

AMBITIONS 2025:

**FINANCING A
SUSTAINABLE
FUTURE**

NOTE ON THIS NEW EDITION

Since the publication in January 2020, barely six months ago, of the first edition of this brochure, the world has witnessed a truly global crisis. Covid-19 started as a health crisis triggered by a pandemic, but the lockdowns which were imposed to halt its spread will cause lasting economic damage the world over.

Given the far-reaching consequences of this crisis, we felt there was a glaring need to revise our ambitions statement. While it is certainly too early to draw definitive conclusions about the pandemic, or its impact on our economies and the financial services industry, several lessons and trends have already and clearly emerged.

Firstly, a crisis is always a moment of truth where the economic resilience and competence of communities and countries are tested. We can confidently claim that Luxembourg has so far emerged positively from this test, the operational resilience of the Luxembourg economy unshaken. The crisis has in fact highlighted the quality of our public governance, finances and infrastructure.

Second, the crisis also proved to be an opportunity for the financial industry to demonstrate its positive contribution to economic activity. Banks have not only been able to continue operating and thus ensure liquidity but became the conduit through which governments channelled urgently needed financial support to rescue companies and save jobs. Unlike the global financial crisis of 2008 where the excesses of financial engineering were the root cause of the recession which then ensued, this time the financial industry has been an important part of the solution. And as governments launch efforts to stimulate economic recovery, financial centres like Luxembourg, with their clusters of expertise will be key to raising and allocating the capital needed to reboot our economies. That explains why we have opted to emphasise the role of financing in the title of this publication.

Third, while this crisis is viewed by some as an inevitable consequence of globalization and open borders, the virus has shown it doesn't respect borders. No country alone can ensure its own safety. International cooperation rather than the raising of drawbridges is the more effective response to the crisis. If Europe can draw the right lessons from this crisis, it will ultimately come out strengthened by this experience.

Fourth, the current crisis will most certainly accelerate several trends that preceded it. Digitalization will have leap-frogged several years with technologies having been implemented and tested in a fraction of the time they would have taken in normal times. The lockdowns will also put a sharper focus on sustainable finance as the danger of even bigger existential threats in the future becomes clear.

All these qualities were prominently featured in the first edition as the important strengths of Luxembourg, its economy and financial system, which would be key to its future development. The core of this statement still stands, and our ambitions remain intact.

If anything, the crisis underscores the imperative of pursuing our medium-term ambitions and strengthens our determination to continue to build a first-class financial services industry for the wider benefit of the Luxembourg, European and global economies.

Our goal has probably even been helped by the fact that the crisis has demonstrated the utility of the financial services sector and made the links between different issues more vivid and real.

It is still too early to say how this crisis will play out, but it is not too early to say what our post-Covid future should be. The financial services industry has shown that it can help shape the new normal. Luxembourg intends to contribute to shaping that future by shaping the way we finance it.



ON THE PATH TO A SUSTAINABLE FUTURE

MINISTER'S FOREWORD



Pierre Gramegna,
Luxembourg Minister of Finance

Embracing change

Since November 2015, when Luxembourg for Finance published its ambition paper LuxFin 2020, a lot has happened. At the time, the Brexit referendum in the UK was still half a year away, the landmark COP 21 was just about to start, and no one suspected that a US-China trade war would be on the horizon only a couple of years later. Importantly, no one could have predicted that a virus would bring most of the global economy to a partial standstill in 2020.

Adapting to a changing global environment, the Luxembourg financial centre has also evolved significantly since 2015:

- With more than 60 financial firms, including banks, insurance firms and asset managers, having chosen to set up new entities or strengthen existing activities in Luxembourg, the outcome of the Brexit referendum has been a real-life test of the attractiveness of Luxembourg's financial centre.
- Luxembourg has not only embraced the global trend towards green and sustainable finance that was triggered by the Paris Agreement in 2015, but has taken on a leading role: today ranking as the 4th greenest financial centre globally, being home to half the world's listed green bonds and more than a third of Europe's responsible investment funds.
- Following the opening of the national Fintech platform LHoFT in 2017, Luxembourg has continued to successfully position itself as an EU centre for Fintech firms as well as a leading European payment services hub, with the world's main payment and e-commerce firms now established in Luxembourg.
- With Luxembourg having fully embraced transparency in tax matters, the country's private banking sector has continued to diversify into high-net-worth and ultra-high-net-worth client segments, with assets under management having grown by more than 20% over the past 5 years. In recent years, additional players from Asia, the US and Europe have chosen to centralize their European and private banking operations in Luxembourg.
- With a modernized limited partnership regime and a local ecosystem that continues to climb up the value chain, Luxembourg's private equity and alternative fund industry goes from strength to strength: assets under management in private equity funds in Luxembourg grew by 50% in 2019.

Building on solid foundations to ensure qualitative growth

Thanks to this continued growth and diversification over the past 5 years, Luxembourg's financial centre can rely on solid foundations to continue to develop and evolve in an international environment that has fundamentally changed since 2015.

This international environment is bound to change even more significantly over the next few years because of the Covid-19 pandemic and its fallout. While today it is difficult to predict the shape and length of the downturn and subsequent recovery, the crisis will have a long-lasting impact on many aspects of the daily lives of businesses and citizens; from global value chains to business travel, from consumer habits to remote working.

The financial sector, in Luxembourg and elsewhere, has come to play an important role in helping to overcome the current crisis, notably by providing liquidity through payment holidays and by providing credit, very often through state-backed loans, to businesses.

The sector will play an even more important role in the recovery: in the coming months, firms, both SMEs and larger corporates, will need new sources of sustainable investment beyond purely national borders.

Many of the financial sector's key priorities and challenges for the future, be it sustainable finance or digitalization, have however not changed. If anything, they have and will come to the fore with increased persistence when dealing with the fallout of the Covid-19 pandemic and better preparing the sector for future crises.

The current crisis will indeed accelerate a shift towards new, digital means of providing services to clients and of operating as a financial institution. It will also spur the demand for sustainable investments, both by private as well as institutional investors.

Luxembourg will spearhead these developments.

As outlined in the coalition agreement of 2018, the development of the financial centre, with a focus on digitalization, sustainable finance and the alternative investment sector, is a key priority of the government.

The ambition for the financial centre over a 5-year horizon, set out in the present document, is not about simply increasing numbers, be it the number of firms, of assets under management or head count. Its focus also lies on qualitative growth. Indeed, thanks to a high level of productivity, the Luxembourg financial centre is already today a model of qualitative growth: with only 12% of the national work force, the financial centre directly generates around 30% of national GDP.

Continuing this path of qualitative growth will require several key ingredients.

Stability and predictability: Through a responsible fiscal and budget policy, the government is committed to safeguard Luxembourg's AAA rating and thus provide a stable environment for the financial sector to grow.

Sound legal and regulatory environment: The government will continue to ensure that financial services firms in Luxembourg can rely on a conducive cross-border business environment that is fully in line with European and international rules and regulations. Moreover, Luxembourg's supervisory authorities are recognized in Europe and internationally for their competence and high level of expertise in dealing with international financial services and products.

Digitalization as enabler: Going forward, digitalization will play an even more important role than it has in the past. By bringing new firms and their solutions to Luxembourg and supporting the development of home-grown Fintech innovators, thanks also to the success of its accelerator LHoFT, Luxembourg is creating a favourable environment to allow the financial sector to innovate and develop new products and services, while generating important efficiency and productivity gains.

Sustainability at the core of everything: Finally, I would like to underline that qualitative growth is in fact synonymous with sustainable growth. In order to avoid another financial crisis as a result of stranded assets and risks to financial stability resulting from climate change, what is needed is not just an energy transition, but also a finance transition. Building on its international financial centre ecosystem and its long-standing expertise in sustainable finance, Luxembourg is not only committed to make its own financial sector more sustainable but, importantly, is also ideally positioned to support this finance transition, which will require mobilizing private capital to increase sustainable investment from the billions into the trillions of euros.

CONTENT

INTRODUCTION: BUILDING ON SUCCESS 10

01

AT THE HEART OF EUROPE 16

02

COMPLEMENTARITY WITH OTHER EU CENTRES 25

03

LEADING ON SUSTAINABILITY 32

04

PUSHING INNOVATION 46

05

RESPONSIBLE GOVERNANCE 54

06

NURTURING THE HUMAN DIMENSION 62

USEFUL CONTACTS 68

BUILDING ON SUCCESS

This publication aims to lay out a vision for the further development of a sustainable financial industry over the course of the coming five years. The Covid-19 crisis and its ripple effects will determine how business will fare, but we can still set the overall framework in which the financial services industry operates and the overall direction of travel.

Our definition of the future development of Luxembourg's financial industry is rooted in the success it has achieved over decades: openness to international trade and openness to financial and technological innovation. Most important of all, Luxembourg has proven time and again its capacity and agility in adapting to new circumstances.

From a poor agrarian society in the 19th century, Luxembourg morphed into a major actor in the European steel industry, became home to the world's largest satellite fleet operator and more recently still a pioneer in commercial space exploration.¹

In parallel it has developed into a leading European financial centre.

Since the 19th century, Luxembourg has built a history of success by leveraging the talents of its people, while being alert and responsive to the changing needs and demands of its European and global clients.

In 1928, the Luxembourg Stock Exchange was created, later playing a historic role in the development of the international debt markets when it listed the first ever Eurodollar bond in 1963, issued by Italy's Autostrade.

While international banks have been present in Luxembourg since the 19th century, the real emergence of Luxembourg as a financial centre came about in the 1970s when banks, notably from the US, set up operations for multi-currency transactions, syndicated loans and Eurobond activities.

In the 1980s Luxembourg became a regional hub for wealth management and remains so to this day with its client base now extending from Europe to the Middle East and Latin America.

In 1988, Luxembourg was the first member of the then European Communities to implement a new framework for pan-European funds - UCITS (Undertakings in Collective Investments in Transferable Securities). No longer faced with the complexity and costs of having to set up separate local products for each individual market, major fund managers from the US and European countries started to launch cross-border investment funds from Luxembourg. This development

¹ For more information : https://www.luxembourgforfinance.com/wp-content/uploads/2019/01/lff_surprisinglux_eng_0310_0.pdf

nurtured a high level of expertise in asset servicing and a unique ecosystem of service providers, facilitating economies of scale. As a result, Luxembourg has significantly contributed to the creation of a truly global cross-border fund industry over the past three decades.

Today, fund administration and servicing are the anchor activities of Luxembourg's financial industry. Many of the 127 international banks present in Luxembourg are serving the fund business by offering custodian, depositary banking and asset servicing activities. Assets under management in Luxembourg investment funds total 4.4 trillion euros (5 trillion dollars), making Luxembourg the number one fund centre in Europe and second globally only to the US. More than 400 fund promoters have set up some 3,800 funds in Luxembourg, which are being sold in 73 jurisdictions around the world, making Luxembourg funds the most widely accepted investment vehicle. 98 of the 100 largest European asset managers have Luxembourg funds. At the same time, Luxembourg has over the past years developed into a leading European hub for alternative investment funds.

