



**Luxembourg**  
an international financial centre

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# LUXEMBOURG IN BRIEF

Situated at the **heart of Europe** between Belgium, Germany and France, Luxembourg is one of the smallest members of the European Union and the only Grand Duchy in the world. Independent since 1839, it is a **constitutional monarchy** governed by Prime Minister Jean-Claude Juncker. The head of state is Grand Duke Henri.

With a territory of just 2,586 km<sup>2</sup> and a **population of 512,000**, the domestic market is inevitably limited. In consequence, Luxembourg has always sought to join larger economic groups and trade zones such as the German Zollverein, the Belgo-Luxembourg economic union and later Benelux.



*The Luxembourg village of Schengen, intersection point between Luxembourg, Germany and France, where the Schengen Accord was signed on 14 June 1985. This agreement progressively abolished frontier controls and permitted the free movement of people within the European Union.*

A **founding member of the European Union**, Luxembourg is a member of all the principle international organisations.

Its strategic location and openness towards the outside world, its political and social stability based on a culture of consensus, combined with a **high quality of life**, has attracted investors from around the world.

These clients encounter supportive authorities and a **qualified international workforce** (43% of residents and 66% of the active population are foreigners). In addition to the **three official languages**, Luxembourgish, French and German, English is spoken fluently throughout the business sector.

The **legal and regulatory framework** is **stable** enough to be reliable and flexible enough to be adapted rapidly to an ever-changing environment.

These factors, combined with an excellent logistical and communications infrastructure, make Luxembourg an **ideal gateway to the European market** and its 500 million consumers.



*Luxembourg, seat of the European Investment Bank, the Court of Justice of the European Union and the European Court of Auditors.*

© f.l.t.r.: EIB, Court of Justice of the European Union, European Court of Auditors

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## A DIVERSIFIED ECONOMY

Luxembourg owes its economic expansion to the steel industry which dominated the economy of the country from the beginning of the 20<sup>th</sup> century until the 1970s. Today, the capital hosts the seat of **Arcelor-Mittal**, the number one steel producer in the world.

Just after the Second World War, international industrial groups such as **Goodyear** and **DuPont de Nemours** set up business in Luxembourg.



*The American company **Guardian Luxguard**, the European headquarters of which has been established in Luxembourg since 1981, furnished 150,000 meters of double glazing for the construction of the highest tower in the world, the Burj Khalifa in Dubai.*

Furthermore, the "One World Trade Center" in New York City (the central tower of the new World Trade Center complex) will be constructed with steel beams produced at the Arcelor-Mittal factory in Differdange located in the south of Luxembourg.

Economic diversification spread rapidly to the service sector. Today, Luxembourg is an important media and communications centre, hosting the seat of **RTL Group**, the premier audiovisual group in Europe with 45 television channels, 31 radio stations in 11 countries, and **SES Global**, which, with a fleet of more than 40 satellites, is the largest satellite operator in the world.

The Grand Duchy was also the first country to define a clear legal framework for electronic commerce, a fact which led world leaders such as **Amazon**, **Paypal**, **eBay** and **Skype** to centralise their European business in Luxembourg.

Thanks to its integration in the trans-European road and rail network and its modern airport, Luxembourg is a strategic centre for logistical services. **Cargolux** is one of the largest air freight transporters in the world.

The country has also set up a **maritime flag** that since 1991 has attracted a diversified fleet of merchant vessels.

Finally, recent legislative initiatives were designed to create an optimal, specialised legal framework for the management of intellectual property and the development of research and development activities.

## LUXEMBOURG HAS THE HIGHEST LABOUR PRODUCTIVITY IN THE WORLD

GDP per hour worked

USA = 100

Luxembourg	128.9
Norway	127.7
Ireland	104.9
United States	100.0
Belgium	98.4
Netherlands	98.3
France	95.0
Germany	92.9
G7	88.1
Euro area	85.6
Austria	83.8
United Kingdom	82.9
NAFTA*	82.9
Switzerland	82.2
Australia	81.9
OECD-Europe **	79.1
Italy	76.0
Canada	75.5
Japan	66.6
Russia	35.8

\* North American Free Trade Agreement

\*\* Excluding Turkey

Source: OECD

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# THE FINANCIAL SECTOR

The history of the Luxembourg financial centre goes back to 1856, year of the creation of the *Banque et Caisse d'Epargne de l'Etat* and the *Banque Internationale à Luxembourg*.

