

The Luxembourg financial center in a new world

Thomas Feld



Agenda

1

Introduction

Key Topics & Developments 2017
Luxembourg viewed from inside and outside

2

Insights into the financial sector

Banks
Investment Funds
Insurance

3

What is coming next?

BREXIT
Digitalisation
Tax

4

Outlook

The views expressed in this presentation are those of the presenter and not the opinion of KPMG



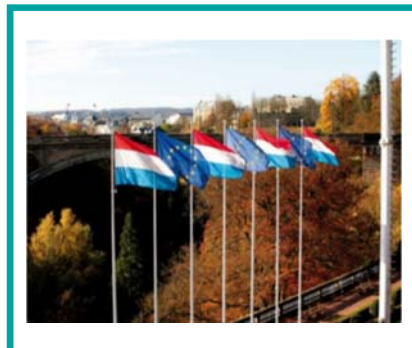
Introduction

Key Topics & Developments in 2017



Global & Political

- Geopolitical issues (Syria, Turkey, North Korea, Saudi Arabia etc)
- EU set up after BREXIT
- European nationalism & separatism (Scotland, Catalunya)
- Elections in European core countries (NL, F, DE)
- New role definition by US and China



Luxembourg

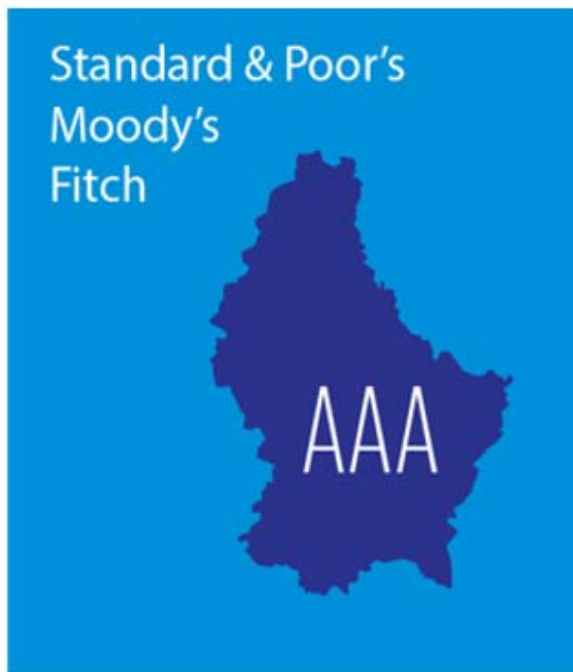
- Future strategy for the country
- Continuing dependency on the financial industry
- Attracting new business
- Public debt increasing
- Tax Reform 2018
- Elections 2018



Financial Market

- Stock markets soaring
- ECB QE and Interest Rates (Low/Zero/Negative)
- Non-performing Loans
- Regulatory Landscape
- Consolidation of banks
- BREXIT Implications
- International Tax Initiatives
- Digitalisation

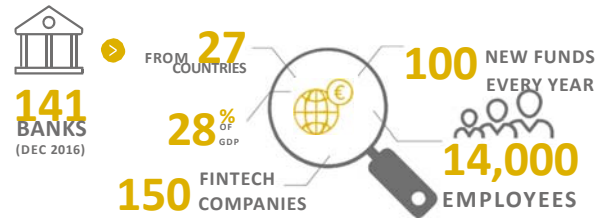
Why Luxembourg?



Source: www.luxembourg.public.lu September 2017

DYNAMIC

INTERNATIONAL FINANCIAL EXPERTISE



RELIABLE

TAXATION



“ Attractive social security contributions allow companies to employ highly skilled workers. ”

Cyril Marchiol, Founder Tsumé

OPEN

PRO-EUROPEAN / EUROPEAN REGULATORY EXPERTISE



DYNAMIC

DIVERSE ECONOMY



RELIABLE

HIGH-QUALITY INFRASTRUCTURE



“ The Luxembourg government made a compelling case for developing the country's Bio Technologies industry. Luxembourg is an industrious nation. When it decides to mobilise its efforts, things move forward quickly and without a hitch. The government's strong desire to develop the BioTech industry and Luxembourg's location at the heart of Europe convinced me to set up our headquarters here. (...) ”

Philippe Sollié, Flen Pharma

Why Luxembourg?



