

# Bringing an Asset Management Company to Luxembourg





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## **Bringing an Asset Management Company to Luxembourg**

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# Introduction

Welcome to our brochure on the potential and realities of Luxembourg as a centre of excellence for asset management. We firmly believe that Luxembourg has what it takes to create and excel in this activity: infrastructure, fund industry experience and a stable regulatory and legal environment. But we are also aware that there exist some serious misconceptions as to its suitability, and where there are no misconceptions there is often just a lack of knowledge about Luxembourg's capabilities.

Our aim in producing this brochure is to clear up any grey areas by presenting the asset management activity that already exists in Luxembourg.

- We carried out face to face interviews with some of the key players in the field who were frank about the realities of asset management in the Grand Duchy.
- Then, having convinced you that Luxembourg is the location of choice for your asset management activities, we have included a section, "Bringing an Asset Management Company to Luxembourg", which outlines the requirements for obtaining an asset manager, or "gérant de fortune" licence.

However, before you read on, please allow me to explain why we feel Luxembourg has a real future in this industry.

It is important not to be fooled by Luxembourg's physical dimensions. It is true that the country is small in terms of surface area, yet that in no way means that it is some kind of quiet backwater. Indeed, one of the benefits of Luxembourg's diminutive size is that law makers, decision makers and regulators are all at very close quarters and have traditionally enjoyed a relationship of mutual understanding with business. As a result it boasts a stable yet business minded environment. The Grand Duchy has also established a sound financial infrastructure built on 30 years' experience, and has worldwide renown as a private banking centre.



One of the misconceptions I mentioned earlier is that Luxembourg is simply a fund administration centre, or just a big back office. This is not the case. There is a vast array of financial expertise in Luxembourg. For instance, Luxembourg has a thriving community of financial analysts, including members of the CFA and CIIA associations. AIMA and EVCA are also active here. Accompanying this expertise there is a solid network of supporting knowledge and experience in the shape of accountants, auditors and consultants. And, of course, the opening up of opportunities that the UCITS III legislation brings is a real plus.

However, when we are talking about bringing asset managers to Luxembourg, we are talking about people. Happily, the Grand Duchy of Luxembourg boasts one of the highest standards of living in the world, and has been ranked as one of the safest places in the world to live. It also has many schools, both local and international, and a new (although still developing) university, including the Luxembourg School of Finance. Luxembourg is an important cultural centre and is host to a rich programme of events to suit all tastes. It has first class facilities, including a state of the art city theatre and the recently opened philharmonic concert hall.

The city, together with its hinterland the Greater Region, is currently European Capital of Culture in recognition of its prominent role as a centre for the arts.

We are confident in Luxembourg's future in the asset management field. In fact, since 2004 we have had a committee dedicated to this purpose. We are at your disposal for further information and look forward to welcoming you as a new member of our community. Please enjoy this brochure.

**Bill Lockwood**

Chairman

Asset Management Committee

## Luxembourg: “the optimal candidate to become a centre for the fund management industry”

Eurizon Capital S.A. is part of the Eurizon Financial Group, one of Italy’s leading players in the asset management and life insurance asset gathering sectors. Its Luxembourg activities originally began in 1988 as the fund administration service of San Paolo International Funds (SPIF). In 2003 the strategic decision was made to bring its fund management activities, which had previously been carried out in Milan, to Luxembourg. Emiliano Laruccia, chief investment officer, explained the rationale behind this decision.

### **What does your company do in Luxembourg in the field of asset management?**

Eurizon Capital S.A. is a UCITS III compliant asset management company. We offer a wide range of investment management services including portfolio management, financial advisory, fund administration and pure white labelling. Assets under management currently total around 35 billion euro spread over a wide range of products: mutual funds (approximately 100), insurance products (150) and SICAVs (20). Eurizon Capital S.A. also acts as a hub for international distribution and development for SPIF funds, which are registered, with distribution agreements in place, in 10 countries across 3 continents. Furthermore, in 2006 Eurizon Capital S.A. opened its first branches in Latin America and Singapore. We are now looking to expand our presence in Eastern Europe where we currently have joint venture operations with local asset managers and distributors.

### **What brought you to Luxembourg?**

The decision to come to Luxembourg was based on the style we decided on for Luxembourg based funds: “quant-enhanced”. That is, they are driven by quantitative models, with a top down approach where we try to minimise turnover costs. In this context, synergies with other departments (especially the middle office) are more important than being physically close to the markets being covered. Thus, in 2003 our fund managers were brought to Luxembourg from Milan to join forces with the middle office already established here since 1998, in order to produce the fully integrated company which Eurizon Capital S.A. is today, including internal risk management and legal & compliance.