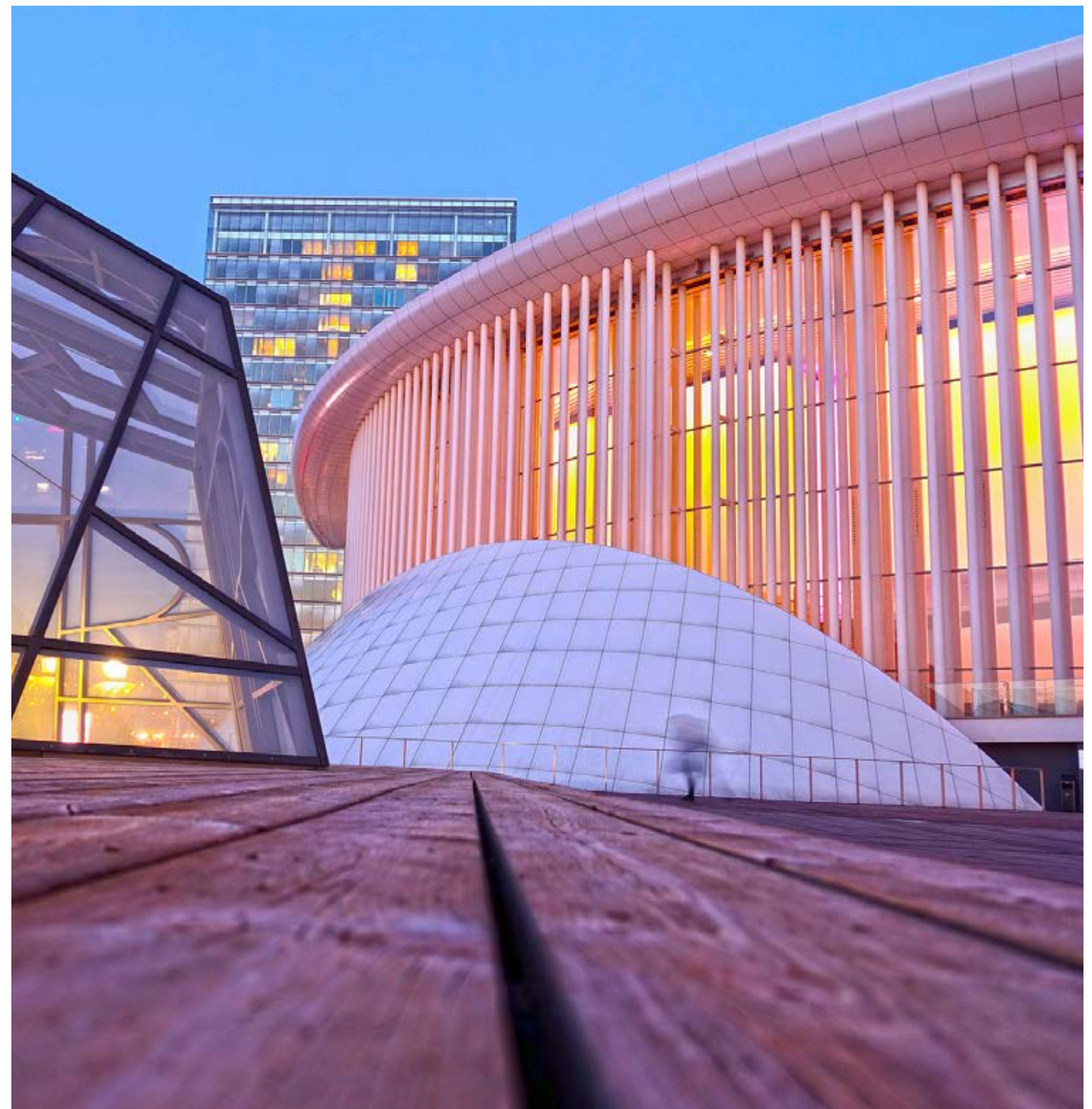
19 of the 20 leading private equity firms have operations in Luxembourg, with AuM in Luxembourg private equity funds having grown by 20% in 2018 and even 50% in 2019.

While many banks in Luxembourg excel in fund services as well as wealth management, Luxembourg-based banks also serve European and international clients in other areas, such as corporate banking and treasury services, capital market operations and trade finance, etc.

Wealth management activities include a highly developed life insurance industry, which has acquired unique expertise in offering tailor-made insurance products, notably unit-linked insurance plans for internationally mobile clients. Furthermore, the Grand Duchy has more recently become a cross-border hub in the non-life insurance sector as several major insurance companies have chosen to set up their post-Brexit EU hub in Luxembourg.

Since the turn of the century, Luxembourg has been able to develop a significant payments cluster in Europe through the presence of giants like Paypal, Amazon Payments, Alipay, Rakuten and Six Payments. These companies serve their European customer base from Luxembourg. More generally, technology has been a driver in the development of the Luxembourg financial centre over the past few years.

While many FinTech firms, such as payment service providers, have decided to operate and serve European customers from Luxembourg, the financial centre itself provides an important client base as well as testing ground for FinTech firms to develop and market new solutions, notably in the area of Regtech.



In 2015, the COP21 Paris Agreement marked a turning point by unlocking the potential of green finance and underlining the need to scale up investments. Luxembourg has been at the forefront of this development, ranking among the top green financial centres in the world. The first green bond worldwide was listed in Luxembourg in 2007 by the European Investment Bank, and today the Luxembourg Green Exchange lists over half of the world's green bonds. There has also been significant growth in responsible investment funds, where Luxembourg funds currently represent 31% of all such European funds. Luxembourg takes great pride in being a global leader in inclusive finance, with a 61% market share of global assets under management in microfinance investment vehicles.

Whether in traditional finance or in newer areas, such as FinTech or sustainable finance, Luxembourg's real added value for financial institutions lies primarily in the multi-jurisdictional expertise available in the Grand Duchy. This also makes Luxembourg very much complementary to other European financial centres. Thanks to its history of economic openness and its multi-lingual and multi-cultural population, Luxembourg is uniquely positioned to offer firms the expertise and talent they need to help them serve clients in multiple markets.

As a result of Brexit financial firms had to relocate certain activities to alternative EU hubs in order to ensure they could continue to serve their EU clients. This development has underscored Luxembourg's value proposition as a cross-border centre of excellence, a reputation built over decades in fund administration, banking, insurance and payments.

Their choices confirm Luxembourg's role as one of the leading financial centres in Europe and their activities in Luxembourg in the future will further enrich the Duchy's financial ecosystem.

The crisis generated by Covid-19 may have put the financial sector's other major challenges in the shade but they have not been eliminated: Brexit and the future relationship between the EU and the UK remain an important and unresolved issue ; geopolitical tensions and trade wars will continue to rattle global markets; populism will remain a powerful force, playing on people's fears and economic uncertainties. The prospect of persistently ultra-low interest rates will have a profound impact on savings and investments. The need to rethink how we finance our retirements will be even more urgent now that governments have significantly increased public debt in order to tackle the crisis.

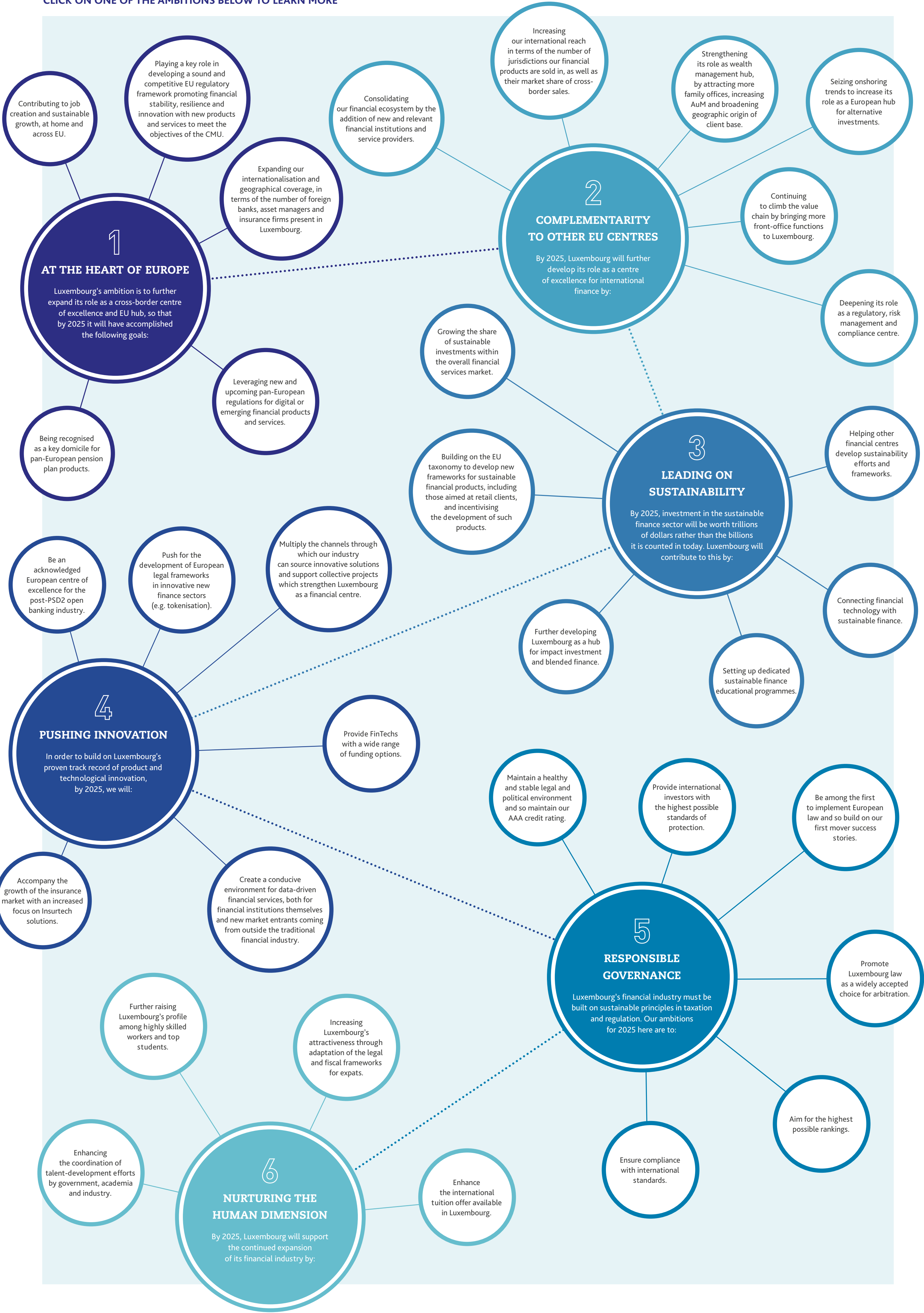
It remains imperative that we further strengthen and modernise our ecosystem over the next five years to make it even more resilient and sustainable for the future.

AMBITIONS FOR 2025

The future development of our financial industry centres around six fundamental characteristics that are already today a core part of Luxembourg's value proposition, but which we will endeavour to strengthen even further. Indeed, they are fundamental components of Luxembourg's role as a centre of excellence in cross-border finance – in the EU and beyond.

**AMBITIONS 2025:
FINANCING
A SUSTAINABLE
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CLICK ON ONE OF THE AMBITIONS BELOW TO LEARN MORE



01

AT THE HEART
OF EUROPEFINANCING
A STRONGER
EUROPEAN
ECONOMY

Luxembourg is a founding member of the EU and passionate promoter of European integration. Its financial services industry has always had a strong focus on cross-border business, making it the epitome of a European financial centre. Luxembourg connects financial institutions and investors, whether retail or institutional, with European and international markets.

The fundamental purpose of the financial sector is to finance economic growth and create jobs. This has been clearly underlined by the current crisis and the financial industry will play a major role in helping our economies recover from the economic consequences of the lockdowns.

Bank lending to companies provides them with working capital and finances key investment projects, such as new machinery, plants or research facilities. Banks further ensure safe and seamless transactions between companies and their customers as well as providers. Investment funds also help finance economic activity via the capital markets by investing in equities or in the bonds of non-financial companies. Insurance companies support economic activity by allowing companies to hedge their risks and investing the premiums they collect.