Source: www.luxembourg.public.lu September 2017

RELIABLE

STABLE AND POLITICALLY NEUTRAL

ONLY **8** PRIME MINISTERS SINCE 1945

“ Luxembourg’s neutrality allows us to tap into markets around the globe, even in countries with more complex political environments. The prestige of the Grand Duchy’s royal family also carries great weight in certain countries. ”

Arnaud Lambert, CEO Champ Cargosystems

DYNAMIC

TIC / DATACENTRES / DIGITALISATION

23 DATA CENTRES

8 ARE TIER IV CERTIFIED

23 FIBER ROUTES
CONNECT LUXEMBOURG TO THE REST OF EUROPE

OPEN

OPEN ECONOMY

LUXEMBOURG RANKS **3** WORLDWIDE BEHIND SINGAPORE AND HONG KONG (ICC OPEN MARKETS INDEX 2017)



LUXEMBOURG EXPORTS OVER **80%** OF ITS GOODS AND SERVICES

“

Luxembourg is the definition of international, unlike its neighbouring countries that already have a large domestic market. ”
Vincent Pedrini, Nomoko

RELIABLE

LABOUR LAW AND SOCIAL DIALOGUE

ONLY **4.1** BUSINESS DAYS LOST (PER 1,000 WORKERS)



DUE TO STRIKES FROM **2005-2009** (THE EUROPEAN AVERAGE IS 30.6)

Why Luxembourg?



- Qualified and multilingual workforce
 - Diverse range of research centres
 - Pleasant quality of life
 - Competitive tax and social security costs
 - Modern legal and regulatory framework
 - Wide network of double-taxation treaties
 - Stable political, social and economic environment
- 

OPEN

MULTICULTURAL AND MULTILINGUAL

RESIDENTS SPEAK AN AVERAGE OF **3.6** LANGUAGES EACH (EUROBAROMETER)

71% OF THE WORKING POPULATION IS FOREIGN

47% POPULATION OF FOREIGNERS FROM 170 COUNTRIES

LUXEMBOURG RANKS **3** FOR TALENT COMPETITIVENESS (EY)

RELIABLE

ADMINISTRATIVE TASKS MADE EASY

LUXEMBOURG RANKS **1** IN EUROPE (EUROSTAT)

FOR EFFICIENT AND HELPFUL ADMINISTRATION

DYNAMIC

A LAND OF INDUSTRY

STEEL INDUSTRY ROOTED IN LUXEMBOURG SINCE 1870

ARCELOR MITTAL IS THE THIRD-LARGEST PRIVATE EMPLOYER WITH

4,160 WORKERS



IN 2016, IT WAS ANNOUNCED THAT

570 MILLION IN PRIVATE INVESTMENT IS TO BE MADE IN INDUSTRY

INDUSTRY

13.4% OF GDP

10% OF THE WORKFORCE (35,000 PEOPLE)



37 nationalities work side by side at our locations in Luxembourg, reflecting the diversity of our clients and partners. ”
Arnaud Lambert, CEO Champ Cargosystems

DYNAMIC

SUPPORT FOR START-UPS AND SMES

663 PROJECTS FUNDED BY THE MINISTRY OF THE ECONOMY BETWEEN 2009 AND 2015



Luxembourg is an attractive location for small businesses. ”
Sébastien Carcone, Founder NewOne



It's easy to get your voice heard by the economic decision-makers, and things get done quickly. ”
Guido von Scheffer, Co-Founder Motion-S

Source: www.luxembourg.public.lu September 2017



© 2017 KPMG Luxembourg, Société coopérative, a Luxembourg entity and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative (“KPMG International”), a Swiss entity. All rights reserved.

Why Luxembourg?



Source: www.luxembourg.public.lu September 2017

DYNAMIC

THIRD INDUSTRIAL REVOLUTION STRATEGY

319 PEOPLE PARTICIPATING IN **9** WORKING GROUPS...



...TO DISCUSS **THE FUTURE OF LUXEMBOURG** AND WHAT IT MEANS FOR THE ECONOMY.

THE ONLY NATIONWIDE STUDY OF ITS KIND IN THE WORLD.

OPEN

EUROPEAN LOGISTICS HUB

LUXEMBOURG RANKS **2** FOR LOGISTICS PERFORMANCE INDEX (2016)



66

DESTINATIONS SERVED BY LUXEMBOURG AIRPORT



RELIABLE

QUALITY OF LIFE AND SAFETY



LUXEMBOURG IS THE **SAFEST CITY IN THE WORLD**

MERCER QUALITY OF LIVING REPORT 2016

WHAT DO RESIDENTS OF LUXEMBOURG CITY SAY? EUROBAROMETER 2015

96% ARE SATISFIED LIVING IN LUXEMBOURG



95% ARE SATISFIED WITH THE STATE OF CLEANLINESS



86% FEEL SAFE



It's a great honour to see the University of Luxembourg rank among the top 24 universities in the world for social robotics.

