Asset & Wealth Management Community

The Monthly Briefing

Powered by PwC for the AWM Community

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Executive Summary

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Cybersecurity: Trends and Developments

> *GDPR is a great opportunity as a foundation for cybersecurity, and employee awareness is key. Be careful not to trust new technologies faster than you can handle them.*
>
> **Vincent Villers** | PwC Luxembourg, Cybersecurity Leader

In a hyper-connected financial ecosystem loaded with sensitive data, the most vulnerable point of attack for motivated malicious hackers is through the email system and employee naivety. Nearly twenty percent (20%) of employees get duped by seemingly credible requests to divulge passwords and credentials.

Cybersecurity initiatives, when implemented through more rugged network architectures and access controls, have led to fewer incidents. However, industry-wide cybersecurity, despite G7 recommendations on elements of cybersecurity for the financial sector, is not the norm and it will be the weakest of "trusted" 3rd parties that will lead to loss of business continuity and severe damage to reputation.

Attack risks before they attack you! Assess your weaknesses and sensitise your employees.

Cybersecurity: Tech-Watch

> *If it's free, then you are the product.*
>
> **Vladimir Kolimaga** | PwC Luxembourg, Threat Intelligence & Incident Response
>
> **Maxime Clementz** | PwC Luxembourg, Cybersecurity Expert & Ethical Hacker

More and more internet connected devices are a bonanza for mischief makers. **Given the flaws in trusted solutions, sophisticated cyber-criminals can potentially get information on any of our habits and hold us, and our supply chains, to ransom from the moment we awake.**

Opportunism and criminality has always been in the fabric of society. Rather than blindly fall victim to 21st century crime, put measures and safeguards into place, and draw on expert "ethical hackers" who can help.

MiFID II: Unexpected VAT?

> *Any changes in the nature of the services / fee flows may trigger VAT consequences.*
>
> **Marie-Isabelle Richardin** | PwC Luxembourg, Indirect Taxes Partner
>
> **David Schaefer** | PwC Luxembourg, Indirect Taxes Senior Manager

MiFID II will go into force as of January 3rd, 2018. Whereas research fees were previously bundled into brokerage fees, MiFID II will impose, under certain conditions, that research fees are accounted for and billed separately (i.e. unbundled). **Depending on the set-up and the use of the research services, research may become subject to VAT**.

Currently, the VAT treatment of research services varies depending on the countries and based on different surveys performed, there seems to a variety of approaches. In Switzerland, research fees should be subject to VAT. In the UK, HMRC should issue a notice in the coming days clarifying the VAT treatment. The additional VAT collected by the Revenue in the UK on research fees could be as high as £40 million per year (mostly irrecoverable VAT on research fees incurred by banks and fund managers). Other EU countries have not, as yet, provided any clarification on this topic, but current discussions mainly focus on the specific and essential character of research services for the management of investment funds for these services to benefit from the fund management VAT exemption.

We recommend a continued monitoring of developments at both EU and local levels, and a careful review of new or amended agreements further to MiFID II to ensure the VAT aspects are covered. Another topic that may trigger VAT implications is the inducement ban and the requirement to have proper fees for enhanced services. This subject will be discussed in more detail in a soon to be released PwC flashnews.

ManCo: The Latest Figures

Polled attendees expect 2018/2019 product growth to be the highest in Private Equity followed by Real Estate, Infrastructure and then UCITS.

Laurent Carême | Director, PwC Luxembourg

Over a four year period, from 2004-2008, **UCITS ManCos in Luxembourg grew from 26 to 194. Today, that segment has matured and they sit at 202**. Similarly, over the last four year period (2013-2017) the growth spurt has been for **licensed AIFMs** going from 10 and starting to level **at 227**.

UCITS ManCos and AIFM now employ over 4'500 in Luxembourg. UCITS ManCos added an average of 9% more employees each year since 2010 as they take on new investment vehicles, and handle compliance and risk functions.

The **AuM in Luxembourg** currently stand at little over **€4T**.

Meanwhile, the **PwC ManCo Index**, based on the number of employees, AIFMs and UCITS ManCos and AuMs, continues its gentle **upward growth adding 1%** over the last year.

