Financial Integration in Latin America: Regional Funds Passport
Part 1
The opinions expressed in this publication are those of the authors and do not necessarily reflect the views of the Inter-American Development Bank, its Board of Directors, or the countries they represent.
Introduction
Activities

- Alignment and understanding of the products’ value proposition for the region

- Alignment and understanding of the framework (macro view) related to the scope of the products based on the international references

- Discussion of the main points of the operational, market, tax and legal dimensions

- Discussion of the governance proposal that’s necessary to the conduction and development of the products in the region

- Review of the prioritization, criteria and roadmap recommendations for the products

- Discussion of the conclusions and next steps
BRAiN is a non-profit entity that aims to promote a business network for Latin American through two important initiatives...

**Regional Integration**
- Expand the market conditions to promote capital flow in the region
- Prioritize the operations of the multilatin companies in the region

**Investment Attraction**
- Attract foreign investors
- Simplify rules for foreign investors
The regional integration initiative aims to develop instruments and adopt standards for LATAM countries, in order to harmonize the regulatory framework and promote capital flows to the region.

Development of Regional Funds Passport

Development of LDR/Ns – Latin American Depository Receipts and Notes

Note: Participating countries: Brazil, Argentina, Chile, Peru, Colombia and Mexico
The development of a regional funds passport will improve the funds industry efficiency, reducing costs and increasing the options for investors.

The Latin American Funds Passport is a mechanism that will be designed to facilitate the funds distribution in LATAM local markets and other international markets.
Cross-border funds have been a strong driver of growth in the asset management industry

Indeed, a Fund is composed of sub-funds and according to its scope of registration (depending on the commercial strategy of the client), they are then distributed in various countries (EU and/or Non-EU).

Number of cross-border funds and registrations

Considered funds that are distributed in more than 3 countries, including their domicile

Source: PwC Benchmark your Global Fund Distribution 2016
Europe is the most popular market for mutual funds through UCITS, with over 67,000 registrations.

These statistics are related to the number of UCITS which are registered for sale in each of the individual countries.

However, the number of registrations for a country does not directly correlate to the sales activity for that particular country.

Over 76,000 UCITS funds registered for sale worldwide

86 is the number of countries of distribution for UCITS funds – 20 new countries since 2009

Source: PwC - Distributing our Knowledge - Fund distribution: UCITS and Alternative Investment Funds (AIFs) - 2014

PwC | Minute for discussion
The main volumes of DRs are still focused in USA and Europe

North America
$504.4

Europe
$151.7

Latin America
$4.2

Africa and Middle East
$3.9

Asia Pacific
$33.5

Values in US$ billion – sep. 2015
PwC | Minute for discussion
The infrastructure development in Latin America will demand the creation of new instruments for the Financial and Capital Markets.

**USD 101 trillion**

of AuM in 2020

**USD 40 trillion**

in global urban infrastructure investments for the next 20 years

**60% of the construction activity worldwide**

will be in emerging markets

**New financial block**

It is expected that by 2020, there will be 4 financial blocks, being one of them the Latin America

**USD 200 billion**

to be invested in infrastructure in Brazil for the next 30 years
The development of financial and capital products in LATAM will represent important challenges to the countries

Improvement of the competitiveness level of the financial and capital markets of the region compared to the other economic blocks in the world

Alignment of taxation methods and rates, as well as the definition of agreements between the countries

Harmonization of rules to guarantee the investors’ protection

Standardization for the attraction of foreign investors from outside the region

Creation of rules and governance for the agreements

Increase of instruments’ offer for the diversification of the institutional and qualified investors’ portfolio

Development of the operational model

Cooperation between the regulators and self-regulators of the countries
The approach proposed for the project has 4 dimensions of analysis

**Approach**

**Latin America Markets**
- Argentina
- Brazil
- Chile
- Colombia
- Mexico
- Peru

**Dimensions of analysis**
- Market
- Taxation
- Regulatory
- Operational

**Steps of the approach**
- Organization
- Analysis
- Development
- Roadmap
- Disclosure
Value proposition
The main stakeholders in the development process are the multilatin companies and investors that are seeking for opportunities and diversification in the region.

Key players of the financial and capital markets

- Multilatin issuing companies
- Depositary/Custodian
- Administrator
- Distributor
- Investor
- Local Regulation and Supervision of each country
- Regulation Committee for the region and Information Platform
- Funds passport
- LDR/N
- Regional Regulation
For the players, the new products should represent an increase in the product offer and a potential operational cost reduction

**Value proposition for the institutions participating in the market**

- Expansion of products and services offer with the introduction of the Passport concept related to Asset Allocation, Wealth Management, Fiduciary Administration
- Increase of AuM especially with structured funds, destined to the direct development of the region
- Pulverization of the investors’ base
- Expertise development
- Consolidation of the business models taking in consideration that the administrator can provide the services from the domicile of the Fund

**Portfolio management, administration and distribution of Funds**

- Expansion of the offer of products and services with the creation of Depositary receipts and notes instruments (LDR/LDNs) emitted to be distributed in the region
- Origination of new businesses in the region funded by the emission of debentures, stocks listing and related Notes and Receipts
- Expansion of the playing field of the participants from local to regional
- Potential increase of liquidity of the assets issued and traded in the region
- Potential attraction of foreign investors
- Opportunity for derivative instruments (FX hedges, options)

**Capital markets**
The funds passport will give the administrators opportunity to revisit the business models because they will begin to operate remotely in new countries.

It is possible to redefine the business model with a three-step process:

**Strategic view** – What are the general goals of the business and which regions does it operate in? How is the capital structured and what is the expected ROE?

**Product offer** – What are the client’s key products and in what areas do they operate in? What is the aimed contribution margin by product?

**Business design** – How to align the business design with the strategic view and the product mix? How much capital will be allocated in each business? Which operational model has the best cost benefit to support the business?

---

1. **Strategic View**
   - Review of the business model and definition of strategic priorities

2. **Balanced Product Offer**
   - Portfolio optimization versus capital restrictions (risk)

3. **Business Design**
   - Front-office alignment to support the product portfolio and business view

---

**Defined set of core businesses and complementary businesses**

**Identified business lines considering core and non-core products**

**Capital allocation to support a balanced product offer**

**Definition of non-core products**

---

**Organization and Governance**

**Coverage and incentive models**

**Pricing models**

---

**Governance**

**International References**

---

Fonte: PwC Capital Markets 2020
For distributors, both products represent leverages for multichannel models

**Banks will need to meet customers' needs when and where they make financial decisions**

**Multichannel**
- Self-service channels, emphasizing both customer convenience and continued cost management pressures
- A service-to-sales mindset and a defined multi-touch, multi-channel sales model will require modifications to compensation models

**Anytime, anywhere**
- Customers will be served according to their needs, convenience and preferred method of interaction.
- Winners will be the banks that integrate their channels and meet their customers' needs when and where they want

**Funds passport and DR/Ns will be products oriented for client convenience and for the multichannel concept due to their mobility: “the product goes to the customer...”**
A stable legal and regulatory framework and consistent government policy are factors companies consider when deciding about listing in emerging countries

If you believe there will be a shift by 2025 in companies from developed countries looking to emerging market stock exchanges for their IPOs, what would be most likely to derail this shift?

<table>
<thead>
<tr>
<th>The legal and regulatory environment of emerging markets</th>
<th>32%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Political uncertainty in emerging-market regions</td>
<td>29%</td>
</tr>
<tr>
<td>Not applicable, I do not believe there will be a shift</td>
<td>15%</td>
</tr>
<tr>
<td>Slow down of economic growth of emerging markets</td>
<td>13%</td>
</tr>
<tr>
<td>Increased risk aversion of investors</td>
<td>7%</td>
</tr>
<tr>
<td>Increased inflation</td>
<td>4%</td>
</tr>
</tbody>
</table>
As trade and investment between emerging markets increase, many economists believe that the so-called ‘south-south’ integration will intensify.

By 2025, there will be a substantial shift in emerging market companies looking to the stock exchanges of its own or other emerging markets, rather than those of developed markets, for their IPOs.

By 2025, there will be a substantial shift in developed-market companies looking to the stock exchanges of emerging markets, rather than those of other developed market, for their IPOs.

“Listing is a public demonstration of our long-standing commitment... and it generates strong goodwill with the government and regulators in those markets”

Richard Meddings – Group Finance Director, Standard Chartered
For Regulators, the proposed products represent an opportunity of leveraging their financial and capital markets.

Reduction of the complexity of the legal framework and application of cross-border governance principles, supervision, and independent audit rules.

Removal of barriers to the attraction of investments from international funds in the region.

Development and improvement of the capital market and asset management in the region.

Prioritization of the local investor protection with an arbitration chamber and a legal court/jurisdiction.

Adoption of international standards for operational rules, investor relations and relevant facts.

Recognition and mutual cooperation between regulators in the region.

Diversification of the portfolio of funding and investment instruments.

Source: Superintendencia Financeira de Colombia
For the institutional investors in the region that represent more than US$ 700 billions...

Total assets USD 38.3 billions
20% of GDP
41% in investment funds
20% in foreign assets

Total assets USD 197 billions
17% of GDP
4% in investment funds
17% in foreign assets

Total assets USD 74.2 billions
23% of GDP
24% in investment funds
23% in foreign assets

Brazil*

Peru

Mexico

Chile

Colombia

Total assets USD 252.8 billions*
12% of GDP
61% in investment funds
<1% in foreign assets

(*) Considers only “Previdência Complementar Fechada”.

Note: The law nº 26.425 of 2008 has unified and nationalized Argentina’s Social Security system. No available data was found.

...and that show interest for foreign funds and assets, the new products represent more diversification.

The key potential investors of these products are pension funds that, in Latin America, represent a market of more than USD 700 billions... and with a projection of 9.9% annual growth by 2020, the pension funds are a great potential of investment in the funds industry in the region.

Source: PwC – Beyond the borders. Evolution of foreign investments by pension funds
Framework
**The passport creation will increase efficiency in the funds market, reducing costs and expanding the number of options for investors**

### Scope and main opportunities

<table>
<thead>
<tr>
<th>Mutual Funds</th>
<th>Structured Funds</th>
<th>Greater operational efficiency and cost reduction</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Investment funds in fixed income assets and/or equities issued in the Latin America region</td>
<td>• Investment funds in assets issued by companies in Latin America with the overall purpose to develop the region</td>
<td></td>
</tr>
<tr>
<td>• Destined to qualified and institutional investors from the region and from abroad</td>
<td>• Destined to qualified and institutional investors from the region and from abroad</td>
<td></td>
</tr>
<tr>
<td>• The fund will necessarily be domiciled in one of the countries in the region where will be registered in the regulator of this country</td>
<td>• The fund will necessarily be domiciled in one of the countries in the region where will be registered in the regulator of this country</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>LATAM Passport</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Passport for the distribution of Structured and Mutual Funds</td>
</tr>
<tr>
<td>• Registry and authorization by the regulator of the domicile country of the fund</td>
</tr>
<tr>
<td>• Through cooperation mechanisms among regulators, the regulator of the domicile country registers and communicates the others about the possibility of distribution</td>
</tr>
</tbody>
</table>
The regional funds passport will be the result of a multilateral agreement among countries in LATAM which will innovate the funds distribution model in the region

Illustrative example

F1 Fund constituted and domiciled in Mexico

The regional funds passport will allow that the fund that is registered, authorized and regulated in its domicile country ("home economy") could be offered in other member countries of the passport agreement ("host economies"), enabled through a framework that will seek to homogenize the rules and regulations related to the operational model

The investor will have direct access to funds of the region in its own market...

the investor will no longer need to open an account and have a structure in the other countries of the region
Currently, the investor that wants to invest abroad needs to send away their resources or to apply in a fund that invests abroad...

In the current model, the investment must be made abroad...

Currently, to diversify their investment, the investors need to access each Market and to attend the specific regulations in each country. It's also necessary to open accounts abroad, which generates additional costs.
With the Passport, the funds abroad will be able to be distributed locally. Changing the current situation...

The Fund is constituted in the domiciled country and also distributed in the investor’s country of origin. In this sense, the investors will have the convenience of having local access to foreign funds.

With the passport, the Fund will be available for distribution in the investor’s local market.
For the LATAM passport, some premises will be adopted to prioritize its development

The passport will be destined exclusively to Latin America countries signatories of the agreement.

The cooperation of the six involved countries will be prioritized.

A relevant focus of the funds with passport will be the fund-raising for investments in regional projects.

If the fund allocates resources in assets of different countries, there will be a limited concentration of issued and negotiated assets in the home country of the fund in order to maintain the original applicability of the passport.

The products structure will be based on international standards in order to facilitate the expansion of funds distribution outside the region.

**Initial premises for the development of the LATAM passport**

**What defines the passport is the fund distribution in at least one country of the region other than the home country, and the assets of this fund shall not be exclusively from the distributing country.**
The funds passport have three specifications related to location that are fundamental to the characterization of the passport

Domicile is the place where the fund is hosted, constituted, registered and authorized by the local regulator

Distribution occurs in the origin country of the investor, that is the market where the funds’ shares/units are distributed or negotiated

Investment is the market to where the funds’ resources are destined for the allocation and acquisition of assets, securities, shares of funds, derivatives, etc.

Definition of location concepts of the activities related to the fund

<table>
<thead>
<tr>
<th>Assets</th>
<th>Liabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investments</td>
<td>Distribution</td>
</tr>
<tr>
<td>Country A</td>
<td>Country D</td>
</tr>
<tr>
<td>Country B</td>
<td>Country E</td>
</tr>
<tr>
<td>Securities</td>
<td>Shareholders</td>
</tr>
<tr>
<td>NAV, NAV per share/unit, balance sheet etc.</td>
<td></td>
</tr>
</tbody>
</table>
Considering the location concepts, there are several scenarios that should be analyzed for the application of the passport

Preliminary analysis of the cases to characterize the need for a passport

In the studied scenarios that consider the country of origin of the fund (Domicile), origin of the investor (Distribution) and destination of the investment (Investment), not all of them will be applicable to the passport.

What defines the passport is the distribution of the fund in at least one country of the region other than the domicile country, and the investments of this fund can’t be exclusively of the distribution country.

Scenarios

1. Domicile: A, Distribution: A, Investment: A
   - Analysis: Local fund

2. Domicile: A, Distribution: A, Investment: +A
   - Analysis: Foreign investment fund

   - Analysis: Administration hub

   - Analysis: Investment funds with passport destined to investors from the region

5. Domicile: A, Distribution: B, Investment: A

   - Analysis: Any country(ies) other than A, B or C.
It is desired that the country where the Fund is registered enables earnings to the investors without any tax burden.

### Scenarios

<table>
<thead>
<tr>
<th>Scenarios</th>
<th>Domicile</th>
<th>Distribution</th>
<th>Investment</th>
<th>Risk of double taxation</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>A</td>
<td>A</td>
<td>A</td>
<td>Does not exist</td>
</tr>
<tr>
<td>2</td>
<td>A</td>
<td>A</td>
<td>≠A</td>
<td>Exists</td>
</tr>
<tr>
<td>3</td>
<td>A</td>
<td>B</td>
<td>B</td>
<td>Should not exist</td>
</tr>
<tr>
<td>4</td>
<td>A</td>
<td>B</td>
<td>C</td>
<td>Exists</td>
</tr>
<tr>
<td>5</td>
<td>A</td>
<td>B</td>
<td>A</td>
<td>Exists*</td>
</tr>
<tr>
<td>6</td>
<td>A</td>
<td>N</td>
<td>N</td>
<td>Exists*</td>
</tr>
</tbody>
</table>

**Aiming at a better positioning with jurisdictions to host a funds passport, it is recommended that LATAM countries consider the following aspects:**

- Enable access of the funds passport to the benefits of double taxation treaties
- Create mechanisms to allow the compensation of income tax paid abroad (in the fund’s level or in the non resident investors’ level) when the fund applies *predominantly* in foreign assets and/or investments
- Mitigate and/or reduce the occurrence of taxation at source on the earnings distributed and accomplished by non-resident investors when the applies *predominantly* in foreign assets and/or investments
- Expand the network of double taxation treaties with other LATAM countries included in the initiative
- Mitigate and/or reduce the taxation incidence on financial operations, remittances and or Exchange of investors in the constitution, distribution and/or liquidation of the fund
The funds authorized by the LATAM passport will be able to invest only in eligible assets, similarly to the European and Asian models.

### Eligible assets to the fund portfolio

<table>
<thead>
<tr>
<th>Mutual funds</th>
<th>UCITS</th>
<th>ASEAN CIS</th>
<th>ARFP</th>
<th>LATAM</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transferable securities</td>
<td>👍</td>
<td>👍</td>
<td>👍</td>
<td>👍</td>
</tr>
<tr>
<td>Money Market</td>
<td>👍</td>
<td>👍</td>
<td>👍</td>
<td>👍</td>
</tr>
<tr>
<td>Bank Deposits</td>
<td>👍</td>
<td>👍</td>
<td>👍</td>
<td>👍</td>
</tr>
<tr>
<td>Derivatives</td>
<td>👍</td>
<td>👍</td>
<td>👍</td>
<td>👍</td>
</tr>
<tr>
<td>Fund shares</td>
<td>👍</td>
<td>👍</td>
<td>👍</td>
<td></td>
</tr>
<tr>
<td>Others</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Cash**

<table>
<thead>
<tr>
<th>Structured funds</th>
<th>AIFs</th>
<th>ASEAN CIS</th>
<th>ARFP</th>
<th>LATAM</th>
</tr>
</thead>
<tbody>
<tr>
<td>Private Equity, Real Estate, Hedge Funds, Receivables Investment Funds, etc.</td>
<td>👍</td>
<td>✘</td>
<td>✘</td>
<td>✘</td>
</tr>
</tbody>
</table>

Cash, currency and others
For the protection of the investors and for risk reduction, concentration and diversification limits should be defined for LATAM funds passport.

### Mutual funds

<table>
<thead>
<tr>
<th>Transferable securities</th>
<th>UCITS</th>
<th>ASEAN CIS</th>
<th>ARFP</th>
<th>LATAM</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global limits</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>By issuer</td>
<td>10/25/35(^1)</td>
<td>10/35(^2)</td>
<td>10/35(^2)</td>
<td>10/35(^2)</td>
</tr>
<tr>
<td>Money Market</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>Bank Deposits</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>Derivatives</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>Global limits</td>
<td>5% / 10%</td>
<td>20%</td>
<td>20%</td>
<td>5% / 15%</td>
</tr>
<tr>
<td>By issuer</td>
<td>Max 20(^3)</td>
<td>Max 20(^3)</td>
<td>Max 20(^3)</td>
<td>Max 20(^3)</td>
</tr>
<tr>
<td>Limit consolidated by issuer</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Fund shares</td>
<td>30%</td>
<td>30%</td>
<td>30%</td>
<td>30%</td>
</tr>
<tr>
<td>Others</td>
<td>49%</td>
<td>-</td>
<td>-</td>
<td>25%</td>
</tr>
<tr>
<td>Global limits</td>
<td>-</td>
<td>5/15%</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>By issuer</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

### Structured funds

<table>
<thead>
<tr>
<th>Private equity, real estate, hedge funds, Receivables Investment Funds, etc.</th>
<th>AIFs</th>
<th>ASEAN CIS</th>
<th>ARFP</th>
<th>LATAM</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global limits</td>
<td>Flexible(^4)</td>
<td>10-30% or Flexible(^1)</td>
<td>-</td>
<td>Flexible(^4)</td>
</tr>
<tr>
<td>By issuer</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

1. 25% for debt securities issued by credit institutions in the EU/35% for public securities
2. 35% for public securities
3. Limit by group level
4. Depending on the Fund structure
The requirements for the administrator to operate the LATAM passport are aligned with international references...

<table>
<thead>
<tr>
<th>Administrator</th>
<th>AIFs</th>
<th>UCITS</th>
<th>ASEAN CIS</th>
<th>ARFP</th>
<th>LATAM</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minimum capital</td>
<td>EUR 125,000</td>
<td>EUR 125,000</td>
<td>USD 1 million</td>
<td>USD 1 million</td>
<td>USD 1 million</td>
</tr>
<tr>
<td></td>
<td>+0.02% &gt; 500 MM AuM</td>
<td>+0.02% &gt; 500 MM AuM</td>
<td>+0.1% &gt; 500 MM AuM</td>
<td>+0.1% &gt; 500 MM AuM</td>
<td>+0.1% &gt; 500 MM AuM</td>
</tr>
<tr>
<td>Minimum AuM</td>
<td>NA</td>
<td>NA</td>
<td>Min AUM USD 500 MM</td>
<td>Min AUM USD 500 MM</td>
<td>Min AUM USD 500 MM</td>
</tr>
<tr>
<td>Time of existence of the Administrator</td>
<td>NA</td>
<td>NA</td>
<td>5 years</td>
<td>5 years</td>
<td>5 years</td>
</tr>
</tbody>
</table>

(1) Minimum capital limited to EUR 10 million
(2) Minimum capital limited to USD 20 million
(3) Considering holdings and subsidiaries
NA – Not applicable
...and the possibility of a limit of USD 500 MM as a minimum requirement for the administrator is compatible with LATAM reality

- Mexico: 29 Administrators, 19 have more than USD500 MM AuM
- Colombia: 49 Administrators, 8 have more than USD 500 MM AuM
- Brazil: 102 Administrators, 40 have more than USD500 MM AuM
- Argentina: 43 Administrators, 15 have more than USD 500 MM AuM
- Peru: 8 Administrators, 4 have more than USD500 MM AuM
- Chile: 41 Administrators, 18 have more than AuM of USD500 MM

Sources: ARG – CNV – Jun/16
BRA – ANBIMA – Sep/16
CHL – AAFM e ACAFI – Oct/16
COL – SFC – Oct/16
MEX – CNBV – Sep/16
PER – SMV – Oct/16

The analysis considered activities from: Sociedad gerente, Sociedad Administradora General de Fondos, Sociedad operadora de fondos de inversión, Sociedades administradoras de fondos de inversión colectiva, Sociedades administradoras de fondos mutuos y Sociedades administradoras de fondos de inversión.
The administrator must also attest to the regulator that it has an operational structure compatible to the new “cross-border” funds reality

### Readiness of the organizational structure and operational model of the Administrator

| • Organizational structure with a clear definition of roles and responsibilities |
| • Human resources with expertise |
| • Requirements for directors and fund managers related to honesty, competency, technical capability and financial solidity |
| • Risk monitoring and managing process, including an adequate risk management framework, based on the size and complexity of the Asset Under Management |
| • Efficient fund management operational system |
| • Adequate internal control system |
| • Adequate system to manage customer care and to monitor distributors |
| • Procedures and policies to monitor and manage conflicts of interest |
| • Procedures to guarantee compliance with laws, regulations and specific rules of the fund |
The administrator must contract local distributors to offer funds through the LATAM passport...

