the Eurozone** is issued on the LuxSE by a Chinese mainland company.

**First Luxembourg UCITS** receives authorisation to use the **Shanghai-Hong Kong Stock Connect** program.

The CSSF, which is responsible for oversight of the financial sector in Luxembourg, becomes the **first European regulator to take an official position on how to deal with virtual currency operators,** considering virtual currencies as money.

Luxembourg issues the **first Euro-denominated sovereign Sukuk.** ●

## Financial services

### Highly developed market infrastructure

From listing and trading, to clearing and settlement, Luxembourg offers a strong capital markets environment.

#### The Luxembourg Stock Exchange: an exchange that sets itself apart

The date that marks the rise of Luxembourg as an international financial centre is July 1963, when the world's first Eurobond was listed on the Luxembourg Stock Exchange. This debt security, issued by the Italian highway operator Autostrade, was emblematic of what has remained a key strength of Luxembourg's financial centre to this day – the ability to provide financial services in a cross-border and multicurrency environment.

While most stock exchanges at the time focused on listing bonds denominated in their local currency and by companies established in their country, this bond was unlike no other on the market. It was issued by an Italian company, denominated in US dollars, governed by English issuance law and listed in Luxembourg.

Today the Luxembourg Stock Exchange is a global specialist in the listing of international securities. It is well known for its fast, customer-focused and stringent listing process.

The Luxembourg Stock Exchange offers two markets to issuers: the Bourse de Luxembourg market regulated by European rules and the Euro MTF, a market regulated by the rules of LuxSE enabling issuers to list under more flexible requirements on a recognised European market.

For more than fifty years the Luxembourg Stock Exchange has been assisting companies, institutions and sovereign issuers around the globe to get access to the international capital markets. By actively contributing to innovation in these markets, LuxSE is the **front-runner in listing new products** like Green Bonds, Dim Sum Bonds and Sukuk.

# 55

Strong market recognition from international issuers (3,000+ issuers from 100+ countries) and securities listed in 55 different currencies.

# 20%

The global leader in listing international securities (20% global market share and 40% market share in Europe).

# 99%

of securities are listed in less than two days.

# 72

countries are listing their sovereign debt in Luxembourg.

# 10,600

new listings in 2014.

# 40,000+

## securities

66% bonds, 17% funds, 15% warrants, 2% shares / global depository receipts.

## Financial services

### Post-trade services

With the arrival of the European Central Bank Target 2 Securities (T2S) settlement platform and the recent introduction of the EU regulation on Central Securities Depositories (CSDs), Luxembourg has strengthened its position as a leader in securities services with four CSDs: Clearstream, LuxCSD (belonging to Clearstream International and the Banque Centrale du Luxembourg), VP Securities – a subsidiary of the Danish VP group – and the recent creation of globeSettle, the subsidiary of the London Stock Exchange specialised post-market entity Monte Titoli.

Clearstream, a leading supplier of post-trade services, was founded as Cedel in Luxembourg in 1971. Today with around **€12.8 trillion in assets under custody**, Clearstream is one of the world's largest settlement and custody firms for domestic and international securities.

In its role as an International Central Securities Depository (ICSD), Clearstream provides the post-trade infrastructure for the Eurobond market and services for securities from 54 domestic markets worldwide – for approximately 2,500 financial institutions in more than 110 countries. It also supports **98 currencies for issuance**.

Its services include the issuance, settlement and custody of securities, as well as investment fund services and global securities financing.

# 98

Clearstream supports 98 currencies for issuance.



## Financial services

### Did you know...

The Luxembourg financial regulator (CSSF) was the first supervisory authority in Europe to take an official position on virtual currencies, defining them as scriptural money.

## FinTech: a breeding ground for innovation

FinTech is a growth sector for Luxembourg. Companies including international FinTech leaders, SMEs and start-ups have set up in the country to develop and market their product range internationally. **Two-thirds of these FinTech companies were started in the last three years.**

FinTech companies in Luxembourg – many of which are established firms of foreign origin – service a range of financial sector industries including private banking and wealth management, investment funds, insurance and electronic payments. An increasing number of family offices and private banks now provide their high-net-worth clients with **investment opportunities** in the FinTech sector either directly or through an intermediary fund managed by a bank or family office. Moreover, new market entrants such as business angel networks and venture capitalists are demonstrating increasing interest in building links with Luxembourg.

With over 140 banks, more than 2,000 ICT firms and Europe's largest hub for investment funds, the Luxembourg financial centre represents a significant local market for FinTech companies. Excellent infrastructure conditions such as low latency connections to the major European consumer markets and a comprehensive financial ecosystem are added advantages for Luxembourg. Meanwhile, start-ups find an **ideal testing ground** for the launch of their products, benefitting from Luxembourg's position as a hub to branch into the European customer base.

Many FinTech companies in Luxembourg benefit from the **EU passport** to distribute services and products through 27 other European countries, as well as the proximity to clients and the large pool of local talent available in both the finance and technology sectors.

Industry growth has been aided by a concerted government effort which aims to accelerate the development of Luxembourg as a FinTech hub. The government's objective is to optimise the uptake of ICT as an enabling technology for various sectors and to further develop the existing ICT sector in Luxembourg by encouraging networking and collaboration between the private and public sector.

As **funding** is a crucial precondition for start-ups, Luxembourg continuously expands its offer regarding **financial aid and business mentoring**. Luxembourg provides a wide range of private and public support for start-ups throughout the various phases of their development.

