



# The Monthly Briefing

Powered by PwC for the AWM Community

October 2017



*The world we are currently living in has brought investors to a situation that in 1980 was unthinkable: buying negative-yielding sovereign debt. Given the current European Central Bank monetary policy “disadvantaging” cash keepers, nowadays it does make sense.*



*The Asset and Wealth Management industry is growing faster than earlier predictions. Our Asset & Wealth Management 2025 Report explains how.*

Steven Libby | AWM, Global Advisory Leader



The Asset and Wealth Management (“AWM”) industry is growing faster than earlier predictions. In our latest Asset Management 2020 Report released in 2014, we anticipated that Global AuM would reach USD 101 trn in 2020, recently we are raising that estimate to USD 111.2 trn. Over the past years the SAAAME<sup>1</sup> region has had the strongest growth while Europe recorded the weakest; though, we forecast the European AWM industry to have one of the most solid growths (8.3%) in the next three years. In Luxembourg, the regulated fund net assets have grown to 7.7% CAGR<sup>2</sup>

since the General Global Financial Crisis (“GFC”) reaching today EUR 3,944 Bn.

Albeit profit margins remain significantly higher than in other industries, the AWM industry is also facing **challenges**. Undeniably, the high popularity of passive funds, the new regulations, the emergence of robo-advice, and the increased regulatory scrutiny of AWM margins among others, have impacted the **profits of asset managers**; declining by around 10% since the global financial crisis. As the margins get lower some international

**asset managers are merging to gain scale** while others have acquired wealth managers seeking to control the distribution value chain. Lastly, the **current uncertainty** due to geopolitical tensions and the recent wave of populism, anti-globalism, and protectionism that has swept across Europe and North America represent a new set of risks for AWMs.



*MiFID II implementation is around the corner. Be prepared.*



Olivier Carré | Regulatory and Compliance Advisory Services leader, PwC Luxembourg

## MiFID II for Asset Managers

MiFID II implementation<sup>3</sup> is around the corner and although our industry is not directly impacted by the Directive asset managers should bear in mind that changes related to **inducements, target market definition** and **cost & charges** reporting, even if indirectly, will be impacting their products and themselves as “final product responsible”. Not providing the required data can result in a distribution risk. This distribution risk can be mitigated by:

- reviewing the distribution contracts to provide information exchange;
- communicating with institutional investors and distribution partners regarding their data requirements and the expected format; and
- contemplating the MiFID II information with any relevant PRIIPS information and file format.

## VAT exemption

Following the recent cases of the Court of Justice of the European Union, the cost-sharing VAT exemption will no longer be applicable to the financial services and insurance sectors. This is an **exemption** commonly used by the players in the Luxembourg market to share support services such as IT or HR between group entities. On a more positive note, these decisions have no retroactive effect.



*The cost-sharing VAT exemption will no longer apply to financial services and insurance sectors.*



Marie-Isabelle Richardin | Tax partner, PwC Luxembourg

Even if Luxembourg already took action after the judgement rendered against Luxembourg in May 2017, it, however, remains to be seen if and how the Luxembourg rules will be amended. The **final enactment** of the amendment is now likely expected to happen before the end of this year (2017).

Luxembourg professional associations, stakeholders and the ministry of finance are trying to find a solution envisaging **alternatives** as the VAT group (implemented already in various EU Member States). The Global Employment Contract (“GEC”) could be already used as an alternative in some instances.

1. SAAAME Region: South America, Asia, Africa and Middle Est)  
2. CAGR : Compound Annual Growth Rate  
3. MiFID II implementation will be on 3 January 2018



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*In the first semester of 2017, European ETF's AuM grew of 15%”.*

Christophe Saint-Mard |  
Global Fund Distribution partner,  
PwC Luxembourg

## ETF market

Over the past few years, Exchange-Traded Funds (“ETFs”) have grown to the point of **doubling the number of AuM**, which keeps playing a role squeezing the margins in the AWM industry; this has helped new EU markets to emerge, such as Spain, which based on the number of registrations of UCITS ETFs is the **top market in Europe** where Germany, France, Italy and UK continue to be strong leading countries of distribution.

The listing of UCITS ETF is mainly **concentrated in five stock exchanges** where Synthetic replication models are losing importance within the European landscape and rapidly being replaced for Physical ETFs<sup>5</sup>.