### **Do you believe Luxembourg is a good location for asset management?**

Absolutely, yes, and for many reasons. Luxembourg is the world capital for fund administration and the professional environment is state of the art. There are legal experts, external auditors and consultants, etc, all within a stone's throw of each other. In addition, the fiscal and legal framework is business-oriented and the regulators very open minded and approachable. For example, we were able to set up and launch a protected fund within six months. This kind of thing takes much longer in other jurisdictions.

### **How do you see Luxembourg's future in the field of asset management?**

I think that Luxembourg is the optimal candidate to become a centre for the fund management industry because the knowledge and infrastructure is already in place to create and develop the business. Connections to the other major European cities are easy and fast, and so access to the other financial centres like London, Paris and Milan is simple if necessary. And, apart from these business issues, to live in Luxembourg is to live in a country with one of the highest standards of living in the world.

### **What would you change in order to encourage asset managers to come to Luxembourg or expand their activities here?**

Encouraging the development of the University of Luxembourg is important. Perhaps a Master of Finance degree sponsored by European and financial institutions would light a spark, and partnerships with some of the most famous business schools would definitely enhance the University's image. However, these things take time. In the shorter term, I would address something which is a sensitive issue for money managers.

For asset managers part of their compensation is variable. They have a salary, but the greater part of their remuneration is paid as a bonus. That makes the tax treatment of this bonus very important and in Luxembourg it is taxed at over 40% at the moment. The bottom line is, if we want asset managers to come here we need to equalise this competitive disadvantage.

## “Private banking, fund selection and research are Luxembourg’s key strengths”

For more than 40 years Kredietbank Luxembourg (KBL) has been one of Luxembourg’s leading private banks. Throughout this time, KBL has prided itself on maintaining a “size and human dimension that enables us to provide an efficient service and get to know clients personally”. Maintaining this level of service and proximity over such a long period has relied (and continues to rely) heavily on the expertise of Krediettrust Luxembourg (KTL), KBL’s asset management arm. Considering its length of service, KTL is well-positioned to view the realities of carrying out asset management in the Grand Duchy. Michel Meert, managing director of KTL, shares his experiences.

### **What does your company do in Luxembourg in the field of asset management?**

As just mentioned, KTL is the asset management arm of KBL. We manage discretionary portfolios for private and institutional clients. We also manage investment funds specifically for the needs of private banking.

### **What brought you to Luxembourg?**

To expand my career. After more than 10 years managing assets in the insurance industry (working for UAP and AXA in Brussels, The Hague and Paris) I wanted to move to the private banking sector. As Luxembourg is known worldwide as a centre for private banking, I naturally explored the possibilities here. Fortunately, I was given the opportunity to join the KBL group and leapt at the chance.

### **Do you believe Luxembourg is a good location for asset management?**

Yes. Asset management can be carried out anywhere, and it is more and more the trend for asset managers to work away from the major financial centres. Luxembourg is known across the globe as a centre of excellence in the area of fund administration and private banking and this is a positive factor in attracting asset managers. It also means that there is a vast amount of knowledge and know-how readily available.





### **How do you see Luxembourg's future in the field of asset management?**

There are two very positive elements about Luxembourg's future in asset management. The first concerns fund selection and open architecture. This is an area of increasing importance for the private banking business and over the last few years several important financial groups have restructured their asset management activities in order to develop research and selection of investment funds. Many of these now service their entire European operations from Luxembourg. This is the case for KBC, ING and Dexia and I am certain others will follow suit.

In addition, a lot of asset management companies have been created recently via the UCITS III legislation and this is very positive for Luxembourg. As the Grand Duchy is a major private banking centre, this is an extremely important development. It means that asset management will always have a bias towards Luxembourg.

In my view, these are the two most important elements Luxembourg has in its favour when considering its future as a location for asset management. I feel that these elements will promote Luxembourg's strong private banking industry which by its very nature has close links to asset management.

### **What would you change in order to encourage asset managers to come to Luxembourg or expand their activities here?**

Things are moving in the right direction in Luxembourg: we have a good framework for encouraging asset managers to relocate here. The only disadvantages I can see come in the form of two things that would be difficult to change, to say the least: the lack of a major stock market or financial market, as we have in London, Paris and Frankfurt, and therefore the lack of critical mass, and the population density is low, making it often difficult to find people in the local region. In this respect, it is essential that transportation infrastructure develop further in order to attract quality people more easily from other financial centres.