All these diverse activities, and the expertise which clusters in financial centres like Luxembourg as a result, benefit the European economy as a whole. In the case of Luxembourg, the assets under management of the local fund industry (EUR4.4 trillion as of April 2020) are invested in equities and bonds of firms across Europe and the world, supporting their expansion and job creation. A significant share of these assets is also invested in government debt, helping finance all types of public infrastructure, such as roads, bridges, hospitals, schools and welfare systems.

The wealth management sector helps as well to finance economic activity by helping clients invest their money in the shares and bonds of European and global companies. As a leading hub for alternative investment funds, Luxembourg plays an important role in the area of real assets, such as infrastructure, or, in the area of private equity, in providing much-needed growth capital to non-listed firms.

The single market is certainly one of the biggest achievements of the EU. The free movement of people, goods, services and capital has been beneficial for all. The immense size and scale of the market allowed firms to grow by reaching a far greater number of customers. Much of the EU's geopolitical clout rests on the economic power the single market provides. It is essential to continue to prioritise the deepening of this market.

BUILDING ON THE EU'S CROSS-BORDER REGULATORY FRAMEWORK

In order to revitalise growth and boost job creation in the wake of the pandemic, it will be essential to tap the financial expertise which Europe's diverse financial centres can provide.

Strong financial centres in Europe and a strong European financial industry will also allow Europe to take on those other challenges which we faced before the current crisis and which we will continue to face, such as increased competition from the US and Asia or the ageing of our populations.

The EU's single market in financial services is certainly one of the most integrated cross-border markets in the world. Single market legislation facilitates the cross-border provision of financial services by allowing for EU-level regulation or mutual recognition of rules and standards. This unprecedented economic and regulatory integration is pushing further ahead in the wake of the global financial crisis with progress towards a Banking Union. The current crisis, unlike the global financial crisis, will not need radical regulatory initiatives to correct the functioning of some financial activities, but it could very well mean additional barriers in the regulatory sphere in order to leverage even further the potential of the EU's single market.

At the same time, the single market, and specifically the possibility to passport services across the European Union, is underpinned by expert local supervision based on harmonised rules and close cooperation between national regulatory authorities. In the case of Luxembourg, the CSSF, which among other tasks, is supervising more than 3,800 investment funds, has long-standing expertise in regulating cross-border financial products and services and provides efficient and responsive supervision of the local industry.

Moving forward, the EU will look to achieve the goals of the Capital Markets Union, launched by the Juncker Commission and which the Von der Leyen Commission is committed to realising. In particular, the Commission should aim to achieve greater uptake of cross-border financial services within the EU, by tackling existing non-tariff barriers. One of the stated objectives of the CMU is to increase the sources of market funding for European companies, in particular SMEs. Luxembourg is looking forward to playing a leading role in this work, given its capital market strengths and its expertise in cross-border capital raising.

Completing the CMU has now become even more urgent for the EU in order to speed up the economic recovery from the pandemic. A fully-fledged CMU would help rebuild the EU economy, by providing new funding sources for businesses and investment opportunities for Europeans. It would also mobilise much-needed

long-term investments in new technologies and infrastructure, tackle climate change and help deliver the EU's New Green Deal and Digital Agenda. On June 10, 2020, the EU's High-Level Forum on CMU published its final report, setting out a series of recommendations to move the project forward.

The HLF proposed 17 inter-connected 'game changers' – measures the EU needs to urgently implement in order to remove the biggest barriers in its capital markets. These recommendations included: a single EU capital market access point; long-term investment funds; encouraging insurers to provide more capital market financing; scaling up the EU securitisation market, as well as recommendations on crypto and digital assets, and tokenisation. The Commission will present its next CMU action plan in the autumn of 2020.

In this context, it needs to be emphasised that a well-functioning single market and Capital Markets Union do not necessarily have to translate into greater centralisation of regulatory powers. Europe will need to leverage the respective expertise and talent pools of its various financial centres, local supervisors' expertise and market knowledge, and efficient cooperation between regulatory authorities will remain key to unlocking the potential of the CMU.

With the emergence of new financial technology players, it has also become abundantly clear that the single market is leveraged to its full potential only in those areas where the EU has managed to create a harmonised framework, allowing firms to sell their services without friction to the EU's 450 million consumers. Indeed, it is hardly surprising that of Europe's five FinTech Unicorns, three are payment firms, while the other two are mobile-only banks (both of which started out by providing payment accounts). The EU's ongoing work to create a harmonised framework for digital financial services is an opportunity to scale up this sector in Europe beyond national markets. As it has done with the UCITS market, the EU could thus create financial products with a global success.

Mirroring the Capital Markets Union project is the ongoing construction of the EU Digital Single Market. The lockdown period has clearly shown the need for enhanced technology and will have given many aspects of digitalization a major boost, such as tools allowing for video-conferencing or contactless payments. Clearly contactless payments have been given an exponential boost due to the pandemic as ATM transactions have fallen.

Technology services are by their very nature borderless, and the existence of EU-wide frameworks for e-commerce and the provision of digital services tap into the core competencies of the Luxembourg financial centre, and its multi-jurisdictional service offering. Luxembourg is the ideal home for such cross-border services in the EU.

STRENGTHENING OUR ROLE AS AN EU HUB

Faced with an ageing European population and a growing pension gap, investments in and the availability of pension products are becoming increasingly important. Thanks to its leading role in the European fund industry, Luxembourg is very well positioned to become a major hub for products set up under the Pan-European Pension Plan initiative, a key opportunity to further strengthen and diversify our asset-management ecosystem.

Beyond benefits for both European consumers and firms, a key advantage of the single market lies in the fact that it makes life easier for companies coming from outside the EU to establish themselves in the single market and serve clients across the 27 member states without the need for separate operations in each individual country.

Based on a coherent and well-defined regulatory framework, financial institutions can choose where to set up their European hub in order to service the whole of the EU market. The choice of jurisdiction will normally be driven by numerous considerations, including the relative strengths of the local ecosystem in the relevant industry segment, structural criteria such as financial stability and the predictability of the legal and tax environment, or the availability of talent. Quality of infrastructure will be another important criterion for incoming businesses following the Covid-19 crisis, particularly the need for resilient digital infrastructure.

Luxembourg will certainly score extremely high on all these criteria. The fact that even before the crisis, several countries and international organisations had already set up digital embassies to securely store their data or that Sovereign Wealth Funds had set up business continuity centres in Luxembourg, prove the point.

Luxembourg will continue to be able to leverage its international business environment and its highly skilled and multi-lingual workforce to serve international financial institutions active in multiple markets within the EU.

A recent live test for Luxembourg's attractiveness as an EU hub for financial services was the fact that, in the context of Brexit, more than 60 financial firms decided to either strengthen their existing activities or establish a new EU hub in Luxembourg to ensure continued access to the EU single market.

The world's Sovereign Wealth Funds also rely on the expertise of Luxembourg's unique ecosystem as well as its highly developed toolbox to structure investments. The same goes for major international and regional development banks. As these institutions are tax-exempt because of their sovereign or supra-national status, they

do not come to the Duchy for any fiscal advantage, but for the inherent qualities of Luxembourg's financial centre.

In the next five years, we will redouble our efforts to increase the number and geographical diversity of firms established in Luxembourg, including financial institutions from certain priority emerging markets looking to use Luxembourg as a platform to connect with European and global investors.

FINANCIAL INSTITUTIONS WHICH CHOSE LUXEMBOURG



AMBITION STATEMENT:

Luxembourg's ambition is to further expand its role as a cross-border centre of excellence and EU hub, so that by 2025 it will have accomplished the following goals:

- **contributing**
to job creation and sustainable growth, at home and across the EU
- **leveraging**
new and forthcoming pan-European regulations for digital or emerging financial products and services
- **playing a key role**
in developing a sound and competitive EU regulatory framework promoting financial stability, resilience and innovation with new products and services to meet the objectives of the Capital Markets Union
- **recognised**
as a key domicile for pan-European pension plan products
- **expanding**
the international and geographical spread of the financial institutions which setup here



02

COMPLEMENTARITY TO OTHER EU CENTRES

CREATING VALUE THROUGH MULTI- JURISDICTIONAL EXPERTISE

EU firms themselves have long been leveraging Luxembourg's financial services ecosystem and expertise. Luxembourg is not drawing these firms away from their home country but acting as a competence centre for European firms seeking a specific skill set or completing the links in their European and global value chains. This applies particularly to the marketing of cross-border products and services. Luxembourg acts as complementary hub for these firms and supports their drive into new markets outside their home territory.

EU integration and globalisation have brought about unprecedented trading and investment opportunities. However, such opportunities entail the complex navigation of multiple markets and jurisdictions, with their different rules and laws. Even within the EU, despite decades of harmonisation, some 5000 different national regulations continue to apply to the selling of services across borders, according to a survey conducted by The Economist. In addition to complexities brought about by these multiple national regulations, cross-border sales of financial services still face difficulties arising from the diverse cultural norms and traditions of consumers and investors across the EU.

Over decades, Luxembourg has developed a financial services industry specialised in helping financial institutions market their products and services across multiple jurisdictions.

Whether it is a fund manager looking to set up investment vehicles to be sold to clients in Spain, the Netherlands, Sweden and Italy, or whether it is an entrepreneur planning his succession while living in France, running a company with operations in Germany and Poland, children living or studying in the UK and in Belgium and eventually looking to retire in Portugal, Luxembourg has made it its trade to help provide solutions to complex cross-border questions, while ensuring full compliance with the different aspects of the administrative, consumer, tax and other regulations that apply to each situation.

Today, this expertise covers not only Europe but has taken on a global reach as our industry caters to an ever greater number of markets. For instance, Luxembourg investment funds are admitted for sale in 73 different jurisdictions around the world. Asian asset managers, for instance, can set up a fund in Luxembourg and from there sell it across multiple Asian markets.

Many European and international groups have set up competence centres in Luxembourg to perform exactly these kinds of multi-jurisdictional tasks. To support these centres, an entire ecosystem of third-party service providers has developed in

Expertise to help finance the post-pandemic recovery

Ensuring that economic growth and job creation resumes after the crisis will require investments tapping capital sources from around the world. Capital is by definition international and needs to be able to flow from jurisdictions where it is available to where it is needed. Luxembourg's multi-jurisdictional expertise has for decades helped connect global investors with firms and projects in need of financing. Now more than ever finance needs to be fluid and deployed for the benefit of all. Luxembourg can help with that.

Luxembourg over the years to provide bespoke legal, tax and consultancy services. The financial sector authorities in Luxembourg have also developed a high level of expertise in regulating and supervising cross-border business.

This expertise is also vital to expanding Luxembourg's role in the wealth management sector, particularly by further developing Luxembourg's offer in terms of family office and multi-family office service. This is an area of potential growth, where Luxembourg can provide a stable and safe environment in combination with the financial expertise of Luxembourg's private wealth management ecosystem.

Another area where Luxembourg's multi-jurisdictional expertise will see increasing demand over the coming years is in the area of alternative investments. In the current low-interest rate environment, an increasing number of investors, both institutional players, such as insurance firms or pension funds, as well as family offices, are looking to invest in alternative asset classes, such as real estate or private equity. Assets under management in Luxembourg private equity funds increased by 20% in 2019 and even 50% in 2029. This is an opportunity Luxembourg intends to seize. A growing number of institutional investors in alternative asset classes are seeking investment vehicles and funds located in an onshore jurisdiction. Luxembourg offers a unique environment and toolbox catering to investors from civil law and common law traditions. The introduction of a special limited partnership regime in 2013 has allowed Luxembourg to capture this growing onshore alternative investment business. The creation of a new product, the Reserved Alternative Investment Fund or RAIF, has also significantly contributed to the success Luxembourg has enjoyed in this sector. It is one where we will continue to ensure conducive legislation and a congenial business environment.