Dr. Patrice Caire, Research Associate, Luxembourg University, SnT



Luxembourg is a European and international hub thanks to its strategic location. Goods can be cleared through airport customs in just a few hours, giving us a real competitive edge.

Valérie Dubois-Chamérian, Founder Diversity

DYNAMIC

RESEARCH AND INNOVATION



THE UNIVERSITY OF LUXEMBOURG IS RANKED AMONG THE WORLD'S TOP **TOP 20** YOUNG UNIVERSITIES



PUBLIC FUNDING FOR R&D HAS INCREASED **TENFOLD SINCE 2000**

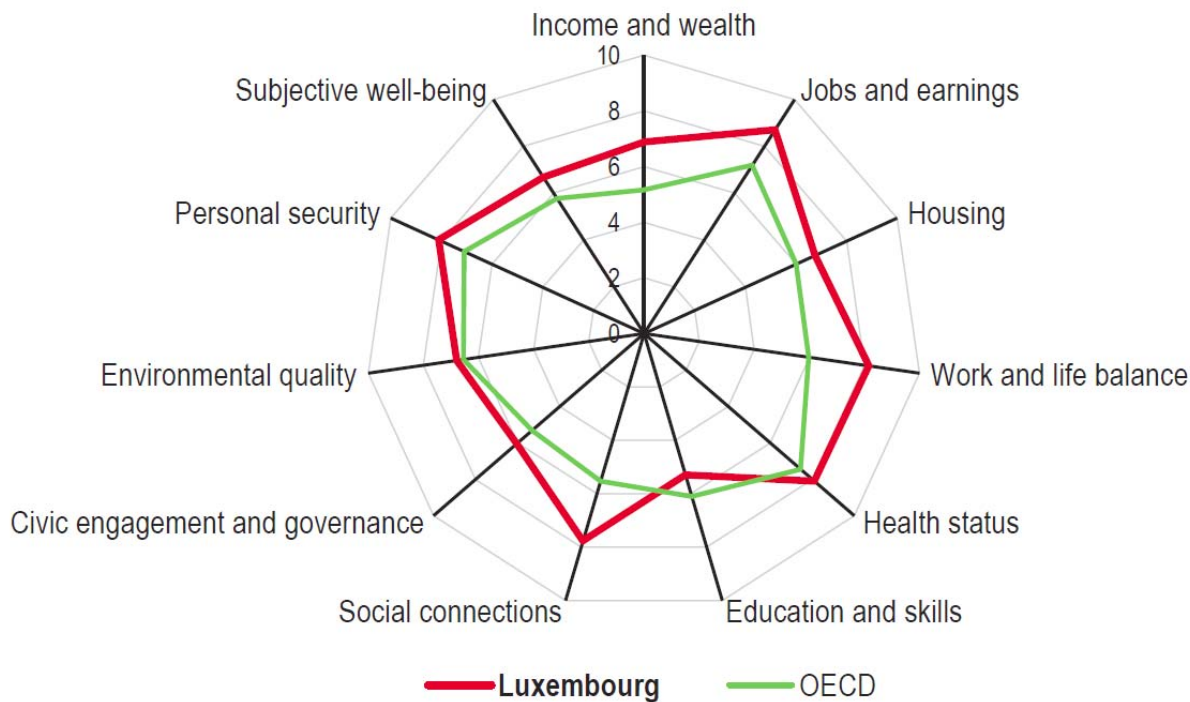


3,000 RESEARCHERS



OECD's view on Luxembourg

Life is good in Luxembourg



Main messages

- Luxembourg's economic performance is strong.
- The short-term fiscal stance is adequate. However, Luxembourg faces high age-related costs.
- The modernisation strategy will require improvements in education outcomes, especially for immigrants, and better upskilling of workers over their lifetime.
- Inclusive growth would also benefit from reducing work disincentives faced by low-skilled youth, women and older workers.

