

Asset & Wealth  
Management  
Community



# The Monthly *Briefing*

Powered by PwC for the AWM Community

19 April 2018



*Executive  
Summary*

# Launch of the AM News Channel

Dariush Yazdani | PwC Luxembourg

PwC Luxembourg has launched the AM News Channel. During the first month, we already had 10k visitors. The AM News Channel helps your senior and junior staff broaden their industry knowledge and get news from around the world. There is an open channel on YouTube –

“Subscribe now!”

## Digital skills bridge: get ready for the digital evolution

“AWM player is a clear candidate as a pilot.”

Laurent Probst | PwC Luxembourg

PwC is proudly supporting the Ministry of Employment as it launches a digital skills bridge programme. This project will create solutions to help companies prepare for the digitisation future. It also aims to identify jobs in Luxembourg that will change or be made redundant by robots.

The current situation on the Luxembourg labour market is complex and dynamic. The market players face high recruitment costs with limited sustainability. All sectors are looking for higher skilled employees – unfilled skilled jobs are leading to lower productivity and missed growth opportunities. New technology and the fact that some people won't match the required job profile might raise social risk for lower skilled people.

To address this scenario the project provides a national toolbox to facilitate upskilling and workforce mobility for the jobs of tomorrow. It provides an incentive to employers for offering tools in the areas of tools, financing, platforms, motivating employees, individual advice and communication.

The objective of the programme is to raise awareness and support companies whose business activities will be significantly transformed by digital disruption. As regards people management, the aim is to coach and upskill employees who are impacted by digitisation and achieve a 60% internal mobility rate.

In May 2018, pilot cases of 20 companies will be selected on the basis of specific eligibility criteria. Those companies will benefit from a distinctive technical and financial assistance. For example: two to three months of training will enable the employees to meet the requirements of the new role. The costs will be partly reimbursed (between 35% and 80%) by the programme. Employees will get an individual coaching session throughout the pilot case. Considering an upskilling cost of around EUR 25k, the government will cover half of it – this is clearly more attractive than a planned redundancy scheme.

Companies interested will have from 2 May to 25 May to apply - check [www.skillsbridge.lu](http://www.skillsbridge.lu).

## Robotic Process Automation: how to get started

Hugo Larginho Brás | PwC Luxembourg

Robotic Process Automation (RPA) is software that you set up to replicate the exact actions of human beings, similarly to an excel macro, but at a larger scale. It's suitable when it comes to high volumes and basic tasks processing. On the contrary RPA is not artificial intelligence and not able to learn from experience and improve by itself.

We are seeing application of RPA by AWM players in Luxembourg, for instance in TA reporting, dealing and dividend payment processes, in FA fund static data integration and update, or in Distributors transaction confirmations generation.

Deploying RPA is not something that you should do as an isolated project. It should be embedded in a wider process automation strategy. A solid business case and project plan should be built up, applying a prudent approach. RPA will help you reduce headcounts, but as a minimum investment you will need a RPA process analyst and a RPA developer. In our experience one robot costs between EUR 5-10k per year, which is sufficient to start your RPA practice. Control and use your communication to raise enthusiasm and mitigate the fear of job losses. Your current employees can be trained to adapt to the future RPA reality.



# Cloud: opportunities for the financial sector

“We can see a wide range of opportunities in cloud computing. The regulatory framework on outsourcing and cloud is now in place in Luxembourg. Make sure to understand the requirements and to get the implications.”

Florian Bewig | PwC Luxembourg

## Background

Nowadays, cloud solutions are available for almost every need. Interestingly, it is not as widespread for the core business of financial services – it’s probably just a matter of time.

The number one argument for cloud computing is the cost. Here you turn capital expenses into operational expenses. Other benefits are: You only pay what you consume, it’s easy to extend, if your business is growing and it’s easy to share with any other stakeholder. But also mitigate your risks – Key risks are around confidentiality, integrity and availability of your data.

## The regulatory framework

CSSF Circular 17/654 not only introduces specific descriptions of the different characteristics, service models and deployment modes, but it also supports the implementation of cloud-based solutions, both for financial institutions as consumers of such solutions and for future providers of cloud technologies in Luxembourg.

Depending on the intended set-up and attribution of roles as defined by the Circular, requirements have been defined to ensure that consumers of cloud-based services appropriately manage the risks related to delegating these activities to a service provider. These requirements are aligned with existing outsourcing requirements and mainly relate to aspects including internal governance and oversight, risk management, business continuity, protecting sensitive data, and contractual agreements with service providers. The Circular introduces the role of a Cloud Officer, whose job is to understand the underlying cloud technology as well as to support governance and oversight objectives.

The Law of 27 February 2018, which entered into force on 5 March 2018, creates more opportunities to outsource activities. The new law provides that clients of financial institutions may consent to the transfer of their data by the financial institutions to an outsourcee.

## Best practice when adopting cloud solutions

- Focus on cloud providers that do have up-to-date security, compliance and financial health audits
- Avoid cloud providers that use third-party data centres, as they do not have total control
- Always enter into trial arrangements first
- Always test disaster recovery and failover with the vendor
- Always insist on a single point of contact.

# US Tax Reform: what are the impacts for the AWM industry?

Sébastien Drevet | PwC US

Marc Meurant | PwC Luxembourg

We had the opportunity to welcome Sébastien Drevet, our PwC US colleague, informing us about the US Tax Reform and the impacts for the AWM industry.