For further information please visit our Observatory for Management Companies at https://www.pwc.lu/en/asset-management/management-company.html

ManCo: CSSF visits and the right level of governance

The CSSF is doing two types of on-site visits: Thematic visits on topics like risk management, AML/KYC and procedures in relation to CSSF Circular 02/77 on investment breaches and NAV errors. The CSSF also performs many governance inspections. Members of the CSSF's ten person expert team prioritise their ManCos audits based on perceived risks.

The CSSF applies an audit-type approach for their reviews, consisting in interviews, review of documents and sample testing.

Findings can be on anything. But war stories are around the level of involvement of the management company in risk controls and on the control of delegated functions. The risk manager in Luxembourg is not always involved in the definition of risk limits for the funds, and is not hands on enough in the ongoing monitoring and remediation of breaches to risk limits. The CSSF found that due diligence controls on delegates are in many cases weak, notably in the case of intra-group delegations.

The CSSF would not accept anymore a setup with only personnel put at the disposal of the management company, without employees on the management company pay roll. They are also having a look to companies with a majority or only part time employees.

All management companies who delegate portfolio management should have a Luxembourg-based Risk Manager. When management companies delegate portfolio management, ESMA expects on-site visits to be in all cases part of the delegation control framework.

Laurent Carême | Director, PwC Luxembourg

Xavier Balthazar | Partner, PwC Luxembourg

The CSSF expects tighter control, follow up and evidence of closure on anomalies.

Laurent Carême | Director, PwC Luxembourg

Xavier Balthazar | Partner, PwC Luxembourg

Birgit Goldak | Partner, PwC Luxembourg

ManCo: Oversight over Portfolio Managers and Distributors

The extent to which ManCos are physically and personally involved in oversight varies. They typically monitor and control Portfolio Managers based on KPIs and assessed deviations from benchmark data. **The expectation is more regular and on-going direct contact to ensure compliance and due diligence**.

For oversight over all types of delegates, including investment managers, distributors as well as other delegates, with the growing number of regulations, due diligence questionnaires and controls over them will be increasingly more detailed and comprehensive. Of the polled attendees, 76% of them confirmed they do onsite visits of their portfolio managers at the start of the relationships and also regularly to complement the due diligence questionnaires.

Regulatory Update: November 2017

Nathalie Dogniez | Partner, PwC Luxembourg

As part of the year end tradition, November was a really busy month in term of regulatory news and publications. MiFID2, MiFIR, EMIR and BMR are the most popular topics in terms of new texts, requirements and Q&A published in November, which may be explained by the soon coming implementation deadline. We also see new themes appearing in regulators publications such as ICO (Initial Coin Offering) and AI/ML (Artificial Intelligence/Machine Learning). It is also worth mentioning interesting IOSCO publications on hedge funds and termination of funds.

In term of coming regulatory developments, the following items are in the pipe (or legislative train):

In preparation: Invest Firm's Prudential, AIFMD Review, Retail products, Cross Border Funds.

Proposals Issued: EMIR Review, ESA's Powers

Under finalisation: AML 4, STS Securitisation

With regards to the regulators priorities, it is worth mentioning that fees transparency and performance are recurring themes appearing on the 2018 agenda of the EU commissions, ESA's and ESMA.

PwC Spotlight: Due Diligence Services

A tech-enabled way to help in the process of performing due diligence efficiently and effectively with great reporting on all types of delegates.

Save the date

Join us on Thursday 11 January for the next session

Agenda

Thursday 11 January 2018

08.30 – 09.00	Welcome coffee
09.00 – 09.10	*Introduction* **Christelle Crépin,** PwC Luxembourg
09.10 – 09.30	*AWM 2025 report: a buyer's market* **Dariush Yazdani**, PwC Luxembourg
09.30 – 10.00	*The impacts of MiFID II on Pan-European distribution* **Olivier Carré**, PwC Luxembourg
10.00 – 10.20	*Millennials and after: what makes them tick?* **Vinciane Istace,** PwC Luxembourg
10.20 – 10.50	Coffee break
10.50 – 11.10	*Norwegian tax update on investor taxation and regulatory highlights* **Magne Hop,** PwC Norway
11.10 – 11.40	*GDPR: key concerns for the AWM Industry* **Frédéric Vonner,** PwC Luxembourg
11.40 – 12.00	*Regulatory update* **Nathalie Dogniez,** PwC Luxembourg
12.00 – 12.05	*The last 5 minutes: Spotlight on a PwC solution*
12.05 – 12.15	*Wrap-up* **Christelle Crépin,** PwC Luxembourg
From 12.15	Walking lunch

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