THOUGHT LEADERSHIP

MAY 2022

We attended our first ALFI, and we loved it. Most of it, at least.

After their first ALFI Conference attendance, Grzegorz Cieslik and Wojciech Kozlowski exchange about what they enjoyed the most and what small but essential improvements would have made the experience even better.

Wojciech Kozlowski (WK): It was the first ALFI conference you attended this March. What was your general impression?

Grzegorz Cieslik (GC): I joined Q Securities recently, and I'm new in the Luxembourg market, so my curiosity and attention focused on the overall impression and organisation of the conference. Upon entering the venue, I was surprised by a lack of branding, advertising materials and stands presenting partners and conference participants. I found it unusual for such an event.

Wojciech Kozlowski (WK): I agree. From a newcomer's perspective, such an intro presentation would help get the hang of who's attending, learn about potential business synergies, and have material for follow up discussions. Perhaps a meeting point for first-timers could be a good idea for the organisers going forward? I noticed many people meeting their business partners and friends and spending time in "closed" groups/circles, making themselves less approachable.

GC: The logistics were impressive, though.

WK: Definitely. The registration process was speedy and efficient – not a given at such highly-attended events – and the speaker line-up was impressive. However, I would welcome at least some handouts. While being eco-friendly, scrapping them altogether is going a bit too far. Instead, some basic conference materials could have been printed on recycled paper.

WK: Which topics were you particularly inspired by, Grzegorz?

GC: My biggest positive surprise was the presentation by HSBC's James Pomeroy, who presented global economic trends while noting that current forecasting is unprecedently futile due to unforeseen socio-political circumstances.

Pomeroy highlighted a significant trend that high employee turnover leads to management either investing in process automation or constantly facing recruitment costs. Increasingly, many companies are considering robotics solutions that don't have defined work schedules, don't go on sick leaves, and don't ask for salary increases.

The pandemic has increased demand for basic products and the rise of e-commerce logistics. As a result, companies are looking at developing solutions to boost logistics efficiency, reduce processing times, and optimise available resources. Not surprisingly, as a result, many companies have significantly progressed into logistics process automation.

Another point made by Pomeroy was the massive challenge for businesses to understand the demographics and preferences of the five overlapping generations: baby boomers and generations X, Y, Z and Alpha. The challenge is both on the marketing and service side. Although businesses seem to understand the needs, they are not able to provide optimal service to all.

Another interesting speaker, Marc-Andre Bechet, ALFI Deputy Director, focused on regulatory issues. He rightly pointed out that while the industry complains about the burden of regulation, it is inevitable. Bechet also noted that while the AIFMD was widely condemned at first, it now enjoys widespread acceptance among industry members.

GC: How about you, Wojciech?

WK: Virtual assets and the surrounding ecosystem are centre stage for me, and the ALFI conference provided some inspiring food for thought. Crypto investments are growing not only in Luxembourg but also across the globe. During his session on the opportunities of investing in digital assets, Patrick Hoffmann from the CSSF assured the regulator's engagement in the discussion as well as support for AIFs investing in virtual assets to explore the asset class further.

He did, however, remind us that funds and service providers need to apply for prior authorisation, a step we've taken already some months ago and have since received the CSSF's green light to service crypto funds.

The increased interest in the crypto ecosystem from a fund perspective, and the plethora of instruments offered using those assets, mean that custodians need to adapt their infrastructure set-up to follow through operationally and risk-wise. The good news is that the CSSF assures its readiness to support the process.

GC: How advanced are crypto discussions and market readiness in Luxembourg?

WK: The constant transformation of virtual assets requires the custodian industry to adapt by innovating and redefining its traditional modus operandi. There is a clear need for proper risk management that would lead to "frameworking" risks, understood as the process of aligning cooperation agreements so that everyone at the table understands risks, procedures, functions, and limitations related to the regulatory requirements.

It is vital that fund managers are conscious of all legal requirements and obligations and, at the same time, profile investors, limiting the chances that the latter underestimate investment risks.

Asset managers, central administrators, fund administrators, depositaries, etc., already anticipate a significant impact from MiCA, or the Markets in Crypto Assets Regulation, expected in Q2 2023. It will lead to institutionalisation, clarifications concerning roles and duties, increased market discipline and investor protection. However, one of the most awaited elements of the regulation is VASP license passporting rights for custodians wishing to offer their services in different jurisdictions, which is not the case now.

I expect next year's ALFI to focus on the topic heavily, and I would be glad to join a panel discussion on the subject.

GC: What was the most surprising thought, discussion or panel you heard at ALFI this year?

WK: An important session moderated by Rachel Treece (FTS Global / Henka Institute) focused on talent. It dived into identifying the skills and capabilities of the talent pool already present in Luxembourg and defining expectations towards and from newcomers. The dynamic changes in the ever-competitive funds industry should lead to numerous adaptations and evolution of the different roles by reskilling/upskilling so that employees are better prepared to respond to changes in regulatory and compliance functions.

I'm in total support of the idea proposed during the panel to create a programme in which the local university would provide training and courses that would prepare the future workforce to meet the market's demands and upskill the current workforce. Education experts would closely cooperate with market practitioners to benefit the market – both on the employee and employer side.

WK: Was there anything that you think the conference was lacking?

GC: I would welcome a panel or presentation on depositary banking trends and why many of these entities terminate contracts with funds. Based on discussions with market participants, the fact that the cost of doing business is going up while fees are going down is – in my view – the only reason for depositary banks to pull out from this business line. But if there are other reasons on top, it would certainly be interesting to discuss them.

From our perspective, this is good news, as establishing an institution like Q Securities – an investment firm authorised to offer depositary services – gains growing recognition and popularity among fund managers, as our service offering is much broader than what the so-called light-depositary firms can offer.

Setting up funds when opening a bank account is an issue, or securing custody delegation poses challenges – these topics should have been raised at such an event.

Overall, it was a great experience, and I am very much looking forward to next year's edition.

WK: Absolutely, I couldn't agree with you more, Grzegorz.