Coming from high tax rates and extensive administration, the US Tax Reform is now reality.

As most of the proposed rules apply to American taxpayers, US corporates are likely to rethink how they operate abroad. One of the biggest changes concerns the taxation of the US foreign subsidiaries. Basically, repatriated profits won’t be subject to US corporate tax any longer. What’s more, companies which have not repatriated past earnings could repatriate at a reduced rate.

Under the “America first” label, the reform will impose a 20% “excise tax” on cross-border payments between affiliates of the same company. In other words, corporates will no longer have a tax incentive to expand abroad. On the contrary, there will be a tax penalty to purchase abroad. Europe could be faced with a number of potential challenges.

Focussing on the impact for Asset Managers the key take-a-ways are:

## • Impact on US Inbound investments

Valuation of corporate stocks to be assessed on case-by-case basis in light of the Reform;

Master Limited Partnerships structures to be revisited;

Impact on private equity and real estate products to be assessed.

## • US Outbound Investments

Generally, no material impact identified, but additional risks of creating phantom income (taxable income without cash) for US investors in certain specific situations

## • Management Companies and US Operations

Increased tax burdens for executives/advisors and investors that are in high tax states might impact location of operations;

Preferential 23.8% tax rate (vs. 40.8%) on carried interest restricted to gains on assets held for more than 3 years rather than 1 year (mostly relevant to alternative managers);

Increased cash flow and capex deduction may lead to more M&A activity and technology investments.





## Regulatory update

Nathalie Dogniez | PwC Luxembourg

Key regulations are adopted and are in the course of being implemented now. -Next challenges are arriving: **GDPR, Money Market Fund Regulation and Long-term shareholding directive.**

### GDPR

The GDPR implementation deadline is almost upon us – 25 May 2018. We are expecting an ALFI FAQ to be published by the end of the month.

*Some of the market players may not have yet realised that some of their short-term funds (or sub-funds) might fall within the scope of the regulation – it is urgent to perform an analysis!*

### Money Market Fund Regulation

The Money Market Fund Regulation, which will apply from July 2018 (January 2019 for existing funds), will impose many changes on all money market funds (regardless of whether they operate as constant/stable NAV or variable NAV MMFs).

Such changes include for instance:

- More stringent rules on eligibility of investments and investment restrictions;
- New liquidity requirements;
- New processes to be implemented (e.g. stress testing, internal credit quality assessment, specific KYC process);
- New pricing and NAV calculation requirements;
- New reporting to investors and regulator;
- Update of the prospectus and articles.

### Long-term shareholding directive

In order to focus on long-term sustainability and on long-term engagement, there are several key provisions which need to be considered by Asset Managers (incl. Mancos, AIFMs).

Stronger shareholder rights and facilitation of shareholder voting will be required. Transparency over asset managers and institutional investors engagement policy as well as transparency over institutional investors equity strategy – The Management of assets needs to report on how he is ensuring that he is in line with institutional investors long-term objectives. Introduction of shareholders' right to vote on remuneration policy and remuneration report -> a lot further than for UCITS -> Watch that space: is this setting the tone for the future?

## Spotlight on a PwC solution – Digital Intelligence Services

Benedikt Jonas | PwC Luxembourg

*Get a better understanding of your competitors and customers.*

PwC's Digital Intelligence Service unlocks public data enriched by PwC's advisory experts to take better decisions for your business. Your benefits: Get a better understanding of your competitors and customers! Improve your sales & marketing by measuring campaign effectiveness, sufficient targeting and identifying influencers. Scout innovation and new ideas and also activate alerts for potential reputational risks! More information [www.pwc.lu/en/digital-intelligence](http://www.pwc.lu/en/digital-intelligence).

# Join us on Thursday 17 May for the next session

# Agenda

08.30 – 09.00	Welcome coffee
09.00 – 09.05	<b>Introduction</b> <b>Christelle Crépin</b> , PwC Luxembourg
09.05 – 09.25	<b>Funding the future</b> <b>Dariusz Yazdani</b> , PwC Luxembourg
09.25 – 09.45	<b>21st CEO survey: What's on the mind of 1,293 CEOs around the world?</b> <b>Steven Libby</b> , PwC Luxembourg
09.45 – 10.20	<b>Fund tax is not only a tax advisor topic!</b> Moderator: <b>Sidonie Braud</b> , PwC Luxembourg Panelists: <b>Benoit Willers</b> , Head of Securities Banking Operations, SGSS   <b>Richard Marshall</b> , Head of Product, Fundrock Management Company   <b>Alain Guérard</b> , Managing Partner, Mont Blanc Consult
10.20 – 10.50	Coffee break
10.50 – 11.10	<b>Observatory for Management Companies: our new 2018 barometer</b> <b>Laurent Carême and Grégoire Huret</b> , PwC Luxembourg
11.10 – 11.40	<b>Latest recommendations on substance and governance - what should ManCos pay attention to?</b> <b>Laurent Carême, Olivier Carré and Xavier Balthazar</b> , PwC Luxembourg
11.40 – 12.05	<b>Regulatory update</b> <b>Xavier Balthazar</b> , PwC Luxembourg
12.05 – 12.10	<b>The last 5 minutes: Spotlight on a PwC solution</b>
12.10 – 12.15	<b>Wrap-up</b> <b>Christelle Crépin</b> , PwC Luxembourg
From 12.15	Walking lunch

[www.pwc.lu/asset-management](http://www.pwc.lu/asset-management)

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