Most of European asset managers have ETFs that replicate S&P 500 index. To stand out and enter this market, small players should try to replicate an alternative index.

## Feedback from CSSF inspection

The 2016 CSSF Activity Report included five on-site visits where the Luxembourg regulator has systematically reviewed: (i) the safekeeping of assets; (ii) client on-boarding processes (iii) implemented controls of delegated activities; and (iv) other oversight duties<sup>6</sup>, which were often not adequate and independent. The law states that proportionality criteria apply to breaches detected (such as gravity and duration of the breach, degree of responsibility of the responsible person)

and sanctions will be harmonised including, but not only, the order to cease, a public statement, a temporary ban and a range of pecuniary sanctions.

In their on-site visits the **CSSF focused on duties encompassed into delegation and on independence and conflicts of interest**. Emphasising that the UCITS management company and the depositary shall act independently and solely in the interest of investors.

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*As part of sanctioning CSSF will include in its website a publication of each breach and the name of the person responsible of it.*

Xavier Balthazar |  
Regulatory partner, PwC  
Luxembourg

## Regulatory update

Our Regulatory Agenda includes legislative acts that have been already adopted and are in course of being implemented in **Q1 2018: MiFID II/ MiFIR, PRIIPS, EMIR collateral on FX** and in **Q2 2018 GDPR** or **MMFR** (existing UCITS and AIFs will have 18 of grandfathering until Q1 2019).

Other regulatory activities under development or review impacting also the AWM industry: The European

Commission's proposal to enhance ESA's powers, the completion of the ESMA UCITS and AIFMD Q&As, AML 4 «bis», STS securitisation, PEPP, EMIR, Prudential Regime for Investment Firms, EMIR Review, Review of cross border of AIFMD & UCITS and AIFMD review (Impact assessment started).

4. Deutsche Börse, SIC Swiss Exchange AG, London Stock Exchange, Borsa Italiana and Euronext
5. Physical replication as of June 2017 was 78% in comparison to 22% of Synthetic replication.
6. The 5 oversight duties of depositaries include to ensure: NAV and S&R in line with law and prospectus; UCITS portfolio (incl. collateral) and income distributed to investors in compliance with law and prospectus; timely settlement of transactions at UCITS portfolio level.

Save  
the  
date

Join us on  
Thursday 16 November  
for the next session  
dedicated to PRIIPs

## Thursday 16 November 2017

08.30 – 09.00	Welcome coffee
09.00 – 09.10	<i>Introduction</i>   <b>Steven Libby</b> , PwC Luxembourg
09.10 – 09.40	<i>“PRIIPs: the clock is ticking”</i>   <b>Benjamin Gauthier</b> , PwC Luxembourg
09.40 – 10.40	<b>Round tables (1 workshop to choose)</b>
• Workshop 1	<i>Asset Managers &amp; Insurers : How, what and when ? (i.e. EPT / CEPT / LPT)</i> <b>François-Victor Adam &amp; Christophe Mellinger</b> , PwC Luxembourg
• Workshop 2	<i>PRIIPs : main challenges for investment funds promoters</i> <b>Nicolas Schulz</b> , PwC Luxembourg
• Workshop 3	<i>Transaction costs under PRIIPs</i> <b>Benjamin Gauthier</b> , PwC Luxembourg
• Workshop 4	<i>PRIIPs &amp; MiFID II</i> <b>Cécile Liégeois &amp; Olivier Carré</b> , PwC Luxembourg
• Workshop 5	<i>Life insurance &amp; Specific Lux product (FID/FAS KID)?</i> <b>Sébastien Schmitt &amp; Antonella Argalia</b> , PwC Luxembourg
10.40 – 11.00	Coffee break
11.10 – 11.40	<i>MiFID II update</i> <b>Olivier Carré</b> , PwC Luxembourg
11.40 – 12.00	<i>Regulatory update - ESAs initiatives on supervisory convergence: “myths and realities”</i> <b>Nathalie Dogniez</b> , PwC Luxembourg
12.00 – 12.05	<b>The last 5 minutes: Spotlight on a PwC solution</b>
12.05 – 12.15	<i>Wrap-up</i> <b>Frédéric Vonner</b> , PwC Luxembourg
From 12.15	Walking lunch

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