The fund offer in the country of distribution must be done through local distributors registered by the regulators of the country.

In the contract signed with the distributors, the procedures of submission of information to the administrator must be clear, including its periodicity.
...requesting the regulator for the registration of the fund with the passport along with the documentation required

<table>
<thead>
<tr>
<th>Documentation</th>
<th>AIFs</th>
<th>UCITS</th>
<th>ASEAN CIS</th>
<th>ARFP</th>
<th>LATAM</th>
</tr>
</thead>
<tbody>
<tr>
<td>Notification letter or request form</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Fund regulation or constitution documents</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Prospect</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Other</td>
<td>• Additional marketing documentation</td>
<td>• KIID</td>
<td>• Declarations</td>
<td>• Additional documentation according to each country’s regulation</td>
<td>• Additional documentation according to each country’s regulation</td>
</tr>
<tr>
<td></td>
<td>• Financial reports</td>
<td>• Additional documentation according to each country’s regulation (ex. Fund Fact Sheet)</td>
<td>• Additional documentation according to each country’s regulation</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Contracts with service providers</td>
<td>• Business plan</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• RM Policy</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Length of approval process</td>
<td>• 20 workdays</td>
<td>• Domicile: 15 workdays</td>
<td>• Depends on each country</td>
<td>• 21 days</td>
<td>• Recommendation: up to 4 weeks.</td>
</tr>
</tbody>
</table>

(1) Key Investor Information Document
(2) RM – Risk Management
The regulator of where the fund is registered is responsible for all adequacy of the fund to the LATAM passport

Approval process of the fund in the country of registration

1. Submits documentation to the regulator of where the fund is registered
2. Verifies documentation and decides on approval
3. Not approved / Devolution of documents
4. Approved / Regulator reports fund approval to the administrator

The home regulator publishes their documentation in the approved fund platform and their service providers

Approval time will depend on the agreement with the internal processes of each regulator

1. Fund regulation, prospect and additional documents
2. Passport’s request form
3. Registration fee payment
The regulator of the country in which the fund will be distributed applies a simplified approval process

Fund approval process in country of distribution

1. Passport Request Form, with authorization of the fund’s domicile regulator
2. Fund regulation, prospect and additional documentation
3. Product offer documentation prepared according to requirements in each distribution country

This process is based on the regulation of each country, considering additional requirements that the fund must eventually fill. Approval time will also vary according to each regulator.

1. Submits documentation to the regulator of where the fund is registered
2. Verifies documentation and decides on approval
3. Not approved / Devolution of documents
4. Approved / Regulator reports fund approval to the administrator

The regulator of the distribution country publishes the authorization for the distribution of the Fund in the platform
To request authorization for LATAM passport, a standard form must be created...

A minimal set of documents will facilitate the harmonization in the fund registration process in participating markets

01 Passport request form containing:
- Fund information (investment policy, service providers, administrator information, etc.)
- Information on which markets the Fund will be distributed, local distributors hired, etc.

02 Fund documentation according to each country’s regulation attached to the Form (prospect, regulation, administrator’s financial reports, etc.)

03 Documents destined to the offer of the funds in the countries must follow the regulation of distribution country
Governance
For both initiatives to succeed, it will be imperative the support and participation of the region’s regulators

Mission of the LATAM Regulators Committee

- Promote and facilitate the relationship among regulators of the countries in the region
- Contribute to the adoption of best practices to be disseminated in the region
- Seek coverage and standardization of the products to be created in the region
- Celebrate and monitor the Memorandum of Understanding among countries for their operationalization

Besides the effective support of the regulators of each country, the formation of a regulation committee composed by capital market regulators of the region will be fundamental to facilitate questions related to the products’ development.
The main themes to be addressed consolidate the challenges in establishing an agreement to operationalize the products in the region.

Main topics to be addressed by the Committee
The Committee will have to focus on the discussion of the Memorandum of Understanding to operationalize the products

All participants of the Committee will have to mutually collaborate for the resolution of any impasses

The president and vice-president of the Committee must be elected by vote of its members, with periodic rotation of positions

Main duties of the Committee

- Define products and market rules, acting on any harmonization needed
- Monitor the agreement and implementation of the products, ensuring adherence to agreed rules and acting on misinterpretations
- Maintain an electronic platform and website to disclose and consolidate information
- Elaborate and publish support materials to the products’ implementation, such as operational manuals
- Make recommendations to the countries in process of implementation
- Publish annual reports of implementation progress
The eligibility criteria for the participating countries take in consideration economic, geographic and market characteristics.

The eligibility for the participating countries will be based on criterias to be defined in order to aim continuity, transparency and proper functioning of the products.

- Must be located in Latin America
- Economy should not be listed as High Risk or Non cooperative in the Financial Action Task Force (FATF)
- The country must have a signatory agency in the MMOU of IOSCO or must be in approval process
- The economy must have been evaluated by the MIF and the World Bank in the Financial Sector Assessment Program
- The economy’s legal framework must be sufficiently equivalent (accepted) to the others members of the agreement

Source: Asia Region Funds Passport Memorandum of Cooperation
PwC | Minute for discussion

MMoU - Multilateral Memorandum of Understanding Concerning Consultation and Cooperation and the Exchange of Information
IOSCO - International Organization of Securities Commissions
To operationalize the products proposed an understanding agreement among the six countries will be fundamental

**Main objectives of a Multilateral Agreement**

- Promotion of capital flow and facilitation of the access to regional markets, reducing regulatory barriers
- Internationalization of regional markets with potential to attract foreign investments
- Competitiveness and innovation increase in service offer
- Investors protection increase, market integrity, systemic risk mitigation and regulatory harmonization
- Cooperation in regulation and supervision between regulators for the markets in the region

**Main challenges of a Multilateral Agreement**

- Mutual recognition agreements demand intensive supervision and cooperation, with the employment of necessary operational resources meet the required levels of control
- Creation of platform for the adequate and effective access to information aiming at transparency and supervision
- Mutual recognition between regulators for full supervision of markets and/or reviews of entities in the cross-border activities in the region

The local regulator recognizes the regulatory regime of the other countries in the region and collaborates


PwC | Minute for discussion
MILA* experience demonstrates the regulators’ availability and capacity to seek for solutions for an integration process

Main aspects for supervision
Supervision elements

- **Mutual recognition**
  - Recognition of each country’s jurisdiction. The regulator from where the operations are done is the leader responsible for them and the other regulators act in collaboration with the leader.

- **Market protection**
  - Each regulator aims to protect its own market and to prevent and sanction conducts that are not in compliance with the local rules.

- **Reciprocity**
  - Each regulator recognizes the need for mutual collaboration in order to prevent and sanction eventual conducts that affect the local market but are made remotely by other parties abroad.

- **Transparency**
  - Clarity about the responsibilities designated to each authority is indispensable, especially for the market, investors and agents to understand the dynamics and to promote development in the region.

- **Operational efficiency**
  - The coordination and information exchange mechanisms must be simple, updated and effective to contribute efficiently to the supervision process.

(*) MILA – Mercado Integrado Latinoamericano – Agreement between stock exchanges of Chile, Colombia, Peru and Mexico that aims to create a regional market to trade equities of these countries.

Source: Colombia’s Financial Commission. PwC analysis and adaptation

PwC | Minute for discussion
For the operationalization of the products, the development of an integrated systemic platform among regulators is recommended.

The platform must be considered as a tool to operationalize the agreement.

The platform must provide the market all the transparency and necessary information related to the products of the agreement among the countries’ members.

Each website of the countries’ regulators accesses the electronic platform.

The Committee formed by the regulators of each country is responsible for the platform.

Administrators and other service providers access information about the authorized products and all other information needed such as: regulations, rules, flows, authorized providers etc.
Conclusions
Latin America stands out for its accelerated rate growth in AuM compared to other developing regions

With a growth rate of 6% per year, the global AuM should exceed USD 100 trillion in 2020

Note: Because of the performance of the markets along the years of 2013 and 2014, the estimates have been revised after the publication of the report. The new AuM estimate is USD 102.3 trillion.

PwC | Minute for discussion
Chile, Peru and Argentina stand out in the region for already having experience with funds in the European standard (UCITS)

“Others” includes: Bahamas, Barbados, Bermuda, Brazil, British Virgin Islands, Cayman, Panama and the USA

Source: PwC - Distributing our Knowledge - Fund distribution: UCITS and Alternative Investment Funds (AIFs) - 2014
In two decades the global market of Depositary Receipts has increased five times.

Source: JP Morgan. PwC Analysis
The new products can add several competitive advantages to the region’s market

- **Simplification and harmonization of rules**
- **Convenience and operational efficiency for the investors**
- **New instruments for negotiation in MILA environment**
- **Competitiveness, innovation and potential improvement of services**
- **Investor’s protection improvement**
- **Expansion of alternative instruments to finance projects in the region**
- **Attraction of foreign investors’ capital**

(*) MILA – Mercado Integrado Latinoamericano – Agreement between stock exchanges of Chile, Colombia, Peru and Mexico that aims to create a regional market to trade equities of these countries.
**Key factors when comparing Europe’s reality to LATAM’s reality**

### Key factors for Europe

- Consolidated political and economical union among countries – European Union (EU)
- Well-defined Governance (EU Commission)
- Single currency for most of the countries
- Mature market
- Consolidated hubs (Luxembourg and Ireland for Passport and London for DR)
- Consolidated Distribution centers

### Key issues for LATAM

- Governance/Legislation
- Target investors
- Roles and responsibilities of all players
- Exchange rates
- Taxation

These factors bring out some issues for defining the Latin American Passport model and the LDR/N
Besides the engagement of the regulators, it is fundamental the support and collaboration of other players of the markets involved

Key stakeholders of each country

Note: “Agents” comprehends the other players of the market such as: Investment Banks, Distributors, Custodians, Depositaries, Portfolio Managers etc.
Observation

This presentation was elaborated according to the service agreement between PwC and BRAiN and the information contained in this material was obtained from public sources and/or from material presented by BRAiN’s associates. This information was not verified or audited.

We have developed our work as consultants to support BRAiN in decision-making, therefore not comprehending any procedures related to auditing of financial information.
Financial Integration in Latin America: Regional Funds Passport
PART 2
Agenda – part 2

1. Introduction
2. Value proposition
3. Framework
4. Governance
5. Conclusions
6. International References
International References
The worldwide regulated open-ended fund assets represent EUR 37 trillion

Worldwide Investment Fund Assets*
(EUR trillions, end of quarter)

CAGR: 14.5%

Source: EFAMA

* Including fund of funds
United States and Europe held the largest shares in the world market of investment funds, with 49% and 33% respectively.

Europe represents over EUR 12 trillion of Net assets.

Europe held 45% of worldwide number of funds.*

*Worldwide number of funds: 113,562

Top 10 Domiciles of Worldwide Investment Fund Assets (AuM)

Europe has 33% of investment funds industry market share, considering AuM, which represents 12 trillion euros of net assets.

In number of funds, Europe has more than 51,000 funds.

Source: EFAMA – Q4 2015
PwC | Minute for discussion
Europe is the most popular market for UCITS funds with over 67,000 registrations.

These statistics are in relation to the number of UCITS which are registered for sale in each of the individual countries.

However, the number of registrations for a country does passively correlate to the sales activity for that particular country.

Over 76,000 UCITS funds registered for sale worldwide.

86 the number of countries of distribution for UCITS funds – 20 new countries since 2009.

Source: PwC - Distributing our Knowledge - Fund distribution: UCITS and Alternative Investment Funds (AIFs) - 2014
The UCITS product has had huge success since its inception in 1985. Now almost 30 years old, UCITS have gone from strength to strength. While the number of UCITS funds has reduced since 2011 the size of assets has increased. This is due to some fund managers rationalising their fund ranges following the adoption of UCITS IV in 2011 which introduced fund mergers and master/feeder structures into the UCITS framework.

Source: EFAMA – Q4 2015
PwC | Minute for discussion
Institutional clients represent the largest client category of the European asset management industry

EUR 2.8 trillion

Total Europe AuM by type of investors

- Insurance companies: 33%
- Banks: 25%
- Other Institutionals: 39%
- Pension funds: 3%

EUR 9.2 trillion

Insurance companies and pension funds, acting on behalf of millions of households, accounted for 39% and 33% of total institutional AuM, respectively.

Source: EFAMA – Asset Management in Europe - 2015
UCITS represent over 30,000 funds in Europe

Europe where the majority of mutual funds are set up as Undertakings for Collective Investment in Transferable Securities (UCITS) which are governed by European legislation. UCITS benefit from an EU wide “passport” which means that once they are authorised in one EU member state, they can be sold in any other EU member state without the need for additional authorisation.

AIFs are Alternative Investment Funds that are not covered by UCITS Directive. These include hedge funds, funds of hedge funds, venture capital and private equity funds and real estate funds.

Source: EFAMA – Q4 2015

Total Number of funds: 113,000
Regulation and product consolidation are the main reasons for reducing the number of funds in Europe

- In June 2015, the European fund market had not reversed its negative trend in terms of product numbers
- UCITS IV and V regulation including documentation requirements are two of the main reasons of this contraction
- Product consolidation in the asset management industry

Source: PwC GFD Lux
Equity funds are the main investment type of UCITS in Europe, representing 38% of net assets.
Europe equity funds are the most sold in Europe in 2015

The Best and Worst Selling Sectors in 2015 (in EUR mn)

Source: PwC GFD Lux
UCITS funds are domiciled in 28 European countries, the largest being Luxembourg and Ireland

UCITS in Europe – number of funds

- Austria
- France
- Germany
- Ireland
- Luxembourg
- Spain
- United Kingdom
- Others

Source: EFAMA – Q4 2015

UCITS in Europe – net assets

- France 9%
- Switzerland 5%
- Others 9%
- United Kingdom 13%
- Luxembourg 36%
- Ireland 18%

Source: EFAMA – Q4 2015
Luxembourg and Ireland held 53% of European UCITS market in a upward growth
Looking at Europe all of the top ten countries have had over 20% growth since 2009 in registrations

Source: PwC - Distributing our Knowledge - Fund distribution: UCITS and Alternative Investment Funds (AIFs) - 2014
Cross-border fund has been a strong driver of growth in the asset management industry

A fund is composed of sub-funds and according to its scope of registration (depending on the commercial strategy of the client), they are then distributed in various countries (EU and/or Non-EU).

Considered funds that are distributed in more than 3 countries, including their domicile

Number of cross-border funds and registrations

Source: PwC – Benchmark your Global Fund Distribution 2016

PwC | Minute for discussion
European investments outside Europe represented USD 7.4 billion

The top countries for distribution outside of Europe are: Singapore, Hong Kong, Chile, Macau, Taiwan, Peru, Bahrain, Korea, South Africa and Japan
The top countries for UCITS distribution outside of Europe are focused on Asia

Number of UCITS registrations

- Singapore: 2418
- Chile: 1466
- Hong Kong: 1155
- Macau: 875
- Taiwan: 818
- Peru: 767
- Bahrain: 434
- Korea: 327
- South Africa: 197
- Japan: 90

Source: PwC 2014 Ireland UCITS infographic
In Americas, Chile has the most representative number of UCITS: 1,466 registrations

Others includes: Bahamas, Barbados, Bermuda, Brazil, British Virgin Islands, Cayman, Panama and the USA

Asia

Others includes: Australia, Brunei, Cook Islands and New Zealand.

Source: PwC - Distributing our Knowledge - Fund distribution: UCITS and Alternative Investment Funds (AIFs) - 2014
The hedge funds industry is the most representative for AIFs, with Europe representing the second largest region.

The alternative investment funds industry is very different to the mutual funds industry – it includes hedge funds, private equity, venture capital and real estate funds.

Hedge funds are sold mainly on a private placement basis to professional investors and high net Worth individuals.

Source: PwC - Distributed our Knowledge - Fund distribution: UCITS and Alternative Investment Funds (AIFs) - 2014
The top key domiciles for hedge funds within Europe are Ireland and Sweden.

Total assets of key hedge fund domiciles in Europe

Key domiciles for hedge funds outside of Europe are the US, Cayman, Australia and Brazil.

Other: Austria, Belgium, Cyprus, Denmark, Germany, Gibraltar, Greece, Isle of Man, Italy, Liechtenstein, Macedonia, Malta, Monaco, Poland, Portugal, Spain and Switzerland

Source: PwC - Distributing our Knowledge - Fund distribution: UCITS and Alternative Investment Funds (AIFs) - 2014
Luxembourg and Ireland are the top countries of cross border distribution

**Domicile Share of Cross border distribution**

- **Luxembourg**: 65.6%
- **Ireland**: 21.6%
- **Others**: 4.4%

**Top 5 destinations of leading fund domiciles**

### Luxembourg

- **Registrations in:**
  - Germany: 4,856
  - Switzerland: 4,333
  - Austria: 4,252
  - France: 1,480
  - Netherlands: 1,421

### Ireland

- **Registrations in:**
  - United Kingdom: 2,066
  - Germany: 1,870
  - Switzerland: 1,509
  - France: 1,480
  - Netherlands: 1,421

Source: PwC – Benchmark your Global Fund Distribution 2016

Data base: 31 December 2015 – Considered UCITS and AIFs
Why Luxembourg is highlighted as the top domicile country?

Luxembourg

Tradition
- Worldwide recognition of UCITS brand “Made in Luxembourg”
- Experienced and recognized service providers are already established in Luxembourg
- Long-standing experience in multi-location fund administration

Infrastructure
- Efficient & reliable fund infrastructure
- Large offer of fund structures beyond UCITS

Tax and Regulation
- Business friendly political and tax environment which welcomes promoters, management companies and investment funds
- Favourable tax and social security environment
- Sophisticated but pragmatic legal and regulatory framework

People
- Highly skilled and multi-lingual workforce with high productivity

Economical Stability
- Very low country risk
- Luxembourg public finances are healthy with a minimal deficit and government debt (after assessing national stimulus plans), which constitutes the best guarantee for fiscal stability

Location
- Ideal strategic position at the heart of Europe & high standard of living: 70% of the EU’s wealth is concentrated in a 700km area around Luxembourg

Source: PwC – Luxembourg, your location of choice

PwC | Minute for discussion
Luxembourg is the second investment fund centre in the world after the United-States and the first investment fund centre in Europe.

Luxembourg dominates the European market with a 27.8% market share. The French and German centres are mostly domestic markets while Luxembourg is a cross-border market.

While Luxembourg domiciled investment funds were affected by the crisis in 2008 and a downturn in 2011, they quickly recovered.

Luxembourg funds reached a record high of EUR 3.1 trillion in assets at year-end 2014. This represents 3,905 registered funds in 2014.

Market shares of the European investment fund industry

Investment funds assets in Europe and in Luxembourg (in EUR billion)

Source: PwC GFD Lux
Luxembourg is world’s number one fund domicile for cross-border fund distribution

Worldwide registrations of Luxembourg funds (Dec 2014)

Focus on Americas

- Canada: 66% (-4%)
- Mexico: 0% (-0%)
- Panama: 91% (+4000%)
- Peru: 48% (+1%)
- Chile: 63% (-6%)

Focus on Asia

- Lebanon: 100% (+24%)
- United Arab Emirates: 65% (+208%)
- Oman: 100% (+5750%)
- Singapore: 69% (+12%)
- Australia: 19% (+300%)
- South Korea: 95% (+10%)
- Japan: 58% (+2%)
- Taiwan: 77% (+3%)
- Hong Kong: 72% (+5%)
- Macao: 70% (-5%)

Inter-state arrangement for facilitating the cross-border offering of collective investment schemes.

% Registrations of Luxembourg cross border funds as percentage of total cross border funds registrations in each Market

(%) Percentage change in the number of Luxembourg cross border fund registrations between 2013 and 2014.

Source: PwC – Luxembourg: your location of choice - 2016
Top countries of distribution for Luxembourg cross-border funds outside Europe are Singapore, Chile and Hong Kong

Number of registrations by country as of 2014 – Luxembourg cross-border funds

Source: PwC GFD Lux

Considered funds that are distributed in more than 3 countries, including their domicile
In 2014, the top ten Luxembourg promoters managed more than EUR 1.1 trillion in assets

Share of origin of the promoters of Luxembourg funds (%AuM)

- Luxembourg’s fund promoters are mainly from the US (21.7%), the UK (16.6%), Germany (14.6%) and Switzerland (14%);
- The US promoters, such as JP Morgan, Franklin Templeton and Black Rock, hold the largest share;
- Germany is represented by Deutsche Bank / DWS in the top ten, with AuM of EUR 161.6 billion;
- Supervision regarding risk management is strong and the range of product covered is particularly wide.
- The global knowledge and skills of risk managers has increased during the last years.

