

First alternative fund investing entirely in crypto assets expected to launch in Luxembourg by summer

- **Institutional investors, family offices increasingly seek exposure to crypto assets**
- **Investment firm Q Securities informed the CSSF about its intent to offer depositary services for crypto funds**
- **Search for crypto-savvy employees accelerating, attracting talent from traditional banking institutions as well as fintech start-ups**
- **Luxembourg fund industry in favour of regulation allowing the set-up of crypto banks to better compete with Switzerland, Europe's crypto-asset leader**

The first Luxembourg-domiciled fund investing fully in crypto assets is expected to launch in less than six months, with necessary regulatory and compliance work underway.

“Following the latest CSSF FAQ document published at the beginning of the year and providing necessary guidance on crypto funds set-up and compliance requirements, we have informed the regulator about our intent to offer depositary services to crypto funds in Luxembourg,” said Tomasz Matczuk, president of the supervisory board of Q Securities, an investment firm acting as the depositary for Luxembourg-domiciled alternative investment funds (AIFs). “As far as we know, we are the first AIF depositary to have such an intention on the Luxembourg market,” he said.

Crypto assets are digital assets covering a broad investment asset class comprising cryptocurrencies and other digital assets, objects whose value has been moved to blockchain. The market is soaring, with Chainalysis reporting a 567% year-on-year transaction volume growth to reach \$15.8 trillion at the end of 2021. A recent survey by PwC Luxembourg and LHoFT shows that for more than half of respondents, crypto-assets already are a strategic priority or will become one in the next 24 months.

The interest in the asset class has been brewing for some time, as institutional investors seek diversification and high return potential in the long term. “For quite some time, the cryptocurrency ecosystem was viewed by the financial industry and large corporations rather with scepticism, with the biggest concerns focusing on security, volatility and lack of regulations,” said Wojciech Kozlowski, Q Securities Business Development Director. “But as soon as the regulation was introduced, we are seeing a sudden trend shift and a massive inflow of assets into the crypto universe,” he said.

With booming interest on the investor side, asset managers need to step up their crypto expertise and hence crypto and blockchain job numbers are exploding. Jobseeker platform Indeed.com reported that crypto and blockchain job openings more than doubled in a year. The offers are no

longer just for geeks who know about mining, with more and more positions for traditional roles, including marketing or accounting experts, Indeed.com data shows.

“The trend is clearly visible in Switzerland, Germany and the UK, and other cryptocurrency centres outside Europe. But as soon as the first crypto fund launches in Luxembourg, I expect that job offers in this sector will start to mushroom,” Wojciech Kozlowski said. He pointed to two candidate types that are particularly sought for: experienced bankers with 20+ years of experience in the financial industry and more traditional fintech experts looking for opportunities in the booming crypto segment.

More regulation needed

With the latest CSSF FAQ clarifying the rules for alternative asset managers to offer crypto assets, there is much movement in the industry, with many workgroups focusing on the subject. However, according to the PwC Luxembourg and LHoFT survey, a third of respondents believe Luxembourg is lagging most EU countries.

“To catch up with Switzerland and Germany, Luxembourg should consider creating a legal framework for the opening of crypto banks or their branches. Even though legally you can use a foreign entity passporting to the grand duchy, it’s a question of creating the image of the marketplace being truly crypto-friendly,” Wojciech Kozlowski said.

In Switzerland, Sygnum or Seba Bank have been created to focus entirely on the crypto industry, without a standard offering, except for providing FIAT currency accounts needed to buy crypto-assets and currency.

What will the first crypto fund change?

For the time being, investors seeking exposure to crypto-assets can only invest directly via dedicated exchanges, crypto-trading platforms or indirectly through instruments like ETFs, tracking cryptocurrencies performance. A fund will allow for indirect investments, and hence no need for investors to manage their portfolio daily.

“Like with any other fund, the added value is that as an investor, you entrust your investments decisions to asset managers. As a result, you no longer need to be glued to the screen deciding in real-time if to buy or sell your crypto asset positions,” Wojciech Kozlowski said.

Despite crypto-assets being seen as disruptive, they should not impact investments into other asset classes. “I don’t expect anyone to divest from real estate or private equity to invest in crypto. But crypto will become a part of a portfolio,” Kozlowski said.

The more crypto-asset funds are created, the more need for service providers capable of catering to their needs. “A crypto fund, like any other investment fund, needs an investment manager, a custodian, a transfer agent, a depository. But big industry names often reject funds below a certain threshold for rentability reasons. This is when fund managers come to us,” Tomasz Matczuk said.

In 2021, the company was the first investment firm in Luxembourg authorised to offer depository services to alternative funds. Since then, it has expanded its expertise and now will also service crypto-asset funds.

ABOUT Q SECURITIES

Q Securities is an independent MiFID investment firm and a brokerage house with offices in Luxembourg and Poland. For the past decade, it's been a preferred partner for capital markets professionals like investment funds, asset managers and other players in the investment ecosystem.

Q Securities is approved by the financial regulators in Luxembourg (CSSF) and Poland (KNF) to offer depositary services for alternative investment funds, including custody of financial instruments. On the Polish market, the licence additionally covers equity and debt financing, securities safekeeping, and brokerage transactions services for a variety of instruments.

Assets under the company's custody stand at €17 billion as it services 220 alternative investment funds.

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