## “Luxembourg is a global production centre for the Group and a hub for our European management company activities”

Dexia Asset Management (AM) is the asset management arm of the Dexia Group. It has over 100 billion euro of assets under management, providing a complete range of solutions in all asset classes for institutional and private clients. Dexia AM, which was created in 1998, is also the research, financial analysis and asset management centre for the Dexia Group. It has production centres in Brussels, Paris, Sydney and Luxembourg, and Luxembourg also serves as its head office. Luc Rasschaert, global head of marketing, explained why.

### **What does your company do in Luxembourg in the field of asset management?**

As Dexia AM's head office, Luxembourg plays a central role in the top management of the group. Dexia AM Luxembourg is also the only production centre for our global balanced and multi management funds as well as managing private mandates and structured products. Dexia AM Luxembourg has a UCITS III licence as a management company, and as such has created branches throughout Europe (it also has a representative office in Bahrain). The international sales and distribution activities of these offices are managed from Luxembourg.

### **What brought you to Luxembourg?**

The Dexia Group has a strong historical link with Luxembourg. The Banque Internationale à Luxembourg, which became Dexia-BIL, has been active in Luxembourg for 150 years and Dexia-BIL is one of the largest entities of the Dexia Group. Considering this close relationship, it was a natural progression for the Group to choose to locate its investment management activities in Luxembourg. The establishment of an asset management company in Luxembourg also allowed the Group to start cross-selling Luxembourg funds by passporting them to other countries.



### **Do you believe Luxembourg is a good location for asset management?**

Yes. The legal and tax framework is very stable and well-developed and the local authorities act in a business-oriented way. Similarly, the regulator is not only rigorous and correct, but also reactive to business needs. Underlying all of this is the fact that Luxembourg is a world-renowned centre for the fund industry in terms of fund servicing. This enhances proximity between service providers and maximises efficiency through close contact and collaboration. In addition, the development of the University of Luxembourg, and the integrated School of Finance, not only offers professionals the chance for further study, but also plays an important role in developing research in the fields of financial innovation, risk management and compliance. Luxembourg also boasts a high standard of living in a multilingual, multicultural environment where personal taxation is relatively low in comparison with other countries.

### **How do you see Luxembourg's future in the field of asset management?**

Dexia AM is confident that Luxembourg will develop in the asset management field given that local authorities are business wise and industry players are working together to enhance its development as a fund centre. However, the creation of innovative products, cost control and the development of cross-border distribution are essential to achieving this goal.

### **What would you change to encourage asset managers to come to Luxembourg or develop their activities here?**

Luxembourg needs to work on its image. Its role as a financial centre is not yet as well recognised as other centres like London or Paris. A more finance-oriented education for young people is also very important to ensure the asset management sector will be able to find the highly qualified staff it needs to further its expansion in Luxembourg. On a European level, the legislation of products and companies is becoming more and more onerous, and this does not leave Luxembourg with a lot of room for manoeuvre. However, an attractive taxation policy could be a decisive advantage for the asset management sector.

## “Luxembourg has expertise in niches such as multi management and alternative investment products”

ING Luxembourg S.A. was born in 2003, fruit of the union of two banks belonging to the ING Group: Credit Européen S.A. and ING Bank S.A. As a result of this fusion, ING Luxembourg now boasts a global brand which is recognised throughout the world. Some of its most successful activities include asset management and private banking, thanks to the care and attention of ING Third Party Funds. Based in the Grand Duchy, ING Third Party Funds consists of a team of 20 investment specialists headed up by Georges Wolff. As a Luxembourg national (who has been in the business since 1982), Wolff's views on the future of asset management in his home country provide a valuable insight.