SUPPORTING CROSS-BORDER STRATEGIES

Luxembourg plays a special role in the value chain of many EU financial products and services.

Asset managers, private banks, insurance companies and others who choose to set up a platform in Luxembourg to leverage its expertise can benefit from significant economies of scale, while reducing the complexities and costs of having to set up units in each separate jurisdiction. The benefits of relying on Luxembourg's cluster of specialised services are very clearly the number one attraction for financial institutions seeking to set up here. Their Luxembourg operation acts as a specialised entity, providing the group's activities with the knowledge and tools to support the worldwide growth of its business.

The multi-national make-up of the Grand Duchy's workforce also helps firms tackle the cultural and linguistic barriers to marketing cross-border financial services. Instead of having to establish a team in each jurisdiction, a firm can simply draw on the expertise of its Luxembourg staff to adapt its products to the requirements of each different market. Cost and efficiency gains are obvious direct benefits of operating in this way.

This unique skill set is heavily leveraged by some of the world's major financial players to set up multi-jurisdictional pension products, for instance. These can take the form of funds or insurance schemes and are very attractive to expats working in several different jurisdictions over the course of their careers. Such products may also be suitable for multi-national firms, as well as other companies needing to operate across different jurisdictions.

In addition, the international outlook and availability of knowledge on a variety of markets, from a regulatory perspective as well as commercial considerations, within the Luxembourg financial sector cluster also provides financial institutions with valuable insights and comparisons which help these firms refine their business models and expand into new markets.

Seen from the perspective of the consumer of financial services, Luxembourg's expertise means a more diversified range of products is available to them, in terms of geographic reach and asset classes. Such a diversity is of particular importance in the current low interest rate environment, as the ability to diversify a portfolio allows consumers to choose the most suitable products for their current and future financial needs.

The consumer also benefits from the lower costs of such multi-jurisdictional products compared with those which are restricted to a single jurisdiction.

CLIMBING THE VALUE CHAIN

With increased specialisation, Luxembourg's financial industry has also been climbing up the value chain of financial services over recent years.

First, Luxembourg has grown into a regulatory, risk management and compliance competence centre. Many firms, in the asset management industry have built up teams in Luxembourg which serve as the group's regulatory nerve centre and global control tower. Since the financial crisis risk and compliance functions have come to play a central role in the global operations of financial institutions. As a result, the functions performed in Luxembourg are becoming key to the global operations of these groups, which increasingly assign these functions a more prominent middle-office role.

Second, we continue to observe a movement towards bringing front-office functions as well as an increasing number of key decision-making roles to Luxembourg. Whether it is client relations managers that serve large banks from their Luxembourg hub or investment advisors and sales teams for asset management firms, or deal-making functions for PE houses. The advantages of Luxembourg's multi-cultural and multi-lingual ecosystem also apply to these activities.

In the past, Luxembourg has been successful in attracting smaller yet highly specialised portfolio managers or asset management firms to Luxembourg, focusing on certain asset classes. For example, Luxembourg has launched a dedicated accelerator for climate finance asset managers. We will look into measures to attract additional portfolio management expertise to Luxembourg to cover a broader range of asset classes.

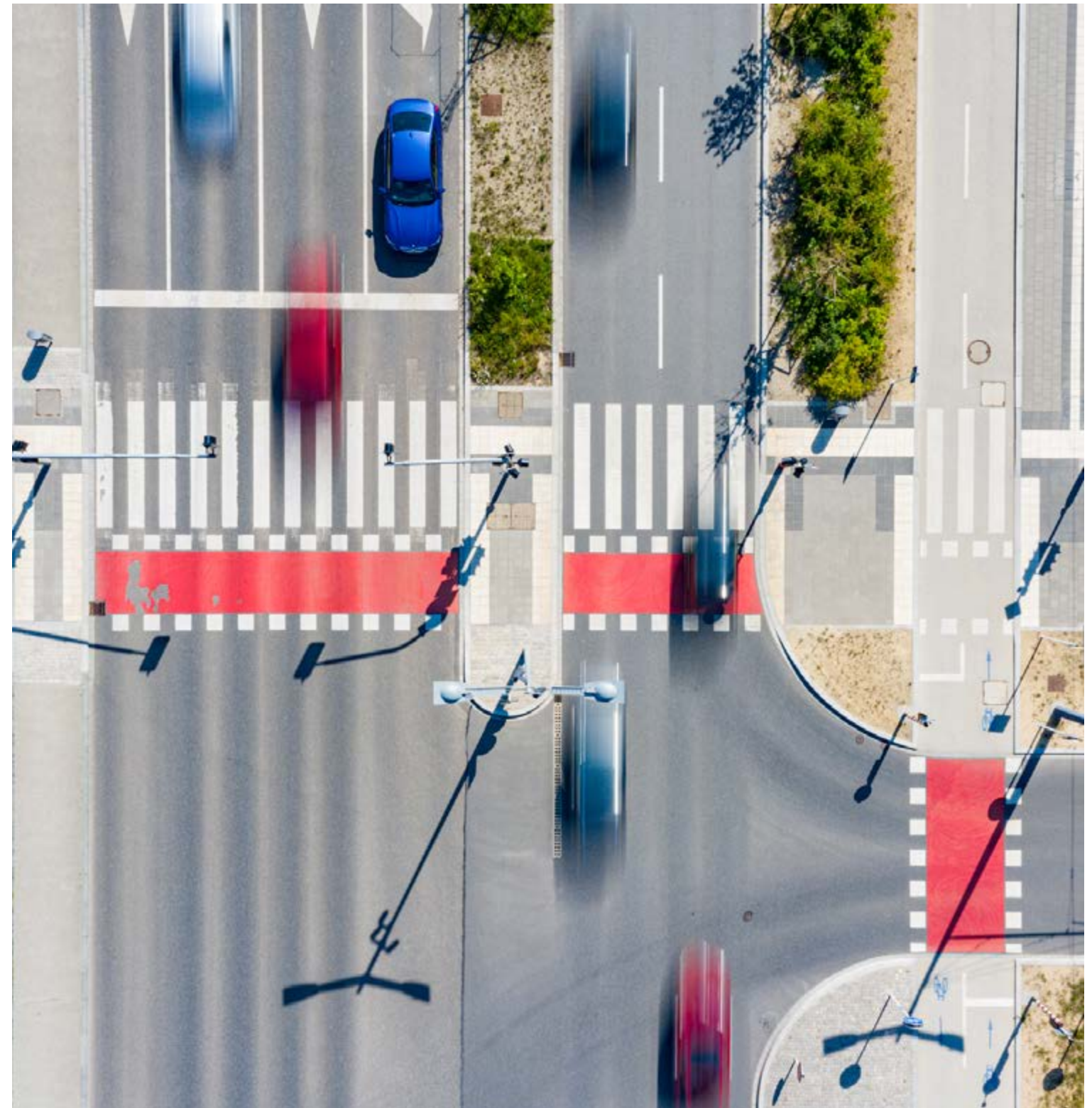
In order to support this trend, Luxembourg will strive to enhance its appeal to international talent and ensure that the education and vocational training of the local talent pool supports the changing nature of the financial industry's activities. The government is developing a national strategy to develop talent and LFF will be helping to implement it, along with all the institutions involved.

In addition, as Luxembourg's financial centre, and specifically its fund industry, increasingly responds to the regulatory, compliance and operational needs of cross-border financial services, Luxembourg is also becoming a Regulatory Technology – or Regtech hub, i.e. creating solutions that automate traditional back-office tasks, ranging from KYC and fraud detection to fund reporting and automated investor information tools.

AMBITION STATEMENT:

By 2025, Luxembourg will further develop its role as a centre of excellence for international finance by:

- **consolidating**
its ecosystem through the addition of relevant financial institutions and service providers
- **seizing**
onshoring trends to increase its role as a European hub for alternative investments
- **increasing**
its international reach in terms of the number of jurisdictions its financial products are sold in, as well as its market share of cross-border sales
- **deepening**
its role as a regulatory, risk management and compliance centre
- **strengthening**
its role as wealth management hub, by attracting more family offices, increasing AuM and broadening geographic origin of client base
- **continuing**
to climb the value chain by bringing additional front-office functions to Luxembourg



03

LEADING ON
SUSTAINABILITY

The Covid-19 crisis has demonstrated how all our lives can be disrupted by a single global event. Hopefully, the impact of the pandemic on our economies will convince us of the need to take other global risks more seriously, and to take action while we still can. A series of major climate change events has the potential to wreak even greater damage on our economies and societies.

The COP21 agreement in Paris in December 2015 to limit global warming to well below 2 degrees Celsius above pre-industrial levels requires capital raising on an unprecedented scale to finance the transition to renewable and lower carbon energy sources, as well as projects to mitigate the effects of climate change. It has been estimated that between five to seven trillion dollars will be needed.

This level of investment cannot be sustained by the public sector alone, but will require a significant mobilisation of private funds too. To that end, new financial products will have to be developed. Luxembourg is leading the drive to increase the total level of funds in sustainable investments from the billions to the trillions of dollars or euros.

GREENING
FINANCE

While it remains a small part of the overall financial services market, the growth in green financial products has been remarkable. Market trends show that this is not just a fad: the transition towards environmentally sustainable activities and the mainstreaming of ESG investment values more broadly are set to continue and increase in intensity, driven by a generational shift, as well as by institutional client demand. Several studies have also shown that firms with clear ESG strategies have proven more resilient in the Covid crisis. Firms which are committed to ESG goals also show enhanced financial performance. The clarity of vision and governance that underlies such an ESG strategy, just as with firms which have greater diversity, certainly pays off. Increased regulatory scrutiny will also contribute to accelerating this trend.

In recent years, growth in green bond volumes has been in the double digits. Global issuance of bonds aimed at raising capital for climate-related projects has gone from 85 billion dollars in 2016 to 170 billion dollars in 2018 and a record 258 billion dollars in 2019. The Covid crisis has temporarily focused attention more on short-term financing but longer term the crisis is likely to underscore the importance of sustainable finance in general and green finance in particular.

Luxembourg takes enormous pride in being a major player in this drive. The Luxembourg Stock Exchange listed the world's first green bond in 2007 and today lists around 50% of the world's green bonds in terms of volumes.