Top 10 promoters by AuM

<table>
<thead>
<tr>
<th>Promoter</th>
<th>Origin</th>
<th># of sub-funds</th>
<th>AuM (EUR bn)</th>
</tr>
</thead>
<tbody>
<tr>
<td>JPMorgan</td>
<td>US</td>
<td>180</td>
<td>223,933</td>
</tr>
<tr>
<td>Deutsche Bank/DWS</td>
<td>Germany</td>
<td>613</td>
<td>161,610</td>
</tr>
<tr>
<td>Franklin Templeton Investments</td>
<td>US</td>
<td>105</td>
<td>133,150</td>
</tr>
<tr>
<td>BlackRock Financial Management</td>
<td>US</td>
<td>109</td>
<td>120,241</td>
</tr>
<tr>
<td>UBS</td>
<td>Switzerland</td>
<td>357</td>
<td>108,216</td>
</tr>
<tr>
<td>Schroders</td>
<td>UK</td>
<td>162</td>
<td>90,273</td>
</tr>
<tr>
<td>Fidelity Investments</td>
<td>US</td>
<td>166</td>
<td>85,770</td>
</tr>
<tr>
<td>BNP Paribas</td>
<td>France</td>
<td>437</td>
<td>84,091</td>
</tr>
<tr>
<td>Pictet Funds</td>
<td>Switzerland</td>
<td>263</td>
<td>81,859</td>
</tr>
<tr>
<td>Pioneer Investments</td>
<td>US</td>
<td>244</td>
<td>74,166</td>
</tr>
</tbody>
</table>

Source: PwC GFD Lux end 2014

PwC | Minute for discussion
The Management Company (ManCo): the main institution for UCITS management in Luxembourg

A Luxembourg UCITS set up as a common fund (‘FCP’) must be managed by a ManCo. A UCITS investment company (e.g. SICAV) must also appoint a ManCo, unless it has designated itself as a self-managed investment company. UCITS ManCos are in charge of the investment management, administration and marketing of UCITS. Under the current law of 17 December 2010 on undertakings for collective investment, as amended, a UCITS, its ManCo and its custodian bank must be located in the same EU Member State and all three are subject to the legislation and supervision of that Member State. However, since July 2011, under the management company passport portion of the new UCITS IV legislation, UCITS may be managed by a ManCo authorized and supervised in another EU Member State. This offers very specific opportunities for existing ManCos in the EU as well as for ManCos still to be created.

Key statistics for Top 50 ManCo

- **Aum per ManCo**:
  - Average: 48,497 EUR Mil
  - Median: 32,867 EUR Mil
  - Min: 13,206 EUR Mil
  - Max: 256,439 EUR Mil

- **# Funds per ManCo**:
  - Average: 24
  - Median: 1
  - Min: 1
  - Max: 180

- **# Sub-Funds per ManCo**:
  - Average: 140
  - Median: 109
  - Min: 10
  - Max: 634

- **# Staff per ManCo**:
  - Average: 55
  - Median: 22
  - Min: 2
  - Max: 461

Source: PwC – Observatory for Management Companies – 2016 Barometer
**In the last 10 years the number of UCITS ManCos increased almost 2.5 times**

There are already 200 ManCos for AIFM, confirming a huge success following the transposition of the AIFM Directive into Luxembourg Law in July 2013.

Source: PwC – Observatory for Management Companies – 2016 Barometer
Key figures on UCITs ManCos

Origin of Top UCITs ManCos

The number of ManCos with an AIFM license grew from 169 to 200 in 2015, confirming a huge success following the transposition of the AIFM directive into Luxembourg Law in July 2013. On the ManCo’s side, 86% of the new entrants in 2015 were AIFMs. More than half of existing AIFM ManCos have originated from Switzerland, Germany and France, based on their AuM, while UCITS ManCos come mainly from the USA, UK and Switzerland.

Source: PwC – Observatory for Management Companies – 2016 Barometer
Key figures on AIFM ManCos

Origin of Top AIFM ManCos

Concerning licensing, 85% of the Top 20 UCITS ManCos also have an AIFM license. On the other hand, 89% of the Top AIFM ManCos also have a UCITS license. Of the Top Third Party ManCos, 100% have both a UCITS and an AIFM license: on average, they manage EUR 20,026 million, which corresponds to an increase of 19% compared to 2014.
In 2015, 37 new ManCo starts operating in Luxembourg, and 86% of the new entrants were AIFMs

ManCo - New entrants by nationality in 2015

* Estimation based on PwC analysis.
JPMorgan, Deutsche and BlackRock are the main UCITS ManCos (1/2)

Top 20 UCITS ManCos in Lux
31 December 2015 (million EUR)

<table>
<thead>
<tr>
<th>ManCo</th>
<th>Sum of Dec-2015</th>
<th>Variation to Dec-2014</th>
<th>Sum of # of funds Dec-2015</th>
<th>Variation of # of funds to 2014</th>
<th>Sum of # of subfunds Dec-2015</th>
<th>Variation of # of subfunds to Dec-2014</th>
<th>Foreign Branch</th>
<th>UCITS License</th>
<th>AIFM License</th>
<th>Additional Authorisation</th>
</tr>
</thead>
<tbody>
<tr>
<td>JPMorgan Asset Management (Europe)</td>
<td>256.439</td>
<td>14%</td>
<td>10</td>
<td>-1</td>
<td>178</td>
<td>-2</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Deutsche Asset &amp; Wealth Management Investment</td>
<td>166.501</td>
<td>67%</td>
<td>124</td>
<td>4</td>
<td>634</td>
<td>315</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Blackrock (Luxembourg)</td>
<td>133.888</td>
<td>26%</td>
<td>3</td>
<td>0</td>
<td>101</td>
<td>7</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Franklin Templeton International Services</td>
<td>114.030</td>
<td>-14%</td>
<td>5</td>
<td>-1</td>
<td>102</td>
<td>-1</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>UBS Fund Management (Luxembourg)</td>
<td>107.186</td>
<td>16%</td>
<td>27</td>
<td>0</td>
<td>263</td>
<td>9</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Schroder Investment Management (Luxembourg)</td>
<td>100.149</td>
<td>11%</td>
<td>9</td>
<td>0</td>
<td>165</td>
<td>6</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>FIL Investment Management (Luxembourg)</td>
<td>98.105</td>
<td>14%</td>
<td>9</td>
<td>0</td>
<td>177</td>
<td>10</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>BNP Paribas Investment Partners Luxembourg</td>
<td>80.832</td>
<td>7%</td>
<td>28</td>
<td>-3</td>
<td>291</td>
<td>-69</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Pictet Asset Management (Europe)</td>
<td>79.081</td>
<td>12%</td>
<td>9</td>
<td>-2</td>
<td>106</td>
<td>-7</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Pioneer Asset Management</td>
<td>74.496</td>
<td>19%</td>
<td>14</td>
<td>0</td>
<td>156</td>
<td>7</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
</tbody>
</table>

Source: PwC – Observatory for Management Companies – 2016 Barometer
**JPMorgan, Deutsche and BlackRock are the main UCITS ManCos (2/2)**

**Top 20 UCITS ManCos in Lux**  
31 December 2015 (million EUR)

<table>
<thead>
<tr>
<th>ManCo</th>
<th>Sum of AuM 12/2015</th>
<th>Variation to 12/2014</th>
<th>Sum of # of funds Dec-2015</th>
<th>Variation of # of funds to Dec-2014</th>
<th>Sum of # of subfunds Dec-2015</th>
<th>Variation of # of subfunds to Dec-2014</th>
<th>Foreign Branch</th>
<th>UCITS License</th>
<th>AIFM License</th>
<th>Aditional Authorisation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eurizon Capital</td>
<td>62.140</td>
<td>28%</td>
<td>20</td>
<td>-11</td>
<td>216</td>
<td>-13</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Nordes Investment Funds</td>
<td>60.379</td>
<td>26%</td>
<td>9</td>
<td>0</td>
<td>109</td>
<td>6</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Deka International</td>
<td>53.975</td>
<td>1%</td>
<td>124</td>
<td>-3</td>
<td>224</td>
<td>-22</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Union Investment Luxembourg</td>
<td>51.597</td>
<td>9%</td>
<td>180</td>
<td>-2</td>
<td>195</td>
<td>1</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Invesco Management</td>
<td>47.575</td>
<td>24%</td>
<td>2</td>
<td>0</td>
<td>67</td>
<td>8</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>AXA Funds Management</td>
<td>47.415</td>
<td>4%</td>
<td>14</td>
<td>0</td>
<td>118</td>
<td>-3</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>AllianceBernstoin (Luxembourg)</td>
<td>46.840</td>
<td>-4%</td>
<td>18</td>
<td>3</td>
<td>103</td>
<td>9</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Amundi Luxembourg</td>
<td>45.073</td>
<td>4%</td>
<td>8</td>
<td>0</td>
<td>118</td>
<td>-2</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>NN Investment Partners Luxembourg</td>
<td>43.617</td>
<td>1%</td>
<td>13</td>
<td>-2</td>
<td>154</td>
<td>-12</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Robeco Luxembourg</td>
<td>38.325</td>
<td>8%</td>
<td>5</td>
<td>0</td>
<td>63</td>
<td>6</td>
<td>✓</td>
<td></td>
<td></td>
<td>✓</td>
</tr>
</tbody>
</table>

More than half of existing AIFM ManCos have originated from Switzerland, Germany and France

Top AIFM ManCos in Lux  
31 December 2015 (million EUR)

<table>
<thead>
<tr>
<th>ManCo</th>
<th>Sum of AuM 12/2015</th>
<th>Variation to 12/2014</th>
<th>Sum of # of funds Dec 2015</th>
<th>Variation of # of funds to 2014</th>
<th>Sum of # of subfunds Dec-2015</th>
<th>Variation of # of subfunds to Dec-2014</th>
<th>Foreign Branch</th>
<th>UCITS License</th>
<th>AIFM License</th>
<th>Additional Authorisation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deka International</td>
<td>26.459</td>
<td>2%</td>
<td>42</td>
<td>-2</td>
<td>116</td>
<td>-20</td>
<td>√</td>
<td>√</td>
<td></td>
<td>√</td>
</tr>
<tr>
<td>Cadelux</td>
<td>16.076</td>
<td>100%</td>
<td>3</td>
<td>3</td>
<td>12</td>
<td>12</td>
<td>√</td>
<td>√</td>
<td></td>
<td>√</td>
</tr>
<tr>
<td>Pictet Asset Management (Europe)</td>
<td>15.660</td>
<td>-8%</td>
<td>6</td>
<td>-2</td>
<td>26</td>
<td>-10</td>
<td>√</td>
<td>√</td>
<td></td>
<td>√</td>
</tr>
<tr>
<td>Universal-Investment-Luxembourg</td>
<td>15.588</td>
<td>25%</td>
<td>34</td>
<td>-3</td>
<td>39</td>
<td>-8</td>
<td>√</td>
<td>√</td>
<td></td>
<td>√</td>
</tr>
<tr>
<td>KBC Asset Management</td>
<td>13.853</td>
<td>9%</td>
<td>10</td>
<td>1</td>
<td>251</td>
<td>-11</td>
<td>√</td>
<td>√</td>
<td></td>
<td>√</td>
</tr>
<tr>
<td>Global Funds Management</td>
<td>12.240</td>
<td>-6%</td>
<td>19</td>
<td>-1</td>
<td>30</td>
<td>-1</td>
<td>√</td>
<td></td>
<td></td>
<td>√</td>
</tr>
<tr>
<td>MUGC Lux Management</td>
<td>10.943</td>
<td>28%</td>
<td>41</td>
<td>-6</td>
<td>67</td>
<td>-3</td>
<td>√</td>
<td>√</td>
<td></td>
<td>√</td>
</tr>
<tr>
<td>Fundpartner Solutions (Europe)</td>
<td>10.823</td>
<td>11%</td>
<td>44</td>
<td>2</td>
<td>252</td>
<td>49</td>
<td>√</td>
<td>√</td>
<td></td>
<td>√</td>
</tr>
<tr>
<td>Deutsche Asset &amp; Wealth Management</td>
<td>10.754</td>
<td>-24%</td>
<td>25</td>
<td>2</td>
<td>37</td>
<td>12</td>
<td>√</td>
<td>√</td>
<td></td>
<td>√</td>
</tr>
</tbody>
</table>

The trend towards the growth of average AuM per ManCo is confirmed by the decline of self-managed SICAVs
Why Ireland is highlighted as the second top domicile country?

Ireland

- Tax
  - 12.5% corporate tax rate and extensive double tax treaties
  - Attractive investment and financing platforms

- People
  - Highly skilled and educated workers, youngest workforce in Europe
  - Globally experienced senior management

- IP + R&D benefits
  - Attractive Intellectual Property (IP) and holding company regimes
  - 25% Research and Development (R&D) tax credit plus R&D grants

- Costs
  - Increased cost competitiveness
  - One of the lowest inflation rates in the EU

- Business environment
  - Free movement of goods and services in EU
  - English speaking and member of EU/Eurozone

- Location
  - Access to over 500 million consumers in Europe...and beyond
  - Connect to the US and Asia in the same day

Source: http://www.pwc.ie/fdi
Ireland is a centre of excellence for UCITS products and became the first EU country to implement AIFMD

UCITS

€1 trillion
...of UCITS assets located in Ireland

3,000
...the number of Irish UCITS funds approved for cross border distribution

70
...the number of countries where Irish UCITS are distributed

AIFs

40% of the global hedge funds are serviced in Ireland making it the largest hedge fund administration centre in the world

50% of the top 10 European hedge fund managers have set up hedge funds in Ireland

$200 bn
is the total amount of Irish domiciled hedge fund assets

Source: PwC - Distributing our Knowledge - Fund distribution: UCITS and Alternative Investment Funds (AIFs) - 2014
Irish domiciled funds are distributed to a large number of countries across Europe and outside Europe

Other countries in Europe include: Czech Republic, Cyprus, Estonia, Iceland, Isle of Man, Guernsey, Greece, Hungary, Isle of Man, Jersey, Latvia, Liechtenstein, Lithuania, Malta, Monaco, Pland and Slovakia.

Other countries outside Europe include: Australia, Bahamas, Bahrain, Canada, Cayman Islands, Chile Japan, Korea, Mexico, New Zealand, Panama, Turkey, United Arab Emirates and the USA.
The ELTIF represents a milestone in the development of the cross-border European long-term funds business

The European long-term investment fund (ELTIF) is a pan-European regime for Alternative Investment Funds (AIF) that may invest in long-term from assets such as small and medium-sized businesses to the development and operation of social and public infrastructure.

1. ELTIFs must appoint a fully authorised AIFM

2. ELTIFs can raise capital from institutional and retail investors across the EU and the EEA with the EU passport (AIFMD rules)

3. Any AIF can apply for the ELTIF regime

4. Closed-ended structure, redemptions not possible during ELTIF’s life-time, exceptionally after five years or ELTIF’s half-life point for a defined amount
The ELTIF creates a harmonised EU regime for public private partnership (PPP) investments into SMEs and infrastructure

**Financial Vehicle corresponding to the Europe 2020 Strategy**
Contribution to the implementation of the political objective: high level of employment and smart, sustainable growth

**Regulated Fund Vehicle,**
Which provides with long-term and stable returns and pursues a long-term investment strategy

**70% of the capital**
Shall be invested in more or less clearly-defined long-term assets

**EU AIF (with EU-AIFM) has Retail-Distribution Passport**

**Various Asset Classes**
(Private Equity, Infrastructure, specific Real Estate), as well as listed SMEs, participations, debt instruments, other ELTIF, EuVECA or EuSEF, risk diversification rules

**Institutional and Retail Investors**
Retail investors with a portfolio of up to EUR 500.000 shall not invest an aggregate amount exceeding 10% of their portfolio in ELTIFs. Initial amount not less than EUR 10.000. Written alert for ELTIF whose lifecycle exceeds 10 years: “may not be suitable for retail investors”.

Fonte: ALFi guideline - The European long-term investment fund (ELTIF)
In order to pursue its Europe 2020 strategy the EU identified long-term finance as one crucial element to implement the strategy

To foster long-term finance the EU created the European long-term investment fund. An ELTIF is designed to provide finance of lasting duration to various infrastructure projects, unlisted companies, or listed SMEs that issue equity or debt instruments.

1. Raising capital towards European long-term investments in the real economy, in line with the European objective of smart, sustainable and inclusive growth.

2. ELTIFs must appoint a fully authorised AIFM

3. ELTIFs can raise capital from institutional and retail investors across the EU and the EEA with the EU passport (AIFMD rules)

4. Any AIF can apply for the ELTIF regime

5. Closed-ended structure, redemptions not possible during ELTIF’s life-time, exceptionally after five years or ELTIF’s half-life point for a defined amount
An ELTIF must invest at least 70% of its capital in eligible investment assets within a maximum of five years of authorisation.

Concentration and Diversification

<table>
<thead>
<tr>
<th>Type of assets</th>
<th>Generic rule (per issuer/single asset)</th>
<th>Specific rule</th>
<th>Aggregate</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Qualifying portfolio undertakings (mainly unlisted companies)</strong></td>
<td>10%</td>
<td>20%</td>
<td></td>
</tr>
<tr>
<td><strong>Real assets</strong></td>
<td>10%</td>
<td>20%</td>
<td></td>
</tr>
<tr>
<td><strong>Units or other ELTIFs, EuVECA and EuSEFs</strong>(1)(2)</td>
<td>10%</td>
<td>-</td>
<td>20%</td>
</tr>
<tr>
<td><strong>SMEs</strong></td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>eligible assets for UCITS</strong></td>
<td>5%</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

(1) EuVECA - European Venture Capital Funds
EuSEFs - European Social Entrepreneurship Funds
SMEs - small and medium-sized businesses

(2) An ELTIF cannot acquire more than 25% of the units or shares of a single ELTIF, EuVECA, or EuSEF.

% of ELTIF capital

Fonte: ALFi guideline - The European long-term investment fund (ELTIF)
Investors in ELTIFs cannot request the redemption of their units before the fund’s end of life

<table>
<thead>
<tr>
<th>Autorisation</th>
<th>Investment Period</th>
<th>End of life*</th>
<th>Holding Period</th>
<th>Disinvestment Period</th>
<th>Liquidation term</th>
</tr>
</thead>
<tbody>
<tr>
<td>Diversification rules</td>
<td>Don’t apply</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Asset eligibility rules</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Open-ended</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Closed-ended</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- Don’t apply
- Apply
- Liquidation term

- Compliance to Asset eligibility rules
- Possible**
- Possible

- 1 year
  - Presentation of realisation plan

* Defined in the documentation. Extension possible if provided for in documentation
** In Accordance with documentation

Fonte: ALFi guideline - The European long-term investment fund (ELTIF)
Operating Model
An investment fund is a vehicle that allows a number of unrelated investors to make investments together

**Multiple investors** → **Pooled money** → **Collectively invested**

"...an investment fund is a structure/vehicle that gives investors access to a well-diversified portfolio of equities, bonds and other securities. Each shareholder participates in the gain or loss of the fund..."
There are two basic types of funds in Luxembourg: **UCITS and AIFs**

**UCITS**: Undertaking for Collective Investment in Transferable Securities

Part I funds (based on EU directive, passport system across EU member states, offered to public, open-ended)

**AIF**: Alternative Investment Fund

All investment funds that are not already covered by the European Directive on Undertakings for collective investment in transferable securities (UCITS). This includes hedge funds, funds of hedge funds, venture capital and private equity funds and real estate funds.