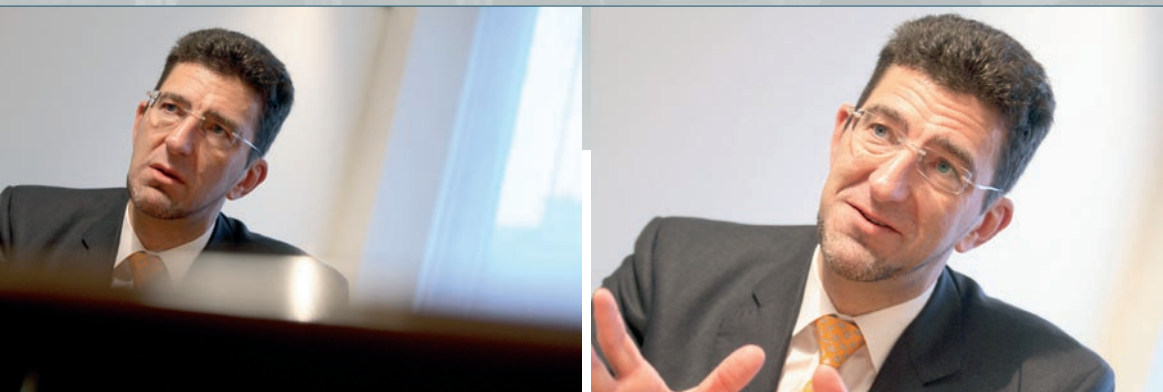
### **What does your company do in Luxembourg in the field of asset management?**

Our team of 20 specialists focuses on fund and manager selection, especially for funds of funds. In fact we are the multi manager experts for ING Private Bank globally. We also select managers for dedicated mandates, all using the best of breed approach. More recently, ING Group decided to centralise an important part of the Private Banking asset management activities in Luxembourg. My team will be integrated into ING Private Capital Management (IPCM) along with several other portfolio management activities which will relocate to Luxembourg. IPCM is a Luxembourg domiciled UCITS III asset management company that we launched in January of this year.

### **What brought you to Luxembourg?**

I actually come from Luxembourg and wanted to work in asset management ever since I began my studies. My professional career began in Luxembourg in 1982 with Société Générale, BBL then ING. However as for ING Third Party Funds it was a natural progression. We had been working under the format just mentioned before since 2001 (although we actually started to develop our specialisation in 1998), and so ING asked us to be their centre. ING felt it was logical because of Luxembourg's private banking tradition - where you have private banking experience you also have asset management experience.





### **Do you believe Luxembourg is a good location for asset management?**

Luxembourg is a good place for asset management. There are experienced people already here, and a sufficient background in asset management developed over the last 20 years thanks to private banking. It is also recognised for its fund servicing activities, so there is a good knowledge of the industry to build on. I have heard it argued that Luxembourg doesn't have an equities culture, but this is no longer true, again, thanks to private banking. It has also been said that asset managers need the proximity of a large stock exchange, but to us this is not relevant as we invest indirectly via funds. Moreover, with today's communication infrastructure you can be close to markets whenever you wish.

### **How do you see Luxembourg's future in the field of asset management?**

Thanks to its strong private banking culture, I see Luxembourg's future in asset management as good. However, we need to be realistic. It would be very difficult for us to compete with centres like London or New York, but why not with centres like Geneva? I think the way forward would be for Luxembourg to develop niches like multi-management funds and alternative investments. The new legislation on special investment funds makes this an even more attractive possibility.

### **What would you change to encourage asset managers to come to Luxembourg, or develop their activities here?**

It's all about perception. We need to get rid of negative impressions through communication and promotion – and promotion from both the public and the private sectors. The opinion that there is not enough asset management experience here is simply not correct. For me, something that is also crucial is attracting talent. It takes a lot of time and effort to attract qualified people to Luxembourg and this could be assisted by promoting Luxembourg as a good place to live with one of the best standards of living anywhere. Above all, however, it is essential to promote Luxembourg's stable and pro-business regulatory and legal environment.



## Summary of requirements

A company seeking to obtain a licence as an asset manager ("gérant de fortune") in Luxembourg under the Luxembourg Law of April 5, 1993 must file the following information.



## **I . Type of Licence Required**

Law of 5 April, 1993: article 24 B relating to asset managers

### **Art. 24 Investment firms<sup>1</sup>**

#### **B) Asset managers**

- (1) Asset managers are professionals whose business is to manage investment portfolios on a discretionary and individual basis pursuant to a mandate given by the investors, where those portfolios comprise one or more of the instruments referred to in Section B of Annex II.
- (2) Authorisation to carry on business as an asset manager shall be conditional on the production of evidence showing the existence of a share capital amounting to not less than "EUR 620 000".<sup>2</sup>
- (3) Asset managers shall be automatically authorised to act, in addition, as financial operations advisers, brokers and commission agents.

