



# Luxembourg: Leader in Wealth Management Solutions in the European Union

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# Luxembourg: Leader in Wealth Management Solutions in the EU

## ■ INTRODUCTION

## ■ CASE STUDY - EXAMPLES OF LUXEMBOURG SOLUTIONS

# **...designed for international, complex wealthy individuals and families**

**(and their advisers)**

- Family members in Hong Kong and around the world**
- Investments outside of Hong Kong:  
real estate, private equity, life style...**
- Entrepreneurs wanting to internationalize  
their business**
- Expatriates**
- Family offices or asset managers seeking a cross  
border platform complementary to their local providers**
- Philanthropy, Micro-Finance, Socially Responsible  
Investments**

# Introduction

## **Luxembourg compared to other financial centres**

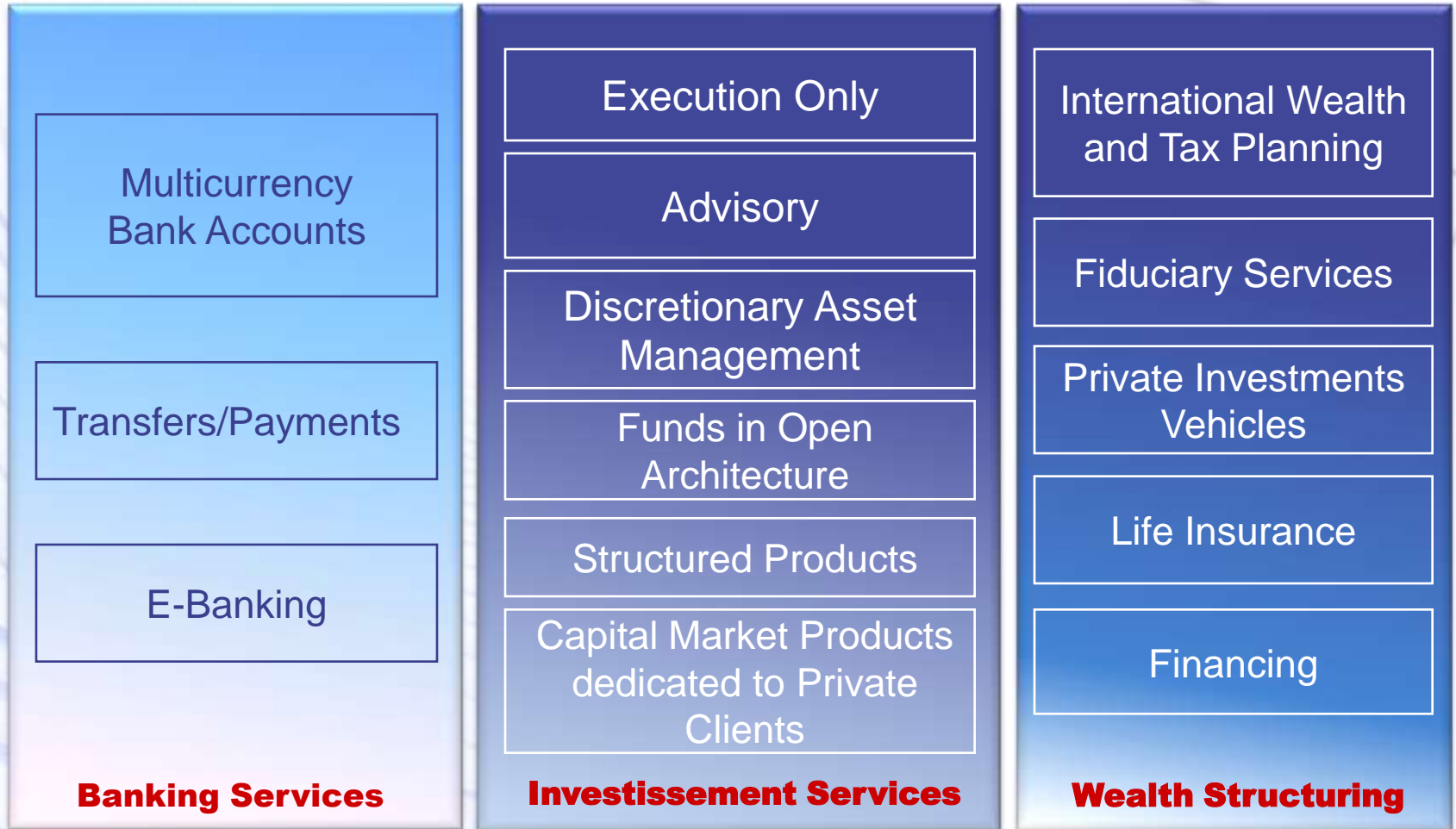
- Complementary offering to domestic solutions, other PB centres
- Ideal for complex, wealthy, international clients and families
- Full range of private banking products and services
- Complemented by comprehensive range of estate and tax planning solution
- Competitive fee structure
- Large number of specialist service providers, working closely with banks
- Ideal platform for investing or operating in Europe

# Introduction

## **Political, regulatory and tax framework**

- Unprecedented political and economic stability
- International environment, multi-lingual, multi-cultural
- Founding member of the European Union
- Hub for European activities: EU Passport
- Investor protection – MiFID
- Protection of private sphere, financial privacy
- Competitive fiscal framework, within the OECD/G20 standards
- Prevention of money laundering
- Deposit guarantee scheme – banking, insurance

# Introduction





# Case study – Examples of Luxembourg Solutions

- **Specialised Investment Funds (SIF)**
- **SOPARFIs**
- **Life Insurance Wrappers**