Source: http://www.alfi.lu/setting-luxembourg/alternative-investment-funds-0

PwC | Minute for discussion
In principle, a collective investment vehicle that does not qualify as a UCITS is designated as an AIF

- **UCITS**
  - Undertaking for Collective Investment in Transferable Securities
  - All investors including retail investors
  - Listed securities, derivatives, other UCITS, money market instruments

- **AIF**
  - Alternative Investment Fund
  - Investors + sophisticated investors + Domestic retail investors
  - All asset classes - Traditional and alternative investment policy

---

Source: PwC Lux

PwC | Minute for discussion
Luxembourg laws specifies different legal structures for UCITS and AIFs

<table>
<thead>
<tr>
<th>UCITS</th>
<th>UCI</th>
<th>SIF</th>
<th>SICAR</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>UCITS</strong></td>
<td>An <em>Undertaking for Collective Investment (UCI)</em> established under Part II of the Law of 2010 is an investment fund that does not invest in transferable securities and they are not under the UCITS rules. For example, the UCI structure applies to funds that invest in futures and options contracts and mainly Real Estate. UCI are also distributed to the retail public.</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>AIFs</strong></td>
<td>With the implementation of the AIFMD Directive (Law of 12 July 2013 in Luxembourg), a new structure was regulated: the <em>Specialized Investment Fund (SIF)</em>. Comparing to Part II UCI, the SIFs are specific to qualified and institutional investors, present greater flexibility in investment policy and regulatory standards. Infrastructure funds generally fits in this type of AIF structure.</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>SICAR</strong></td>
<td>A structure designed for private equity and venture capital. There are no rules of diversification, no restrictions on loans or leverage.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Level of supervision**

UCITS and UCIs are regulated by the Law of 2010 of Luxembourg, and SIFs and SICARs by the Law of July 2013.
## Basic characteristics for UCITS, UCI, SIF and SICAR (1/3)

<table>
<thead>
<tr>
<th></th>
<th>UCITS</th>
<th>AIFs</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>European passport</strong></td>
<td>Yes for UCITS</td>
<td>Yes for AIF</td>
</tr>
<tr>
<td><strong>Eligible investors</strong></td>
<td>All types</td>
<td>Well-informed investors only</td>
</tr>
<tr>
<td><strong>NAV frequency</strong></td>
<td>At least twice a month</td>
<td>At least once a month</td>
</tr>
<tr>
<td><strong>Risk Management</strong></td>
<td>Regulated function based on CSSF Circular 11/512</td>
<td>The risk management activities are not covered by CSSF Circular 11/512</td>
</tr>
<tr>
<td><strong>Eligible assets</strong></td>
<td>Restricted to: TS, investment funds, FDI, bank deposits and MMI compliant with art. 41 of the 2010 Law</td>
<td>Unrestricted</td>
</tr>
</tbody>
</table>

Source: PwC Lux
## Basic characteristics for UCITS, UCI, SIF and SICAR (2/3)

<table>
<thead>
<tr>
<th>Diversification</th>
<th>UCITs</th>
<th>AIFs</th>
<th>SIF</th>
<th>SICAR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Max. 5/10/20/40% NAV</td>
<td>Part I UCITS</td>
<td>Part II UCIs</td>
<td>Max. 10% NAV (1)</td>
<td>Max 30% of the assets/commitments in securities of the same type issued by the same issuer (1)</td>
</tr>
</tbody>
</table>

| Concentration | Max. 10%: significant influence | Max. 10% (2) | Max. 10% NAV (3) | Flexible | Flexible |

| Unlisted securities | Max. 10% NAV | Max. 10% NAV (3) | Max. 25% NAV | Flexible | Flexible |

| Borrowing | Max. 10% NAV | Max. 25% NAV | Max leverage: notional | Max leverage: gross and commitment | Only for hedging purpose Max leverage: gross & commitment Max leverage: gross & commitment |

| Short sales | Forbidden | Flexible | Qualitative & quantitative limits on the counterparty of OTC derivatives may be applied. Flexible for the other risks Max leverage: gross & commitment | |

| Derivatives | Max. 100% on global exposure Max. 5/10% counterparty risk Max leverage: notional | Max leverage: gross and commitment | Flexible | |

Source: PwC Lux
## Basic characteristics for UCITS, UCI, SIF and SICAR (3/3)

<table>
<thead>
<tr>
<th></th>
<th>UCITS</th>
<th>AIFs</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Part I</strong></td>
<td><strong>Part II</strong></td>
<td>SIF</td>
</tr>
<tr>
<td><strong>UCITS</strong></td>
<td><strong>UCI</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Investment purpose</strong></td>
<td>Collective investment in</td>
<td>Collective investment in</td>
</tr>
<tr>
<td></td>
<td>transferable securities and/or in</td>
<td>assets</td>
</tr>
<tr>
<td></td>
<td>other liquid financial assets</td>
<td></td>
</tr>
<tr>
<td><strong>Target investor</strong></td>
<td>Retail investors / Professional investors</td>
<td>Professional investors / Retail also possible</td>
</tr>
<tr>
<td><strong>Eligible assets (Investment restrictions)</strong></td>
<td>Detailed restrictions</td>
<td>Detailed restrictions</td>
</tr>
<tr>
<td><strong>Supervision by CSSF</strong></td>
<td>Regulated</td>
<td>Regulated</td>
</tr>
<tr>
<td><strong>Audit requirement</strong></td>
<td>• Audit required</td>
<td>• Audit required</td>
</tr>
<tr>
<td></td>
<td>• Long Form Report (CSSF Circular 02/81)</td>
<td>• Long Form Report (CSSF Circular 02/81)</td>
</tr>
<tr>
<td><strong>Supervisory reporting requirements</strong></td>
<td>1) Monthly reporting</td>
<td>1) Monthly reporting</td>
</tr>
<tr>
<td></td>
<td>3) Unaudited semi-annual report</td>
<td>3) Unaudited semi-annual report</td>
</tr>
<tr>
<td><strong>Net Asset Value frequency</strong></td>
<td>Twice a month</td>
<td>Once a month</td>
</tr>
<tr>
<td><strong>Net Asset Value error</strong></td>
<td>NAV error guidance exists (CSSF Circular 02/77)</td>
<td>No Guidance</td>
</tr>
</tbody>
</table>

Source: PwC Lux

PwC | Minute for discussion
## Eligible investments and investment restrictions for UCITS framework (1/2)

<table>
<thead>
<tr>
<th>Type of asset</th>
<th>Global limits by type of assets</th>
<th>Individual limits by type of assets</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Generic rule</td>
</tr>
<tr>
<td>Transferable securities (shares and bonds)</td>
<td>100%</td>
<td>10%</td>
</tr>
<tr>
<td>Money market instruments</td>
<td>100%</td>
<td>10%</td>
</tr>
<tr>
<td>Bank deposits *</td>
<td>100%</td>
<td>20%</td>
</tr>
<tr>
<td>UCITS</td>
<td>100%</td>
<td>20%</td>
</tr>
<tr>
<td>Other UCIs</td>
<td>30%</td>
<td>20%</td>
</tr>
<tr>
<td>Financial derivative instruments</td>
<td>100%</td>
<td>5% / 10%</td>
</tr>
<tr>
<td>Ancillary liquid assets</td>
<td>49%</td>
<td>-</td>
</tr>
</tbody>
</table>

**Combined total exposure per issuer**

- **Max 20%**
- **Max 35%**
- **Max 35%**

*only if foreseen by investment policies in prospectus*
## Eligible investments and investment restrictions for UCITS framework (2/2)

### Permitted holding as a percentage of the securities in issue

<table>
<thead>
<tr>
<th>Type of instruments</th>
<th>Limits to be checked at sub-fund level</th>
</tr>
</thead>
<tbody>
<tr>
<td>No voting shares of the same issuer</td>
<td>10%</td>
</tr>
<tr>
<td>Debt instruments of the same issuer</td>
<td>10%</td>
</tr>
<tr>
<td>Units/shares of the same UCITS/other UCI</td>
<td>25%</td>
</tr>
<tr>
<td>Money market instruments of the same issuer</td>
<td>10%</td>
</tr>
</tbody>
</table>

### Other key limits

- UCITS are not allowed to grant loans or act as a guarantor for third parties
- UCITS may borrow the equivalent of up to 10% of their assets provided that the borrowing is on a temporary basis
- UCITS may not acquire commodities or real estate assets
- Short sales not allowed
- Trash ratio – 10% (illiquid/unlimited transferable securities and money market instruments)

Source: PwC Lux
Luxembourg regulated investment vehicles can either be created under a contractual or a corporate form

**FCP**

**Common Fund**

**Contractual form:**
- Common investment fund
- Set-up in form of a contract between the management company and the investors; countersigned by the depositary, in a similar way to a partnership
  - **Management regulations**
  - Investors hold units in an FCP
  - Not a separate legal entity in its own right. Instead, the legal entity is the management company setting up the fund.

**SICAV/F**

**Investment company**

**Corporate form:**
- Investment company with variable/fixed capital
- Set-up as SICAV/F, the fund itself is a corporation and thus a legal entity*
- **Articles of association**
  - Ownership is in the form of shares
  - In accordance with applicable laws and regulations, a SICAV/F may either appoint a management company or can be self-managed.

**Note:** SICAR can only be structured under a corporate form

---

<table>
<thead>
<tr>
<th>Common fund</th>
<th>Investment company</th>
</tr>
</thead>
<tbody>
<tr>
<td>BoD of the management company</td>
<td>BoD, general partner or manager</td>
</tr>
<tr>
<td>BoD of the management company/day-to-day business Conducting Officers</td>
<td>BoD, general partner or manager, investor</td>
</tr>
<tr>
<td>Not mandatory</td>
<td>At least once a year</td>
</tr>
<tr>
<td>Transparent</td>
<td>Non-transparent</td>
</tr>
<tr>
<td>Only via management company</td>
<td>VAT-able (Please refer to presentation on taxation)</td>
</tr>
</tbody>
</table>

---

* SICAFs are hardly ever used in practice. While it is still possible to set up an investment company with fixed capital there are currently only (approximately) 4 funds on the market set-up as such.

---

**Source:** PwC Lux

**PwC | Minute for discussion**
Depending on where such substance will be allocated, a FCP / SICAV can be set up in three scenarios

1. **Self-managed -SICAV** - where all substance will need to be created at the level of the SICAV.

2. **SICAV with an existing third party Management Company** - where substance will be provided by the existing Management Company.

3. **SICAV and FCP with a proprietary Management Company** - where a Management Company will need to be created and substance will be allocated to this entity.

Source: PwC Lux
An Investment Fund in Luxembourg can be categorized basically in four perspectives (1/2)
An Investment Fund in Luxembourg can be categorized basically in four perspectives (2/2)

**Investor**
- Retail
- Institutional

**Legal structure**
- Common investment fund (contractual)
- Investment company (legal entity)

**Shares issued**
- Open-ended
- Closed-ended

**Subscriptions and redemptions**
- Subscriptions at each Net Asset Value (NAV) calculation date
- Subscriptions at the launch of the fund; Investor cannot leave the fund before the fund’s maturity

Source: PwC Lux

PwC | Minute for discussion
Based on the asset class of the primary fund securities, there are several types of funds:

<table>
<thead>
<tr>
<th>Fund category</th>
<th>Primary investments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Money Market</td>
<td>Cash and cash equivalents (short term, high-quality money market instruments)</td>
</tr>
<tr>
<td>Fixed Income</td>
<td>Bonds and other types of debt securities</td>
</tr>
<tr>
<td>Equity</td>
<td>Publicly traded stocks</td>
</tr>
<tr>
<td>Balanced</td>
<td>Mix of stocks, bonds and money market instruments</td>
</tr>
<tr>
<td>Index tracking</td>
<td>Replicate a stock index, e.g. S&amp;P 500 (in general passively managed)</td>
</tr>
<tr>
<td>Private Equity (PE)</td>
<td>Privately held companies that don't trade on the stock market; e.g. buying of companies through leveraged by-out (100%); typically limited partnerships with a fixed term of 10 years</td>
</tr>
<tr>
<td>Venture Capital (VC)</td>
<td>Sub-set of PE; acquisition of a minority stake; usually the fund would invest smaller amounts in a lot of companies (e.g. start-ups)</td>
</tr>
<tr>
<td>Real Estate</td>
<td>Real estate (real estate investment trusts (REITS), real estate limited partnerships, real estate equity funds...)</td>
</tr>
<tr>
<td>Hedge</td>
<td>Advanced investment strategies such as leveraged, long, short and derivative positions</td>
</tr>
</tbody>
</table>

Source: PwC Lux
An Investment Fund in Luxembourg may be structured as a stand-alone vehicle or as an umbrella vehicle

### Umbrella fund

- Funds may be constituted with **multiple compartments** (or sub-funds), each compartment corresponding to a distinct portfolio of assets;
- Assets & liabilities are clearly **segregated** between compartments unless a clause of the constitutive documents provides otherwise.

#### Share classes

- Each **fund** or **sub-fund** can issue different classes of shares/units

  - same investment policy, but **variation** in fee structure, type of investor (e.g. minimum investment, open to well-informed investor vs. retail investor, early-bird share class, income allocation...)

### Single fund

- **Stand-alone fund**
- **Single investment portfolio**

<table>
<thead>
<tr>
<th>Structure</th>
<th>Advantages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Umbrella structure</td>
<td>Economies of scale</td>
</tr>
<tr>
<td></td>
<td>Cost efficiency</td>
</tr>
<tr>
<td></td>
<td>Flexibility</td>
</tr>
<tr>
<td>Single fund</td>
<td>Simple structure</td>
</tr>
</tbody>
</table>

Source: PwC Lux

PwC | Minute for discussion
Master-feeders structures enable strategies in view of pooling funds’ assets and achieving economic of scales

Any UCITS (or sub-fund) can implement a master-feeder investment policy.

- Must have at least one feeder;
- Cannot be a feeder itself;
- Does not hold units or shares of another feeder;
- Master is subject to classic diversification limits.

- Invests at least 85% of its assets into a master fund;
- Invests max. 15% of its assets in liquid assets and derivatives.

Source: PwC Lux
The actors in the management of the fund must act for the exclusive benefit of the subscribers
The management company is the main actor for investment funds in Luxembourg
Roles and responsibilities of the main actors for Luxembourg Investment funds (1/5)

**Management company**

- **Manager** of one or more UCIs;
- **Main responsibilities:**
  - Management of the fund, i.e. portfolio management, fund administration and marketing
  - Mandatory for a common investment fund (FCP), optional for a SICAV;
  - Functions may be delegated to third parties:
    - ManCo remains responsible for the appointment of service providers and oversight of delegated functions
  - Daily business conducted by Conducting Officers

**Investor**

- The **public**, at a broad sense, normally without restrictions on nationality, identity, status;
- Certain exceptions, e.g. for citizens/residents of USA or AML/CFT reasons;
- Buys and redeems (open-ended fund) shares/units;
- Receives a dividend (if any);
- Voting rights (SICAV)

**Depositary**

- **Financial institution** providing fiduciary/custodian services to investment funds;
- **Main responsibilities:**
  - Safekeeping of financial instruments and other assets;
  - Monitoring of cash flows;
  - General oversight.
  - Appointment or change of depositary needs to be approved by CSSF;
  - For UCITS, Part II funds, SIFs and SICARs: must be a bank in Luxembourg*;
  - 61 authorised depositaries as of December 2013.

* UCITS/SIF: not a branch of a non-EU entity

Source: PwC Lux
Roles and responsibilities of the main actors for Luxembourg Investment funds (2/5)

**Portfolio manager**
- Portfolio management can be performed by the management company, or the fund (self-managed investment company) → in practice often an external entity appointed;
- Person/organization that makes investments in portfolios of securities on behalf of clients, in accordance with defined investment objectives;
- Can be a Luxembourg entity, an EU- or non-EU entity – but it must be regulated.

**Main responsibilities:**
- Management of fund assets: decision taking and execution in respect to investment/disinvestment of assets, i.e. buy and sell of securities

**Administrator**
- Administration can be performed by the management company, or the fund (self-managed investment company) → in practice often an external entity appointed;

  **Main responsibilities:**
  - Preparation/keeping of accounting documents as well as monthly, semi-annual and annual reports;
  - NAV calculation;
  - Is in contact with the CSSF, the auditor, the tax administration.

  **For Part II funds and SIFs:**
  - Central Administration* must be located in Luxembourg;

  *Chapter D of Circular 91/75

  **Governance**
  - Key actors as of December 2013.

**Distributor**
- Marketing of the fund can be performed by the management company, or the fund (self-managed investment company) → in practice often done by external entities;
- Financial professional which distributes units or shares of an investment fund
- Global distributor: contracting and monitoring of a distribution network;
- Initiator/management company and/or intermediaries

  **Main responsibilities:**
  - Distribution of shares or units of the fund;
  - Ensure the marketing support.

Source: PwC Lux
Roles and responsibilities of the main actors for Luxembourg Investment funds (3/5)

**Initiator/sponsor**
- Former requirement: UCITS and Part II funds must be promoted by reputable entity to guarantee proper functioning of the fund;
- CSSF abolished *promoter* regime for UCITS (press release 12/45) as the investor protection role is deemed to be adequately carried out through rules of CSSF Circular 12/546 applicable to management companies;
- Nevertheless, funds are set-up on *initiative*, i.e. professional from the wealth management sector (bank, insurance, ...) and CSSF may request the issue of a “sponsorship letter” in cases.

**Investment advisor**
- Person/organization that makes investment recommendations or conducts securities analysis in return for a fee;
- **Main responsibilities:**
  - Advice to the management company, portfolio manager and/or fund with respect to investment decisions;
  - Provision of information and recommendations required for the asset management;
- Can be a Luxembourg entity, an EU- or non-EU entity – and may be regulated or not.

**Broker**
- Person/organization that executes buy or sell orders on behalf of a client in return for a fee;
- Acts as an *intermediary* (agent) between a buyer and seller
- **Main responsibilities:**
  - Order execution
Roles and responsibilities of the main actors for Luxembourg Investment funds (4/5)

**Domiciliation agent**
- Provision of services associated with the establishing of residency and conduction of business of a company in Luxembourg;
- Activity related to fund administration;
- Main responsibilities:
  - Provides an office to the fund, i.e. office accommodation, keeping correspondence, payment of bills, ...
- Often done by third party regarded as a domiciliation agent;
- Regulated activity (“Domiciliation Law”).

**Registrar/transfer agent**
- Trusts or institutions that register and maintain detailed records of the transactions of fund investors;
- Activity related to fund administration;
- Main responsibilities:
  - Executes authorised transactions of fund shares/units;
  - Maintains the register of the share- or unit holders;
  - Issues certification representing the shares issued, replaced, converted, ...

**Paying agent**
- Handle the payment of dividends and other sums due to the investors;
- Activity related to fund administration;
- Main responsibilities:
  - Arranges dividend payments based on instructions received from the fund/management company
- Usually service performed by Depositary and its network;
- Paying Agents may be required in each country of distribution.

Source: PwC Lux
Roles and responsibilities of the main actors for Luxembourg Investment funds (5/5)

**Legal advisor/ lawyer**
- External advisor to the fund/management company in order to comply with legal obligations
- **Main responsibilities:**
  - Support during the life cycle of the fund: set-up, maintenance, liquidation, i.e. drafting of contracts, amendment of prospectus, communication with regulator ...

**Auditor**
- Independent auditor
- **Main responsibilities:**
  - Performs the statutory audit of the fund’s accounts;
  - Provides the supervisory body with information and certification it requires;
  - Informs the supervisory body of stated errors and weaknesses (“management letter”);
  - Communicates on any breach in the investment restrictions.

**CSSF**
- Commission de Surveillance du Secteur Financier (CSSF)
- **Main responsibilities:**
  - Supervises professionals and products of the Luxembourg financial sector, i.e. monitors, authorises, informs, and, where appropriate, carries out on-site inspections and issues sanctions.
  - i.e. approves prospectus and constitutive documents (“visa”) and any modification; registers the fund and maintains the list of authorised funds; approves management companies, custodians,...

Source: PwC Lux
The life cycle of an Investment Fund in Luxembourg is basically structured in five steps:

1. **Set-up**
2. **Distribution**
3. **Maintenance**
4. **Restructuring**
5. **Liquidation**
For setting up an investment fund under UCITS or AIFMD Directives, there are major processes that must be considered

1. Determine the fund structure and the location of domicile
2. Determine the fund distribution strategy
3. Identify key service providers
4. Prepare fund documents and for filing with the regulator
5. Prepare registration of market entry for fund distribution
6. Ongoing maintenance for tax, regulatory and distribution
7. Regular reporting to investors
All regulated investment vehicles domiciled in Luxembourg shall be duly authorised by the CSSF

Draft documents
- Application file
  - Questionnaire
  - Draft prospectus, articles of incorporation/management regulations
  - Draft policies, e.g. risk management, conflicts of interest...
  - Draft agreements, e.g. depositary, service provider

Approval process
- Liaising & revising
- Decision
- Finalization
  - Final prospectus, contracts
  - Incorporation in front of a notary/publication of management regulations in the commercial register (R.C.S.)

