



THOUGHT LEADERSHIP
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Luxembourg eyes crypto assets management leadership amidst regulatory challenges

With institutional interest in crypto-assets surging, and despite the expected harmonised EU framework for crypto-asset issuers and servicers (MiCA), Europe still has a rather fragmented regulatory framework available to asset managers. Luxembourg's pragmatic approach stands out as an opportunity to differentiate itself and position itself as a key player in the emerging crypto-assets management industry.

"Luxembourg has everything it needs from a readiness perspective—regulatory framework, ecosystem, and expertise—to make it happen," said **Thomas Campione**, DLT & Digital assets leader at PwC Luxembourg. However, the race to become Europe's leading hub for crypto funds is just starting.

Does Luxembourg have what it takes to lead this burgeoning sector?

Read our key takeaways from a discussion hosted at a fund industry expert event organised by Q Securities and its partners Sygnum Bank and 6Monks.

1. Luxembourg's clarity in a fragmented market

The key challenge for the digital assets industry to grow is the fragmentation of Europe's regulatory environment. While the Markets in Crypto-assets (MiCA) regulation was introduced to harmonise crypto assets markets, it falls short in covering the set-up, administration, and depository roles for crypto funds. This regulatory gap has left EU member states to establish their own frameworks, creating uneven standards across the continent.

Filip Suchta, Director at Q Securities, highlighted Luxembourg's pragmatic approach, which provides a clearer path for alternative investment funds (AIFs) to invest in crypto assets. "Luxembourg's advantage is the clarity it offers. It's one of the few countries with the actors, infrastructure, and regulation needed to make crypto investment funds a reality," he explained.

"Fragmentation is the word. In other EU jurisdictions, you don't always have the depository entities or AIFM capable of handling these assets. In Luxembourg, we do, and that's a competitive edge we can leverage," added **Christophe Pilz**, Compliance Manager at 6 Monks. With 6 Monks recently becoming the first authorised alternative investment fund manager (AIFM) to obtain a license from the CSSF for managing crypto funds, Luxembourg has already demonstrated its leadership in offering a regulated framework for crypto funds.

2. Competitive edge: can Luxembourg stay ahead?

As Europe's largest investment fund centre and the second-largest worldwide, Luxembourg has significant expertise in fund administration. While its regulatory clarity and financial infrastructure give

it a competitive edge, the panel warned that this advantage may be short-lived if Luxembourg fails to act swiftly.

"Luxembourg has everything it needs to become the leading hub for crypto funds in Europe," remarked Thomas Campione, who moderated the panel discussion. "Now the race to the top is about to start for real." This sentiment echoed through the discussion as speakers urged Luxembourg not to rest on its laurels.

The competitive landscape is not just within Europe but extends to offshore jurisdictions, where regulatory flexibility may attract more agile crypto investors. "With every disturbance in the digital asset space, we've had pauses. Now, it feels like we're ready to take off. But we must ensure Luxembourg is at the forefront, not lagging behind," said Filip Suchta.

3. A need for more players to drive innovation

Despite Luxembourg's regulatory readiness, the panel agreed that more players are needed to drive competition and innovation. "It's important that larger players come into the industry. While Luxembourg has the right players in place now, we need many more to join to keep up with the growing demand," said **Matthias Friedli**, Head of Funds & Hedge Funds at Sygnum Bank.

Christophe Pilz also highlighted the growing institutional interest in crypto assets, driven in part by the successful launch of various crypto products. "The success we have seen is partly due to the limited options available right now," he explained. "But as more crypto funds are introduced, with increasingly complex and diverse investment strategies, the demand for specialised portfolio managers and service providers will only continue to grow."

The panellists predicted that the next 12 months could significantly change the Luxembourg crypto ecosystem as large players enter the market. If Luxembourg can maintain its competitive edge, this could help it solidify its position as a European hub for crypto assets.

4. Luxembourg's regulatory initiatives: a step in the right direction

Luxembourg has already made strides through initiatives such as the CSSF's FAQ on alternative investment funds investing in crypto assets. This FAQ, along with guidelines from professional's association joint working group of ALCO and LetzBlock, has given managers full clarity on the possibility for an AIF to invest in crypto; the type of investors targeted and how to structure crypto funds and the respective roles of the involved actors.

Yet, according to Christophe Pilz, Luxembourg's first-mover advantage in regulatory clarity needs to be matched by education of institutional players "We need to continue to educate institutional players to make them understand that the regulatory framework is in place, all the key stakeholders are here and the operational and legal set-up between actors has already been built," Pilz said.

5. The race to become the number one hub for crypto funds

The race to become Europe's leading crypto fund hub has only just begun. Despite Luxembourg's preparedness, its competitors are not far behind. Countries such as France, Germany, and the UK have already started implementing national strategies for digital assets, something Luxembourg lacks.

"This race has really not started yet," said Filip Suchta. "Luxembourg has everything in place regulatory-wise, but we must show that we are serious contenders, especially that other countries might have larger expert pools". The panel agreed that a national strategy, will help Luxembourg to maintain its edge and keep running in front of other EU countries, even attract funds already established offshore.

Similar to those already seen in other EU countries, a national strategy could be a game changer. "Luxembourg needs to make it clear to potential new actors that they shouldn't be afraid to take the leap. We have the framework in place, and with a national strategy, we can show the world we're open for business," Matthias Friedli said.

Looking ahead

As the crypto assets management space continues to mature, the panellists were optimistic about Luxembourg's potential role in the future. Christophe Pilz forecasted a potential bull run in the crypto market driven by institutional adoption: "We're already seeing significant inflows into crypto products. Once more regulated vehicles are in place, demand will be exponential."

However, without sustained momentum and a broader national strategy, Luxembourg could miss its chance to lead. "We're at the starting line of something huge," said Campione. "Now, it's up to us to make sure Luxembourg doesn't just participate in the race but leads it."

The discussion was part of a fund industry expert event organised on 25 September 2024 by Q Securities and its partners [Sygnum Bank](#) and [6 Monks \(6M\)](#).

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