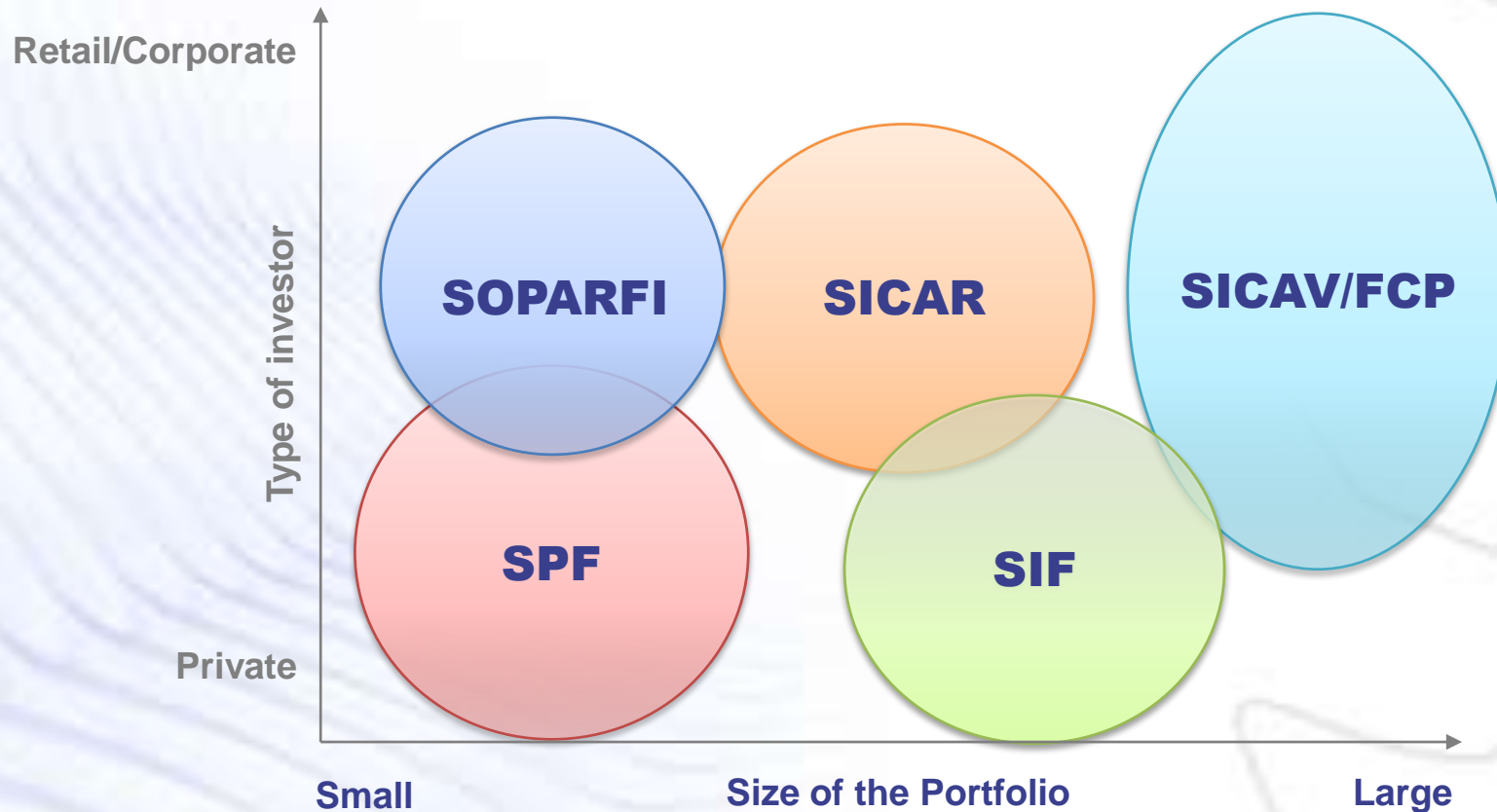
# Wide choice of investment vehicles

- **FUNDS**  
(SIVAV/F, FCP)
- **SIF**
- **SICAR**
- **SECURITIZATION**
- **LIFE INSURANCE WRAPPERS**
- **SOPARFI**
- **SPF**
- **FIDUCIARY CONTRACTS**

Full regulation

Lighter regulation

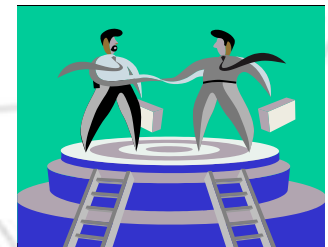
# Choosing the right investment vehicle



# Withholding tax optimisation

INVESTOR

& TARGETS/INVESTMENTS



- WHT on dividends 0/10%
- WHT on interest and royalties 0/15%
- No WHT on Liquidation proceeds
- No capital gains taxation in Luxembourg

- WHT on dividends 0%
- WHT on interest 0%
- WHT on royalties 10-0%
- No capital gains taxation?

# Case study 1: Dedicated funds (SIF)

## ■ Asset pooling, unitisation

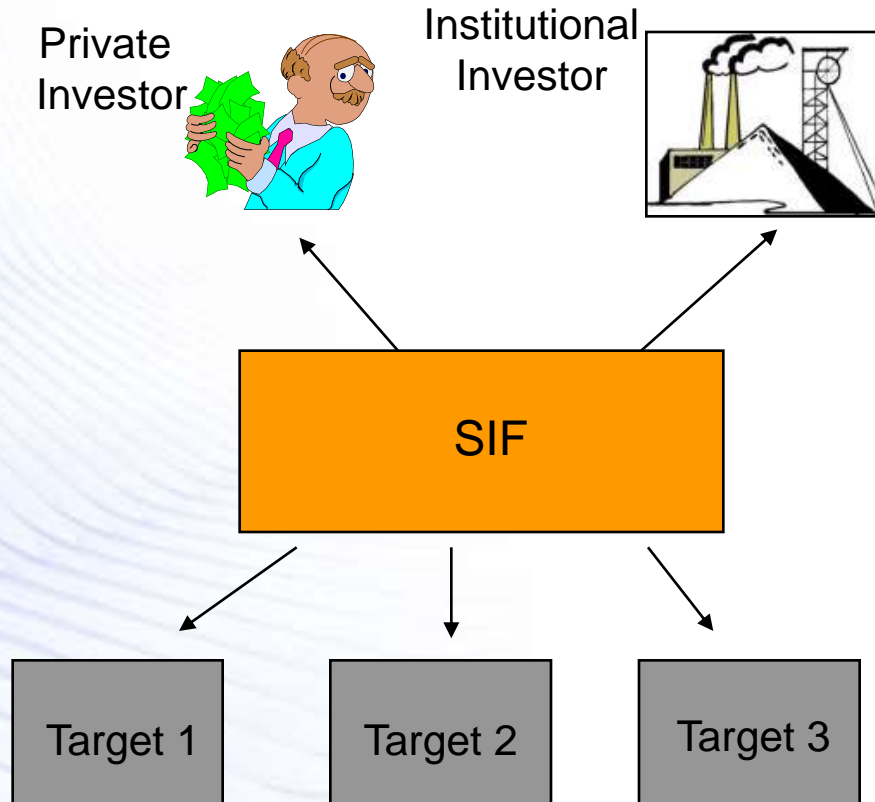
## ■ Estate planning, transmission, units as collateral

## ■ Management

- Different asset classes
- Different managers (Luxembourg or foreign banks, asset managers)
- Umbrella structures