Incorporation

Go Live

Official fund list

6-8 weeks

8-12 weeks

2-3 weeks

Source: PwC Lux

PwC | Minute for discussion
To obtain authorisation, the applicant shall submit an application file to the CSSF

Drafting of prospectus and other documents to CSSF

Activities

- Main documents to be drafted / provided to the CSSF are:
  - Prospectus, Risk Management Process and KIID (Key Investors Information Document only for UCITS) including a description of each sub-fund’s investment policy and restrictions
  - Articles of Association of the SICAV/Management Regulations of the FCP
  - Draft agreements with the management company and other service providers

Timing

- 3-5 weeks in average

Estimated Costs

- Around EUR 25,000 – 30,000 for the set up of the SICAV/FCP
- Around EUR 72,000 - 80,000 for the set up of the proprietary Management Company

1 Excluding VAT and out-of-pocket expenses
2 Fees do not relate to the creation of a self-managed SICAV as this structure is less used given to distribution constraints notably in Switzerland in terms of substance
The CSSF may ask for further information or additional documentation in order to its final approval

- Submission to CSSF approval and incorporation upon approval

<table>
<thead>
<tr>
<th>Activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Submission of the SICAV/FCP application file to the CSSF</td>
</tr>
<tr>
<td>- Discussion with the CSSF until formal approval is received</td>
</tr>
<tr>
<td>- Coordination of incorporation before a Notary in Luxembourg upon CSSF approval</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Timing</th>
</tr>
</thead>
<tbody>
<tr>
<td>• 6-8 weeks in average</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Estimated Costs 1</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Around EUR 7,500 – 10,000 for the SICAV (or FCP)</td>
</tr>
</tbody>
</table>

1 Excluding VAT and out-of-pocket expenses
# Minimum capital requirements, compartment and cases for regulated vehicles in Luxembourg

<table>
<thead>
<tr>
<th></th>
<th>UCITS</th>
<th>UCI</th>
<th>SIF</th>
<th>SICAR</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Minimum Capital requirement</strong></td>
<td>EUR 1.25 Million to be reached within 6 months following approval</td>
<td>EUR 1.25 Million to be reached within 6 months following approval</td>
<td>EUR 1.25 Million to be reached within 12 months following approval</td>
<td>EUR 1 Million to be reached within 12 months following approval</td>
</tr>
<tr>
<td><strong>Multiple sub-funds authorised</strong></td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td><strong>Classes of shares/units authorised</strong></td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td><strong>NAV calculation frequency</strong></td>
<td>At least twice a month</td>
<td>At least once a month</td>
<td>At least once a year</td>
<td>At least once a year</td>
</tr>
</tbody>
</table>

Source: PwC Lux
One-off costs at a glance in setting up a fund in Luxembourg (1/2)

### Incorporation costs of a company (one-off)

<table>
<thead>
<tr>
<th>Description</th>
<th>Cost Range</th>
</tr>
</thead>
<tbody>
<tr>
<td>Notary fees for the incorporation</td>
<td>Between EUR 2,000 and EUR 5,000</td>
</tr>
<tr>
<td>Registration costs in the Companies registrar</td>
<td>Approximately EUR 150</td>
</tr>
</tbody>
</table>

### Registration costs with the CSSF (one-off)

<table>
<thead>
<tr>
<th>Description</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>UCITS</td>
<td></td>
</tr>
<tr>
<td>Stand-alone fund: EUR 3,500</td>
<td></td>
</tr>
<tr>
<td>Umbrella structure: EUR 7,000</td>
<td></td>
</tr>
<tr>
<td>Self-managed SICAV: EUR 10,000</td>
<td></td>
</tr>
<tr>
<td>UCI</td>
<td></td>
</tr>
<tr>
<td>Stand-alone fund: EUR 3,500</td>
<td></td>
</tr>
<tr>
<td>Umbrella structure: EUR 7,000</td>
<td></td>
</tr>
<tr>
<td>Part II UCI internally-managed (traditional or umbrella fund): EUR 10,000</td>
<td></td>
</tr>
<tr>
<td>SIF</td>
<td></td>
</tr>
<tr>
<td>Stand-alone fund: EUR 3,500</td>
<td></td>
</tr>
<tr>
<td>Umbrella structure: EUR 7,000</td>
<td></td>
</tr>
<tr>
<td>SIF-AIF internally-managed (traditional or umbrella fund): EUR 10,000</td>
<td></td>
</tr>
<tr>
<td>Chapter 15 Management Company</td>
<td>EUR 10,000</td>
</tr>
<tr>
<td>Chapter 15 Management Company and AIFM</td>
<td>EUR 10,000</td>
</tr>
<tr>
<td>Chapter 16 Management Company</td>
<td>EUR 5,000</td>
</tr>
<tr>
<td>Chapter 16 Management Company and AIFM</td>
<td>EUR 10,000</td>
</tr>
<tr>
<td>AIFM</td>
<td>EUR 10,000</td>
</tr>
</tbody>
</table>

Source: PwC Lux
### One-off costs at a glance in setting up a fund in Luxembourg (2/2)

#### Legal Fees (one-off)

Legal Fees are generally a significant one-off cost for launching a Luxembourg UCITS structure. The below are an estimation only and differ on the complexity of the structure.

For the launch of an umbrella structure with a relatively straightforward investment policy and other features which will not give rise to complicated and/or lengthy discussions amongst the parties and with the CSSF.

- For a UCITS which will be structured as a self-managed SICAV, fees may be estimated to be in a range of 30,000 to 50,000 Euros.
- For a UCITS appointing a third party recognised management company we estimate fees to be in a range of 25,000 to 35,000 Euros

Services rendered in relation to the registration of the UCITS in other EU member countries are not included in the above.
The management company can delegate the portfolio management function of assets’ purchasing and sales

**Framed by the investment objective and strategy:**

- Initiated by the investment manager (in some cases based on advice from the investment advisor);
- In consent with the management company/board of directors;
- Purchase and sale of securities are treated by a broker and
- By the depositary, then
- Communicated to the administrative agent.

Source: PwC Lux
The CSSF determines for each regulated vehicle which is the frequency for NAV calculation

**Net asset value (NAV)**

- Represents a fund’s market value per share (**economic value**);
- In other terms, it corresponds to the value of the fund’s assets out of which is taken the value of the fund’s liabilities, both assets and liabilities being estimated at the valuation date.

The NAV can be calculated using two different methods:

1. using the balance sheet accounts or
2. using the capital and the P&L accounts.

---

**Balance sheet**

- Assets:
  - Formation expenses
  - Investments
  - Cash
  - Other assets

- Liabilities:
  - Capital
  - Result carried forward
  - Debt
  - Other liabilities

**Profit & loss**

- Profit:
  - Income
  - Net investment result
  - Net realised result
  - Unrealised gains

- Loss:
  - Expenses
  - Net realised losses
  - Unrealised losses

*Source: PwC Lux*

PwC | Minute for discussion
Some regulatory requirements for fund distribution are specified in UCITS Directive and AIFMD

### Marketing activities

- **Inform** potential investors about the existence of the fund;
- **Promote** the investment fund directly to clients and external or in-house distributors

### New product development

- **Identify products** likely to be attractive to investors;
- **Identify changes in regulation** allowing new opportunities

### Compensation

- Largest cost component in the value chain of fund’s distribution: **payments** for the sales process can come
  - (i) directly from the **investor** (in the form of an upfront fee) or
  - (ii) via the **fund manager** (through commission which is eventually paid through the charges imposed on the investor)

Source: PwC Lux
Selling a fund can be undertaken through different types of distribution methods, strategies and specific channels of marketing

**Strategic decision**
- Various distribution channels, e.g. branch network, independent financial advisors, direct distribution,...;
- Set-up and maintenance of a distribution network;
- Cross-border distribution (legal framework, organizational aspects,...)

**Geographic dimension**

**Distributor**
Financial professional which distributes units or shares of an investment fund

**Global distributor**
Financial professional which ultimately appoints and authorizes all distributors of an investment fund

Source: PwC Lux
Distributing funds in various countries can be either performed by the ManCo itself or by a Global Distributor (1/2)

- Management Company can delegate to a Global Distributor the distribution function.

Source: PwC Lux
Distributing funds in various countries can be either performed by the ManCo itself or by a Global Distributor (1/2)

- Distributing funds without any delegation or local distributor.

Source: PwC Lux
The UCITS IV enabled the cross-border distribution of UCITS through the ManCo passport*

1. Cross-border distribution under the “freedom to provide services” regime

Home country: ManCo

Host country: Distributor

Passport: ManCo

2. Cross-border distribution under the branch regime

Home country: ManCo

Host country: Oversight - Reporting

Passport: ManCo

3. Cross-border distribution by delegation

Home country: ManCo

Host country: Oversight - Reporting

Passport: 1/3 party - Service provider

Source: PwC Lux

(*) ManCo passport: more detailed information in Chapter 3 - Legal & Regulatory requirements
The subscription process considering the main actors in UCITS and AIFs context

1. Marketing and subscription request
2. Order communication (swift, fax, email...)
3. Client order processing (KYC + investment control)
4. Client order pricing
5. Reporting (swift, fax, email...)
6. Fund shares registered in the investor’s account

Source: PwC Lux
Subscription & redemption of fund shares/units at unknown price

- Subscribing or redeeming funds shares/units while knowing the value of the NAV per share/unit may lead to disadvantages for the fund or other investors, a subscription or a redemption are to be made at an unknown price.

- Therefore, the investor doesn’t know the exact price at which the transaction will be performed when placing a subscription or redemption order. The deadline for subscription or redemption orders has to be fixed before the NAVs are published.

\[ J: \text{NAV date (valuation date of assets)} \]
\[ J+1: \text{NAV calculation date} \]
The remuneration model has evolved from direct to indirect commission. Trailer fees (retrocessions) are distributed by the initiator/sponsor to the intermediary.

Trailer Fees: Fees paid to a salesperson for providing the investor with investment advice and services.
Costs & remuneration structures

Fund expenses – Total Expenses Ratio

- Total Expense Ratio (TER) of a fund is equal to the ratio of the fund's total operating costs to its average net assets. TER is in principle calculated using the following formula:

\[
TER \ (\%) = \frac{\text{Total operating costs}}{\text{Average net assets}} \times 100
\]

<table>
<thead>
<tr>
<th>Included costs</th>
<th>Excluded costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Management costs including performance fees,</td>
<td>• Transaction costs (costs incurred by a fund in connection with transactions on its portfolio, i.e. brokerage fees, taxes and linked charges,</td>
</tr>
<tr>
<td>• Administration costs,</td>
<td>• Interest on borrowing,</td>
</tr>
<tr>
<td>• Fees linked to depository duties,</td>
<td>• Payments incurred because of financial derivative instruments,</td>
</tr>
<tr>
<td>• Audit fees,</td>
<td>• Entry/exit commissions or any other fees paid directly by the investor,</td>
</tr>
<tr>
<td>• Payments to lawyers,</td>
<td>• Soft commissions</td>
</tr>
<tr>
<td>• Registration fees, regulatory fees and similar charges,</td>
<td></td>
</tr>
<tr>
<td>• Any additional remuneration of the management company, ...</td>
<td></td>
</tr>
</tbody>
</table>
**Costs & remuneration structures**

**Fund expenses – Sales charges**

Transaction fees paid when investor buys or sells shares of a fund (load);

- Load can be as high as 8%, although it seems that a **3-5% range** is common;
- Charge is **paid by the investor** (the buyer of the fund) to the seller (a financial intermediary such as a brokerage firm, insurance company, financial planner, investment advisor, ...) for services rendered;
- Charge is deducted from the amount being invested.

**Front-end load**

- Or **initial sales charge**,  
- Paid by investor at the time of purchase:

\[
\text{Issue price} = \text{NAV} + \text{Sales Charge}
\]

**Back-end load**

- Or **deferred sales charge**,  
- Paid by investor when selling the fund share:

\[
\text{Redemption price} = \text{NAV} - \text{Sales Charge}
\]

Source: PwC Lux
CSSF requires UCITS, on a semi-annual basis, a reporting dedicated to Risk Management, the first one to be due by **16 May 2016**.

Below the topic addressed in this reporting depending of the criteria met by the UCITS

### All UCITS but Limited challenge

- **Leverage**
- **TNA**
- **GE method**

**All UCITS** authorised and domiciled in Lux as at 31/03/2016

### Selection of UCITS Important challenge

**UCITS**
- With NAV > 500m
- And / or
- VaR & Leverage > 250%

- **Strategy**
- **Leverage**
- **Backtesting**
- **Liquidity risk**
- **Credit risk**
- **GE method**
- **TNA**

**Geo Focus**

**GE levels**

**Source:** PwC Lux
1. Governance
   • Independent Risk management function

2. Risk analysis
   • At least market risk, counterparty risk, liquidity risk, credit and operational risk

3. Measurement methods
   • Define measurement methods for each risk

4. Definition of limits
   • Define limits for each risk identified

5. Monitoring
   • Define monitoring process

6. Escalation
   • Define how issues identified will be escalated

7 RMP
   • Structure a detailed Risk management process that will be validated by the Boards and sent to the CSSF

Source: PwC Lux
# Risk Management Reporting for UCITS (3/4)

<table>
<thead>
<tr>
<th>Risk dimensions</th>
<th>UCITS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Risk management procedure</td>
<td>Should follow the structure as defined by the CSSF circular 11/512 (Appendix)</td>
</tr>
<tr>
<td>Global exposure (“Market risk”)</td>
<td>• Commitment or VaR (daily)  &lt;br&gt;• If VaR: Stress testing + Backtesting</td>
</tr>
<tr>
<td>Leverage</td>
<td>• Only if VaR  &lt;br&gt;• Gross leverage is the minimum requirement (leverage using commitment approach is an option)</td>
</tr>
<tr>
<td>Counterparty risk</td>
<td>• Σ non-realized – collateral per counterparties &lt; 5% to 10%  (depending on status of the counterparty).  &lt;br&gt;• Must be computed at NAV computation frequency</td>
</tr>
<tr>
<td>Credit risk</td>
<td>• Not clearly specified (only required in the list of controls performed)</td>
</tr>
<tr>
<td>Operational risk</td>
<td>• To be covered (but not specifically defined)</td>
</tr>
<tr>
<td>Liquidity risk</td>
<td>• Asset: Capacity to sell the securities in portfolio  &lt;br&gt;• Liability: Capacity to pay redemptions</td>
</tr>
</tbody>
</table>

Source: PwC Lux
## Risk Management Reporting for UCITS (4/4)

### Risk dimensions

<table>
<thead>
<tr>
<th>UCITS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coverage Rule</td>
</tr>
<tr>
<td>• Capacity to meet future payments on derivatives</td>
</tr>
<tr>
<td>Concentration</td>
</tr>
<tr>
<td>• 5/10/40% rules</td>
</tr>
<tr>
<td>• Maximum 20%</td>
</tr>
<tr>
<td>• To be checked at NAV computation frequency</td>
</tr>
<tr>
<td>Disclosure</td>
</tr>
<tr>
<td>• Financial Statement + Prospectus</td>
</tr>
<tr>
<td>• VaR / Commitment</td>
</tr>
<tr>
<td>• If VaR: Benchmarks /use of limit + Leverage</td>
</tr>
<tr>
<td>Next steps</td>
</tr>
<tr>
<td>• CSSF reporting requirements under discussions</td>
</tr>
</tbody>
</table>

Source: PwC Lux
The ELTIF represents a milestone in the development of the cross-border European long-term funds business

The European long-term investment fund (ELTIF) is a pan-European regime for Alternative Investment Funds (AIF) that may invest in long-term from assets such as small and medium-sized businesses to the development and operation of social and public infrastructure.

1. ELTIFs must appoint a fully authorised AIFM

2. ELTIFs can raise capital from institutional and retail investors across the EU and the EEA with the EU passport (AIFMD rules)

3. Any AIF can apply for the ELTIF regime

4. Closed-ended structure, redemptions not possible during ELTIF’s life-time, exceptionally after five years or ELTIF’s half-life point for a defined amount
The ELTIF creates a harmonised EU regime for public private partnership (PPP) investments into SMEs and infrastructure.

**Financial Vehicle corresponding to the Europe 2020 Strategy**
Contribution to the implementation of the political objective: high level of employment and smart, sustainable growth.

**Regulated Fund Vehicle,**
Which provides with long-term and stable returns and pursues a long-term investment strategy.

**70% of the capital**
Shall be invested in more or less clearly-defined long-term assets.

**EU AIF (with EU-AIFM) has Retail-Distribution Passport**

**Various Asset Classes**
(Private Equity, Infrastructure, specific Real Estate), as well as listed SMEs, participations, debt instruments, other ELTIF, EuVECA or EuSEF, risk diversification rules.

**Institutional and Retail Investors**
Retail investors with a portfolio of up to EUR 500,000 shall not invest an aggregate amount exceeding 10% of their portfolio in ELTIFs. Initial amount not less than EUR 10,000. Written alert for ELTIF whose lifecycle exceeds 10 years: “may not be suitable for retail investors”.

Source: ALFi guideline - The European long-term investment fund (ELTIF)
PwC | Minute for discussion
In order to pursue its Europe 2020 strategy the EU identified long-term finance as one crucial element to implement the strategy.

To foster long-term finance the EU created the European long-term investment fund. An ELTIF is designed to provide finance of lasting duration to various infrastructure projects, unlisted companies, or listed SMEs that issue equity or debt instruments.

1. Raising capital towards European long-term investments in the real economy, in line with the European objective of **smart, sustainable** and **inclusive growth**.

2. ELTIFs must appoint a fully authorised AIFM

3. ELTIFs can raise capital from institutional and retail investors across the EU and the EEA with the EU passport (AIFMD rules)

4. Any AIF can apply for the ELTIF regime

5. Closed-ended structure, redemptions not possible during ELTIF’s life-time, exceptionally after five years or ELTIF’s half-life point for a defined amount

Source: ALFi guideline - The European long-term investment fund (ELTIF)

PwC | Minute for discussion
An ELTIF must invest at least 70% of its capital in eligible investment assets within a maximum of five years of authorisation

Concentration and Diversification

<table>
<thead>
<tr>
<th>Type of assets</th>
<th>Generic rule (per issuer/single asset)</th>
<th>Specific rule</th>
<th>Aggregate % of ELTIF capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>Qualifying portfolio undertakings (mainly unlisted companies)</td>
<td>10%</td>
<td>20%</td>
<td></td>
</tr>
<tr>
<td>Real assets</td>
<td>10%</td>
<td>20%</td>
<td></td>
</tr>
<tr>
<td>Units or other ELTIFs, EuVECA and EuSEFs(1) (2)</td>
<td>10%</td>
<td>-</td>
<td>20%</td>
</tr>
<tr>
<td>SMEs</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>eligible assets for UCITS</td>
<td>5%</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

(1) EuVECA - European Venture Capital Funds  
EuSEFs - European Social Entrepreneurship Funds  
SMEs - small and medium-sized businesses  
(2) An ELTIF cannot acquire more than 25% of the units or shares of a single ELTIF, EuVECA, or EuSEF.
Investors in ELTIFs cannot request the redemption of their units before the fund’s end of life

<table>
<thead>
<tr>
<th>Autorisation</th>
<th>Investment Period</th>
<th>Holding Period</th>
<th>Divestment Period</th>
</tr>
</thead>
<tbody>
<tr>
<td>Diversification rules</td>
<td>Don’t apply</td>
<td></td>
<td>Don’t apply</td>
</tr>
<tr>
<td>Asset eligibility rules</td>
<td></td>
<td>Compliance to Asset eligibility rules</td>
<td></td>
</tr>
<tr>
<td>Open-ended</td>
<td>Not possible</td>
<td>Possible**</td>
<td></td>
</tr>
<tr>
<td>Closed-ended</td>
<td>Not possible</td>
<td></td>
<td>Possible</td>
</tr>
</tbody>
</table>

Disposal

- 1 year
- Presentation of realisation plan

* Defined in the documentation. Extension possible if provided for in documentation
** In Accordance with documentation
Legal and Regulatory requirements
The European Union governance model guarantees a mature asset and wealth management internal market

**EU single market**
- Member States (28)
- Candidate countries (8)

**Main feature**
- 5 constitutive treaties over the past fifty years
- 1 single currency in 19 of the Member States
- Total population 508.2 Mio
- Unemployment rate 10%
- Average GBP per capita: 20,3 K

**EU governance model**

<table>
<thead>
<tr>
<th>Body</th>
<th>Power</th>
<th>Composition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commission</td>
<td>Right of legislative initiative</td>
<td>5-year mandate</td>
</tr>
<tr>
<td>Parliament</td>
<td>Debates and adopts EU legislation</td>
<td>751 MEPs 5-year mandate</td>
</tr>
<tr>
<td>Council of the EU</td>
<td></td>
<td>28 Ministers 10 configurations</td>
</tr>
<tr>
<td>ESMA</td>
<td>Supranational supervision</td>
<td>Management board/supervisory board</td>
</tr>
</tbody>
</table>

**Key focus areas**

- **Asset management**
  - Retail investment funds
  - Alternative investment funds managers
  - Product distribution
- **Banking**
  - Capital ratio
  - Banking services
  - Investment services
  - Product distribution
- **Insurance companies**
  - Product distribution
  - Capital requirements
- **Markets**
  - Securities settlement
  - OTC derivative reporting

**Common objectives**
- Investor protection
- Preventing systemic risks
- Building an internal financial market
- Sustainable growth

Source: PwC Lux

PwC | Minute for discussion
The first UCITS Directive was adopted on 20 December 1985 and preceded by a long legislative process.

**UCITS I – Directive 85/611/EEC**
- Aim was to facilitate cross-border offerings of investment funds to retail investors;
- Allowed any fund authorised as UCITS in its home country to market its units in other EU Member States by simply notifying the host Member State;

**UCITS II**
- 1994/95 proposed amendments regarding cash funds, liberalization of depositary regime, fund of funds, master-feeder structures etc.
- No agreement of Member States (Council of Ministers)

**UCITS III**
- 1998 UCITS III package: new eligible assets (money market instruments, other UCI, bank deposits, derivatives etc.), minimum standards for management companies (share capital, risk control, rules of conduct etc.) Adopted in 2001;
- Implemented in Luxembourg with the Law of 20 December 2002

**UCITS IV Directive 2009/65/EC**
- Current legal regime; implemented in Luxembourg with the Law of 17 December 2010
- Aimed to reduce administrative burden, increase of investor protection & increase of market efficiency
- Key elements:

**UCITS V & VI (Today UCITS V is already in place in Luxembourg and has been transposed in Luxembourg Law dated 12 May 2016)**

**Status**
- Published in the Official Journal of the EU on 28 August 2014;
- EU member states have until 18 March 2016 to transpose the directive into national law

**Remuneration**
- E.g. introduction of malus and clawback arrangements - will allow managers to claim back bonus payments made in previous years if certain violations have been discovered.

**Depositary**
- E.g. more onerous obligations regarding custody; stricter liability regime (similar to AIFMD requirements).

