THOUGHT LEADERSHIP

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Luxembourg, a fund jurisdiction for many but not for all

After attending a hugely popular event organised by the Luxembourg Private Equity Association (LPEA) in Warsaw, chairman of the board Tomasz Matczuk and general counsel Filip Suchta exchange their impressions.

It's been the first LPEA event you attended. What are your general impressions?

Tomasz Matczuk (TM): The event's turnout was outstanding, showing the interest in Luxembourgish structures is huge among Polish investors and fund managers. I'm glad that LPEA came to Poland to promote Luxembourg as a fund jurisdiction showing the organisation see's the CEE country's potential because we do too. That's precisely why we opened a branch in the Grand Duchy more than a year ago to service, among others, Polish fund managers.

Luxembourg is the first choice for creating alternative funds in Europe, both regulated and unregulated. Its legal and tax framework offers almost all possible solutions for investors from every corner of the world. The chosen form depends on the needs of an investor, tax implications for the funds and investors, including those resulting from double-tax treaties and several other conditions. In this respect, the jurisdiction has hardly any competition.

At the same time, Luxembourg entities need more and more substance, and the multitude of providers allows them to meet these demands and choose the best options for investors.

Filip Suchta (FS): Presentations during the event by entities who have established funds in Luxembourg gave a unique perspective on operating and setting up shop in the Grand Duchy. Among others, they showed that Luxembourg is not an ideal jurisdiction and is increasingly difficult to access for certain types of investors / managers, particularly those at the initial stages of operation.

I particularly appreciated the authenticity of the participants, who openly discussed Luxembourg's positive aspects and also its weaknesses.

More concretely, what are the challenges when setting up a fund in Luxembourg?

FS: Above all, difficulties with opening bank accounts for funds. This is a pressing and growing problem, which already today means that the interest in Luxembourgish structures may not translate into the number of funds created by Polish and other foreign managers in the Grand Duchy.

TM: Indeed, we continued the discussion with LPEA after the event about Luxembourg banks' lack of interest in opening accounts and their general unwillingness to cooperate with smaller players and/or newcomers to the fund market. This significantly curbs the market's competitiveness as it either discourages smaller entities when they are charged several thousand euros for annual account maintenance or slows down the process of creating companies and funds.

As a result, Luxembourg becomes less competitive. Accounts are opened abroad, which takes away part of the business, and foreign entities – instead of Luxembourg ones – earn from it.

What could be done in this respect?

FS: Some intense lobbying is needed, but the efforts have brought poor results so far. Banks' reluctance to service smaller and mid-size entities was one of the drivers of our decision to set up shop in the Grand Duchy.

We're Luxembourg's first investment firm authorised by the CSSF – the financial regulator – to act as a depositary for alternative funds. Our offering is unique, as the scope of provided services is broader than under a traditional Professional of the Financial Sector (PSF) licence. Even though we cannot offer bank accounts, that's the only difference when comparing our services to those offered by bank depositaries. However, our cooperation agreements with banking services providers ensure a swift opening of accounts for our clients.

What are the other challenges Luxembourg faces?

TM: The labour market is the Grand Duchy's main drawback. Employee turnover in Luxembourg is significant, often resulting in lower service quality and poor responsiveness.

FS: What works to our advantage is our back office in Warsaw with colleagues supporting the team based in Luxembourg. We leverage the experience gained from managing Polish AIFs – similar in structure to Luxembourg ones – which leads to cost-saving at the group level and more attractive pricing.

Any final thoughts?

FS: It is becoming evident that Luxembourg is not for everyone, and managers in the earlier stages of business / with smaller assets should consider alternative jurisdictions, such as Malta.

TM: My general impressions are definitely positive, and I would welcome many more such events in Warsaw. My only suggestion for next time is for the networking part to last longer, as is customary for such events in Luxembourg.