## ■ Tax treatment

# Case study 1: Dedicated fund (SIF)





# SIF

## Main features

- Shares / units restricted to well informed investors
- Corporate form or contractual form
- Fixed or variable capital
- Shareholders voting rights (corporate form)
- Approval and supervision
- Risk diversification
- Tax treatment

# SIF

## ■ Advantages

- Possible to privately place a SIF prior to CSSF approval
- No requirement for a promoter, no CSSF approval of the investment manager
- Possible to have an umbrella fund (with ring-fenced compartments)
- Possible to have variable share capital
- No restrictions on repayments, distributions or dividend payments
- Flexibility on:
  - content of prospectus
  - choice of legal form
  - subscription and redemption procedures
  - calculation of NAV
  - reporting
- Easy and straightforward tax regime
- Very well known and accepted fund structure by institutional investors

# SIF

## ■ Statistics

### As of end July 2009

- 906 SIFs
- EUR 143.579 billion assets under management

### As of end December 2008

- 837 SIFs, of which
  - 121 investing in real estate
  - 419 funds of funds
  - 513 investing in mixed transferable securities

## ■ Conclusion

- Highly flexible structure
- Well known both inside and outside the EU

# Illustration : SIF, a « must have » for Asian Wealth Managers

Asia

**Wealth Manager**

Management and/ or perf. fees

Sub-funds management

<b>Client 1</b>	<b>Bank X</b>	<b>100% MM</b>
<b>Client 2</b>	<b>Bank Y</b>	<b>50% BD 40% AGR 10% HF</b>
<b>Client 3</b>	<b>Bank Z</b>	<b>80% MM 20% BD</b>

Luxembourg

<b>SIF*</b>					
<b>Subfund 1 Money Market MM</b>	<b>Subfund 2 Bond BD</b>	<b>Subfund 3 Aggressive AGR</b>	<b>Subfund 4 Hedge Fund HF</b>	<b>Subfund 5 Real Estate RE</b>	<b>Subfund 6 Private Equity PE</b>

### Strengths :

- For the client : no bank change, fund regulation, steady independent net asset value (NAV)
  - For the Wealth Manager : Easy and powerful fee handling, independent reporting and NAV, administrative time gain, WM can focus on asset management and client relationship
- \* A SIF may not invest more than 30% of its assets in securities of the same type issued by the same issuer.

# Illustration : Key steps to create a sub-fund in Luxembourg

1.



2.



3.



4.

## Definition of investment constraints

- Risk aversion
- Investment vehicles
- Performance objectives
- Investment horizon...

## Prospectus is validated by the regulatory authority

## Active management of the sub-fund

- Entry timing
- Capital invested according to market opportunities
- Multi-asset strategies: equities, bonds, hedge funds, structured products...
- Risk management

## Reporting

- Customized reporting process : on-demand reports, conference calls, meetings...

### Main advantages :

- A highly flexible investment solution
- Sub-fund is managed by the designated asset managers (largely available in Luxembourg)
- Multi-asset investment capabilities

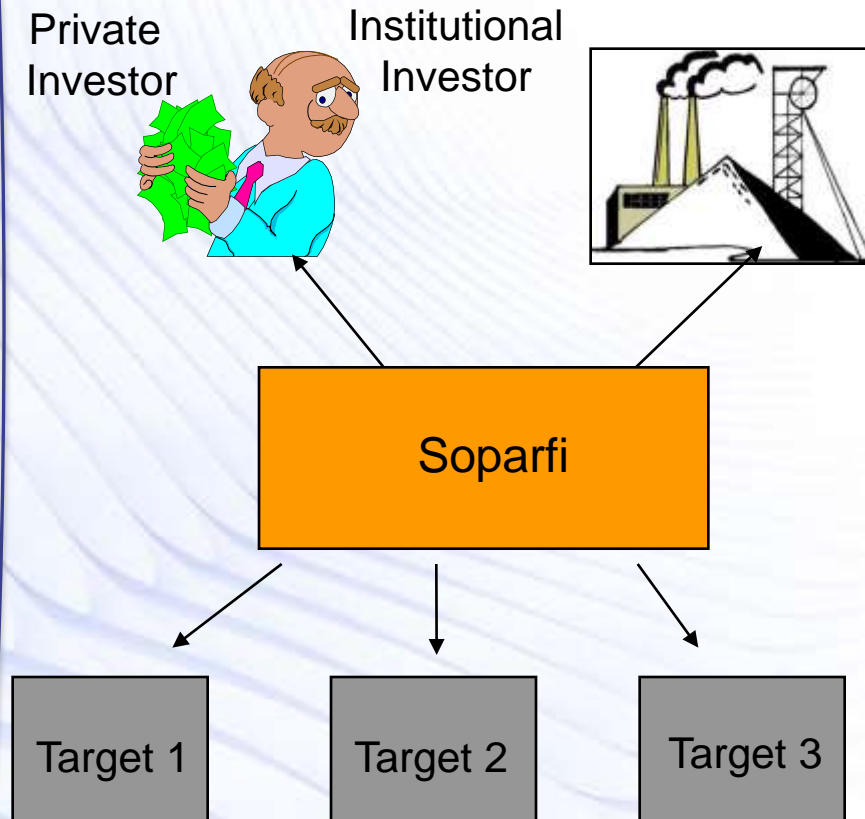
# Case study 2: SOPARFI

## SOPARFI

(SOCIETE PARTICIPATION FINANCIERE)

## OVERVIEW

## TAX RULES



### ■ Dividend and capital gains tax exemption if:

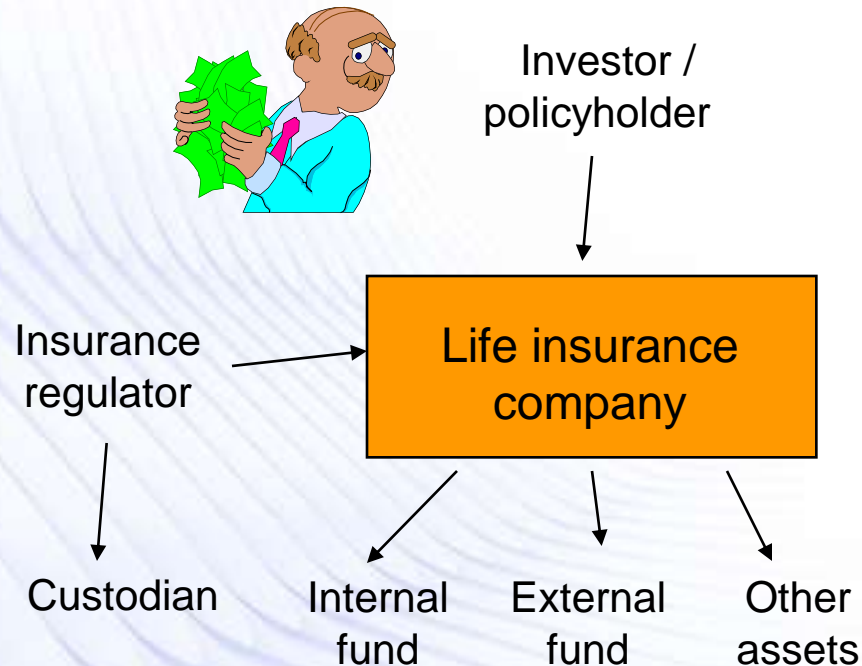
- participation of at least 10% (or acquisition cost of at least €1.2m/€6m for capital gain exemption)
- holding period 12 months
- Target is subject to tax