**Sanctions**
- E.g. national regulators now able to sanction when breaches have occurred; introduction of whistleblowing procedures.
# Key topics of UCITS Directives

## ORIENTATION
- Facilitate cross-border offerings of investment funds to retail investors

## FUND
- Liberalization of depositary regime
  1. Inclusion of cash funds
  2. Master-feeder structures

## CHARACTERISTICS
- Expansion of investment possibilities – new instruments:
  1. Money market instruments
  2. Units of other UCIs
  3. Bank deposits
  4. Financial derivatives
- Eased investment restrictions for tracker funds
- Definition of minimum standards which a UCITS management company should comply (capital and risk control, rules of conduct, etc.)
- Passport at ManCo level

## ManCo
- Merging UCITS both on domestic and cross-border basis
- Pooling of fund assets via master-feeder structures
- Introduction of KIID (Key Investor Information Document)
- Introducing of a regulator-o-regulator approach

## MARKETING
- Introduction of passport for UCITS
- New opportunities for market consolidation and rationalisation of UCITS structures:
- Clarity and transparency
- Liquidity
- Greater liquidity
- Consolidation of multiple portfolios
- Reduce costs at EU level (AM level) due to removal of cost duplication
- Regulatory oversight (efficiency in reporting)
- Accessible and simplified fund market

## DEPOSITS
- Clarification of the depositary’s functions:
  1. New rules on delegation of safe-keeping of assets
  2. Harmonisation of the rules governing the depositary’s liability
- Introduction of rules on remuneration policies
- Harmonisation administrative sanctions and measures for breaches of key provisions of the directive

## ACCEPTANCE
- ✓ Adopted
- × No common position from Member States
- ✓ Adopted
- ✓ Adopted
- × Not yet adopted

## UCITS I
- ✓ Adopted
- × No implementation of UCITS II

## BENEFITS
- Broader investor base
- Transparency
- Liquidity
- Greater liquidity
- Consolidation of multiple portfolios
- Reduce costs at EU level (AM level) due to removal of cost duplication
- Regulatory oversight (efficiency in reporting)
- Accessible and simplified fund market

Source: PwC Lux
**UCITS Directives – UCITS IV**

The main enhancements to the UCITS regime introduced in UCITS IV are Management Company Passport and cross-border merger of UCITS.

**UCITS IV**
- Directive 2009/65/EC
- **Current** legal regime; implemented in Luxembourg with the **Law of 17 December 2010**
- **Aimed to** reduce administrative burden, increase of investor protection & increase of market efficiency
- Key elements:

**UCITS Directives**

<table>
<thead>
<tr>
<th>Year</th>
<th>Codes</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1985</td>
<td>UCITS I</td>
<td>(dead end)</td>
</tr>
<tr>
<td>1995</td>
<td>UCITS II</td>
<td>(dead end)</td>
</tr>
<tr>
<td>2001</td>
<td>UCITS III</td>
<td></td>
</tr>
<tr>
<td>2009</td>
<td>UCITS IV</td>
<td></td>
</tr>
<tr>
<td>2014</td>
<td>UCITS V</td>
<td>(implementation deadline expires in March 2016)</td>
</tr>
<tr>
<td>20...</td>
<td>UCITS VI</td>
<td>– consultation paper by European Commission (topics: money market funds, shadow banking etc.)</td>
</tr>
</tbody>
</table>

Source: PwC Lux
**UCITS Directives – UCITS IV**

The KIID* is designed as a concise document delivering critical information about the fund.

1. **Objectives and Investment Policy**
   - What is the aim of this investment fund / what will the investment consist of?

2. **Risk and Reward**
   - What are the risks of this investment?

3. **Charges**
   - What are the costs of this investment?
   - What is included in the costs and how are costs calculated?

4. **Past Performance**
   - How has the fund performed in the past?
   - How is the past performance calculated?

5. **Practical Information**
   - Who is responsible for the investment / Where can I get further information?

(*) Key Investor Information Document → fund fact sheets with standardized content

---

Source: PwC Lux

PwC | Minute for discussion
**UCITS Directives – UCITS IV**

Under the management company passport portion of the UCITS IV legislation, UCITS may be managed by a ManCo authorised and supervised in another EU Member State

- Set up & Authorisation;
- Investment policies & limits (incl. borrowing, lending and uncovered sales);
- NAV errors / investment breaches;
- Merging, liquidation and restructuring.

- Organisation, incl. delegation arrangement;
- RM procedures;
- Prudential rules and supervision;
- Rules of conduct;
- Reporting.

Source: PwC Lux
**UCITS Directives – UCITS IV**

Main characteristics for a Management Company Passport

---

**Can Management Company perform all functions?**

- Chapter 15 Management Company core functions are the Portfolio management, the Fund administration and the Marketing, plus the Risk management
- May provide additional services, as per the relevant Law
- Performs itself its core functions or may delegate some of them. Can not delegate all core functions (no letter box entities)
- Oversees the delegated functions

**Management Company Passport**

It permits management companies and AIFMs to manage UCIs in other EU/EEA Member States other than their Home Member State either through the “free provision of services” or the establishment of a branch. It allows them to perform in other EU/EEA Member States the other activities for which it has been authorized in its Home Member State (providing discretionary portfolio management or investment advice).
**UCITS Directives – UCITS V**

New depository rule, new remuneration rules for managers, new administrative sanctions

**Depository**
- Clarification on eligibility criteria to act as single depositary;
- Clarification on the depositary's safekeeping function;
- Clarification on the depositary's oversight duties;
- Introduction of delegation rules;
- Reinforcement of liability regime.

**Independence**
- Mandatory number of independent members to the supervisory body, e.g. board of directors;
- Stricter rules for overlapping of management bodies.

**Sanctions**
- Increase of investigatory powers and administrative sanctions of competent authorities;
- Pecuniary sanctions can be up to at least twice the amount of the benefit deriving from the breach;
- Or for legal persons up to at least EUR 5,000,000 or where so provided under applicable law up to 10% of its total annual turnover;
- For natural persons up to at least EUR 1,000,000;
- ESMA to publish an annual report on all sanctions imposed (history of 5 years).

**Remuneration**
- Recognition of the impact of remuneration schemes to the financial crisis;
- Remuneration should be more clearly aligned to investor interests and supported by robust policies and procedures;
- Remuneration policy applicable to identified staff (to be aligned with AIFMD);
- Disclosure of remuneration practices in the annual report;
- Performance fees still allowed and no 100% cap on fund manager bonuses;
- At least 40% of the variable remuneration is to be deferred.
## UCITS Directives – UCITS V

**Depositary duties**

<table>
<thead>
<tr>
<th>Depositary must be a Luxembourg bank</th>
<th>Part I FCP</th>
<th>Part II FCP</th>
<th>SIF FCP</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1) Custody of assets</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.1 - Hold in custody all financial instruments that can be registered / physically delivered</td>
<td>☎</td>
<td>☎</td>
<td>☎</td>
</tr>
<tr>
<td>1.2 - Verify ownership of all other assets (which can not be held in custody) and maintain up to date record</td>
<td>O</td>
<td>O</td>
<td>O</td>
</tr>
<tr>
<td><strong>2) Day-to-day administration of assets (collection of dividends, interest and proceeds of matured securities, the exercise of options)</strong></td>
<td>O</td>
<td>O</td>
<td>O</td>
</tr>
<tr>
<td><strong>3) Supervision/control of the UCI</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3.1 - Control of the NAV calculation</td>
<td>O</td>
<td>O</td>
<td>O</td>
</tr>
<tr>
<td>3.2 - Control of issue, repurchase, cancellation of units</td>
<td>O</td>
<td>O</td>
<td>O</td>
</tr>
<tr>
<td>3.3 - Control that the consideration to the fund’s transactions is remitted within the usual time limits</td>
<td>O</td>
<td>O</td>
<td>O</td>
</tr>
<tr>
<td>3.4 - Control that the UCI’s income are applied correctly</td>
<td>O</td>
<td>O</td>
<td>O</td>
</tr>
<tr>
<td>3.5 - Investment restrictions</td>
<td>O</td>
<td>O</td>
<td>O</td>
</tr>
<tr>
<td><strong>4) Cash flow monitoring</strong></td>
<td>O</td>
<td>O</td>
<td>O</td>
</tr>
</tbody>
</table>

**Liability of Depositary**

O : The depositary shall generally be liable to the fund, or to the investors of the fund, for all other losses suffered by them as a result of the depositary’s negligent or intentional failure to properly fulfill its obligations. **(Obligation of means)**

◎ : There is an enhanced liability regime for 1.1:

In the case of such a loss of a financial instrument held in custody, the depositary shall return a financial instrument of identical type or the corresponding amount to the UCITS or the Management Company acting on behalf of the UCITS without undue delay. **(Obligation of results)**

Source: PwC Lux
Remuneration of UCITS Managers should be designed to:

Promote sound and effective risk management, and discourage any risk-taking which is inconsistent with the risk profiles, fund rules of instruments of incorporation of the managed UCITS.

Remuneration Policies should apply to those categories of staff whose professional activities may have a material impact on the risk profile of a managed UCITS.

Ensure the protection of the interests of clients and investors in the course of collective portfolio management activities and other services provided.

Remuneration structures for fixed and variable components of total remuneration (restrictions on variable remuneration, deferral of a portion of variable remuneration).
**UCITS Directives – UCITS V**

New sanction regime

1. **Qualification of the breach**
   - List of breaches
   - Breaches in relation to:
     - Authorisation/Licensing;
     - Shareholding composition;
     - Compliance with regulation (e.g. non-compliance with central admin or delegation requirements, ...).

2. **Proportionality principle**
   - Criteria
   - Relevant circumstances to be taken into consideration (e.g. gravity and duration of the breach, degree of responsibility of the responsible person,...).

3. **Sanction**
   - Harmonized sanctions
   - • Order to cease;
   - • Public statement;
   - • Temporary ban;
   - • Pecuniary sanction (different levels).
   - + Additional publication unless would cause a damage to the market.
### UCITS Directives – UCITS VI

#### Key impacts

EC’s consultation paper issued on 26 July 2012:

<table>
<thead>
<tr>
<th></th>
<th>Eligible assets and use of derivatives</th>
<th>Evaluation of the current practices in UCITS portfolio management and assessment of certain fund investment policies</th>
</tr>
</thead>
<tbody>
<tr>
<td>2</td>
<td>Efficient portfolio management techniques</td>
<td>Assessment of current rules regarding certain types of transactions and management of collateral</td>
</tr>
<tr>
<td>3</td>
<td>Over the counter (OTC) derivatives</td>
<td>Treatment of OTC derivatives cleared through central counterparties, assessment of the current framework regarding operational risk and conflicts of interest, frequency of calculation of counterparty risk exposure</td>
</tr>
<tr>
<td>4</td>
<td>Extraordinary liquidity management rules</td>
<td>Assessment of the potential need for uniform guidance in dealing with liquidity issues</td>
</tr>
<tr>
<td>5</td>
<td>Depositary passport:</td>
<td>Assessment of whether or not to introduce a cross border passport for the performance of the depositary functions set out in the UCITS Directive</td>
</tr>
<tr>
<td>6</td>
<td>Money Market Funds (MMF)</td>
<td>Assessment of the potential need to strengthen the resilience of the MMF market in order to prevent investor runs and systemic risks</td>
</tr>
<tr>
<td>7</td>
<td>Long term investments</td>
<td>Assessment of the potential need for measures to promote long term investments and of the possible form of such measures (including investments in social entrepreneurship)</td>
</tr>
<tr>
<td>8</td>
<td>Addressing UCITS IV</td>
<td>Assessment of whether or not the rules concerning the management company passport, master feeder structures, fund mergers and notification procedures might require improvements</td>
</tr>
</tbody>
</table>

Source: PwC Lux
The actual UCITS framework covers the Product and the Management Company passports

Harmonised framework?

YES

Product

Eligible investors:
- Retail
- HNWI
- Professional
- Institutional

Eligible assets:
- Listed transferable securities
- Non-listed transferable securities
- MMI, UCITS and UCI equivalent, bank deposits
- Real Estate
- Private equity

EU passport available: YES

Other common features:
- Investment restrictions
- Master-feeder
- Cross-border merger

Service providers

Entity
- Core functions
- Passport available?

Management Company
- Portfolio management
- Risk management
- Fund administration
- Distribution
- Safekeeping of financial assets
- Record keeping of non-financial assets
- Service providers oversight
- Cash flow monitoring

Depositary Bank
- YES

Harmonised notification process

NO
The UCITS Directive introduces the concept of “Product” passport to facilitate the distribution of UCITS in Europe

- The passport allows UCITS to distribute publicly their shares/units on a cross-border basis without having to satisfy a very high number of local regulations in each country of distribution (as it used to be before the UCITS Directives).

- Even though there are still some local requirements to meet, the initial registration process of UCITS in other EU Member States is a quick process (approval from the Home regulator of the UCITS within 20 working days).

Source: PwC Lux
The notification procedure simplifies the authorisation process for UCITS distribution in any other EU member state

- Regulator-to-Regulator;
- 10 working days process;
- UCITS can immediately access the market after notification;
- Confirmation by Home Member State;
- Controls ex-post by Host Member State.

**Authorised UCITS**

**Notification file (content harmonised)**

**Home MS** checks notification file completeness

**Host MS** checks ex-post

**Regulator-to-regulator notification** (no later than 10 working days after the receipt of the notification letter)

**Home MS informs UCITS of transmission date for the notification file**

**UCITS transmits notification file and translations to its home authority**

**Informs UCITS**

**No**

**Yes**

MS: Member State

Source: PwC Lux
The ManCo passport permits management companies located in one member state to manage UCITS domiciled in another member state

<table>
<thead>
<tr>
<th>Management Company Passport</th>
</tr>
</thead>
<tbody>
<tr>
<td>Two general aspects:</td>
</tr>
<tr>
<td>(i) Regulatory requirements of the management company’s home state, i.e. organisational requirements, rules of conduct ...;</td>
</tr>
<tr>
<td>(ii) Regulatory requirements of the UCITS’ home state, i.e. setup and functioning of the fund.</td>
</tr>
</tbody>
</table>

- **Condition:** management company needs to obtain a licence as management company in its home state and comply with the passporting procedures according to UCITS IV;
- Management company informs its regulator about its intention to manage a foreign UCITS;
- Information will be forwarded to the UCITS regulator (Fund Regulator), who will review the documents, but also reserves the right to ask for additional information if not satisfied.

<table>
<thead>
<tr>
<th>Management passport</th>
</tr>
</thead>
<tbody>
<tr>
<td>Management company has permission to perform activities in a EU/EEA member state without prior authorization if such activities have been authorized in a EU/EEA member state.</td>
</tr>
<tr>
<td>Cross-border management: branch or free provision of services.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Product passport</th>
</tr>
</thead>
<tbody>
<tr>
<td>The product can be marketed to retail/professional investors in other EU/EEA member states.</td>
</tr>
<tr>
<td>Cross-border distribution: notification procedure.</td>
</tr>
</tbody>
</table>
The ManCo passport can work by establishing a branch of the ManCo in the other Member State or through direct servicing to the UCITS located abroad.

The Management Company passport covers all the activities for which the ManCo has been authorised in its Home Member State, i.e., core functions and non-core functions.

The ManCo must comply with rules of its Home member State in terms of “substance”, risk management, code of conduct and delegations as well as with fund accounting and administrative rules set forth by the UCITS’s Home Member State.

UCITS Home Regulator (in a member state different from ManCo’s domicile)

ManCo informs its regulator about its intention to manage a foreign UCITS.

Information is forwarded to UCITS Home Regulator, who can ask for additional information.

The depositary shall enter into an agreement with the ManCo regulating the flow of information and procedures to perform functions and shall allow the Regulator of the UCITS’s Home Member State to obtain information on request.

Source: PwC Lux
Luxembourg was the first country to implement the UCITS Directive into national law

- Since 1988, Luxembourg stays very reactive to adopt the legal environment to maintain his position in the financial sector.


**UCI Part II: Law of 17 December 2010 on UCI**

Collective Investment in Transferable Securities. The concept originally derived from the European Directive 85/611/EC, replaced by European Directive 2009/65/EC dated 13 July 2009, which provides a single regulatory regime across the European Union for open-ended funds investing in transferable securities such as shares and bonds. With a view to defining the highest levels of investor protection, the Directive regulates the organization, management and oversight of such funds, and imposes rules concerning diversification, liquidity and use of leverage.

**AIFM: Law of 12 July 2013 on alternative investment fund managers (AIFM)**

Applies to managers of non-UCITS and encompasses:
- Capital requirements;
- Transparency and disclosure;
- Operational and organisational requirements including
  - Delegation;
  - liability of the depositary;
  - Remuneration;
  - marketing.

*Exception: SICAV set up as SCSp (Special Limited Partnership)*

Source: PwC Lux

PwC | Minute for discussion
**Besides the Law of 12 July 2013, CSSF published the Circular 14/587 with new rules to depository banks and anticipate the transposition of the UCITS V Directive**

<table>
<thead>
<tr>
<th>Regulation</th>
<th>AIFMD</th>
<th>CSSF Circular 14/587</th>
<th>UCITS V</th>
</tr>
</thead>
<tbody>
<tr>
<td>Funds in scope</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>AIFs</td>
<td>UCITS/Part II Funds</td>
<td></td>
</tr>
</tbody>
</table>

**Key Issues**

**Safekeeping:**
- Increase liability for financial assets and reverse burden of proof
- Changes to financial asset segregation and sub-custodian level, incl. reconciliation
- Increased ownership verification obligation

**Oversight**
- Uniform rules for all fund types (no discrimination of legal form, e.g. FCP/SICAV)
- Increased information exchange and escalation process with AIFM
- Oversight of prime broker/counter-party and safekeeping obligation

**Cash monitoring:**
- Overview of all cash AIF’s inflows and outflows and third party accounts
- Information of bank accounts opened by third party banks in the name of AIF

**Safekeeping difference to AIFMD:**
- Segregation of assets and ownership verification (level 0, level 1, level 2)
- No change of liability/burden of proof

**Reinforced to AIFMD:**
- Confirmation about assets in custody held by third party/sub-custodian
- Annual confirmation of due diligence performance by entity below custody chain
- Record keeping of assets not held in custody

**Oversight reinforced to AIFMD:**
- Ex-ante and ex post controls
- Information exchange and reciprocal escalation procedure

**Cash monitoring reinforced to AIFMD:**
- Reconciliation procedure
- Significant cash flow procedure

**Key differences to AIFMD**
- No possibility to discharge liability
- Governance requirements to be enforced and analysis of segregation rules per country of custody (ESMA consultation level II)

### Status

<table>
<thead>
<tr>
<th>Source: PwC Lux</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Live</strong></td>
</tr>
<tr>
<td><strong>Funds in scope</strong></td>
</tr>
<tr>
<td><strong>Transition</strong></td>
</tr>
</tbody>
</table>

**End of transition**
Luxembourg transposed the AIFMD into the law of 12 July 2013

Context AIFM: Law of 12 July 2013 on alternative investment fund managers (AIFM)

- Over the last 20 years Luxembourg has built up its position as the most popular domicile for undertakings for collective investments in transferable securities (UCITS). At the same time Luxembourg has developed a strong track record in alternative investment products and bespoke investment structures such as hedge funds and funds of hedge funds, private equity vehicles and real estate funds.
- In 2004 and 2007 respectively Luxembourg created the Investment Company in Risk Capital (SICAR) and the Specialised Investment Fund (SIF) in anticipation of a changing regulatory environment for alternative investment funds. An Undertaking for Collective Investment (UCI) established under Part II of the Law of 2010 is an investment fund that does not invest in transferable securities.
- The global financial crisis of 2008, most notably the Lehman and Madoff affairs, highlighted certain gaps in the regulatory framework of the alternative investment fund industry. As a result of a wider regulatory effort, the The Alternative Investment Fund Managers Directive 2011/61/EU was approved by the European Parliament. With the law of 12 July 2013 on alternative investment fund managers (the 'AIFM Law'), Luxembourg has transposed the European Directive 2011/61/EU on alternative investment fund managers ('AIFMD') into Luxembourg law.

« Commission de Supervision du Secteur Financier » CSSF

- Investment fund industry is regulated by the CSSF “Commission de Supervision du Secteur Financier” (“CSSF”) which is a public institution that supervises the professionals and products of the Luxembourg financial sector. It supervises, regulates, authorises, informs, and, where appropriate, carries out on-site inspections and issues sanctions.
The AIFMD aims to regulate funds / fund managers that were previously unregulated but which operated in the EU or were marketed in the EU

**Alternative Investment Fund Managers Directive**

- European Commission: AIFMs „had become very significant actors in the European financial system”
- Applies to managers of alternative investment funds operating within, or marketing to investors in, the European Union
- **Luxembourg**: implemented into national law in 2013 (Law of 12 July 2013)
- Supplemented by Level II Regulations and guidelines published by the European Securities and Markets Authority (ESMA)

**Background**

- Response to financial crisis 2008
- Harmonized regulatory framework
- Directive aims to increase transparency: AIFMs subject to stricter supervision and reporting requirements

*Source: PwC Lux*
The AIFMD implements new rules for the authorisation, operation and transparency of AIF managers’ functions

July 2011
- AIFMD enters into force

July 2013
- EU Member States to have implemented the AIFMD and compliance with certain provisions for non-EU AIFMs marketing in the EU

July 2014
- Authorisation by EU AIFMs and compliance with AIFMD must be obtained

September 2015
- All non-EU AIFMs managing EU AIFs and non-EU AIFMs marketing AIFs to EU investors to be authorised by their “relevant regulator”

2018
- ESMA may decide to abolish the national private placement regime

CHARACTERISTICS

BENEFITS
- Integrating wider business objectives (managers can embed risk management in at the company level instead of only on portfolio risk management)
- Improving investor communication (investors want specific details of AIFMD compliance as part of operational due diligence. Desire to be well prepared and execute orderly implementation and on-going compliance processes)
- Improving formal policies and processes, operational due diligence

Source: PwC Lux
AIFMD Main aspects

- Reverse solicitation/private placement
- AIFMD passport

Authorization
- AIFM licence (authorization)

Marketing

Transparency
- Disclosures to investors
- Reporting to authorities

Functions & delegation
- Standards for key functions
- Rules for delegation/service providers, e.g. depositary

Corporate governance
- Procedures & controls, e.g. risk management, compliance, ...