However, the evolution of Luxembourg into an international financial centre only began a century later, when American, German and Swiss banks began to develop business in the Euromarket.

The activities of the financial centre spread progressively wider, firstly to private banking and asset management and later to investment funds. A series of niche activities were added over the course of the last twenty years and today the Luxembourg financial centre is broadly diversified.

This success is based first and foremost on a **modern legal and regulatory framework** which is particularly business friendly. As a Member State of the European Union, this framework is largely predefined by European Directives. However, since the national market is very limited, the legislator has used the margin for manoeuvre left by these directives to create an environment which supports the setting up of tailor made products and services for an international clientele.

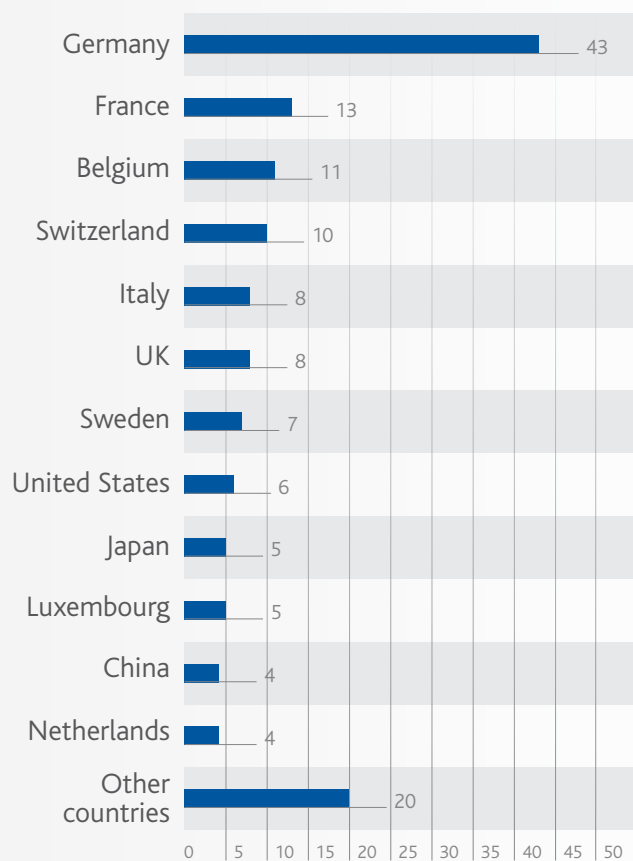
At the same time there is a strong culture of **investor protection**. Two supervisory authorities – the *Commission de surveillance du secteur financier* (CSSF) and the *Commissariat aux assurances* (CAA) – are in charge of the prudential supervision of financial and insurance activities respectively.

Today the Luxembourg financial centre is the largest **investment fund** centre in Europe - and second in the world after the United States - the leading **private banking** centre in the Eurozone and the largest **captive reinsurance** centre in Europe.

144 banks, subsidiaries or branches of major banking institutions from 24 different countries, are established in Luxembourg and focus their activities on the international markets..

In the financial services area, this multinational character of Luxembourg plays a particularly decisive role. Each bank, through its own market specificities and related expertise, contributes to the success of the financial centre.

#### ORIGIN OF BANKS ESTABLISHED IN LUXEMBOURG



Source: CSSF, 31 May 2011

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# PRIVATE BANKING

Private banking is a flagship activity of the Luxembourg financial centre.

Services offered in this area vary from an advisory service, where the client takes his or her own investment decisions based on recommendations made by the relationship manager, to discretionary management, where it is the relationship manager who manages the assets of the client in line with that client's risk profile and long term objectives.

Banks, independent wealth managers and financial advisers can also develop **tailor made solutions** for an increasingly demanding clientele and expect highly qualified professional assistance, a personalised service and complete discretion.

Investors benefit from the fact that wealth managers in Luxembourg are accustomed to serving an **international clientele** and have acquired extensive expertise in international financial engineering.

For high net worth individuals, a number of banks apply a global approach to structuring a customer's wealth over the longer term, incorporating financial and professional assets, life assurance and real estate, with a view to optimal long term asset planning and ultimate devolution.

**Wealth protection** and succession planning are largely based on the creation of specific wealth management vehicles and on fiduciary operations.

The **family wealth management company** (*société de gestion de patrimoine familial* or **SPF**) provides individuals with a structure intended solely for the management of their private wealth. The exclusive objective of an SPF is the acquisition, holding, management and sale of financial assets. It is not allowed to undertake any commercial activity.