Source: OECD (2016): OECD Better Life Initiative 2016

EU Regional Competitiveness Index (RCI)

RCI Luxembourg 2016: 7 / 263

Basic Dimension		Efficiency Dimension		Innovation Dimension	
Institutions	Yellow	Higher Education and lifelong Learning	Yellow	Technological Readiness	Green
Macroeconomic Stability	Yellow	Labor Market Efficiency	Green	Business Sophistication	Green
Infrastructure	Yellow	Market Size	Red	Innovation	Yellow
Health	Yellow				
Basic Education	Red				

Best in Class: Labour market efficiency, technological preparedness, bank and insurance services

Rankings: 1 London 2 Berkshire 3 Utrecht 4 Stockholm 5 Surrey 6 Hovedstaden 8 Île de France

Source: europa.eu



© 2017 KPMG Luxembourg, Société coopérative, a Luxembourg entity and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

Top 15 Western Europe Centers

GFCI: Global Financial Centres Index

Center	GFCI 22		GFCI 21		Change		Change	
	Rank	Rating	Rank	Rating	in Rank		in Rating	
London	1	780	1	782	0	▲	-2	▼
Zurich	9	704	11	718	2	▲	-14	▼
Frankfurt	11	701	23	698	12	▲	3	▲
Luxembourg	14	695	18	708	4	▲	-13	▼
Geneva	15	694	20	704	5	▲	-10	▼
Paris	26	680	29	679	3	▲	1	▲
Dublin	30	672	33	663	3	▲	9	▲
Amsterdam	33	667	40	647	7	▲	20	▲
Stockholm	39	660	46	630	7	▲	30	▲
Jersey	40	658	43	633	3	▲	25	▲
Guernsey	41	657	47	629	6	▲	28	▲
Vienna	42	656	64	611	22	▲	45	▲
Copenhagen	43	655	52	623	9	▲	32	▲
Oslo	46	650	44	632	-2	▼	18	▲
Glasgow	49	647	53	622	4	▲	25	▲