### ■ Interest taxed at 28,59%

### ■ No WHT on interest payments

### ■ No WHT on dividend distributions under some conditions

# Case study 3: Life Insurance Wrapper



## Legal framework

- **Regulation of insurance companies and insurance contracts**
- **Strong legal protection of policyholders**
- **Policyholder assets held by custodian bank**
- **Supervision by Insurance Commission**

# Case study 3: Life Insurance Wrapper

## Advantages

- Asset allocations and investment strategy
- Asset protection
- Tax treatment
- Succession planning
- confidentiality

# Conclusion

- **Luxembourg is an ideal hub for investing in Europe**
- **Luxembourg offers a unique range of attractive vehicles for HNWIs, families and institutional investors**
- **Luxembourg solutions are complementary to domestic offerings and offerings of other international centres**



# **Lettres de Gage**

## **Luxembourg Covered Bonds**



**Mr Reinolf Dibus, Managing Director**  
EUROHYPO Europäische Hypothekenbank S.A.

# Covered Bonds - Definition Part 1-

**Covered Bonds are debt instruments of a bank additionally secured by either:**

- Cover pool of mortgage loans (property as collateral)
- Public-sector debt

**Investors have a preferential claim in the event of default of the issuing bank**

**Safety features depend on specific legal framework**

- Asset eligibility and coverage
- Bankruptcy-remoteness
- Regulation

**High safety aspect is common to all kinds of covered bonds**

# Covered Bonds - Definition Part 2-

**The special character of covered bonds has been enshrined in the 1988 Directive on Undertakings for Collective Investments in Transferable Securities (UCITS). Article 22(4) of this Directive defines the minimum requirements that provide the basis for privileged treatment of covered bonds in different areas of European financial market regulation. In brief, Article 22(4) requires:**

1. The covered bond issuer must be a credit institution.
2. Covered bond issuance has to be governed by a special legal framework.
3. Issuing institutions must be subject to special prudential public supervision.
4. The set of eligible cover assets must be defined by law.
5. The cover asset pool must provide sufficient collateral to cover bondholder claims throughout the whole term of the covered bond.
6. Bondholders must have priority claim on the cover asset pool in case of default of the issuer.

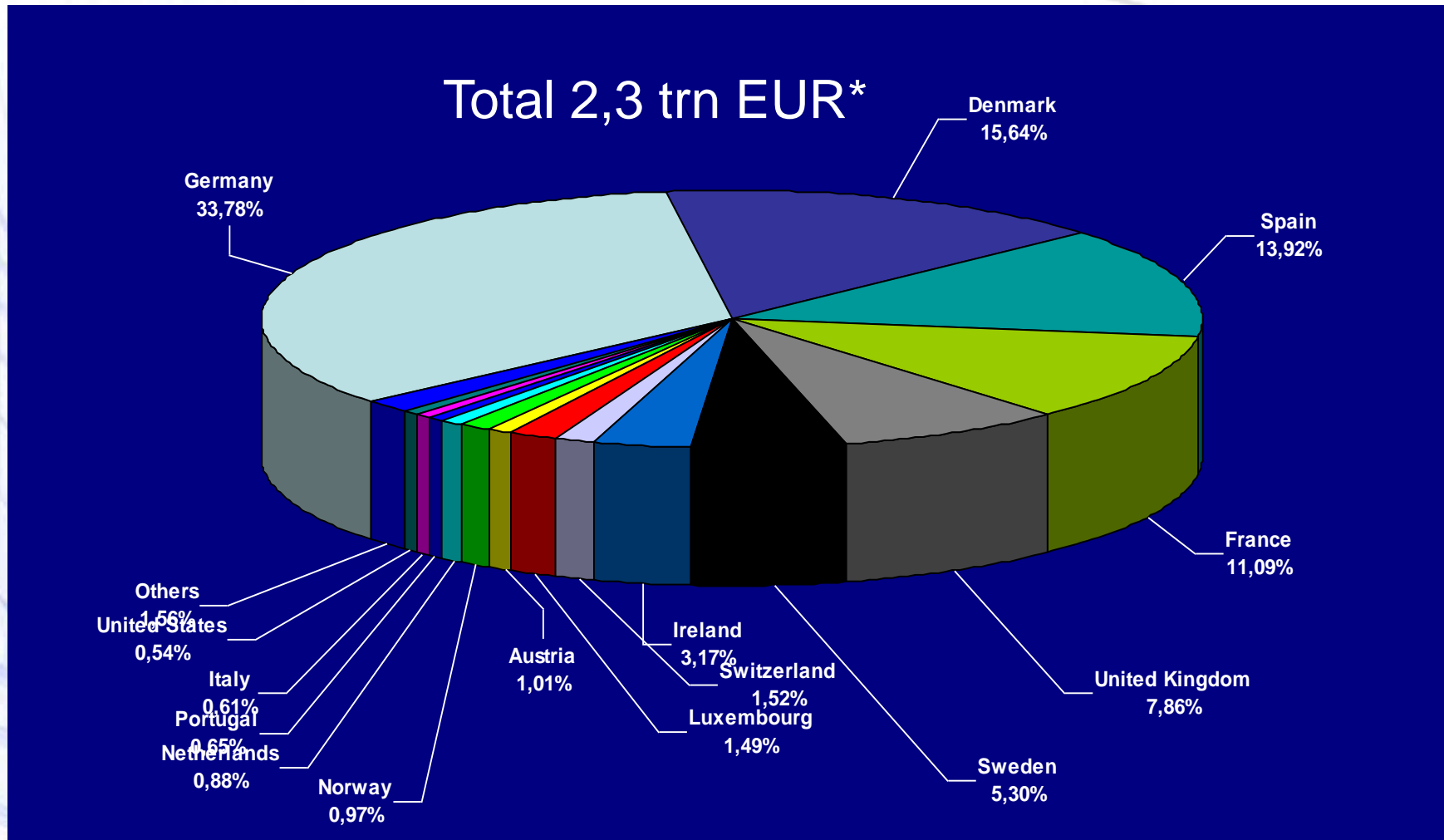
# Key elements of the legal framework for Lettres de Gage in Luxembourg