The law does not require a family link between the various shareholders. The SPF is also open to wealth management entities, the exclusive purpose of which is to manage the wealth of private individuals, as well as to intermediaries holding shares in the SPF on a fiduciary basis or in a similar capacity, on behalf of investors who are themselves eligible.

Designed as an investment company, the SPF must take the form of a capital company. It is a simple investment company, which is both flexible and complies with EU regulations. Since the activity of an SPF is not commercial but is close to that of an investment fund, it benefits from a subjective or personal tax exemption regime.

## CONFIDENTIALITY AND THE FIGHT AGAINST MONEY LAUNDERING

Professional secrecy in the banking sphere is anchored in Luxembourg law in the same way as that of the medical professions. Its purpose is to protect the privacy of the client.

Nevertheless, banking secrecy is not absolute: Luxembourg has fully adopted OECD standards in the area of the exchange of information on demand.

As a member of the Financial Action Task Force (FATF), Luxembourg also applies very strict rules aimed at fighting money laundering and terrorist financing. The law imposes on all financial sector professionals the onus of verifying the identity of the client and the beneficial owner before establishing a business relationship or executing a transaction and of informing the competent authorities immediately of any suspect operation.

In addition to the legal and regulatory constraints with which financial sector actors must comply, the associations and professional organisation of the financial centre have adopted ethical codes and codes of practice in which they define the professional standards to be applied by their members.

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# INVESTMENT FUNDS

Collective investment management is a pillar of the Luxembourg financial centre. A sector that has been developing since the mid 1980s, Luxembourg is today by far the largest domicile in the world for undertakings for collective investment in transferable securities (UCITS). The **UCITS** label, which is granted to funds that comply with rules laid down in European directives on this subject, is recognised well beyond the frontiers of the European Community.

The “**European passport**” granted to UCITS enables them to be sold cross-border into any EU Member State. Since Luxembourg was the first country to offer this passport, most of the large asset management companies chose Luxembourg as the platform from which to distribute their investment funds worldwide.

Whereas the European directives relating to undertakings for collective investment lay down the regulatory framework for UCITS, certain other types of investment fund do not fall within the scope of the European directives and are regulated by specific legislation.

In Luxembourg, promoters can take advantage of a unique reservoir of product development experts, lawyers, accountants and service providers able to assist in the development, launch and distribution of their funds.

The legal and regulatory framework offers significant flexibility in the design of investment products. Under the roof of a single legal entity, **multiple compartment funds** (umbrella funds) are able to create sub-funds that function like independent undertakings for collective investment, each with its own specific investment policy, its own units or shares and its own investor base.

As each fund and each sub-fund can itself issue different classes of shares with, for example, different commission structures, it is possible to create investment products that meet the requirements of different markets or specific client groups.

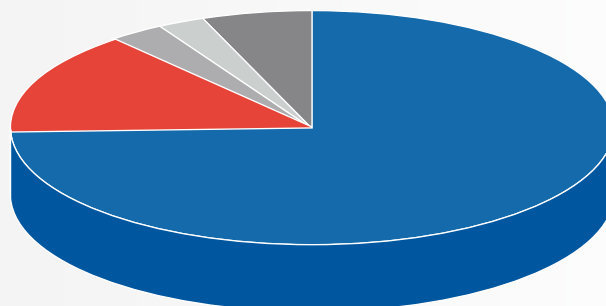
This extraordinary flexibility, which enables investment funds to be tailor made, has led Luxembourg to become the **world leader in the cross-border distribution of investment funds**.

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Three out of four funds distributed internationally are domiciled in Luxembourg.

## CROSS BORDER DISTRIBUTION OF UCIs

Market shares



■ Luxembourg	74,6%
■ Ireland	14,1%
■ France	3,0%
■ United Kingdom	2,5%
■ Others	5,8%

*Figures as at 31 December 2010  
Source: PwC, Global Fund Distribution*

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In Luxembourg, contrary to the situation in a number of offshore financial centres, alternative investment funds, and notably **hedge funds**, are subject to specific regulation and to control by the financial sector supervisory authority.

These funds nevertheless benefit from a much wider scope with regard to their investment policy. They are authorised to invest in derivatives and to use specific investment techniques. Equally, they can enter into securities lending transactions, use short selling techniques and be leveraged on a permanent basis for investment purposes.