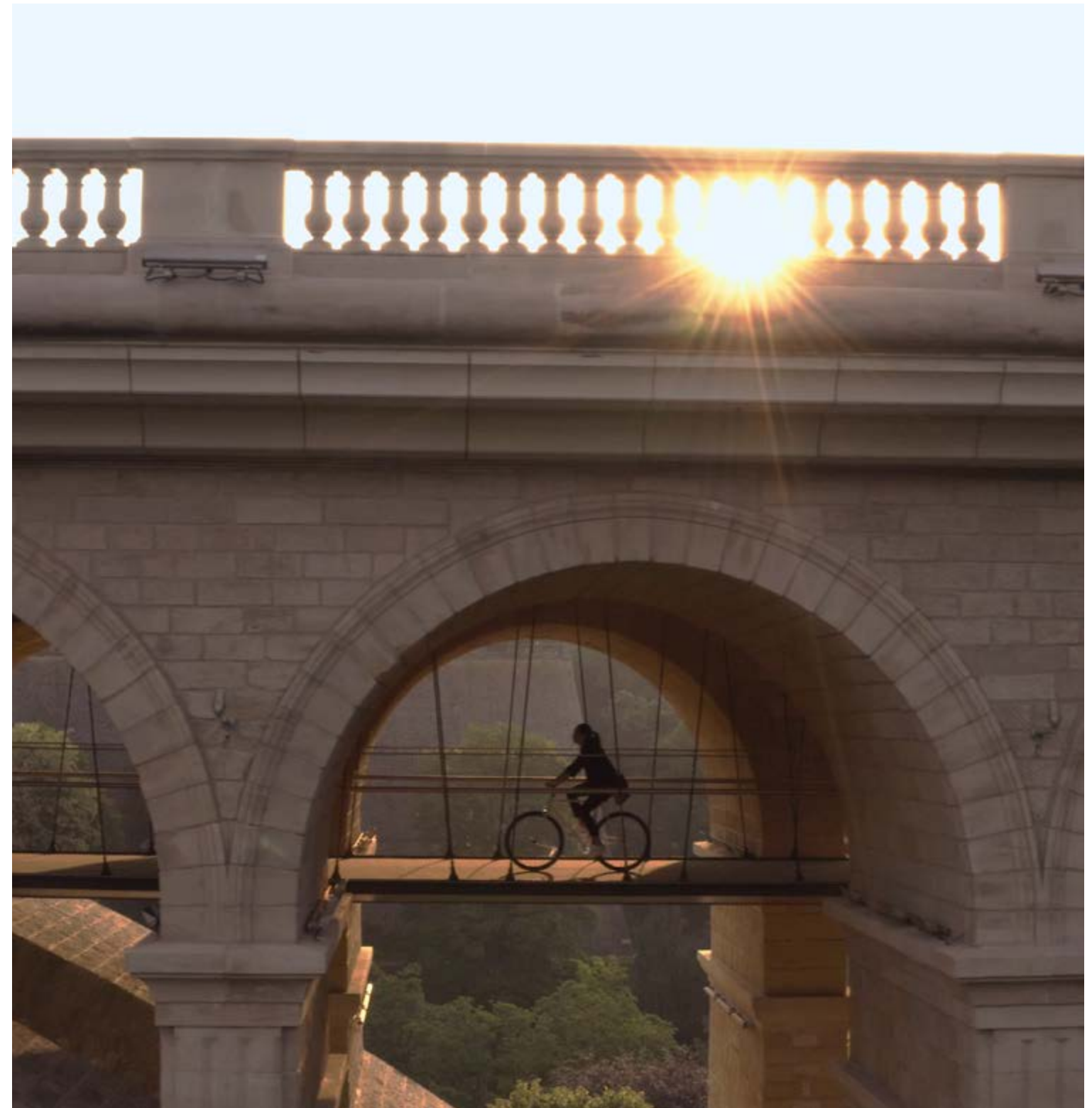
The expertise acquired by its dedicated listing platform launched in 2016, the Luxembourg Green Exchange (LGX), has earned it the trust of trendsetters, such as the EIB and the World Bank, as well as of major corporate issuers. The credibility of its entry criteria and listing procedures have firmly established its reputation as a market venue in the green finance sector, with the European Commission itself seeking the LGX's advice on its Sustainable Finance Action Plan as well as on the actual legislation implementing it.

Luxembourg has in fact already been at the forefront of the green finance push for several years in other sectors, with around 35% of assets invested by European investment funds in renewable energy projects managed via Luxembourg investment funds.

LuxFLAG, a fund-labelling agency set up over 12 years ago, grants labels to investment vehicles in ESG, environment, climate-related strategies, microfinance, and green bonds. It has labelled over 204 products, covering 102,2 billion euros, across 7 jurisdictions, with promoters from over 17 countries.

Luxembourg will strongly promote the green agenda in its financial services sector in the years ahead. The Government has made this goal one of its priorities in its coalition agreement. As part of a national Sustainable Finance Roadmap, the government has set up a national Sustainable Finance Initiative to coordinate activities and develop a national strategy to further develop Luxembourg's role as an international platform for sustainable finance. This will take several forms, including incentives for climate-related financial services and the development of frameworks for new green financial products in banking, asset management and insurance. This will be especially true in the retail space in order to further mainstream sustainable finance products. An additional focus will be on investor education in sustainable finance, academic research and vocational training for financial services professionals. A new legal framework for green covered bonds is a further illustration of how Luxembourg is developing its product range in this sector, with the aim of helping to raise capital for sustainable projects.

Thanks to its efficient fund ecosystem and toolbox, including the possibility of setting up layered funds, Luxembourg is now a key hub for blended finance, serving the needs of many multilateral and development banks. Together with the EIB, the Luxembourg government set up a dedicated climate-finance platform in 2016 to fund high-impact climate action projects with strong environmental and development benefits. Blended finance – which brings together development finance and often philanthropic funding to mobilise commercial capital for sustainable investment projects – is an ideal tool for de-risking such investments, especially in the area of climate finance. Luxembourg will continue to strengthen its role as a blended



finance hub and to support the development of innovative financing mechanisms for sustainable investment projects in the years ahead.

The EU reached political agreement on a taxonomy (classification system) regulation in December 2019 to provide technical screening criteria for economic activities which can make a major contribution to climate change mitigation. The regulation is an opportunity for Luxembourg to pioneer in the area of financial product labelling, with a view to increasing its market share in the area of green and climate funds. The legislation, approved by the European Parliament in June 2020, will provide business and investors with clarity and encourage an increase in private sector funding for the transition to climate neutrality, an important strand of Europe's post-Covid-19 recovery plan.

PUTTING RESPONSIBLE INVESTING IN A WIDER CONTEXT

Sustainable finance encompasses much more than green finance and supports the 17 Sustainable Development Goals laid down by the United Nations. The Covid-19 crisis has already put the 'S' in ESG in greater focus. Access to healthcare, wellbeing of employees and even housing and education have become priority areas for investment. Issuance of socially focused bonds, both in terms of numbers and volumes, has already increased significantly since the start of the crisis.

Luxembourg has always used its role as an international financial centre to promote the development of responsible finance and was a pioneer and early proponent of microfinance. This was the area in which the labelling agency LuxFLAG focused its work when it was created in 2006. Today, 61% of the assets held in microfinance funds globally are held in Luxembourg investment funds. Luxembourg is also home to a broad ecosystem of inclusive finance experts. More recently, a number of FinTech start-ups have developed in the area of inclusive finance, including in the payments sector, microlending and inclusive insurance for smallholder farmers in developing countries. The Luxembourg House of Financial Technology (LHoFT) hosts a dedicated bootcamp to support Fintech firms active in inclusive finance (Catapult Africa).

Luxembourg was an early promoter of ethical finance and Islamic finance, i.e. capital raising which is compliant with Sharia law and which can be regarded as a form of socially responsible investment. In 2014, Luxembourg's government issued the first sovereign euro-denominated sukuk. The Luxembourg Stock Exchange was the first to list a sukuk outside the Muslim world in 2002 and still today is a leading sukuk listing venue. In terms of assets under management in Sharia-compliant investment funds, Luxembourg ranks fifth after Saudi Arabia, Malaysia, Indonesia and Pakistan. It is the leading non-Muslim domicile for Sharia-compliant investment funds.

Going forward, we will investigate opportunities arising from synergies between the growing appetite for green and other sustainable financial products and the expertise acquired in the Islamic finance world.

Based on its long-standing expertise in microfinance, Luxembourg will continue to develop and promote the impact-investment sector. While a lot of focus is currently on investments in climate mitigation (i.e. the reduction of CO2 emissions), the needs for investment in climate adaptation, which are arguably even larger and much more complex. Thanks to its expertise and pioneering work in blended finance, the recent launch of a dedicated accelerator for climate finance asset managers and a toolbox of suitable investment vehicles, Luxembourg is in a position to further strengthen its role in impact investing and help it reach the mainstream.

CONNECTING MARKETS IN SUSTAINABLE FINANCE

Drawing on its role as a nexus between global investors and markets, Luxembourg is increasingly involved in connecting markets in the area of sustainable finance by driving major sustainable finance innovations.

In 2018, for example, the Luxembourg Stock Exchange launched "Green Bond Connect" with its counterpart in Shanghai. The venture provides English language information on green products listed on China's financial markets. By creating the necessary transparency, Connect helps build trust among international investors looking to diversify into the Chinese green investment market.

Luxembourg is also a proud founding member and lead donor of the UN's network of Financial Centres for Sustainability (FC4S) and actively supports its work. It is crucial that all financial centres look at this area not in competitive terms, but as a cooperative knowledge-sharing task, with the aim of pushing the financial industry towards greater sustainability.

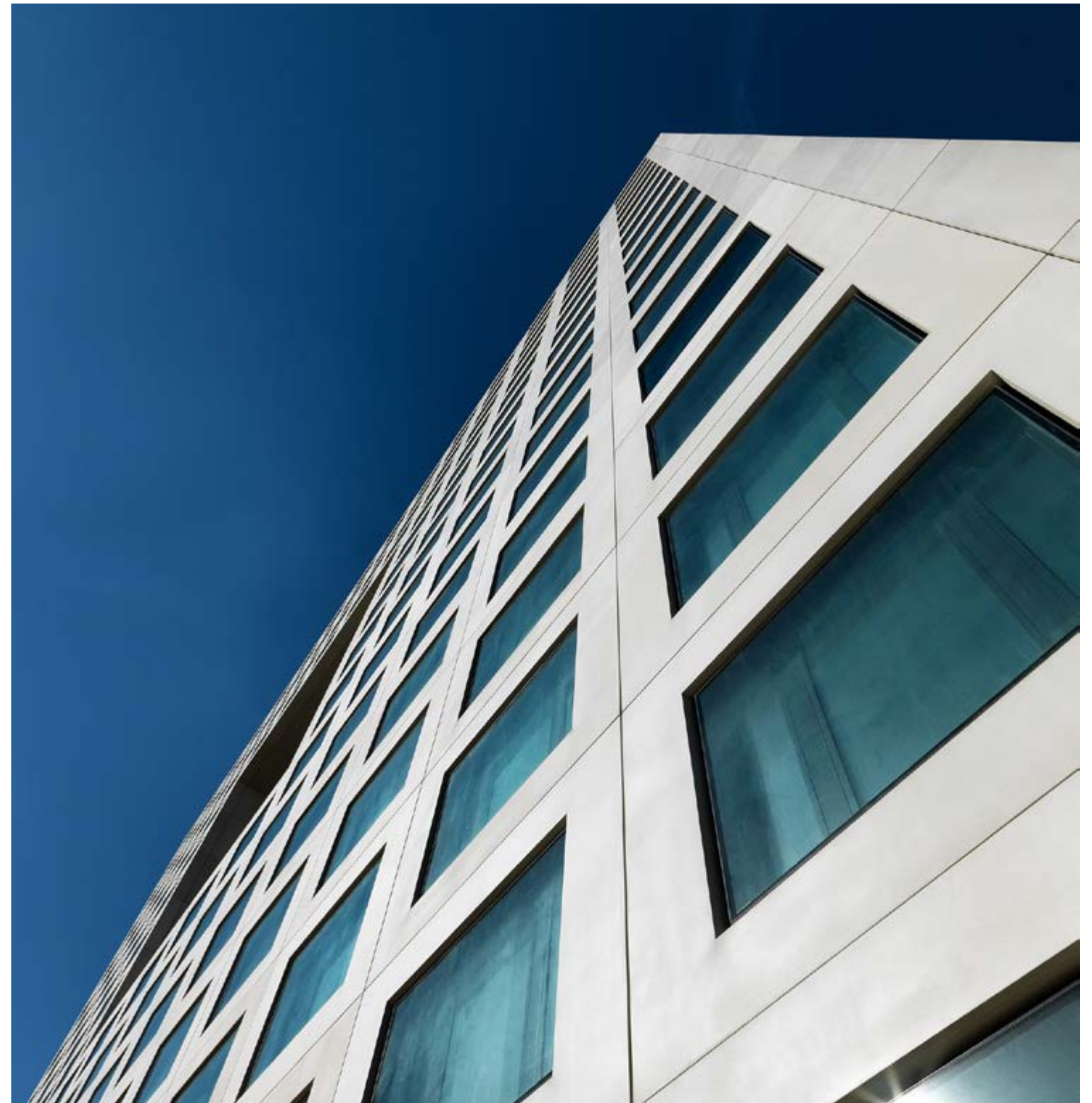
As an example, the Luxembourg government and private sector together support a number of international financial assistance programmes, where we share best practices and help grow sustainable finance in other markets. In this way, we have helped scale up green finance efforts around the globe. Our success in this field will be measured not just by how sustainable our own financial industry becomes but also by how much we have helped other centres achieve the same.