- Legislation enacted on November 21st, 1997 as articles 12-1 to 12-9 of the Banking Code, amended in June 2000 and October 2008.
- Specialist bank principle => restricted banking license.
- Public sector lending allowed in all EU, EEA and OECD countries.
- Lettres de Gage banks use derivatives as hedge instruments to ensure sufficient collateral for all outstanding Lettres de Gage. These hedge instruments must be included into the cover pool.
- Preferential treatment of Lettres de Gage holders in case of bankruptcy.
- Substitute cover limited to 20% of outstanding liabilities.
- In case of bankruptcy of the bank the collateral pool and the corresponding Lettres de Gage will not be part of the bankruptcy estate.
- The collateral pool and the outstanding Lettres de Gage will be separated and administered by the Luxembourg supervisory authority CSSF (Commission de Surveillance du Secteur Financier) in order to ensure timely payments.
- Cover pool trustee or „Special Auditor“ must be a licensed independent auditor.
- „Special Auditor“ reports annually to CSSF.

# Latest improvements (October 2008) of the legislation for Lettres de Gage in Luxembourg

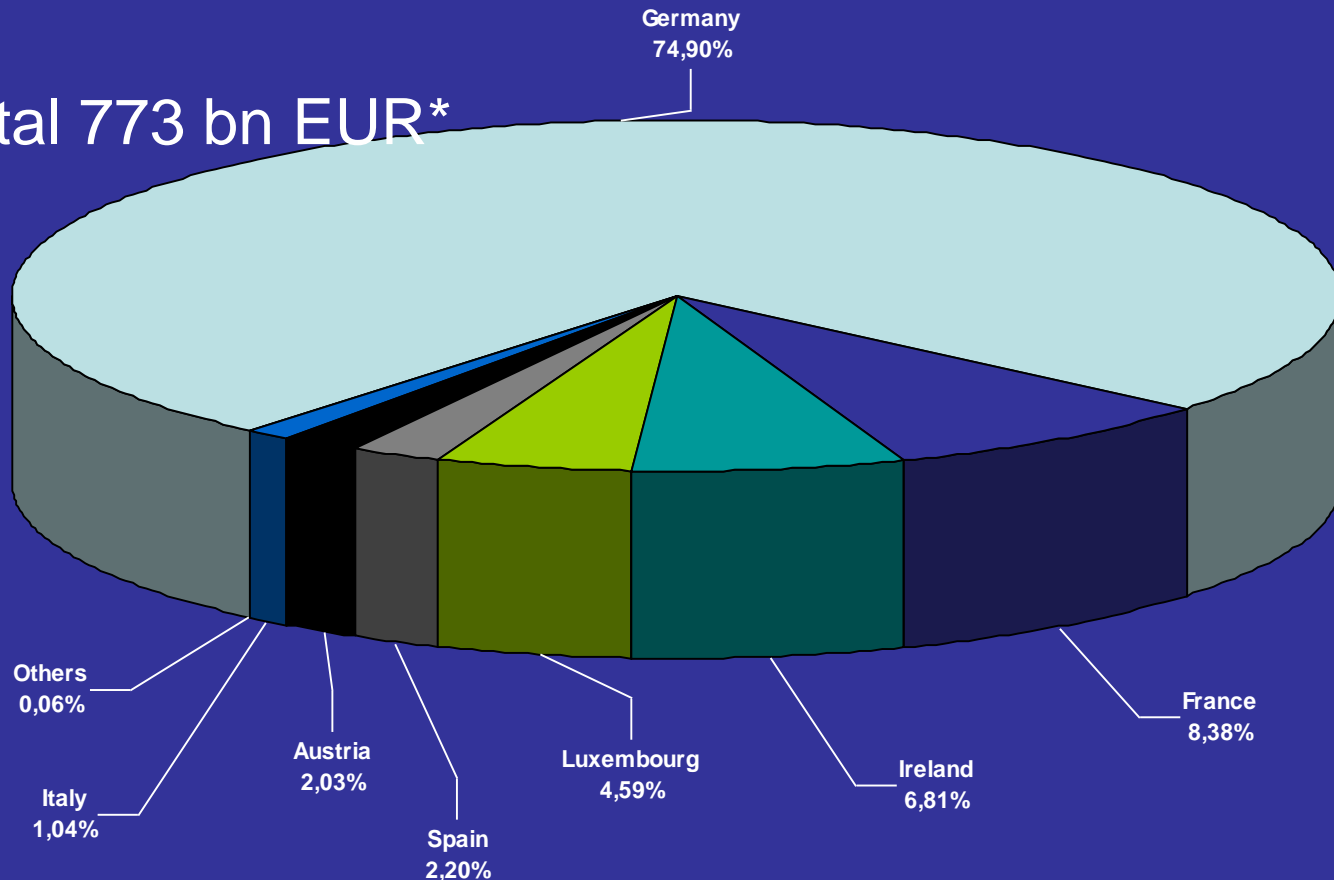
- Introduction of a mandatory 2% nominal and present value overcollateralisation.
- The LTV for mortgages on houses for residential purposes will be increased from 60% to 80%.
- New types of „Lettres de Gage“ with separate cover pools for movable equipment (e.g. ships, planes, railway), if they are registered in a public register in the EU, EEA or OECD.
- Following the EU-wide implementation of the CRD (Capital Requirement Directive), Asset backed securities can be registered in the cover pool. In general, the underlyings of the ABS have to be eligible according to the requirements for „Lettres de Gage“. The law determines that the whole cover pool can only contain 10% of non eligible assets via these ABS.

# ALL COVERED BONDS OUTSTANDING 31.12.2008 in EUR



# PUBLIC SECTOR COVERED BONDS OUTSTANDING 31.12.2008 in EUR

Total 773 bn EUR\*







# Market Overview

## Banks issuing Lettres de Gage:

All banks issuing Lettres de Gage form part and are fully integrated into mother companies which are major players in the global public finance market.

Key for all issuers is to build and maintain a sustainable business model. The goal is a safe and solid AAA-rated product.