The **investment company in risk capital** (*société d'investissement en capital à risque* or **SICAR**), or, is a regime that is complementary to the undertaking for collective investment. It was designed specifically as a vehicle for investment in private equity and venture capital. Investment in "risk capital" means directly or indirectly investing capital in companies with a view to their creation, development or floatation on the stock market.

In contrast to investment funds a SICAR is not required to respect the principle of risk diversification in its asset allocation. Investment in a SICAR is limited to "well informed" investors.

Investment in the **specialised investment fund (SIF)** is likewise limited to professional and "well informed" investors. Created in 2007, these specialised funds may invest in all types of assets and can therefore be used both for traditional investment in securities and money market instruments or for investment in real estate, venture capital and the creation of hedge funds. The principle of risk diversification is maintained, but the law does not define any quantitative limitations.

By comparison with the regime for undertakings for collective investment, a SIF has less strict publication requirements and is operationally more flexible in its activities. There is no need to appoint a promoter.

The SICAR and the SIF can both adopt a multiple compartment structure.

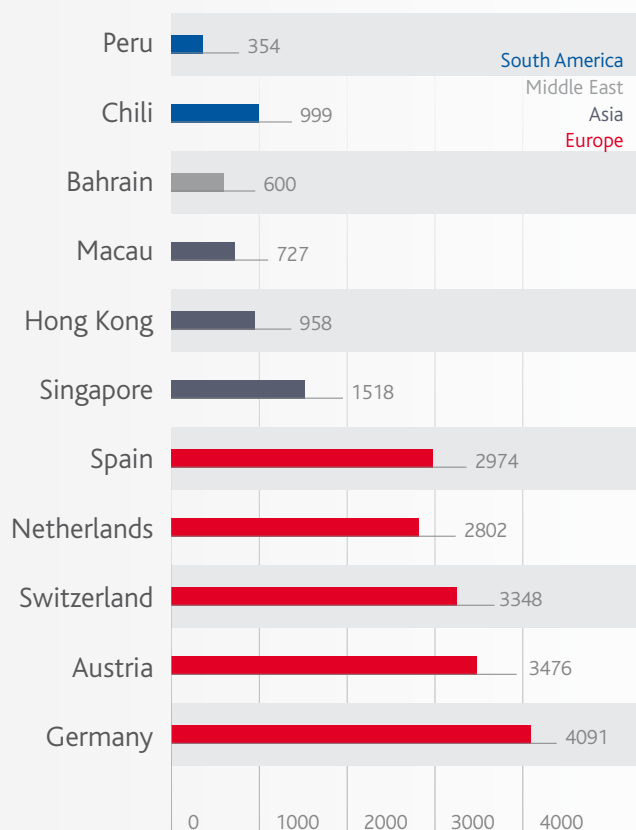
A variety of structures can be used for **investment in real estate**. These vehicles may be constituted as regulated entities (in the form of an undertaking for collective investment or an investment company in risk capital) or unregulated (in the form of a commercial company or a securitisation vehicle). The choice of structure will depend on the tax regime applicable to the investor.

In recent years, Luxembourg has developed its activity in the area of microfinance. Microfinance institutions, which offer banking services to micro-entrepreneurs in poor and developing countries, are increasingly turning to the capital markets to raise money to increase their reach into the poor urban and rural areas which they serve. **Microfinance investment vehicles** have been created to meet this demand for capital, at the same time producing some return for socially aware investors. These vehicles can make use of a variety of regulated and unregulated structures to meet their needs.

Large European countries remain the principle markets targeted by promoters who distribute their investment funds from Luxembourg, however Luxembourg products are also widely marketed in Asia and South America.

## MAIN DISTRIBUTION MARKETS

Number of Luxembourg funds distributed in each country



Figures as at 31 December 2010  
Source: PwC, Global Fund Distribution

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# FINANCIAL SERVICES FOR COMPANIES

Banks in the Luxembourg financial centre offer a wide range of financial services to large and medium sized companies.

In addition to services linked to the launch, acquisition, transfer or sale of a company, they propose **treasury management services** (factoring, trade finance and insurance, market risk management) and **financial engineering** (financial structuring, asset and liability management, etc.).

Furthermore, Luxembourg banks have recognised expertise in **company administration** under different jurisdictions.

The solutions offered are often based on structures and products specifically designed in Luxembourg to optimise company financial management.