### **Annex II Section B<sup>3</sup>**

#### **Instruments**

1. a) Transferable securities.  
b) Shares in undertakings for collective investment.
2. Money-market instruments.
3. Financial-futures contracts, including equivalent cash-settled instruments.
4. Forward interest-rate agreements (FRAs).
5. Interest-rate, currency or equity swaps.
6. Options to acquire or dispose of any instrument falling within this Section of this Annex, including equivalent cash-settled instruments. This category includes in particular options on currency and on interest rates.

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<sup>1</sup> Law of 12 March 1998

<sup>2</sup> Law of 2 August 2003

<sup>3</sup> Law of 12 March 1998

## II. Capital Adequacy Requirements

Asset managers: € 620,000

In the case of a professional activity in the financial sector involving the applicant in the management of funds for third parties, the minimum requirement consists in a fully paid up authorised capital amounting to not less than € 620,000.

## III. Information on the Applicant

- In the case of a company to be incorporated
  - draft articles of incorporation
- In the case of a physical person
  - curriculum vitae
  - applicable diploma

## IV. Information on the Shareholders of the Applicant (full transparency is required)

- brochures describing activity (if any)
- annual accounts for the last three years
- competent supervisory authority (if any)
- organisation chart of the group
- other information on major companies of the group  
(eg. financial statements of the parent company)

## V. Directors and Management

- name of proposed directors
- CVs of proposed directors
- affidavits of proposed directors
- persons in charge of day to day management ("Managers")  
(at least two of which must, in principle, reside in Luxembourg)
- CVs for Managers
- affidavits for Managers
- clean police record for Managers

## VI. Information on the Location of the Central Administration in Luxembourg

- description of human resources (number of people to be employed)
- technical resources (systems infrastructure)

*NB: A detailed and complete description of the human and technical infrastructure of the company is required by the authorities.*

## **VII. Information Required by IML<sup>1</sup> Circular 96/126 (as amended by CSSF Circular 05/178)**

- information on the administrative, organisation and accounting procedures
  - staff
  - operational systems
  - documentation of operations
  - administrative infrastructure supporting commercial functions
  - support functions
    - \* *accounting function*
    - \* *internal control*
    - \* *IT function*
    - \* *business continuity plans*
  - reporting to the authorities
- assessment of the administrative and accounting system by the external auditor ("réviseur d'entreprises")

*NB: there is a requirement for the external auditors to prepare an annual Long Form Report describing the activities of the company for its Board of Directors.*

## **VIII. Anti-money Laundering and Anti-terrorist Financing (CSSF Circular 05/211)**

- memorandum on measures taken to avoid money laundering to cover professional obligations:
  - (i) obligation to know the customer;
  - (ii) obligation to examine certain transactions with special care;
  - (iii) obligation to monitor customers on a continuous basis according to the degree of risk;
  - (iv) obligation to retain certain documents;
  - (v) obligation to establish appropriate internal control procedures;
  - (vi) obligation to co-operate with the authorities and reporting obligations;
  - (vii) obligation to incorporate the name or account number of the transferor within electronic funds transfers and associated messages.
- memorandum describing appropriate training of staff to avoid money laundering

## **IX. Details Regarding the Proposed Activity**

- memorandum on proposed activities – the business plan – eg services to be performed – collective investment management – discretionary portfolio management etc.
- expected balance sheet/ profit and loss account (budgeted) for 3 years

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<sup>1</sup> IML: Institut Monétaire Luxembourgeois, the regulatory authority that preceded the creation of the CSSF

## **Circulars Applicable to Asset Managers ("gérants de fortune")**

### **IML circular 91/78**

application of article 60 of the law of 27<sup>th</sup> November 1984  
(as amended) governing asset managers

### **IML circular 93/95**

entry into effect for other financial sector professionals of the law  
5<sup>th</sup> April 1993 on the financial sector

### **IML circular 95/120**

central administration

### **IML circular 96/126, as amended by CSSF circular 05/178**

administrative organisation and accounting procedures

### **IML circular 98/143, as amended by CSSF circular 04/155**

internal control

### **CSSF circular 00/15, as amended by CSSF circular 05/177**

rules of conduct in the financial sector

### **CSSF circular 04/155**

the compliance function

### **CSSF circular 05/178**

administrative and accounting organisation

### **CSSF circular 05/187**

periodic financial reporting to the CSSF – "other professionals of the  
financial sector"

### **CSSF circular 05/197**

electronic transmission of financial information which has to be  
periodically filed with the CSSF by the "other professionals of the financial  
sector"

### **CSSF circular 05/211**

combating money laundering and terrorist financing; preventing the use  
of the financial services industry for the purpose of money laundering and  
terrorist financing





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