The sustainable investment agenda is a global one. Luxembourg is proud to be part of it.

AMBITION STATEMENT:

By 2025, investment in the sustainable finance sector will be worth trillions of dollars rather than the billions it is counted in today. Luxembourg will contribute to this by:

- **growing**
the share of sustainable investments within the overall financial services market
- **building on**
the EU taxonomy to develop new frameworks for sustainable financial products, including those aimed at retail clients, and incentivising such products
- **further developing**
Luxembourg as a hub for impact investment and blended finance
- **setting up**
dedicated sustainable finance educational programmes
- **connecting**
financial technology with sustainable finance
- **helping**
other financial centres develop sustainability efforts and frameworks



04

PUSHING INNOVATION

DEVELOPING FINANCIAL TECHNOLOGIES

Digitalization has become an ever more important trend in financial services, especially since the advent of mobile devices which could process financial transactions. The Covid-19 crisis has certainly accelerated this process and underlined the importance of adaptability.

Luxembourg has put the transition of the existing financial industry at the heart of its financial technology strategy. This means making sure that banks, asset managers, insurance companies and all other financial institutions operating in Luxembourg have the tools they need to remain industry leaders. These solutions can be provided by established firms or start-ups, from abroad or already based in Luxembourg.

The Luxembourg House of Financial Technologies (LHoFT) serves as our national Fintech platform and as the interface with other global FinTech hubs, which are the source solutions for the Luxembourg financial industry. The LHoFT brings together financial institutions, FinTech innovators, research and academia as well as public sector authorities to drive forward innovation and the development of solutions to meet specific industry needs. It acts moreover as a soft-landing platform for FinTech companies from abroad, which want to access the local financial sector and market their solutions across the EU.

Besides the LHoFT, Luxembourg is home to several incubators and accelerators, which help to ensure that the country remains at the vanguard of the latest technological developments. Through its relevant research, the University plays an active part in the ecosystem and engages in demand-driven applied research projects in collaboration with the financial industry through the university's interdisciplinary centre for security, reliability and trust (SnT). The SnT creates genuine, long-lasting competitive advantages for companies with a presence in Luxembourg. Besides numerous partnerships with financial sector firms, the SnT recently signed a partnership with the Luxembourg financial sector regulator CSSF: its first project focuses on leveraging AI to increase the speed and efficiency of analysing fund documentation.

Innovation also requires funding. While government-backed funding initiatives, such as the Luxembourg Future Fund or the Digital Tech Fund are available, private funding needs to be ensured as well. To this end, our objective is to connect Luxembourg-based FinTech start-ups with VC funds abroad, as well as to attract as many as possible of them to set up operations in Luxembourg.

Regulatory expertise, risk management and compliance are key strengths of Luxembourg's financial services industry. Unsurprisingly, a significant number

of FinTech companies in Luxembourg focus on serving the regulatory and compliance needs of Luxembourg's financial centre: ranging from KYC and fraud detection to fund reporting and investor information tools. By using the latest technologies, many financial institutions are today focused on reducing their regulatory and compliance costs of tomorrow.

New and emerging technologies such as the use of Distributed Ledger Technology (DLT) for financial services in Luxembourg are numerous, in areas such as payments, fund administration, reporting, clearing, and even ownership tracking of alternative assets. Several FinTech companies in Luxembourg have focused on developing blockchain-based solutions to meet industry needs. As an example, the Luxembourg Stock Exchange provides "digital signatures" on all documents publicly disclosed by issuers via a decentralised public blockchain, which is based on Ethereum, and the Luxembourg-based FundsDLT consortium has built a blockchain-based fund purchase platform, allowing investors to purchase funds through a decentralised platform on their smartphones. Other Luxembourg start-ups in this space have developed pioneering tokenisation platforms.

The CSSF was the first European regulator to adopt a clear legal position on virtual currencies, leading to the licensing of two major crypto exchanges as payment institutions in 2016 and 2017. In 2019, the Luxembourg parliament passed a law on the usage of distributed ledger technology for the circulation of securities. The law provides greater transparency and legal certainty around the use of distributed ledgers and blockchain technology by considering their usage equivalent to other secured electronic-recording mechanisms for the transmission of securities. This was only a first step, and Luxembourg is committed to adapting its legislative framework in order to encourage innovation by the financial industry in leveraging DLT while providing legal certainty.

Considering Luxembourg's central role in finance through its investment fund and capital markets activities, Luxembourg also needs to be taking sound positions on the tokenisation phenomenon, which has the potential of changing the way in which capital is raised.

Besides DLT, the other technology that will (and is already) fundamentally re-shaping financial services, from back-office to client relations, is Artificial Intelligence. While Luxembourg sits on a wealth of data on cross-border investment flows, much of this remains untapped, not only from a business perspective but also from a research vantage point, where it could shed valuable light on global trends in investing. Luxembourg will investigate means to facilitate the use and management of such data, on an anonymised or pseudonymised basis, to encourage the development of new solutions. Regtech is a promising area for such solutions, especially as a source



INNOVATING IN FINANCE

for training algorithms. Significant potential also exists for synergies with the Luxembourg-led EuroHPC supercomputer project.

Innovation in finance is not limited to technology but comes in many guises, such as product innovation. Luxembourg has a long track record of financial innovation.

The international Eurobond market, or Eurodollar market was born in Luxembourg in the 1960s, following the listing of the world's first Eurobond (by Autostrade) on Luxembourg's Stock Exchange. This market continues to this day to provide a platform, raising over 10 trillion euros in capital globally. At the time, Luxembourg was chosen for its openness to such a new product as well as the possibility to list in a foreign currency.

Innovation in asset management by the adoption of efficient and widely accepted fund structures has become a cornerstone of the Luxembourg value proposition. Examples of this kind of innovation can be found in Luxembourg's compartmentalised mass-market products, such as UCITS umbrella funds or the more recent creation of the Reserved Alternative Investment Fund (RAIF) structure which facilitates a rapid time-to-market. In the future, new structures, such as a Real Estate Investment Trust (REIT) will be useful additions to Luxembourg's toolbox.

Another example of Luxembourg's readiness to innovate has been the success of its efforts to connect global investors with China's capital markets. When Chinese authorities decided to open up to foreign investment through different schemes, Luxembourg's securities regulator CSSF was the first European regulator to discuss with its Chinese counterparts how to make the EU framework and the Chinese framework compatible. As a result, the CSSF was in a position to authorise the first UCITS fund to invest through the RQFII scheme in 2013 and the first to invest through the Shanghai-Hong Kong Stock Connect programme in 2014. First-mover advantage and, more importantly, the expertise gained by both the regulator, as well as by our financial services professionals, explain why Luxembourg has almost a third of the global market for funds invested in mainland Chinese equities and bonds.

Luxembourg's tradition of innovation often emerges as a direct result of the cooperation that characterises its ecosystem. Industry associations play a key role. The Luxembourg Banker's Association (ABBL), the Luxembourg Insurance and Reinsurance Association (ACA), or the Association of the Luxembourg Fund Industry (ALFI) as well as the Luxembourg Private Equity and Venture Capital Association (LPEA) – each of these provide a high-level professional forum in

FINDING STRENGTH IN DIVERSI- FICATION

which new developments and opportunities in their sectors can be discussed. Such a dialogue exists not only within the associations but also between them and other stakeholders and regulatory authorities. In this way, new market trends can be identified and understood as soon as they emerge so that appropriate regulatory frameworks can be put in place and new opportunities spotted.

The Covid-19 crisis has vividly demonstrated how important it is for firms to be able to adapt their operations and even their business models to unforeseen as well as unforeseeable circumstances. Throughout its history, Luxembourg has time and again demonstrated its own capacity to adapt rapidly to a changing environment. In the finance sector in particular, Luxembourg has been especially adept at redefining itself and seizing new opportunities.

Most recently, Luxembourg has emerged as a key European payment and e-money hub. Leading international players in the payments sector, such as PayPal, Amazon Payments and Rakuten chose Luxembourg in the mid-2000s as their EU hub, along with an array of B2B and B2C third-party payment providers. This role has been confirmed with the relocations of a number of payment firms in the wake of Brexit, among them giants like Alipay and trendsetters such as AirBnB. With the advent of PSD2, Luxembourg has established itself as home to one of the largest open banking platforms in Europe with specialised providers of API gateways catering to the needs of banks.

Going forward, Luxembourg will seek other avenues of diversification for its financial industry, building on existing corporate finance and capital market activities. These business areas could be boosted by leveraging multiple aspects of Luxembourg's ecosystem, such as our multi-jurisdictional and international law expertise, robust corporate law framework, state-of-the-art legislation on securitisation, as well as the political and economic stability of the country.

Building on its success in attracting many non-life insurance companies to set up their EU hubs in Luxembourg as a hedge against Brexit risks, Luxembourg will adopt a more systematic approach towards encouraging the development of this important sector. The aim is to consolidate this new cluster in order to become one of the EU's leading insurance hubs. This should go hand-in-hand with a strengthened focus on developments in Insurtech.

Echoing our recent publication entitled "*Amazonisation is the future of European financial services*", we will study the development of platforms in greater depth and look in particular at ways in which Luxembourg could position itself vis-à-vis

financial services platforms that will emerge in the future. At the same time, we will closely monitor the ongoing trend of non-financial firms that are developing ancillary financial services, such as payment systems integrated into hospitality, car-sharing or other mobility schemes. Here again, Luxembourg's financial services ecosystem, combined with best in class ICT infrastructure, R&D support and a data-driven economy strategy at government level will be able to host the financial services activities of these new and emerging players.

Diversification also has a geographic component. Luxembourg has been very successful at building strong relationships with markets outside the EU over the last couple of years, with China being the prime example. It should also seek to repeat this success in other markets, in particular certain emerging markets.

AMBITION STATEMENT:

In order to build on Luxembourg's proven track record of product and technological innovation, by 2025, we will:

- **be an acknowledged**
European centre of excellence
for the post-PSD2 open banking
industry
- **provide**
FinTechs with a wide
range of funding options
- **push**
for the development of
European legal frameworks in
innovative new finance sectors
(e.g. tokenisation)
- **accompany**
the growth of the insurance
market with an increased
focus on Insurtech solutions
- **multiply**
the channels through which our
industry can source innovative
solutions and support collective
projects which strengthen
Luxembourg as a financial centre
- **create**
a conducive environment for
data-driven financial services,
both for financial institutions
themselves and new market
entrants coming from outside
the traditional financial industry

05

RESPONSIBLE
GOVERNANCECOMMITTED
TO TAX
TRANSPARENCY

As a leading European financial centre Luxembourg is well aware of its responsibility to ensure sound regulation and fair taxation. The financial crisis of 2008 and the ensuing sovereign debt crisis have shown that both are required to be regarded as a credible financial centre. The Covid-19 crisis has now further underlined how resilience and sustainability are fundamental to good governance.