While the principal vocation of the ***société de participations financières (SOPARFI)*** is to optimise the management of holdings in a group of enterprises, its field of potential activity is much wider.

In addition to owning and controlling shares, a SOPARFI can perform activities related to the management of its holdings (such as financial advice or financing of activities), as well as undertake any commercial activity that is directly or indirectly connected to the management of its holdings. These companies benefit from double taxation treaties and fall within the scope of the European Parent-Subsidiary Directive, which enables them to benefit, under certain conditions, from tax exemption on share-related income.

In addition to the role they play for company headquarters, SOPARFI are equally useful for structuring a portfolio of real estate.

Luxembourg law also offers numerous opportunities for the creation of regulated and unregulated **securitisation vehicles** and securitisation funds.

These vehicles benefit from a neutral tax regime and can be used for the securitisation of any type of risk or asset, opening up a large field of application. Furthermore, a securitisation vehicle can adopt an umbrella

structure enabling the same vehicle to be used securely for multiple and separate securitisation transactions.

Multinational companies that wish to offer harmonised pension plans and death or invalidity benefits to their expatriate workforce will find several Luxembourg **pension vehicles** designed for this purpose.

- The *société d'épargne-pension à capital variable* (SEPCAV), which is comparable to an investment fund with variable capital, is appropriate for defined contribution pension plans.
- The *association d'épargne-pension* (ASSEP) is suitable for defined contribution and defined benefit plans and can accommodate both types of plans in a single legal structure by adopting a multiple compartment structure.
- The CAA pension fund lies within the framework of insurance legislation and is under the supervision of the Commissariat aux Assurances (CAA).

Alternative solutions are offered by the group insurance contract and the pension trust. For multinational companies interested in centralising the pension assets of their European or non-European entities, Luxembourg offers various vehicles for the **pooling of pension funds**. Several large international groups such as Electrabel and Unilever have set up pooling vehicles in Luxembourg.

## COVERED BONDS

A covered bond (in French: *lettre de gage* and German: *Pfandbrief*) is a debt security guaranteed by a cover pool specifically allocated to these securities. Three types of covered bond may be issued:

- the *lettre de gage "publique"* (public sector loan backed bond) guaranteed by claims against, or guaranteed by, public entities, the state sector or public local entities;
- the *lettre de gage "hypothécaire"* (mortgage loan backed bond) guaranteed by rights in or security interest over real estate;
- the *lettre de gage "mobilier"* (moveable asset backed bond) guaranteed by real assets such as ships, aircraft, boats and trains.

Luxembourg offers optimal protection to the holders of covered bonds by granting them a priority claim on the cover assets in the case of failure of the issuer. Furthermore, due to the international dimension of the law on risk coverage, Luxembourg banks issuing covered bonds can achieve real international diversification of their assets.

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# INSURANCE SERVICES

The principal international insurance groups are all present in Luxembourg and make full use of the freedom to offer cross border services to distribute life assurance products in the European Union.

Luxembourg insurance companies are specialised 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. These products are increasingly used in wealth management.

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

Luxembourg property and casualty **(non-life) insurance** companies, notably maritime mutual insurance companies and other specialised insurance companies, also principally target the international market.

In 1984, Luxembourg created a specific legal framework for **reinsurance** activities. Since then, the financial centre has attracted more than 250 reinsurance companies, above all captive reinsurance companies belonging to industrial, commercial and financial groups, making Luxembourg a European leader in this field.

A captive reinsurance company offers these groups numerous advantages such as the cover of particular risks that are difficult to insure in the open market, reduction and/or optimisation of risk financing costs, independence from insurance market cycles, the retention of underwriting profits and direct access to the wholesale professional

reinsurance market. The establishment of significant technical provisions to cover fluctuations in loss ratios, required by law, also enables captive reinsurance companies to postpone income tax over relatively long periods.

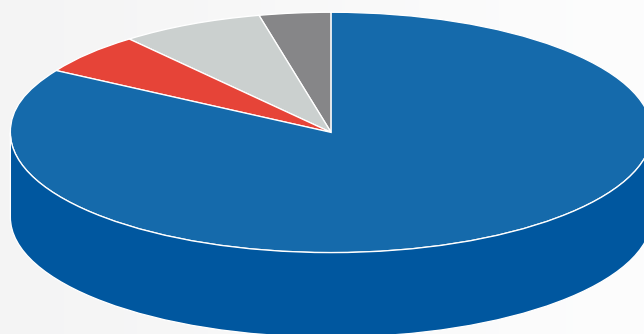
The attraction of Luxembourg as a domicile for reinsurance companies has further increased following the transposition into national law of the European Reinsurance Directive which introduced a **European passport**. This permits qualifying companies based in Luxembourg to offer their services throughout the Europe Union.