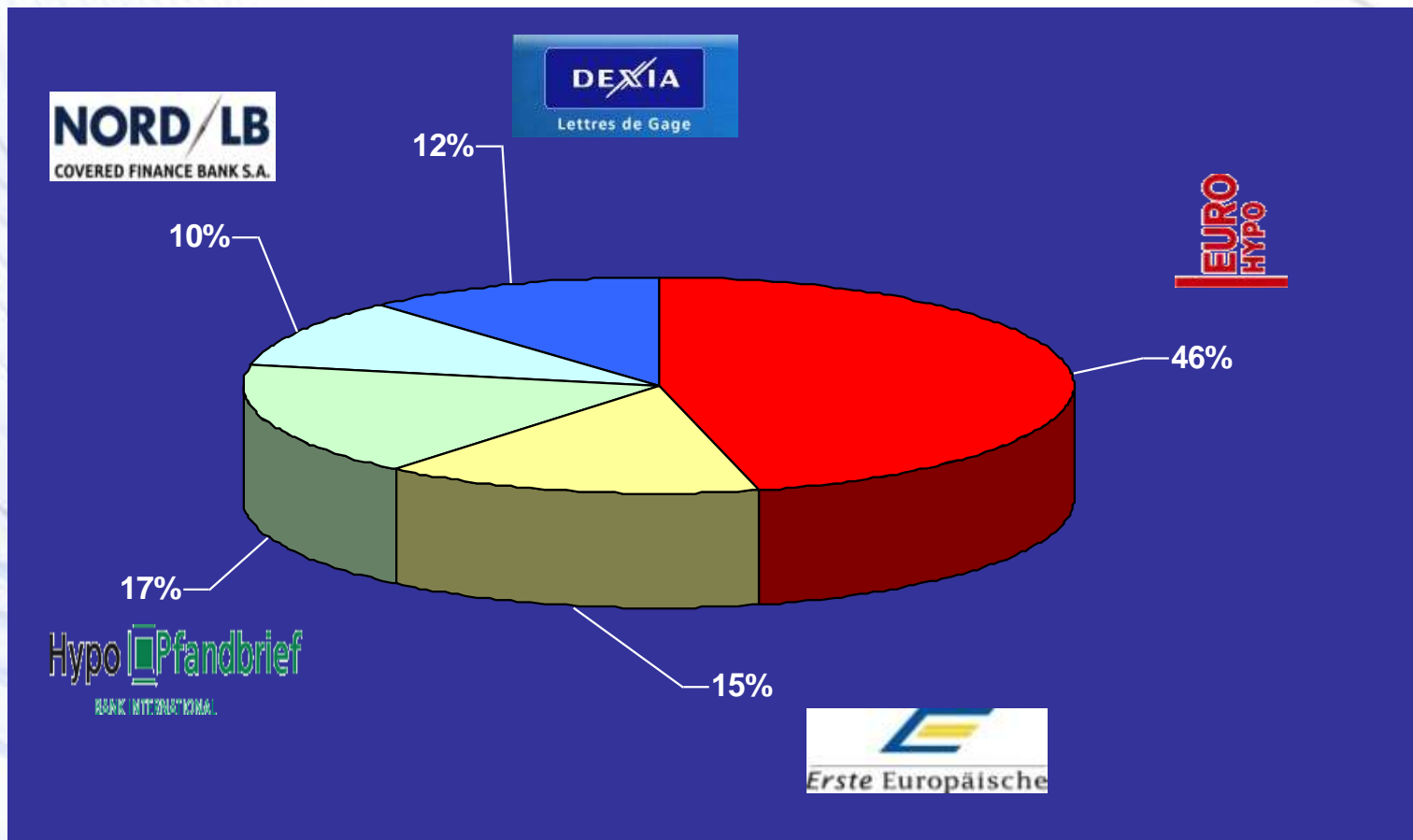
Book values 30.06.2009 (incl. Zero-Bonds):

					
<b>Total Assets</b>	<b>EUR 4,920 mn</b>	<b>EUR 6,663 mn</b>	<b>EUR 24,538 mn</b>	<b>EUR 8,540 mn</b>	<b>EUR 5,761 mn</b>
<b>Total Coverpool</b>	<b>EUR 4,337 mn</b>	<b>EUR 5,723 mn</b>	<b>EUR 16,705 mn</b>	<b>EUR 5,539 mn</b>	<b>EUR 3,940 mn</b>
<b>Outstanding LdG</b>	<b>EUR 4,000 mn</b>	<b>EUR 5,117 mn</b>	<b>EUR 15,801 mn</b>	<b>EUR 5,172 mn</b>	<b>EUR 3,512 mn</b>
<b>Overcollateralization</b>	<b>8.42%</b>	<b>11.85%</b>	<b>12.91%</b>	<b>7.10%</b>	<b>12.20%</b>
<b>Lettres de Gage Rating S&amp;P/FITCH</b>	<b>AAA stable</b>	<b>AAA stable</b>	<b>AAA/AAA stable</b>	<b>AAA negative</b>	<b>AAA stable</b>
<b>Long-term Bank deposits S&amp;P/FITCH</b>	<b>-</b>	<b>-</b>	<b>A- neg/A stable</b>	<b>BBB positive</b>	<b>A- negative</b>
<b>Short-term Bank deposits S&amp;P/FITCH</b>	<b>-</b>	<b>-</b>	<b>A-2 neg/F-1 stable</b>	<b>A-2 positive</b>	<b>A-2</b>

# Market Overview

Outstanding Lettres de Gage (Notional incl. Zero-Bonds 30.06.2009): 34.358 mn EUR