One of the direct consequences of the financial crisis of 2008 was a global push towards increased transparency in tax matters. Long known for its banking secrecy, Luxembourg has embraced tax transparency by adopting automatic exchange of information at both EU and OECD levels. It applies in this the same standards as all other members of the EU and the OECD.

Information on revenues generated by Luxembourg investment products, whether in the banking, asset management or insurance sector, for clients residing outside the country are automatically transmitted by the relevant financial institution to the Luxembourg tax authorities. The latter then share this information automatically with the tax authorities of the beneficiary's country of residence. In OECD peer reviews of tax transparency, Luxembourg now enjoys the same ranking as Germany, the UK and the US.

Some critics saw this new framework as heralding the demise of Luxembourg as a wealth-management hub. As it turned out, assets under management in Luxembourg's private banking industry grew from USD285 billion in 2010 to 395 billion in 2018. This increase provides strong evidence that Luxembourg's success as a leading private banking hub in Europe is not built on tax secrecy but on the expertise available in its banking community. With its specialisation in catering to the needs of clients with multi-jurisdictional portfolios, Luxembourg has become a true centre of excellence in wealth management, and major banks have set up intra-group competence centres for such clients in their Luxembourg entities.

The sophisticated toolbox of investment vehicles available in Luxembourg also attract numerous family offices to Luxembourg whose taxes are paid in the country of residence of the beneficiaries.

While there is not necessarily a direct link between taxation of multinationals and the activities of Luxembourg's financial services industry, this issue has in the recent past cast a shadow over Luxembourg's reputation for transparency. Public opinion as well as the media do not make a distinction between the activities of banks, asset managers or insurance companies and the questions arising from the way multinational companies arrange their tax affairs.

Be this as it may, Luxembourg has been leading the redesign of international tax rules, in particular with the OECD's initiative on Base Erosion and Profit Shifting (BEPS). At EU level, Luxembourg used its time at the helm in the second semester of 2015 to push for a political agreement on automatic exchange of information on tax rulings.

Today, Luxembourg has implemented all the OECD's BEPS recommendations and transposed the EU's ATAD 1 and ATAD 2 directives into national law. In addition to these tax measures, Luxembourg has implemented all the new AML requirements and created the registry of beneficial owners.

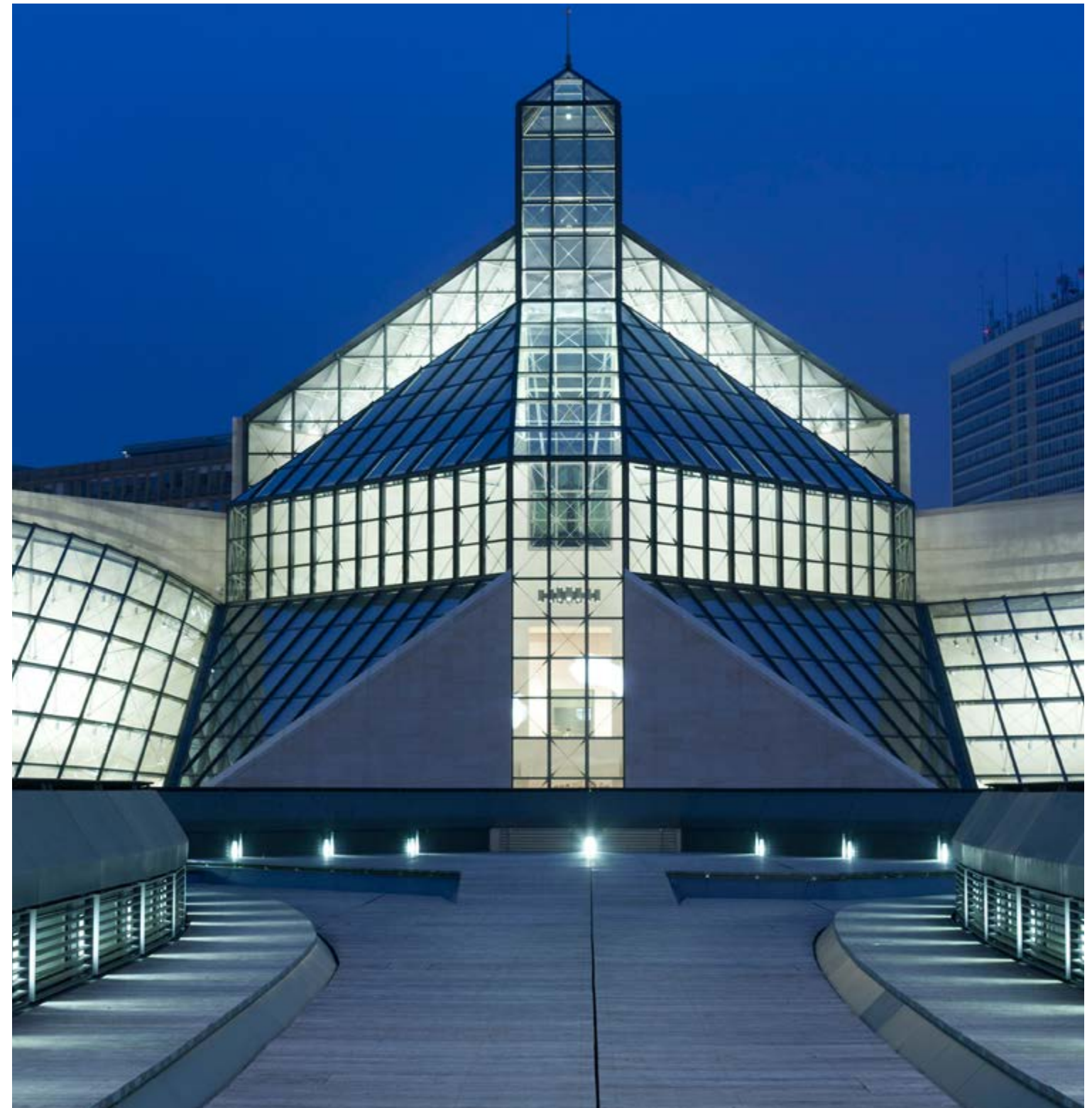
Luxembourg not only acts as a competence centre for managing wealth and investment products but also investment flows.

Most often foreign direct investment transactions are structured through investment hubs in order to ensure a sound and stable basis for the transaction. Indeed, a hub like Luxembourg is very often part of these international transactions because the parties to it rely on the structuring expertise available in Luxembourg as well as its toolbox of structuring vehicles.

Contrary to popular belief, the choice of Luxembourg is not motivated by a wish to reduce the taxes linked to a transaction. Most industrialised countries have very similar double-tax treaty networks which achieve similar results.

In the area of asset management as well as in other sectors, Luxembourg applies tax neutrality. This means that the investor is taxed in his country of residence and Luxembourg does not add further layers of taxation. Such tax neutrality is an internationally applied principle.

In today's transparent world, whether the investor is an individual or a company, the tax authorities of the country of residence have access - via the automatic transfer of information by Luxembourg's tax authorities - to all the relevant information regarding any investment which is made.



DRAWING ON STABILITY

The soundness which characterises Luxembourg's financial industry draws on the country's well-established reputation for political, economic and social stability, as well as from the diversified make-up of the industry. This long-term stability has been another strong attraction of the financial centre for international investors.

Luxembourg's political stability is best summed up by the fact that since World War II only eight prime ministers and eight ministers of finance have served the country. This political longevity has allowed for more long-term objectives to be considered in the strategic development of Luxembourg's financial services industry.

The country's reputation for stability extends to its sound and sustainable public finances.

Luxembourg takes great pride in having managed its budgets over many years in such a way that its debt-to-GDP ratio is just 21%. This has given Luxembourg the latitude to cushion the effects of the pandemic both on the healthcare front and at the same time support its economy with fiscal measures equivalent to 18% of GDP. Despite that, the country's public debt will remain well below 30% of GDP, and so well below the EU average.

Luxembourg has been consistently rewarded for its prudent and responsible management of its public finances with a triple-A credit rating with stable outlook from all the major rating agencies. This puts Luxembourg in a very select club of only 10 countries around the world which enjoy this standing.

For international investors, this translates into confidence that their investments are safe in Luxembourg. It also means that in Luxembourg the pressure to increase taxes is certainly not as high as in other countries with much higher debt.

The knowledge that their investments are safe is for most investors more important by far than the possibility of benefiting from the lowest possible tax rate.

Social stability translates into a near complete absence of labour days lost to strikes since the beginning of the 21st century. Indeed, Luxembourg's political, industry and labour leaders take pride in the success of the consensual tripartite model for discussing issues and finding solutions.

Luxembourg's government has made its commitment to this stability clear and is committed to doing what it takes to maintain its AAA rating.

The stability Luxembourg can boast is also related to the fact that its financial industry is built on a number of strong core activities. First and foremost among

MAINTAINING A SOUND LEGAL FRAMEWORK

these is fund domiciliation and administration, wealth management, insurance, payment services and capital market business. Financial institutions active in all these sectors hail from multiple geographic origins. As a result, Luxembourg is not overly dependent on any one activity or sector, nor on any one or several oversize players. Nor is it overly reliant on participants from any particular country.

'Luxembourg's legal framework draws heavily on EU law, which the country prides itself on rapidly implementing in order to benefit from first-mover advantage. This was certainly the case when the EU introduced the UCITS framework in 1985. Nor does Luxembourg 'gold-plate' EU regulations by adding requirements above and beyond what EU laws require. In those areas that are not fully harmonised, Luxembourg maintains state-of-the-art legal frameworks.

Luxembourg's attractions as a financial centre and a leading investment hub rest on two additional pillars: its sophisticated corporate law and its efficient application of the highest standards in financial supervision and investor protection.

Luxembourg's corporate law allows for structuring options that accommodate the needs of international investment projects. Its unique toolbox of investment vehicles, coupled with its modern securitisation law, as well as its credit guarantee law, are the main reasons why global investors and, importantly, also their backers, such as the banks, rely on Luxembourg when structuring investment projects.

Luxembourg law is increasingly being chosen by international public institutions when they enter the financial markets. As a consequence of Brexit, the EU and the European Atomic Energy Community (Euratom) have decided to switch the legal framework of their debt issuance programmes from English to Luxembourg law. The European Stability Mechanism, one of the largest debt issuers in the world, has also announced recently that it will use Luxembourg law going forward. The European Investment Bank, the world's largest lender, is also switching from English to Luxembourg law as the legal base for its lending activity.

The choice of Luxembourg law when drawing up commercial contracts is very often accompanied by the choice of Luxembourg courts for arbitration. The Grand Duchy's courts are well known for their professional approach and their widely accepted use of English as a language for proceedings.

Luxembourg regulators, in particular the CSSF (Commission de Surveillance du Secteur Financier) as the banking and securities regulator, as well as the CAA (Commissariat aux Assurances), the insurance regulator, enjoy a very high regard

in the international financial markets for their expertise in the various activities which Luxembourg's finance industry specialises in, as well as their responsiveness in addressing the needs of market players.

Both regulators, as do generally all Luxembourg's public authorities, gladly accept the use of English (besides French, German and Luxembourgish) in their exchanges with firms, both verbal and written. Needless to say, proficiency in English is extremely high throughout these organisations.

