

Asset & Wealth
Management
Community



The Monthly *Briefing*

Powered by PwC for the AWM Community

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*Executive
Summary*

MiFID II: what's next?

MiFID II is in place, but there is still need for clarity and operational optimisation.

Matthew Newnham | MFEX - Mutual Funds Exchange, Sweden

MiFID II product governance requires fund companies and distributors to act in the clients' best interest at all times. **The call for transparency based on feedback loops between financial instruments manufacturers, distributors, and both the 'positive' and 'negative' target markets remains, for the moment, time consuming in terms of gathering and processing data.**

Adding to the complexity, as in the case of Negative Sales Reporting, is the lack of a clear definition of the term, and whether it is a legal requirement to, or how often, to report; compounded by no agreed-to reporting template. For rebates to the investor, the issue relates more to the capabilities of distributors to support the quarterly or annual reporting process against the backdrop of switching to clean (no trailer fee) shares.

The ETF market: a competitive and attractive market. Where do we stand?

Regulations and taxes are impacting the growth and innovation of ETFs

Carsten Brengel | PwC Luxembourg

ETF AuM have tripled in the past decade and asset managers still see significant growth opportunities for ETFs across the globe. The continued growth in ETF assets will also be matched by increased complexity. In addition to traditional ETFs, which passively track market benchmarks, there are actively managed versions and smart beta ETFs as well as derivatives-based synthetic ETFs.

The growth and innovation of ETFs have already been impacted by the regulatory and tax environment. Navigating regulatory

environments, particularly outside of firm's home base, can create challenges from a regulatory and compliance perspective. Overall, with the continued growth of the global ETF market and the increasing distribution opportunities to retail investors and other investors, the requirement for ETF sponsors to understand the tax requirements of key investor markets and categories will likely intensify. Regulations and taxes having an impact on the growth and innovation of ETFs will likely continue for many years to come.

We expect that continued advances in digital technologies will significantly impact ETF sponsors, service providers and other participants. We foresee technological change driving significant impacts upon ETF operations, distribution and products.



How to structure new products tailored to investor's needs?

When choosing the most efficient investment vehicle, you need to take into account the profile of your client, and the associated tax, legal and regulatory reporting implications.

Begga Sigurdardottir and Christian Heinz | PwC Luxembourg

Regulations require greater transparency, and international tax rules are being rewritten. Between 2019 and 2020/22 new tax rules will come into place that will impact how alternative funds will be structured. So called Anti-Hybrid Rules will be in place to prevent the mismatch of different jurisdictions applying different tax treatments in certain situations. For example, the rules may catch situations where a financial instrument is treated differently for tax purposes between the borrower and the lender and these rules may catch situations where the fund is treated

as tax transparent in the country where it is set up, but not in the country of investors.

To optimally set up funds in a manner that they attract investors, in addition to satisfying specific target investor preferences, there will be a need to ensure that the chosen fund vehicle gives the best result considering its investors. It may no longer be viable to put a product into the market without previously understanding exactly who the investor groups will be and how exactly they are taxed on their investment in the fund.





Sustainability: the new game changer for the Asset and Wealth Management?

2018 will be the year for sustainability. By the way, if you had been on the sinking Titanic, would you have insisted on a better cabin?

Nathalie Dogniez & Valérie Arnold | PwC Luxembourg

Believe it, or not, but the weather affects us all, and climate change may unleash forces for evolution beyond our human capacity to adapt. The trajectory of 250 years of scientific and business progress, that lifted many of us out of poverty and increased our life expectancies, is unleashing its own forces to which we need to ADAPT – (Asymmetry of wealth distribution, Disruption of business models by technologies, Ageing western populations and younger Africans, Populism for fear of loss of personal identities, and Trust in whatever the truth may be.).

Despite all this, we humans are hopefully ingenious enough to balance the iron

triangle of Planet, People and Profit. **To move sustainable and responsible investment into the mainstream, European governments and regulators are pushing for “Environmental, Social and Governance” criteria for growing numbers of responsible (Millennial and GenX) investors to use to screen company operations and guide their investment choices.**

In 2018, the year of sustainability, we expect to see the Final Report from the High-Level Expert Group (HLEG) on sustainable finance, a European Commission Action Plan by March, 2018 and Legislative Proposals in May.



Regulatory update

Sustainability has moved from being a niche concern to the mainstream. 2018 will be a landmark year when regulations will systematically make sustainability a business imperative

Nathalie Dogniez | PwC Luxembourg

The key regulations being implemented in 2018 are GDPR (Q2), MMFR Application Date (Q3), in 2019 MMFR End of Grandfathering (Q1) and Long-Term Shareholding Directive (Q2).

In January, 2018 we saw CSSF amendments to UCITS FAQ and its communication on EU commission non-financial information guidelines, the EC letter on MMFs RDM, the HLEG Final Report on sustainable finance, and ESMA Supervisory Convergence work programme.

The EU 2017/828 Directive is to correct the shortcomings in corporate governance, lack of shareholder engagement and focus on short-term results that contributed to

the financial crisis. In addition to listed companies, asset managers, intermediaries and proxy advisors will fall in scope of the transparency regulation. Shareholders will have “a say on pay” and get to vote on remuneration policies and reports.

The final report of the High Level Expert Group (HELG) on sustainable finance suggests 8 various measures that include a sustainability taxonomy, disclosure on sustainable risks, green bonds and a sustainable European infrastructure. The ESA supervisory mandate is also to include guidance on sustainable risks.

Spotlight on a PwC solution

The “IdealRatings” Tool

Ashraf Ammar | PwC Luxembourg

The first step with IdealRatings is to set up your investment criteria to screen, monitor and benchmark your “investment universe” against related market standards. In addition, you can use the tool’s flexibility to set up customised guidelines against different asset classes (equities, fixed income, REITs or indices) to formulate new investment strategies or for customised reporting.

For Sustainable and Ethical Investments it can be set up to screen according to any ESG, SRI or Ethical Investment criteria, and covering wide range of asset classes, (more than 40K listed equities, fixed income instruments, REITs, PE and RE).

Our financial analysts consistently use IdealRatings to screen underlying assets and monitor compliance with investment policies, restrictions, regulatory and eligibility requirements.

Save
the
date

Join us on
Thursday 15 March
for the next session

Agenda

Thursday 15 March 2018

08.30 – 09.00	Welcome coffee
09.00 – 09.05	<i>Introduction</i> Christelle Crépin , PwC Luxembourg
09.05 – 09.25	<i>AWM 2025: Digital technologies, do or die</i> Dariush Yazdani , PwC Luxembourg
09.25 – 09.55	<i>Responsible Artificial Intelligence</i> Anand Rao , PwC US
09.55 – 10.25	<i>Blockchain: transforming the AWM industry?</i> Patrick Hennes , PwC Luxembourg
10.25 – 10.55	Coffee break
10.55 – 11.10	<i>German tax reform: How did we survive?</i> Anne-Sophie Etienne , PwC Luxembourg
11.10 – 11.30	<i>Benchmark your Global Fund Distribution: the 2018 trends</i> Christophe Saint-Mard , PwC Luxembourg
11.30 – 11.50	<i>Regulatory update</i> Nathalie Dogniez , PwC Luxembourg
11.50 – 11.55	<i>The last 5 minutes: Spotlight on a PwC solution</i>
11.55 – 12.00	<i>Wrap-up</i> Christelle Crépin , PwC Luxembourg
From 12.00	Walking lunch

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