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The Luxembourg insurance sector is dominated by life assurance, which accounted for 89% of total insurance premium income of 13.19 billion EUR in 2009. 93.7% of life assurance premiums are sold internationally, principally within the framework of the EU freedom to provide cross border services.

## CROSS BORDER DISTRIBUTION OF INSURANCE PRODUCTS

Breakdown of premium income



<span style="color: blue;">■</span> Life cross border	<b>83,7%</b>
<span style="color: red;">■</span> Life Luxembourg	<b>5,6%</b>
<span style="color: lightgray;">■</span> Non-life cross border	<b>7,2%</b>
<span style="color: darkgray;">■</span> Non-life Luxembourg	<b>3,5%</b>

Source: Commissariat aux Assurances  
Annual report 2009

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# AN ENVIRONMENT ADAPTED TO FINANCIAL ACTIVITIES

In addition to the traditional financial sector support services such as accountants, auditors, legal and tax advisers, numerous other **financial sector professionals** carrying on activities related or supplementary to a financial sector activity have developed alongside the financial centre itself: domiciliary agents, professionals providing company formation and management services, client communication agents, administrative agents, IT system operators, etc.

Any individual or company exercising such an activity is subject to authorisation and supervision by the Luxembourg supervisory authority, the *Commission de surveillance du secteur financier* - CSSF. By encouraging the outsourcing of non-core activities, this policy has reinforced the competitiveness of financial sector companies while at the same time guaranteeing the high quality of support services and the confidentiality required in the sector.

The **Luxembourg stock exchange** specialises in the listing of international securities. It currently lists around 44,500 securities, including some 30,000 bonds, issued by 3,500 issuers based in 105 countries. The second segment in order of importance is that of undertakings for collective investment, with more than 6,500 different instruments. This is followed by Global Depositary Receipts issued by companies based in developing countries.

The Luxembourg stock exchange offers two markets to issuers: a market regulated by European rules and the Euro MTF market which enables non-European issuers who do not require a European passport nevertheless to obtain a listing in a recognised financial centre in Europe.

With the support of the legislator, the Luxembourg financial centre pursues a policy of continuous diversification in its products and services.

Thus, in 2008 the Luxembourg State created the **Fondation de Luxembourg**, a centre of expertise in philanthropy. Its mission is to promote and facilitate long term philanthropic engagement by wealthy individuals. It acts as an intermediary between the donors and the beneficiary organisations and philanthropic projects around the world.

Luxembourg is equally positioning itself as a centre of expertise for **Islamic finance** in Europe.

In 2002, the Luxembourg stock exchange was the first European stock market to quote a sukuk (Islamic bond). A growing number of Luxembourg financial institutions have become active in this sector, while ever more shariah compliant investment funds are domiciled in the financial centre. In 2010, The Banque centrale du Luxembourg (BCL) became the first European central bank to be a member of the Islamic Financial Services Board and is working actively to gain experience of supervisory practice in this area.

The **Institut de Formation Bancaire, Luxembourg (IFBL)** offers modular training programmes that cover all the professional activities of the financial centre.

At the undergraduate and postgraduate level, the **Luxembourg School of Finance** and several other foreign institutions and organisations enrich the centre with their multilingual educational programmes and research work.

## Luxembourg for Finance

### Agency for the development of the Financial Centre

Luxembourg for Finance is a public-private partnership between the Luxembourg Government and the Luxembourg Financial Industry Federation (PROFIL). It consolidates the efforts made by the public authorities and principal actors of the financial sector to ensure the development of an innovative and professional financial centre through a coherent and structured communications policy.

Thus Luxembourg for Finance will enhance the external presentation of the financial centre, communicating the advantages of its products and services to a wider public and highlighting the numerous opportunities available to investors and clients, whether institutional or private, from around the world.

Luxembourg for Finance organises seminars in international financial centres and takes part in selected world class trade fairs and congresses.

The agency also develops its contacts with opinion leaders from international media and is the first port of call for foreign journalists.



[www.luxembourgforfinance.lu](http://www.luxembourgforfinance.lu)

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