AMBITION STATEMENT:

Luxembourg's financial industry must be built on sustainable principles in taxation and regulation. Our ambitions for 2025 here are to:

- **ensure**
compliance with international standards
- **maintain**
a healthy and stable legal and political environment rewarded by a AAA rating
- **be amongst**
the first to implement European law and so build on our first mover success stories
- **aim**
for the highest possible rankings
- **promote**
Luxembourg law as a widely accepted choice of law
- **provide**
international investors with the highest possible standards of protection

06

NURTURING
THE HUMAN
DIMENSIONENSURING
ACCESS TO
TALENT

Financial services cannot exist without the professionals that work and live in a financial centre like Luxembourg. The Covid-19 crisis has underscored the importance of the wellbeing of our workforces. Luxembourg will continue to improve its working environment by upgrading its infrastructure and improving quality of life so that the financial industry can thrive.

Luxembourg's financial services workforce employs some 51,000 people, of which about 50% work in the banking sector (including fund-servicing activities), 31% in the fund industry (the parts not performed by banks), 8% in insurance and around 11% in support services. The financial sector also has important indirect effects in terms of employment and value added for the whole of the Luxembourg economy.

Many of those who work in Luxembourg's financial services industry live in the neighbouring countries, France, Belgium or Germany and commute daily to Luxembourg. Luxembourg employs 100,000 French residents, 50,000 German residents and 50,000 Belgian residents. Together, these commuters make up about two fifths of Luxembourg's workforce. This also strengthens Luxembourg's multilingual and multicultural dimension. Furthermore, it allows Luxembourg to draw on a large talent pool of some four million people living within a one-hour commute of its capital. Today, Luxembourg sources its talent from around the world, thanks to the ever-expanding reach of our financial services activities and the multinational origins of the participants in our industry, as well as those of their clients.

Even so, the relentless growth of the Luxembourg financial sector, in both numerical and qualitative terms, as well as the impact of Brexit-related relocations, has strained the Duchy's talent pool. Government and industry associations are discussing with the University of Luxembourg how its courses might be adapted to the evolving needs of the local industry. The House of Training and the Competence Centre at the University of Luxembourg have also been established to provide the vocational training needs of financial services professionals in an ever-changing industry. The Government's support for upskilling of financial services staff has proven extremely valuable and effective in helping to avoid redundancies and increased costs. Investment in training is a crucial success factor for the industry. They are also crucial for those public sector authorities which need to ensure their staff remain up-to-speed with the evolution in financial services.

Luxembourg's government is also in the process of developing a national talent strategy and is looking at the issue in a holistic way, including aspects such as housing, education, taxation and many others.

ENHANCING THE QUALITY OF LIFE

Luxembourg can certainly point to a very high quality of life, as shown by numerous international studies and rankings, for example:



3rd in the world

for working abroad

(Expatriate Insider, 2019)



1st in the EU

for investment and development

(IMD, 2019)



Best country

for economy and job security

(Expatriate Insider, 2019)



Most multi-lingual

country in Europe: Luxembourg's population speaks on average

3.6 languages

(European Commission, 2018)

Safest city

in the world

(Mercer, 2019)



3rd cleanest

city in the world

(Clearwater, 2019)



2nd in the world

for attracting talent

(INSEAD, 2019)



7th in the world

for English proficiency

(EF English Proficiency Index, 2018)



The future of remote work

During the lockdowns mandated to stem the spread of the pandemic, more than 90% of the workforce of Luxembourg's financial industry worked remotely. Employees, employers and supervisors expressed a high degree of satisfaction with the way in which this unprecedented change worked out. Employers and employees have come to realize the benefits of maintaining some aspects of this when normal work life resumes. Good reasons exist for maintaining a physical office as the principal workspace, but the experience of the lockdown is likely to stimulate reflection on more flexible working patterns. Given the fact that a large share of Luxembourg's workforce commutes into the Grand Duchy from neighbouring France, Germany and Belgium, this would involve these countries in finding pragmatic and workable solutions on issues around taxation, pension and social security contributions.

ADAPTING THE INFRA- STRUCTURE

With its economy enjoying consistent above-average growth rates for many years, Luxembourg has had to make significant investments in developing and upgrading its infrastructure. Luxembourg's public investment stands at 4.4% of GDP for 2020, well above the EU average. The government have decided to keep the public investment at the same level post-Covid, while putting an additional focus on screening the sustainable nature of public investments more broadly.

Entire new city zones have been developed over recent years. In Kirchberg, in Cloche d'Or and in Belval and many other sites, commercial and residential real estate is being developed to meet the needs of a growing economy and those who work in it.

By the end of 2020, a new tram service will cross the City from Kirchberg to the Central station and, by the end of 2023, the line will stretch from the airport to Cloche d'Or, significantly alleviating traffic congestion within the city limits. A new railway station is also to be built in Howald for high-speed train connections, while the airport will be expanded.

As of March 2020, all public transport (tram, bus, train) within the country is free. Luxembourg is the first country in the world to take this important step to encourage people to use public transport.

Luxembourg continues to expand the availability of international schooling. In several of the public schools it has created an English-language curriculum, leading to the IB or EB diploma. As part of the public school system, these courses are free. Several private, fee-paying schools exist in Luxembourg, such

as the International School, St. Georges School, Sainte Sophie and others. In addition, Luxembourg being one of the European capitals and so home to several EU institutions, has a large European School, which, subject to certain conditions, admits students from parents not working at the EU institutions.

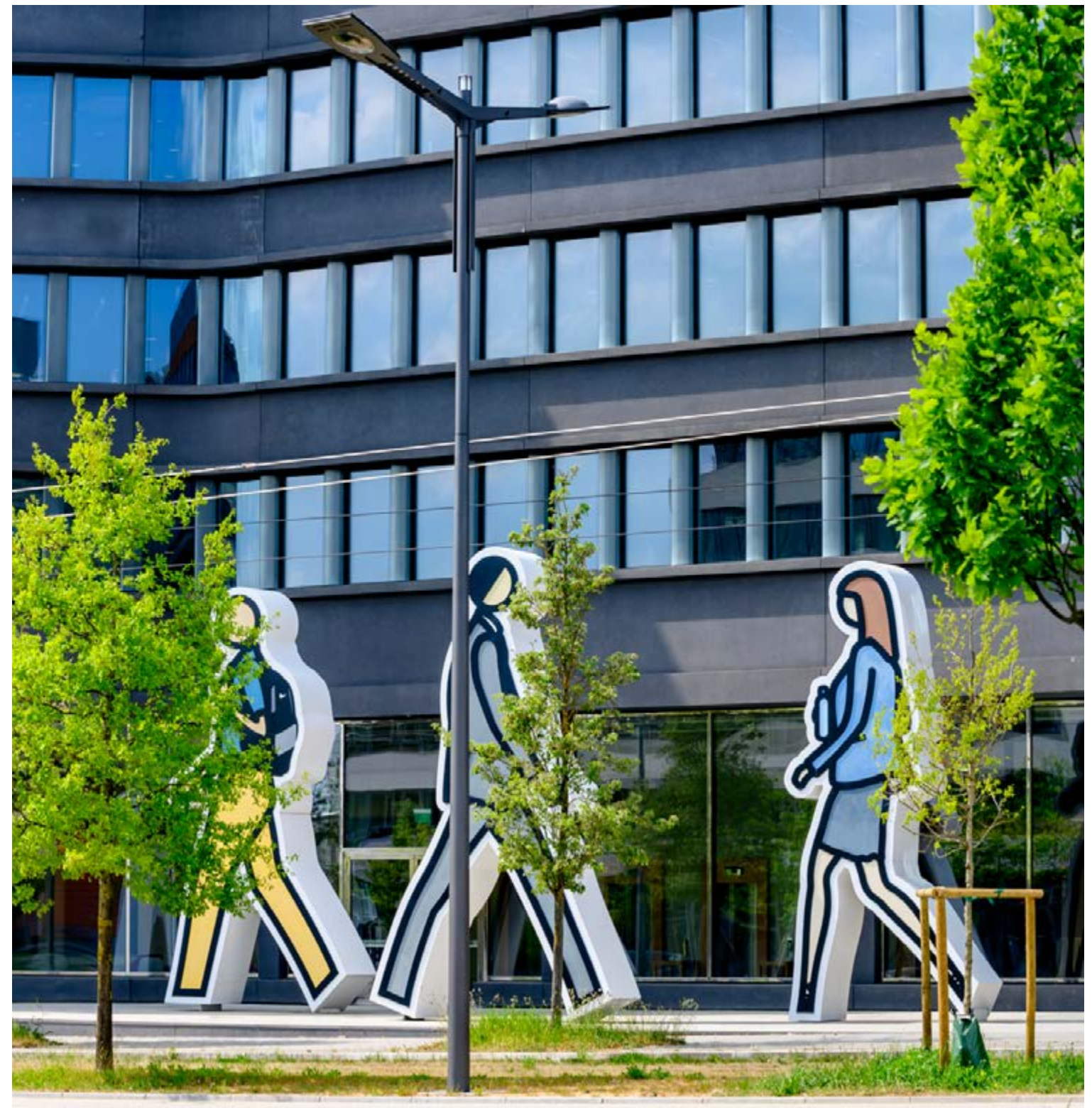
IT and communication infrastructure are other areas in which Luxembourg is sparing no effort and cost to remain at the cutting edge of industry standards. One of the reasons the financial industry could manage working offsite so well during the Covid-19 lockdown is in great part due to the high quality of the network infrastructure.

All these investments underscore Luxembourg's commitment to ensuring an environment in which its financial industry can continue to flourish.

AMBITION STATEMENT:

By 2025, Luxembourg will support the continued expansion of its financial industry by:

- **enhancing**
the coordination of government, academic and industry's talent development efforts
- **increasing**
Luxembourg's attractiveness through adaptation of the legal and fiscal frameworks for expats
- **further**
raising Luxembourg's profile among highly skilled workers and top students
- **enlarging**
the international tuition offer available in Luxembourg



USEFUL CONTACTS

Ministry of Finance

www.mf.public.lu

Luxembourg for Finance

www.luxembourgforfinance.com

**The Luxembourg Bankers' Association
(ABBL)**

www.abbl.lu

**Association of Insurance and Reinsurance
Companies (ACA)**

www.aca.lu

**Association of the Luxembourg Fund
Industry (ALFI)**

www.alfi.lu

Chamber of Commerce

www.cc.lu

Fondation de Luxembourg

www.fdlux.lu

Commissariat aux Assurances

www.commassu.lu

**Luxembourg Financial Sector Regulator
(CSSF)**

www.cssf.lu

LuxFLAG

www.luxflag.org

**Luxembourg House of Financial Technology
(LHoFT)**

www.lhoft.lu

**Luxembourg Private Equity and Venture
Capital Association (LPEA)**

www.lpea.lu

Luxembourg Stock Exchange

www.bourse.lu

University of Luxembourg

www.uni.lu

The Central Bank of Luxembourg (BCL)

www.bcl.lu

ABOUT LUXEMBOURG FOR FINANCE

Luxembourg for Finance (LFF) is the Agency for the Development of the Financial Centre. It is a public-private partnership between the Luxembourg Government and the Luxembourg Financial Industry Federation (PROFIL). Founded in 2008, its objective is to develop Luxembourg's financial services industry and identify new business opportunities.

LFF connects international investors to the range of financial services provided in Luxembourg, such as investment funds, wealth management, capital market operations or advisory services. In addition to being the first port of call for foreign journalists, LFF cooperates with the various professional associations and monitors global trends in finance, providing the necessary material on products and services available in Luxembourg. Furthermore, LFF manages multiple communication channels, organises seminars in international business locations, and takes part in selected world-class trade fairs and congresses.

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