Source: PwC Lux
### Some key characteristics related to the main functions described in AIFMD

**Delegation of roles**
- AIFMD allows the AIFM to delegate functions (e.g. portfolio management and risk management)
- However, forbids AIFM from becoming a ‘letterbox’ entity – may be a qualitative or quantitative test by regulators to assess whether an AIFM is a ‘letterbox’ or not

**Depositaries**
- Every AIF must have a depositary
- The depositary must be established in the same domicile as the AIF (if an EU AIF)
- Non-EU AIFs must have a depositary – either in the same domicile as the AIF or the AIFM
- AIFMs will be required to inform regulators of leverage limits for their AIFs
- Regulators can impose leverage limits on AIFs for financial stability reasons
- Methods of calculation of leverage allowed under AIFMD based on UCITS: commitment and gross method

**Leverage**
- Remuneration requirements for AIFMs copied out of CRD III
- Only applies to AIFM – not other firms who have been delegated functions

**Remuneration**
- AIFMD restricts use of third country firms as delegates of the AIFM
- Private placement regime may be removed across Europe in 2018

**Third country aspects**
- AIFMD allows the AIFM to delegate functions (e.g. portfolio management and risk management)
- However, forbids AIFM from becoming a ‘letterbox’ entity – may be a qualitative or quantitative test by regulators to assess whether an AIFM is a ‘letterbox’ or not

**Valuation**
- Valuation of AIFs must be performed by external valuer or internally, if ‘functionally independent’ from portfolio management role

**Capital requirements**
- Set capital requirements for internal and external AIFMs – dependent on AUM of AIFs
- Additionally, AIFMs must hold further funds or PII as cover against professional liability risks
- AIFMs must ‘functionally and hierarchically’ separate risk management from portfolio management
- Must implement a due diligence process for investment strategies of an AIF

**Risk management**
- AIFMD prohibits a MiFID firm from being an AIFM
- However, AIFMD allows AIFMs to perform some ‘MiFID’ activities (e.g. portfolio management and investment advice)

---

Source: PwC Lux
The scope of AIFMD framework are the rules for AIF managers duties and a marketing passport for distribution in other EU member states.
Under the AIFMD, European alternative fund managers can now avail of a marketing passport to distribute alternative investment funds (AIFs) within the EU.

The AIFMD passport can be used if a fund promoter has an **Alternative Investment Fund Manager (AIFM)** based in an EU member state with a European domiciled AIF or alternatively the fund promoter establishes a European domiciled **self-managed AIF** (which is authorised both as the fund and the AIFM). From 2015, EU / non-EU AIFMs may also have the possibility of using the marketing passport for non-EU AIFs.

<table>
<thead>
<tr>
<th>Domiciles / marketing</th>
<th>Does AIFMD apply?</th>
<th>Marketing Arrangements</th>
</tr>
</thead>
<tbody>
<tr>
<td>EU AIFM/ EU AIF – marketed in EU</td>
<td>Yes</td>
<td>EU Passport (July 2013)</td>
</tr>
<tr>
<td>EU AIFM/ EU AIF – not marketed in EU</td>
<td>Yes</td>
<td>None</td>
</tr>
<tr>
<td>EU AIFM/ Non-EU AIF – marketed in EU</td>
<td>Yes</td>
<td>EU Passport (from mid 2015)*</td>
</tr>
<tr>
<td>EU AIFM/Non-EU AIF – not marketed in EU</td>
<td>Yes</td>
<td>None</td>
</tr>
<tr>
<td>Non-EU AIFM/ Non-EU AIF – marketed in EU</td>
<td>Yes</td>
<td>EU Passport (from mid 2015)*</td>
</tr>
<tr>
<td>Non-EU AIFM/ Non-EU AIF – not marketed in EU</td>
<td>Yes</td>
<td>None</td>
</tr>
<tr>
<td>Non-EU AIFM/ EU AIF – marketed in EU</td>
<td>Yes</td>
<td>EU Passport (from mid 2015)*</td>
</tr>
<tr>
<td>Non-EU AIFM/ EU AIF – not marketed in EU</td>
<td>Yes</td>
<td>None</td>
</tr>
</tbody>
</table>

*Dependent on assessment by European Securities and Markets Authority (ESMA)
The passporting procedure under AIFMD is similar to that as outlined previously for UCITS funds

AIF Marketing Passport for EU AIFM/ EU AIF

EU-based AIFM managing Lux AIF

Notification file

Home Supervisory Authority of the AIFM informs the EU-based AIFM of transmission date for the notification file.

No later than 20 working days after the receipt of the notification letter.

Upon receipt, the AIFM may begin marketing

EU Host Member State Regulator e.g. UK, Germany, France, Netherlands, Belgium, Sweden, ...

Cooperation mechanism

Home Supervisory Authority of the AIFM

Email

eFile or email luaifm32@cssf.lu

Source: Marketing notification (Professional investors) - EU AIFM managing EU AIF, Regulatory requirements of AIF Marketing Passport for EU AIFM/ EU AIF (Art. 32 AIFMD)
Documentation to be provided in case of intended marketing within the European Union

Documentation to be provided in case of intended marketing

### EU Member States other than the Home State of the AIFM

- A notification letter, including a program of operations identifying the AIFs the AIFM intends to market and information on where the AIFs are established;
- The AIF rules or instruments of incorporation;
- Identification of the depositary of the AIF;
- A description of, or any information on, the AIF available to investors;
- Information on where the master AIF is established if the AIF is a feeder AIF;
- Any additional information referred to in Article 23(1) for each AIF the AIFM intends to market;
- Where relevant, information on the arrangements established to prevent units or shares of the AIF from being marketed to retail investors, including in the case where the AIFM relies on activities of independent entities to provide investment services in respect of the AIF.

Who is responsible: PwC draft it based on the information received from the client, makes the client reviewed the notification file and then sends it to the supervisory authority of the Home Member State for its approval. It has 10 days to approve/reject the notification file. Then, the notification file is transmitted by the Home Regulator to the Host one which has 5 days to confirm the good receipt of the document.
The aim of the passport is to harmonize rules at European level, but there are some specificities in each country.

Differing requirements per country

Examples

- Semi-professional versus professional investors in Germany;

- Requirement to file marketing documents and prospectus before their dissemination to local investors (Germany, Italy);

- Various regulatory fees for initial registration (and annual maintenance) by country, with some regulators requiring proof of payment to be inserted in the initial notification file, and others sending an invoice subsequently;

- Some regulators have a restricted approach on the accepted conditions to prevent marketing to retail investors (cumulative conditions in Germany).

- There are some specificities in each countries such as naming or not local officials, regulators costs (registration and maintenance) whether for the UCITS or the AIFS.
Any change in the information sent to the Regulator should be notified

- Material changes notification to the Home Supervisory Authority of the AIFM - EU AIFM managing EU AIF

  - **Known** material changes to be notified to the HMS regulator **at the latest 1 month before** implementation.

  - **Unknown** material changes to be notified to the HMS regulator **as soon as possible.**
National Private Placement Rules (NPPRs) must be used by non-EU AIFMs that cannot avail of the European passport in order to market their AIFs in Europe

- Initial notification and material changes notification (Professional investors)

- Regulatory requirements of National Private Placement Regime ("NPPR") for Non EU AIFM/Non EU AIF (Art. 42 AIFMD) and EU AIFM/Non-EU AIF (Art. 36 AIFMD)

Note: individual member states may move to abolish or restrict the use of NPPRs, now that the AIFMD is in force.
There are 4 relevant taxation levels for Luxembourg funds

01 Taxation of the fund itself

02 Taxation of the investments

03 Taxation of the fund’s investors

04 Taxation of the Management Company

Source: PwC Lux
Is a Luxembourg fund taxed at all?

Comparison with an operational company

<table>
<thead>
<tr>
<th></th>
<th>Operational company</th>
<th>Fund</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CIT</strong> <em>(Corporate Income Tax)</em></td>
<td>22.47%</td>
<td>N/A</td>
</tr>
<tr>
<td><strong>MBT</strong> <em>(Municipal Business Tax)</em></td>
<td>6.75%</td>
<td>N/A</td>
</tr>
<tr>
<td><strong>NWT</strong> <em>(Net Wealth Tax)</em></td>
<td>0.5%</td>
<td>N/A</td>
</tr>
<tr>
<td><strong>WHT</strong> <em>(Withholding Tax)</em></td>
<td>15% on dividends</td>
<td>N/A</td>
</tr>
<tr>
<td></td>
<td>0% on interest</td>
<td></td>
</tr>
<tr>
<td>Capital duty</td>
<td>75€</td>
<td>75€</td>
</tr>
<tr>
<td>Subscription tax</td>
<td>N/A</td>
<td>Yes</td>
</tr>
</tbody>
</table>

Source: PwC Lux
## Subscription tax applicable to all Luxembourg funds, but some exemptions are available

<table>
<thead>
<tr>
<th>Rate (%)</th>
<th>Conditions</th>
</tr>
</thead>
<tbody>
<tr>
<td>0.05 %</td>
<td>Standard rate applicable to all UCIs (incl. UCITS)</td>
</tr>
</tbody>
</table>
| 0.01 %   | • Specialized Investment Funds;  
           • Invest exclusively in money market and placement of deposits with credit institutions;  
           • Exclusively invest in deposit with credit institutions;  
           • Compartments / share classes reserved for institutional investors. |
| Exempt   | • Units held in other Lux UCIs subject to subscription tax;  
           • Institutional only / money market and deposit / < 90 days weighted portfolio maturity UCIs;  
           • UCIs/compts with securities reserved for investment in pension/retirement institutions or similar investments;  
           • Microfinance;  
           • Exchange Traded Funds (ETFs);  
           • Funds dedicated to multi-employer pension vehicles or to several employers providing pension benefits to their employees. |

Source: PwC Lux
Comparison between FCP and SICAV from a tax perspective

**CIT rate:** SICAV/FCP exempt from income tax;

**Annual subscription tax:** between 0.01% and 0.05% of net asset value (exemptions possible);

**Net-wealth tax:** exempt;

**Dividend WHT:** exempt from withholding tax on distributions to investors;

**Capital gains:** exempt;

**Tax treaties:** the FCP itself does not benefit from Luxembourg double tax treaties (except Ireland); unit holders may try to obtain access to treaty between their residence and source of the FCP’s income.

Source: PwC Lux
DTT concluded by Luxembourg applicable to funds

**Luxembourg**

- The Circular L.G.-A n°61 of 12 February 2015 issued by the Luxembourg Tax Authorities ("LTA"), clarified the list of DTT applicable to Luxembourg funds, SICAVs and FCPs as follows:
  
  - 49 DTTs are applicable to Luxembourg SICAVs (44 as clearly stated in the DTT, 5 under LTA interpretation),
  - 7 DTTs are applicable to FCP when they are treated as individuals.

- As a consequence, in all that cases, LTA will issue certificate of residence – including for FCPs-based on the DTT provided that requested info (eg. CSSF attestation) are communicated.
DTTs applicable to Luxembourg SICAVs and FCPs

<table>
<thead>
<tr>
<th>DTT applicable to SICAVs only</th>
<th>DTT applicable to SICAVs and FCPs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Armenia</td>
<td>Kazakhstan</td>
</tr>
<tr>
<td>Austria</td>
<td>Laos</td>
</tr>
<tr>
<td>Azerbaijan</td>
<td>Liechtenstein</td>
</tr>
<tr>
<td>Bahrain</td>
<td>Macedonia</td>
</tr>
<tr>
<td>Barbados</td>
<td>Malaysia</td>
</tr>
<tr>
<td>China</td>
<td>Malta</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>Monaco</td>
</tr>
<tr>
<td>Denmark</td>
<td>Morocco</td>
</tr>
<tr>
<td><strong>Finland</strong></td>
<td>Moldvavia</td>
</tr>
<tr>
<td>Georgia</td>
<td>Panama</td>
</tr>
<tr>
<td>Hong-Kong</td>
<td>Poland</td>
</tr>
<tr>
<td>Indonesia</td>
<td>Portugal</td>
</tr>
<tr>
<td>Ireland</td>
<td>Qatar</td>
</tr>
<tr>
<td>Israel</td>
<td>Romania</td>
</tr>
<tr>
<td></td>
<td><strong>Germany</strong></td>
</tr>
<tr>
<td></td>
<td><strong>Guernsey</strong></td>
</tr>
<tr>
<td></td>
<td><strong>Isle of man</strong></td>
</tr>
<tr>
<td></td>
<td><strong>Jersey</strong></td>
</tr>
<tr>
<td></td>
<td><strong>Saudi Arabia</strong></td>
</tr>
<tr>
<td></td>
<td><strong>Seychelles</strong></td>
</tr>
<tr>
<td></td>
<td><strong>Tajikistan</strong></td>
</tr>
</tbody>
</table>

44 DTT applicable to Luxembourg SICAVs as clearly stated in the DTT, **5 under LTA interpretation**
Taxation of resident companies & resident institutional investors

1.1. Participation in a **distributing** SICAV/FCP:

- No withholding tax on distributions by SICAVs;
- Taxation on dividends and capital gains insofar as they are considered part of the investors’ commercial income;
- Taxation rate of 22.47% for 2016;
- No access to participation exemption regime, i.e. no exemption of dividends received from the SICAV;
- Pension funds are exempted.

1.2. Participation in a **capitalizing** SICAV/FCP:

- Taxation only at transfer of securities;
- Income from transfer of a SICAV’s units are considered capital gains.

In theory, FCP are considered tax transparent. However, generally, FCP follow the same tax treatment as SICAVs.
Non resident companies & non resident institutional investors

2.1. Participation in a distributing SICAV/FCP:
- No withholding tax on distributions by a SICAV;
- Capital gains are not subject to tax in Luxembourg;
- Taxation on dividends and capital gains is assessed in the investor’s country of residence according to the tax treatment applicable in this country.

2.2 Participation in a capitalizing SICAV/SICAF/FCP:
- Taxation only at transfer of securities;
- Capital gains are not subject to tax in Luxembourg;
- Income from transfer of units in a SICAV/ is taxed in the investor's country of residence, according to the applicable tax treatment.

In theory, FCP are considered tax transparent. However, in Luxembourg, their tax treatment is identical to the SICAVs. Tax treatment applicable to the investor depends on the interpretation given by the tax authorities of the investor’s country of residence.
Taxation of Luxembourg Management Companies

Luxembourg tax implications

- Corporate Income Tax and Municipal Business Tax: 29.22%;
- Net Wealth Tax (0.5%);
- 15% WHT on dividends (reduced under DTT/EU parent-sub directive);

Points of attention:

- Transfer Pricing
- VAT (value-added tax)
## VAT in the Investment Management Sector

### 1. Management services

<table>
<thead>
<tr>
<th>Conditions in Luxembourg</th>
</tr>
</thead>
<tbody>
<tr>
<td>Based on the Article 44, 1, d) are VAT exempt &quot;the management of the following vehicles:&quot;</td>
</tr>
</tbody>
</table>

**Domestic funds benefiting from the exemption**

**(i)** Undertakings for collective investment covered by the law of 17 December 2010 on undertakings for collective investment, special investment fund covered by the law of 13 February 2007 on special investment funds, venture capital investment companies covered by the law of 15 June 2004 on the venture capital investment company (SICAR), pension funds covered by the law of 13 July 2005 on professional retirement institutions in the form of pension savings companies with variable capital (sepcav) and pension savings associations (assep), and subject to the supervision of the Commission de surveillance du secteur financier, and pension funds covered by the law of 6 December 1991 on the insurance industry and subject to the supervision of the Commissariat aux assurances;

**(ii)** Undertakings similar to the ones referred to in point (i) of other European Union Member States and subject to the supervision of a supervisory body from another European Union Member State similar to the Commission de surveillance du secteur financier or the Commissariat aux assurances.
# VAT in the Investment Management Sector

## 1. Management services

<table>
<thead>
<tr>
<th>Conditions in Luxembourg</th>
</tr>
</thead>
<tbody>
<tr>
<td>(iii) Securitisation vehicles covered by the law of 22 March 2004 on securitisation and similar vehicles which purpose is to carry out securitisation transactions within the meaning of Article 1(2) of the regulation (EC) n°24/2009 of the European Central Bank of 19 December 2008 concerning statistics on the assets and liabilities of financial vehicle corporations engaged in securitisation transactions;</td>
</tr>
<tr>
<td>(iv) Alternative investment funds ('AIFs'), as defined in Article 1(39) of the law of 12 July 2013 on Alternative Investment Fund Managers”.</td>
</tr>
</tbody>
</table>

### Domestic funds benefiting from the exemption

- Undertakings located in another EU Member State, which are similar in nature to the Luxembourg vehicles listed by the article and which are subject to the supervision of an EU body similar to the CSSF or the CAA. The management of non-EU vehicles remain however excluded from this exemption.

### Foreign funds covered by the exemption
# VAT in the Investment Management Sector

<table>
<thead>
<tr>
<th>VAT</th>
<th>Conditions in Luxembourg</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>2. Custody services</strong>&lt;br&gt;VAT treatment of custody services&lt;br&gt;Supervision &amp; control functions of the custodian/trustee</td>
<td>VAT exempt except the control and supervision functions. &lt;br&gt;VAT taxable at 14%.</td>
</tr>
<tr>
<td><strong>3. Investment advice</strong>&lt;br&gt;VAT treatment of investment advice</td>
<td>VAT exempt</td>
</tr>
<tr>
<td><strong>4. VAT recovery for Funds</strong>&lt;br&gt;VAT recovery</td>
<td>In principle no. The VAT recovery right should be analysed depending on the investment (e.g. carbon units).</td>
</tr>
<tr>
<td><strong>5. VAT number for funds</strong>&lt;br&gt;VAT number for contractual funds&lt;br&gt;VAT number for corporate funds</td>
<td>No. The fund &amp; ManCo are deemed to be the same legal person, i.e. one VAT number. &lt;br&gt;Yes. Funds under a corporate form are regarded as VAT taxable persons and may obtain a VAT registration number.</td>
</tr>
<tr>
<td><strong>6. Option to tax on management services for investment funds</strong>&lt;br&gt;Option to tax available? Also on cross-border basis</td>
<td>No</td>
</tr>
</tbody>
</table>

Source: PwC Lux
From a tax perspective, the main characteristic of Luxembourg, considering it as the preferred UCITS domicile, is the possibility of transit of non-residents investments and the transfer of income and gains from assets and foreign investments without incidence of Income Tax. This is a consequence of four factors:

1. UCITS are not subject of Income Tax
2. UCITS have access to the DTTs benefits with countries where the foreign assets/investments are purchased/sold, or the WHT paid in foreign country can be reimbursed (for example, by the own investors)
3. The income, dividends or capital gains of non residents are not scope of WHT.
4. There is no taxation over financial transactions, transfers or exchange operations.

Moreover, the only tax costs in Luxembourg are (i) the Capital Duty and (ii) the Annual Subscription Tax, which are not significant. Thus, these costs don’t affect the choice of Luxembourg as a domicile for funds.

Source: PwC Lux
In UCITS constitution, it is charged a registration tax (“Capital Duty”)

- Fixed rate of 75 Euros.
- The tax rate is applicable again (with the same value) in two situations: (i) changes in articles of the UCITS constitution document; (ii) transfer of domicile of the fund to Luxembourg.

There is no taxation over financial transactions, transfers or exchange operations of non-residents investors.
UCITS are exempt of Luxembourg Income Tax, even for (i) SICAV/SICAF or (ii) FCP.

UCITS are subject of the Annual Subscription Tax” or “ATA”, over the NAV (“Net Assets Value”). The general rate is 0,05%. However, there are certain circumstances where is applicable the tax rate of (i) 0,01% or (ii) exemption.

- ATA is calculated and retained quarterly.
Regarding gains or income from UCITS foreign assets/investments, in order to avoid double taxation (i.e., in the home countries of assets/investments) UCITS can access the benefits of Double Taxation Treaties (DTTs) signed by Luxembourg.

Depending on UCITS legal structures: (i) DTTs are applicable for SICAVs, however for (ii) FCPs if it is not applicable for the fund, the own investors can access DTTs benefits when they are legitimated.

The Luxembourg Tax authority issues tax residence certificates for the application of DTTs on behalf of the UCITS.

Source: PwC Lux
**Taxation in Luxembourg: Distribution and/or Liquidation**

- No withholding tax on UCITS distributions
- Gains realized by investors (e.g. in the redemption and/or sale of shares) are not subject of Luxembourg withholding tax.
- There is no taxation over financial transactions, transfers or exchange operations of non-residents investors.
- Investors are taxed in the investor’s country of residence, according to the applicable tax treatment (e.g., individuals vs. legal entities, residents vs. non-residents, access to DTTs, etc.)

Source: PwC Lux

(*) IOF: Brazilian Tax over Financial Operations
Mutual funds in Asia Pacific has growth 7.5% a year

As of June 2015, standing USD 4.5 trillion from USD 3.2 trillion in 2010, the Asia Pacific mutual fund assets under management ("AuM") have growth at an average annual growth rate of 7.5%.

It is expected that Asia-Pacific’s share of High Net Worth Individuals (HNWI) assets will increase to USD 22.6 trillion by 2020.

* Australia, China, Hong Kong, India, Japan, Malaysia, New Zealand, Pakistan, Philippines, Singapore, South Korea, Taiwan, Thailand.

(1) PwC, Asset Management 2020 – A Brave New World

Source: PwC – Asin Passports, the coming of age
There are three fund recognition schemes in existence in Asia Pacific, and all of them are very recent initiatives.

**ASEAN CIS**
- **Status:** Live 25 August 2014
- **Countries in scope:** Malaysia, Singapore and Thailand

**Asia Region Fund Passport**
- **Status:** MOC signed in April 2016, - 18 months to full implementation
- **Countries in scope:** Australia, South Korea, New Zealand, Japan

**Hong Kong – China Mutual Recognition**
- **Status:** Live 1 July 2015
- **Countries in scope:** China, Hong Kong

Thailand, Philippines expected to sign and Singapore is temporarily out of scope.
The ASEAN CIS is first fund passport scheme that has been in operation in Asia

The ASEAN CIS (ASEAN Collective Investment Scheme) is a product of the ASEAN (Association of South East Asian Nations) Economic Union, the AEC, and went live on 25th August 2014. Therefore, only **Malaysia, Singapore and Thailand** have signed up the program so far.