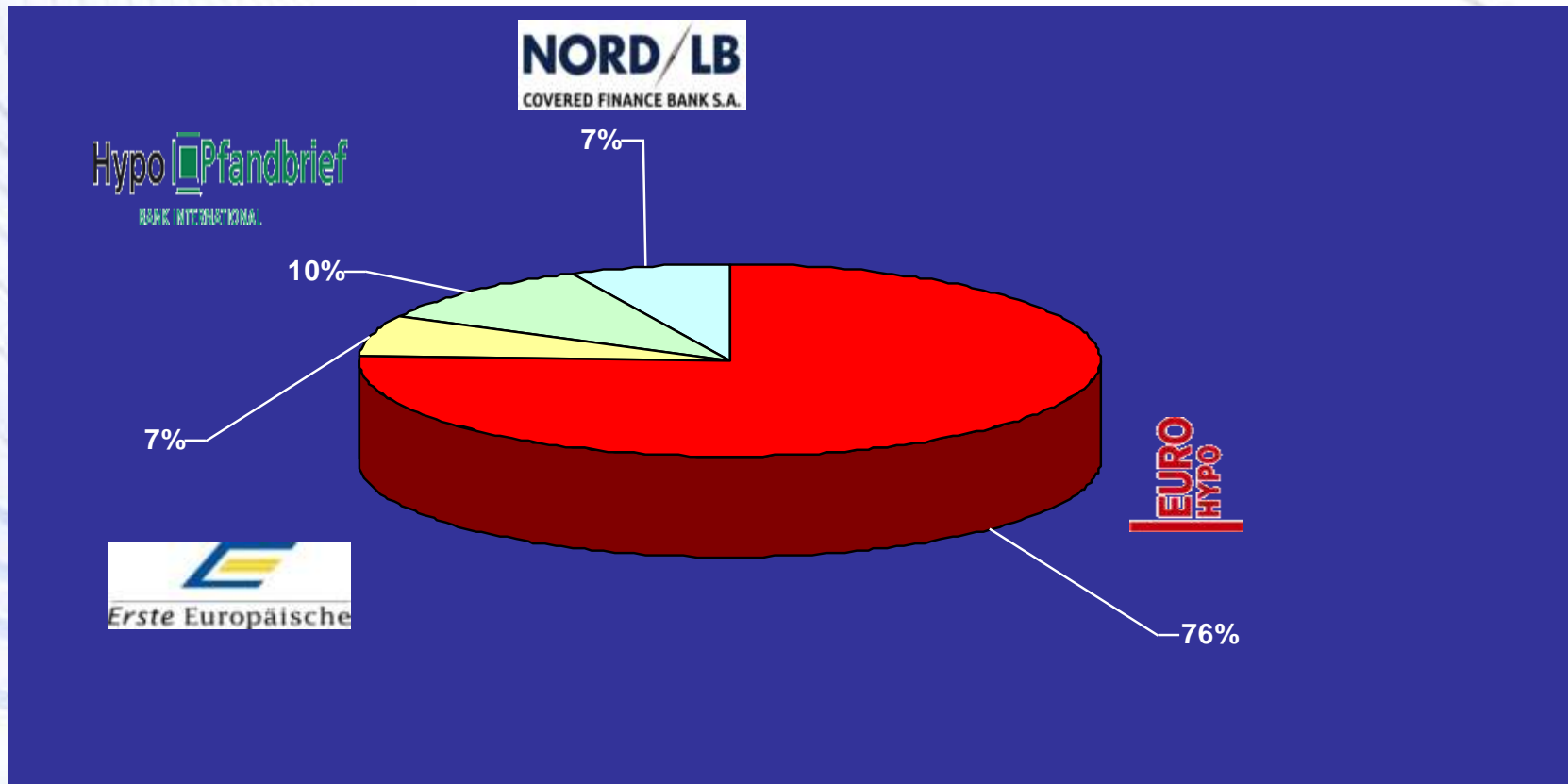
Market share:



# Market Overview

Outstanding Lettres de Gage in USD (30.06.2009): 11.645 mn

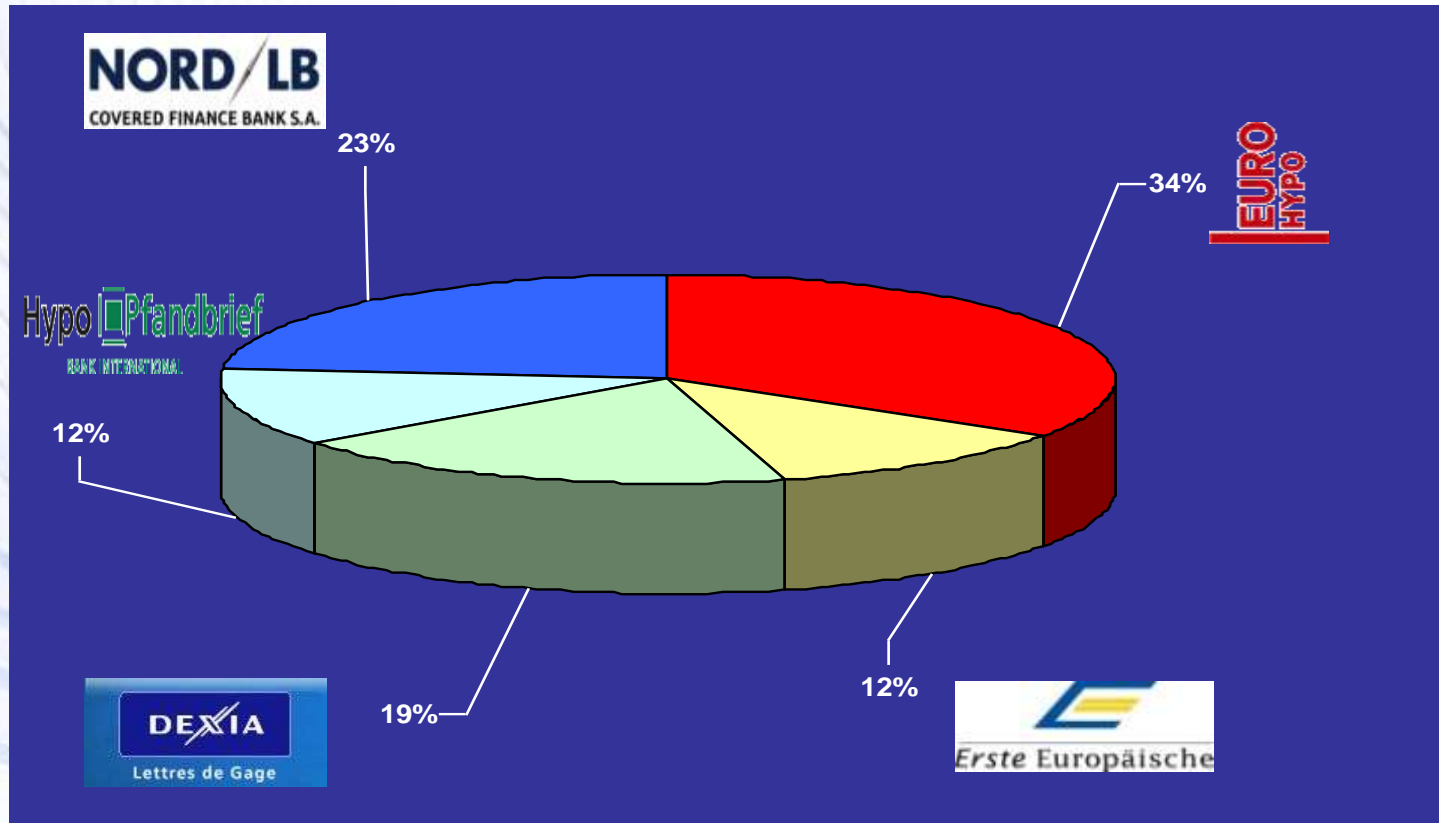
Market share:



# Market Overview

Outstanding Lettres de Gage in EUR (30.06.2009): 17.100 mn

Market share:



# Conclusion

## Why invest in Lettres de Gage...

### **International Focus:**

Luxembourg, located in the heart of the European Union offers a strong and broad based legal framework for covered bonds as well as an issuer and investor friendly regulatory environment.