The University of Luxembourg's Interdisciplinary Centre for Security, Reliability and Trust (SnT) is an important interface with the financial industry. Focusing on the **security of communication networks and software systems**, it develops joint programs with the private sector, notably with the aim of securing financial transactions.

# 4<sup>th</sup>

Luxembourg is ranked 4<sup>th</sup> and 5<sup>th</sup> respectively in terms of government success in ICT promotion and the importance of ICT to government vision.

Source: Global Information Technology Report, World Economic Forum 2015.

# x3

The number of e-money and e-payment institutions in Luxembourg tripled between 2012 and 2015 and includes players such as Amazon Payments, Rakuten and Yapital of the German retail giant Otto.

# 1<sup>st</sup>

Luxembourg was the first country in Europe to grant a payment institution licence to a virtual currencies operator.

## Financial services

### Insurance: offering a unique level of protection

Luxembourg is widely recognised as a **centre of excellence for the distribution of insurance products in the EU**. Our financial centre currently hosts 96 insurance companies and 223 reinsurance companies, many of which are subsidiaries of multinational corporations.

Thanks to the “**super privilege**” enshrined in Luxembourg law, policy holders of a Luxembourg life assurance contract benefit from a level of legal **protection** that is unique in Europe. This privilege gives the subscriber priority over all other creditors if the insurance company gets into financial difficulty and has contributed to making Luxembourg life assurance contracts a wealth management tool that provides access to a wide range of financial products within a secure framework.

The Luxembourg insurance industry specialises in unit-linked **life assurance**, a product that enables clients to combine insurance cover with a return on investment, notably in policies linked to dedicated investment funds.

Luxembourg life assurance companies provide tailor-made wealth solutions that are compliant, secure and offer unique flexibility in asset allocation.

Luxembourg **property and casualty (non-life) insurance companies** – particularly in maritime mutual insurance and other specialised areas of insurance – principally target the international market.

Many industrial, commercial and financial groups choose Luxembourg for their **reinsurance activities**.

The insurance/reinsurance profession is **strictly regulated**.



2014: over €26 billion in insurance premiums

Revenues rose 11.9% in 2014, partly due to the increasing popularity of life insurance products, sales of which rose 20% in 2014. Revenues from non-life insurance products increased by 4%.

# 82%

of written premiums are for international life assurance.

# 96

insurance companies and

# 223

reinsurance companies.

## Trailblazer



# ACHIEVING PERFECTION IN NICHE LOGISTICS SERVICES

As an intercontinental hub for logistics value-added services, the Grand Duchy helps to ship special goods and merchandise safely while minimising risk.

Luxembourg is proud to be leading the way in pharmaceutical Good Distribution Practice (GDP) certification. It is the **first airfreight gateway to be fully GDP certified according to WHO and EU GDP guidelines.**

Alongside fully GDP certified logistics providers such as Arthur Welter, DB Schenker, Expeditors, Kuehne+Nagel, Panalpina, SDV and Wallenborn, Cargolux and LuxairCARGO have also decided to go through this certification process, making them,

# 350m

At lux-Airport, the maximum distance from the cargo centre to the furthest aircraft parking space is 350 metres.

respectively, the first cargo airline and the first airport handling agent in the world to become fully GDP certified.

### ENSURING THAT TEMPERATURES REMAIN CONSTANT

One of the greatest challenges for the safe shipment of these goods is **ensuring that temperatures remain constant.** When goods arrive at the Luxembourg airport, trucks only have to travel a short distance to reach the LuxairCARGO Pharma & Healthcare Centre. Thanks to this sophisticated logistics set-up, time and temperature sensitive products can be shipped from a pharmaceutical plant in Germany to a distribution site in the Midwest of the United States in only 36 hours without any changes in temperature.

Luxembourg is breaking new ground with the **first-ever GDP-certified trade route.**

A memorandum of understanding was signed in 2015 between airport operators **Hong Kong Air Cargo Terminals** and Luxembourg airport. The goal is to maintain GDP standards for all healthcare-related shipments that travel between the Hong Kong and Luxembourg airports. ●

## HORSE-POWER: SPECIAL HANDLING

Every year Cargolux flies up to **3,000 horses** in next-generation horse stalls loaded onto its Boeing freighters. With a single racehorse worth up to \$5 million, horses are precious cargo that require very special attention. Noah's Ark of the skies does not only include live animals, as high-end car manufacturers regularly airfreight **racing cars** boasting 750 horsepower. ●

## LE FREEPORT

Located adjacent to the Air Cargo Terminal of Luxembourg airport, Le Freeport provides a sophisticated, **highly secured logistics facility for managing and storing art, fine wines, jewels, precious metals, cars and other valuable goods.** With its **state-of-the-art climate-control system,** Le Freeport Luxembourg offers optimal storage conditions. Valuable goods can be

delivered straight from the tarmac to the storage room with no road transport involved, significantly reducing transfer costs and the risk of loss or damage, while offering a high degree of accessibility and security. To ensure **strict control and oversight,** goods can only be introduced into Le Freeport through specialised forwarders who are licensed by the Luxembourg Customs authorities. Goods that arrive through the airport

and are stored at Le Freeport are suspended from VAT and customs duties, while those that exit Le Freeport must be declared to Customs. Officials are physically present at the facility and have the right to inspect goods at anytime. All service providers working within Le Freeport must also comply with stringent regulations on antimoney laundering and combating the financing of terrorism. Le Freeport is well suited

for the **storage of valuable works of art** and is particularly interesting for art collectors and museums of neighbouring countries. While remaining in the VAT suspension regime, works of art stored at Le Freeport can be displayed in museums or art fairs under a temporary admission and importation system. ●