*Singapore is the best location to domicile your ASEAN focused funds*

**The ASEAN CIS constitution and mechanics has been inspired by the UCITS regime**

*The AEC (ASEAN Economic Union) is composed by 10 countries*

Source: CIA World Factbook (Population is July 2015 Estimates & GDP is PPP and is 2014 estimated)

Source: PwC Lux
ASEAN CIS scheme AuM would be a growth from USD 226bn in 2014 to USD 372bn by 2020

PwC Market Research’s projection of the ASEAN CIS scheme would be a growth from USD 226bn in 2014 to USD 372bn by 2020 at an average annual rate of 8.6%. What could potentially accelerate this scheme’s popularity would be for more of the ASEAN economies to participate in the Scheme. In particular, the Indonesia Market would be a great potential for Malaysian Islamic fund managers to export their funds. However, this is still an ongoing discussion among the other countries and there have been no indications or signs of more economies showing interest to participate in the ASEAN CIS for now.

* CAGR: Compound Annual Growth Rate during the period
The CIS Operator is the ManCo in UCITS, and there are strictly prohibitions for derivatives, lending and repo transactions in ASEAN CIS principles

**ASEAN CIS key principles**

<table>
<thead>
<tr>
<th>Approved for retail offer in home country</th>
</tr>
</thead>
</table>

- Legal structures approved for CIS offered to retail investors (i.e. Authorised scheme approved by MAS)

<table>
<thead>
<tr>
<th>Common standards imposed on Qualifying Manager, Trustee and CIS</th>
</tr>
</thead>
</table>

- Track record (5 years, US$500m global AUM)
- At least US$1m capital
- Competency & experience
- Delegation restrictions

<table>
<thead>
<tr>
<th>Qualifying CIS Operator (locally regulated)</th>
</tr>
</thead>
</table>

- No performance fees
- Transferable securities
- Investments into other funds permitted
- Limits on derivatives

<table>
<thead>
<tr>
<th>Qualifying CIS Operator (locally domiciled)</th>
</tr>
</thead>
</table>

- No performance fees
- Transferable securities
- Investments into other funds permitted
- Limits on derivatives

<table>
<thead>
<tr>
<th>Annual compliance audit</th>
</tr>
</thead>
</table>

- Annual audit of the CIS Operator covering, at a minimum, compliance with the Common Standards

<table>
<thead>
<tr>
<th>Appoint local distributors and local representatives</th>
</tr>
</thead>
</table>

- Use of locally licensed intermediaries in host country
- May need to appoint a local representative
- Subject to host country requirements on offer of CIS

- No performance fees
- No repo or SEC lending
- Limit on delegation

Source: PwC – Asin Passports, the coming of age
The registration process of CIS is based on the UCITS III model, where the Operator applies to host regulators (1/2)

ASEAN CIS approval process – Home Regulator

1. Application letter & other supporting documents required by Home Regulator
2. Offering document/Prospectus
3. Application fee

Home Regulator published the names of Qualifying CIS on website at least 1 day prior to the offer in Home Jurisdiction

Source: Handbook for CIS Operators of ASEAN CIS
The registration process of CIS is based on the UCITS III model, where the Operator applies to host regulators (1/2)

ASEAN CIS approval process – Host Regulator

1. Standard letter issued by the Home Regulator to a Qualifying CIS Operator

2. ASEAN CIS Application form & other supporting documents

3. Prospectus prepared in accordance with host requirements

Host Regulator published the names of Qualifying CIS on website at least 1 day prior to the offer in Host Jurisdiction
There were 11 funds approved under ASEAN CIS (considering the end of 2015)

One of the reasons for ASEAN CIS slow start is that Thailand and Malaysia’s foreign currency regulations are tightly controlled, which poses a challenge to distribute multi-currency share classes (non-Thai Baht and non-Malaysian Ringgit respectively) in these countries.

<table>
<thead>
<tr>
<th>#</th>
<th>Home Country</th>
<th>Company name</th>
<th>Fund name</th>
<th>Asset Class</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Singapore</td>
<td>Maybank Asset Management</td>
<td>Maybank Asian Equity Fund</td>
<td>Equity</td>
</tr>
<tr>
<td>2</td>
<td>Singapore</td>
<td>Maybank Asset Management</td>
<td>Maybank Asian Income Fund</td>
<td>Fixed Income</td>
</tr>
<tr>
<td>3</td>
<td>Singapore</td>
<td>Nikko Asset Management</td>
<td>Singapore Dividend Equity Fund</td>
<td>Equity</td>
</tr>
<tr>
<td>4</td>
<td>Singapore</td>
<td>Nikko Asset Management</td>
<td>Nikko AM China Equity Fund</td>
<td>Equity</td>
</tr>
<tr>
<td>5</td>
<td>Singapore</td>
<td>Phillip Capital</td>
<td>Phillip Income Funds</td>
<td>Fixed Income</td>
</tr>
<tr>
<td>6</td>
<td>Malaysia</td>
<td>CIMB-Principal AM</td>
<td>CIMB-Principal Asean total Return Fund</td>
<td>Equity</td>
</tr>
<tr>
<td>7</td>
<td>Malaysia</td>
<td>CIMB-Principal AM</td>
<td>CIMB-Principal Asia Pacific Dynamic Income Fund</td>
<td>Fixed Income</td>
</tr>
<tr>
<td>8</td>
<td>Malaysia</td>
<td>CIMB-Principal AM</td>
<td>CIMB Islamic DALI Equity Theme Fund</td>
<td>Equity</td>
</tr>
<tr>
<td>9</td>
<td>Malaysia</td>
<td>CIMB-Principal AM</td>
<td>CIMB-Principal Malaysia Equity Fund</td>
<td>Equity</td>
</tr>
<tr>
<td>10</td>
<td>Malaysia</td>
<td>Maybank Asset Management</td>
<td>Maybank Bosera Greater China ASEAN Equity-I Fund</td>
<td>Equity</td>
</tr>
<tr>
<td>11</td>
<td>Thailand</td>
<td>One Asset Management</td>
<td>One Stoxx Asean Select Dividend Index Fund</td>
<td>Equity</td>
</tr>
</tbody>
</table>

Source: PwC GFD Lux
In Asia Region Funds Passport (ARFP), countries have up to December 2017 to implement the arrangements

On 28 April 2016, representatives from **Australia, Japan, Korea and New Zealand** signed the Asia Region Funds Passport’s Memorandum Of Cooperation (MoC). Signing of the MoC is an outcome of more than six years of international negotiation on the passport arrangements. Participating economies have up to 18 months from the 30 June 2016 to implement domestic arrangements. Activation of the passport will occur as soon as any two participating economies implement the arrangements under the MoC.

**Australia**  
**Japan**  
**New Zealand**  
**Korea**

The Philippines, Thailand and Singapore have also contributed to developing the framework in the working group.

---

**April 2015**
- Public consultations on Passport MOU annexes conclude.

**May 2015**
- Working Group considers public submissions.

**August 2015**
- Working Group finalise MOU and annexes.

**April 2016**
- + 12 months from economies becoming party to the Passport MOU

Economies which are party to the MOU will endeavour to implement changes to legislation and regulation where necessary.

When at least two economies give effect to the Passport arrangements, eligible Collective Investment Schemes in these economies can access the Passport arrangements.

Source: PwC Lux
The ARFP also has your key principles based on UCITS model, but there are some differences related to ASEAN CIS

**Main differences between ASEAN CIS and ARFP**

ARFP does not have any restrictions on stock lending and repurchase transactions or prohibition on performance
The AuM of mutual funds in ARFP would grow at an average annual rate of 7% up to 2020

Source: PwC – Asin Passports, the coming of age
The China-Hong Kong Mutual Recognition of Funds ("MRF") is the opportunity to break into the asset management markets of China, Hong Kong and beyond.

The Securities and Futures Commission in Hong Kong (“SFC”) and the China Securities Regulatory Commission in China (“CSRC”) jointly launched the Mutual Recognition of Funds scheme which has become effective since 1 July 2015. The scheme allows eligible funds to be distributed in each other’s market through a streamlined vetting process.

<table>
<thead>
<tr>
<th></th>
<th>Hong Kong</th>
<th>China</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total AUM (including locally domiciled mutual funds only)</td>
<td>US$60 billion</td>
<td>RMB5,241.4 billion</td>
</tr>
<tr>
<td>Total number of mutual funds</td>
<td>1,126</td>
<td>2,027</td>
</tr>
<tr>
<td>Total number of mutual funds eligible for MRF</td>
<td>About 100</td>
<td>About 850</td>
</tr>
<tr>
<td>Number of mutual funds applied for distribution</td>
<td><strong>35</strong> China-domiciled funds have received approval for distribution in Hong Kong</td>
<td><strong>6</strong> Hong Kong-domiciled funds have received approval for distribution in China</td>
</tr>
</tbody>
</table>

Source: PwC GFD Lux
The MRF framework states that only domiciled funds managed by an SFC-licensed asset manager will be able to distribute in China, and vice versa.

<table>
<thead>
<tr>
<th>SFC requirements for entry to Hong Kong</th>
<th>CSRC requirements for entry to mainland China</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domiciled on the <strong>Mainland</strong></td>
<td>Domiciled in <strong>Hong Kong</strong></td>
</tr>
<tr>
<td>Fund registered with <strong>CSRC</strong></td>
<td>Fund registered with <strong>SFC</strong></td>
</tr>
<tr>
<td>Established and authorised for over <strong>one year</strong></td>
<td>Established and authorised for over <strong>one year</strong></td>
</tr>
<tr>
<td><strong>Fund size</strong> not less than RMB 200 million</td>
<td><strong>Fund size</strong> not less than RMB 200 million</td>
</tr>
<tr>
<td>Less than <strong>20%</strong> of assets in Hong Kong</td>
<td>Less than <strong>20%</strong> of assets in Mainland</td>
</tr>
<tr>
<td><strong>Distribution</strong> to Hong Kong investors doesn’t exceed <strong>50%</strong> of total assets</td>
<td><strong>Distribution</strong> to Mainland investors doesn’t exceed <strong>50%</strong> of total assets</td>
</tr>
<tr>
<td><strong>Investment management</strong> function remains on <strong>Mainland</strong></td>
<td><strong>Investment management</strong> function remains in <strong>Hong Kong</strong></td>
</tr>
<tr>
<td>Must appoint a Hong Kong <strong>representative</strong></td>
<td>Must appoint a Mainland <strong>agent</strong></td>
</tr>
</tbody>
</table>

Source: PwC – Asin Passports, the coming of age
A final overview for Asian passports

<table>
<thead>
<tr>
<th></th>
<th>UCITS</th>
<th>Hong Kong and mainland China mutual recognition</th>
<th>Asia Region Funds Passport</th>
<th>ASEAN Collective Investment Scheme (&quot;CIS&quot;) Framework</th>
</tr>
</thead>
<tbody>
<tr>
<td>First announcement</td>
<td>First adapted in 1985</td>
<td>January 2013</td>
<td>September 2013</td>
<td>October 2013</td>
</tr>
<tr>
<td>Distribution markets</td>
<td>Member states of EU</td>
<td>Hong Kong and mainland China</td>
<td>Singapore, Australia, South Korea and New Zealand</td>
<td>Singapore, Malaysia and Thailand</td>
</tr>
</tbody>
</table>

**Highlight of conditions**

- Minimum Capital requirements of EU1 250.000
- Invests in eligible assets includes transferable securities dealt on a regulated market, money market instruments, deposits, close-ended funds, financial derivatives.
- No more than 10% of assets may be invested in transferable securities or money market instruments that are not listed on a stock exchange or dealt in another regulated market.
- SFC authorized funds domiciled in Hong Kong and CSRC authorized funds domiciled in China.
- Value of securities issued by any single listed issuer may not exceed 10% of its net asset value.
- Value of securities neither listed, quoted not dealt on a market may not exceed 15% of its net asset value.
- Prohibition to invest in any real estate.
- SFC authorized funds domiciled in Hong Kong and CSRC authorized funds domiciled in China.
- Not yet disclosed
- Joint public consultation on regulation and mechanism will be launched in 2014
- Must be licensed or registered by its home regulators.
- CIS operator must have a track record of at least 5 years.
- Asset managed by CIS operator and its related companies must have AuM of at least US$500m globally.
- Trustee/fund supervisor must be domiciled and regulated in the same jurisdiction as that of the CIS they oversees.
- CIS operator must maintain shareholder’s equity of at least US$1m and in incremental of 0.1% for every dollar of AuM that is in excess of US$500m.
- Consent to share information between home and host regulators.
- The assets of a qualifying CIS must be segregated from the custodian’s assets and other clients’ assets.
- Qualifying underlying investments may only consists of assets namely transferable securities, money market instruments, deposits, units in other CIS and financial derivatives.

Source: Are we ready? Hong Kong-mainland China mutual fund recognition – considerations and future outlook
### Comparative Asian Passports versus UCITS and AIFs (1/4)

<table>
<thead>
<tr>
<th>Eligible assets</th>
<th>Mutual funds</th>
<th>UCITS</th>
<th>ASEAN CIS</th>
<th>ARFP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transferable securities</td>
<td></td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
</tr>
<tr>
<td>Money Market instruments</td>
<td></td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
</tr>
<tr>
<td>Bank Deposits</td>
<td></td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
</tr>
<tr>
<td>Financial derivatives instruments</td>
<td></td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
</tr>
<tr>
<td>Fund units</td>
<td></td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
</tr>
<tr>
<td>Others</td>
<td></td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
</tr>
<tr>
<td><strong>Structured funds</strong></td>
<td></td>
<td>✔</td>
<td>✔</td>
<td>✗</td>
</tr>
<tr>
<td>Private equity, real estate, hedge funds, commodities, etc.</td>
<td></td>
<td>✔</td>
<td>✗</td>
<td>✗</td>
</tr>
</tbody>
</table>

**UCITS**
- Eligible assets: Transferable securities, Money Market instruments, Bank Deposits, Financial derivatives instruments, Fund units, Others
- Cash

**ASEAN CIS**
- Eligible assets: Transferable securities, Money Market instruments, Bank Deposits, Financial derivatives instruments, Fund units, Others
- Cash

**ARFP**
- Eligible assets: Transferable securities, Money Market instruments, Bank Deposits, Financial derivatives instruments, Fund units, Others
- Cash

**Others**
- Currency
- DR over gold

**Sources**:
- Memorandum of Cooperation on the Establishment and Implementation of the Asia Region Funds Passport
- Standards of Qualifying CIS
- ALFI - Luxembourg investment vehicles: An overview of the legal and regulatory requirements
### Comparative Asian Passports versus UCITS and AIFs (2/4)

<table>
<thead>
<tr>
<th>Mutual funds</th>
<th>UCITS</th>
<th>ASEAN CIS</th>
<th>ARFP</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Transferable securities</strong></td>
<td>100% / 10/25/35%</td>
<td>100% / 10/35%</td>
<td>100% / 10/35%</td>
</tr>
<tr>
<td><strong>Money Market instruments</strong></td>
<td>100% / 10/35%</td>
<td>100% / 10/35%</td>
<td>100% / 10/35%</td>
</tr>
<tr>
<td><strong>Bank Deposits</strong></td>
<td>100% / 20%</td>
<td>100% / 20%</td>
<td>100% / -</td>
</tr>
<tr>
<td><strong>Financial derivatives instruments</strong></td>
<td>100% / 5% / 10%</td>
<td>100% / 20%</td>
<td>100% / 5% / 15%</td>
</tr>
<tr>
<td><strong>Combined total exposure per issuer</strong></td>
<td>- / Max 20%</td>
<td>- / Max 20%</td>
<td>- / Max 20%</td>
</tr>
<tr>
<td><strong>Fund units</strong></td>
<td>30% / 20/30%</td>
<td>30% / 10/20%</td>
<td>30% / 10/20/30%</td>
</tr>
<tr>
<td><strong>Others</strong></td>
<td>49% / -</td>
<td>- / 5/15%</td>
<td>25% / -</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Structured funds</th>
<th>AIFs</th>
<th>ASEAN CIS</th>
<th>ARFP</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Private equity, real estate, hedge funds, commodities, etc.</strong></td>
<td>Flexible / 10-30% or Flexible</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

---

Sources: Memorandum of Cooperation on the Establishment and Implementation of the Asia Region Funds Passport Standards of Qualifying CIS ALFI -Luxembourg investment vehicles: An overview of the legal and regulatory requirements

(1) 25% for debt securities issued by a credit institution situated in an EU Member / 35% for government bonds
(2) 35% for government bonds
(3) Limit to be checked at group level
(4) Depends on fund’s structure
## Comparative Asian Passports versus UCITS and AIFs (3/4)

<table>
<thead>
<tr>
<th>Administrator</th>
<th>AIFs</th>
<th>UCITS</th>
<th>ASEAN CIS</th>
<th>ARFP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minimum capital requirement</td>
<td>EUR 125,000 +0.02% &gt; 500 MM AuM (1)</td>
<td>EUR 125,000 +0.02% &gt; 500 MM AuM (1)</td>
<td>USD 1 million +0.1% &gt; 500 MM AuM (2)</td>
<td>USD 1 million +0.1% &gt; 500 MM AuM (2)</td>
</tr>
<tr>
<td>Minimum AuM</td>
<td>NA</td>
<td>NA</td>
<td>Min AUM USD 500 MM (3)</td>
<td>Min AUM USD 500 MM (3)</td>
</tr>
<tr>
<td>Timing in the market</td>
<td>NA</td>
<td>NA</td>
<td>5 years</td>
<td>5 years</td>
</tr>
</tbody>
</table>

(1) Minimum capital limited to EUR 10 millions  
(2) Minimum capital limited to USD 20 millions  
(3) Considering holdings and subsidiaries  
NA – Not applicable

Sources: Memorandum of Cooperation on the Establishment and Implementation of the Asia Region Funds Passport Standards of Qualifying CIS  
ALFI -Luxembourg investment vehicles: An overview of the legal and regulatory requirements
## Comparative Asian Passports versus UCITS and AIFs (4/4)

<table>
<thead>
<tr>
<th>Documentation</th>
<th>AIFs</th>
<th>UCITS</th>
<th>ASEAN CIS</th>
<th>ARFP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Notification letter or Application form</td>
<td><img src="https://www.unicode.org/coverage/thumbs-up.png" alt="Thumbs up" /></td>
<td><img src="https://www.unicode.org/coverage/thumbs-up.png" alt="Thumbs up" /></td>
<td><img src="https://www.unicode.org/coverage/thumbs-up.png" alt="Thumbs up" /></td>
<td><img src="https://www.unicode.org/coverage/thumbs-up.png" alt="Thumbs up" /></td>
</tr>
<tr>
<td>Fund rules or its constitutional documents</td>
<td><img src="https://www.unicode.org/coverage/thumbs-up.png" alt="Thumbs up" /></td>
<td><img src="https://https://www.unicode.org/coverage/thumbs-up.png" alt="Thumbs up" /></td>
<td><img src="https://www.unicode.org/coverage/thumbs-up.png" alt="Thumbs up" /></td>
<td><img src="https://www.unicode.org/coverage/thumbs-up.png" alt="Thumbs up" /></td>
</tr>
<tr>
<td>Prospectus</td>
<td><img src="https://www.unicode.org/coverage/thumbs-up.png" alt="Thumbs up" /></td>
<td><img src="https://www.unicode.org/coverage/thumbs-up.png" alt="Thumbs up" /></td>
<td><img src="https://www.unicode.org/coverage/thumbs-up.png" alt="Thumbs up" /></td>
<td><img src="https://www.unicode.org/coverage/thumbs-up.png" alt="Thumbs up" /></td>
</tr>
</tbody>
</table>

- Additional marketing documentation
- KIID
- Financial statements
- Service providers agreements
- Business plan
- RM policy

- KIID
- Financial statements
- Undertakings

- Additional documentation according to each country regulation (e.g. Fund Fact Sheet)

- Additional documentation according to each country regulation

- 20 WD
- Home Regulator – 15 WD
- Host Regulator – 5 WD

- Depends on each country

- 21 days

Sources: Memorandum of Cooperation on the Establishment and Implementation of the Asia Region Funds Passport Standards of Qualifying CIS ALFI -Luxembourg investment vehicles: An overview of the legal and regulatory requirements

(1) Key Investor Information Document WD – working days RM – Risk Management
This presentation was elaborated according to the service agreement between PwC and BRAiN and the information contained in this material was obtained from public sources and/or from material presented by BRAiN’s associates. This information was not verified or audited.

We have developed our work as consultants to support BRAiN in decision-making, therefore not comprehending any procedures related to auditing of financial information.
www.pwc.com.br

© 2017 PwC. All rights reserved. The distribution of this material without previous authorization from PwC is prohibited. The term “PwC” refers to the network of member firms of PricewaterhouseCoopers, or, as the context determines, to each one of PwC’s participating member firms. Each member firm of the network constitutes a separate and independent legal entity.
For more details about the PwC network, please access: www.pwc.com/structure

The content of this material is destined only for general information, it does not constitute an opinion or understanding by PwC, and neither it can be utilized as, or in substitution, of a formal consultation of a qualified professional.

The opinions expressed in this publication are those of the authors and do not necessarily reflect the views of the Inter-American Development Bank, its Board of Directors, or the countries they represent.