### **International Diversification:**

We take advantage of the international character of the Luxembourg law by geographically diversifying the cover pools of our Lettres de Gage, focusing on OECD / EEA countries.

### **Granularity:**

On the asset side, the Luxembourg legislation has distinct advantages over other "Covered Bond Issuing Countries" by permitting the lending to sub-governmental institutions and thus achieving a better distribution of risk.

### **Flexibility:**

Lettres de Gage have been issued in all major currencies and all tenors. Issues are tailor-made to the specific requirements of the investor. Investor needs are key for our issuance policy in Luxembourg.

# Conclusion

## Why invest in Lettres de Gage...

### Legal framework:

Very strong and modern covered bond legislation based on special banking principle compliant with UCITS 22 (4).

There has been no default of a Lettre de Gage since inception of the product as in general in the market for covered bonds based on legal frameworks.

### Integration in larger Banking Groups:

Luxemburgs Covered Bond Banks are fully integrated into large European banking groups.

### Quality:

- solid AAA-Rating
- High levels of overcollateralization are held to improve the safety of the product.
- Very solid funding mix and structure.

# Conclusion

## Why invest in Lettres de Gage...

### **Asian Market Fit:**

With more than 11,6 bn outstanding Lettres de Gage denominated in USD and 17,1 bn in EUR the product is an important asset class for investors in Asia. Lettres de Gage banks are specialized on issuing tailor made covered bonds which perfectly fit to investor needs (Reverse inquiry principle).

### **Foreseeable Outperformance:**

Lettres de Gage compensate partly for a decrease of European covered bonds backed by public loans. A growing scarcity value will lead to an outperformance compared with other bond products.

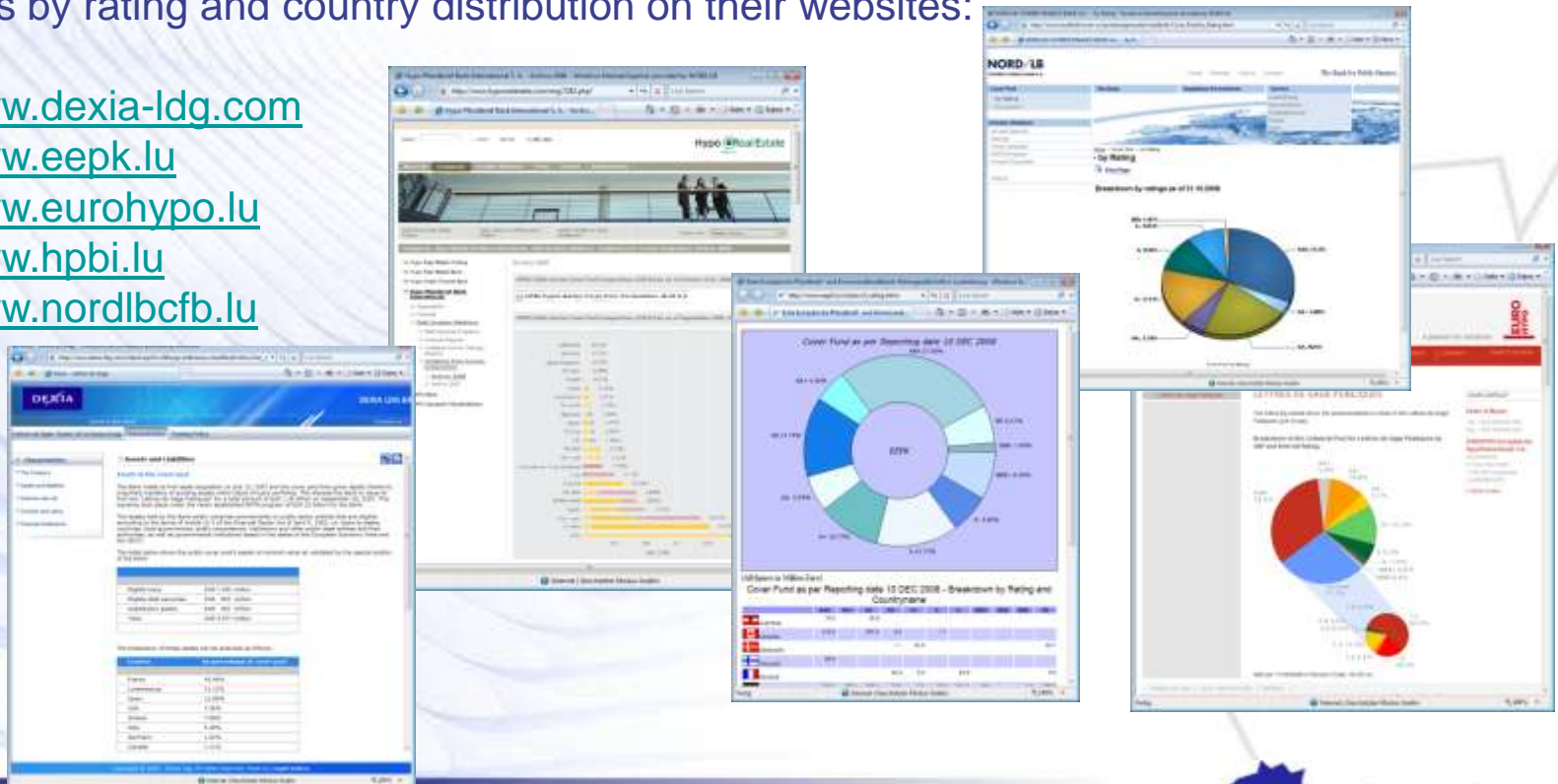
# Conclusion

## Why invest in Lettres de Gage...

### Transparency:

All banks issuing Lettres de Gage display the composition of their respective cover pools by rating and country distribution on their websites:

- [www.dexia-ldg.com](http://www.dexia-ldg.com)
- [www.eepk.lu](http://www.eepk.lu)
- [www.eurohypo.lu](http://www.eurohypo.lu)
- [www.hpbi.lu](http://www.hpbi.lu)
- [www.nordlbcfb.lu](http://www.nordlbcfb.lu)



**Many thanks for your attention.**

**The presentation can be downloaded at  
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