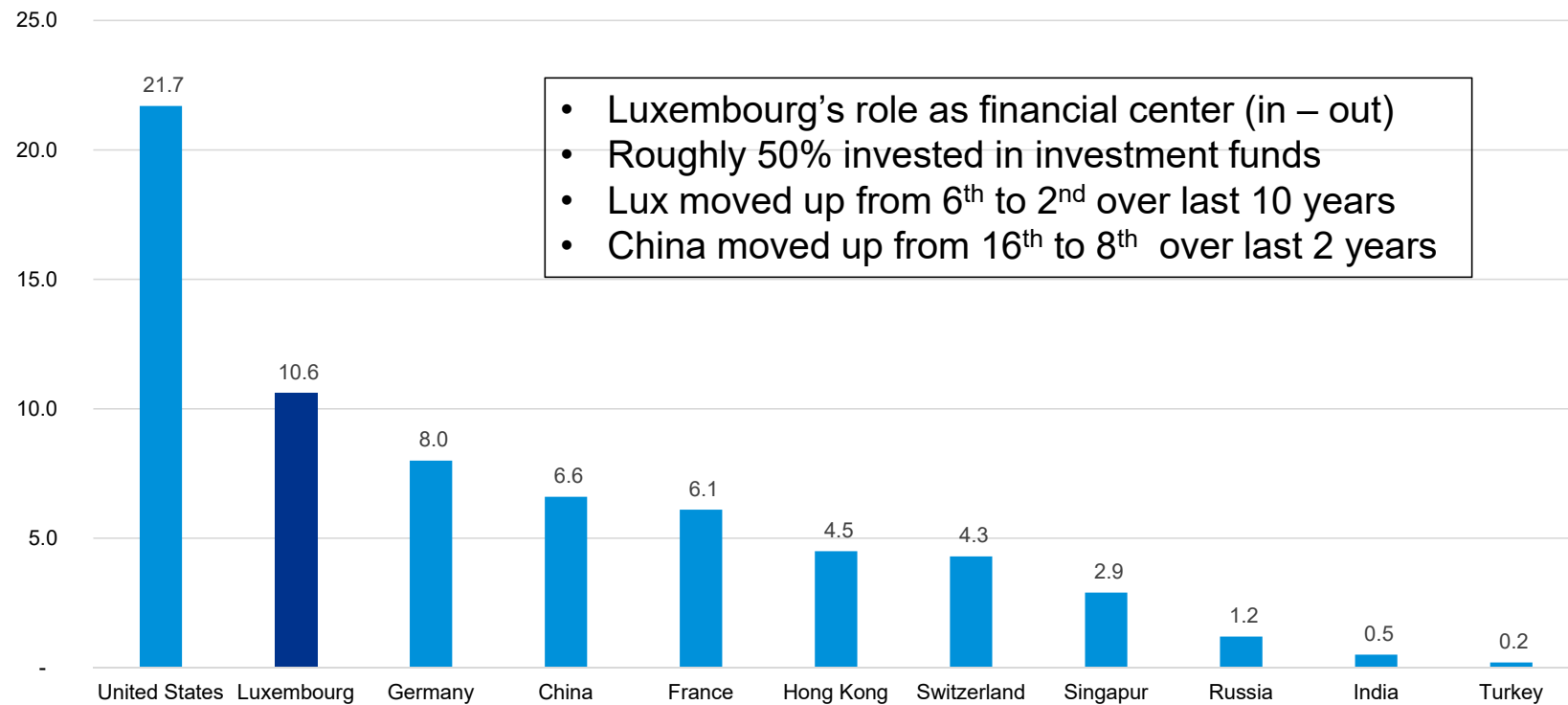
Source: longfinance.net



© 2017 KPMG Luxembourg, Société coopérative, a Luxembourg entity and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

Foreign Financial Assets

in trillion USD

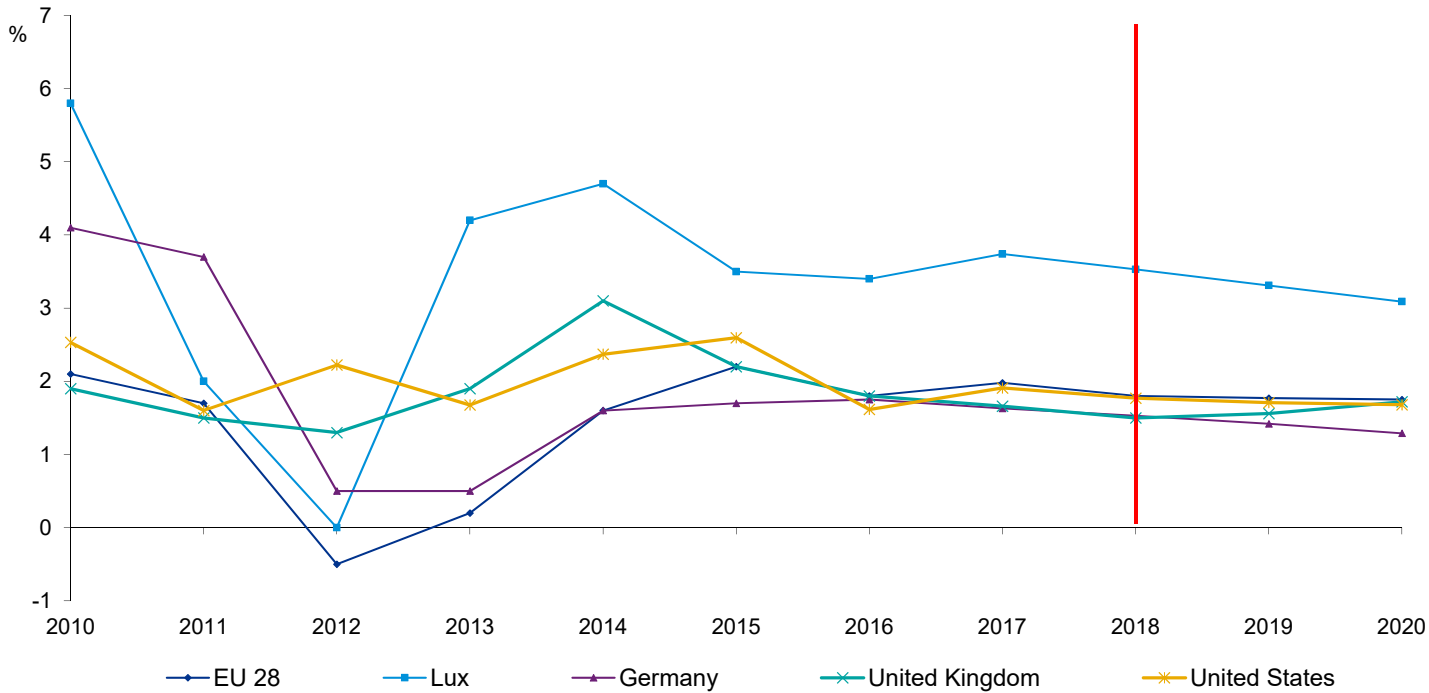


Source: McKinsey Global Institute, *The new dynamics of financial globalization 2017*



© 2017 KPMG Luxembourg, Société coopérative, a Luxembourg entity and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

GDP growth rates

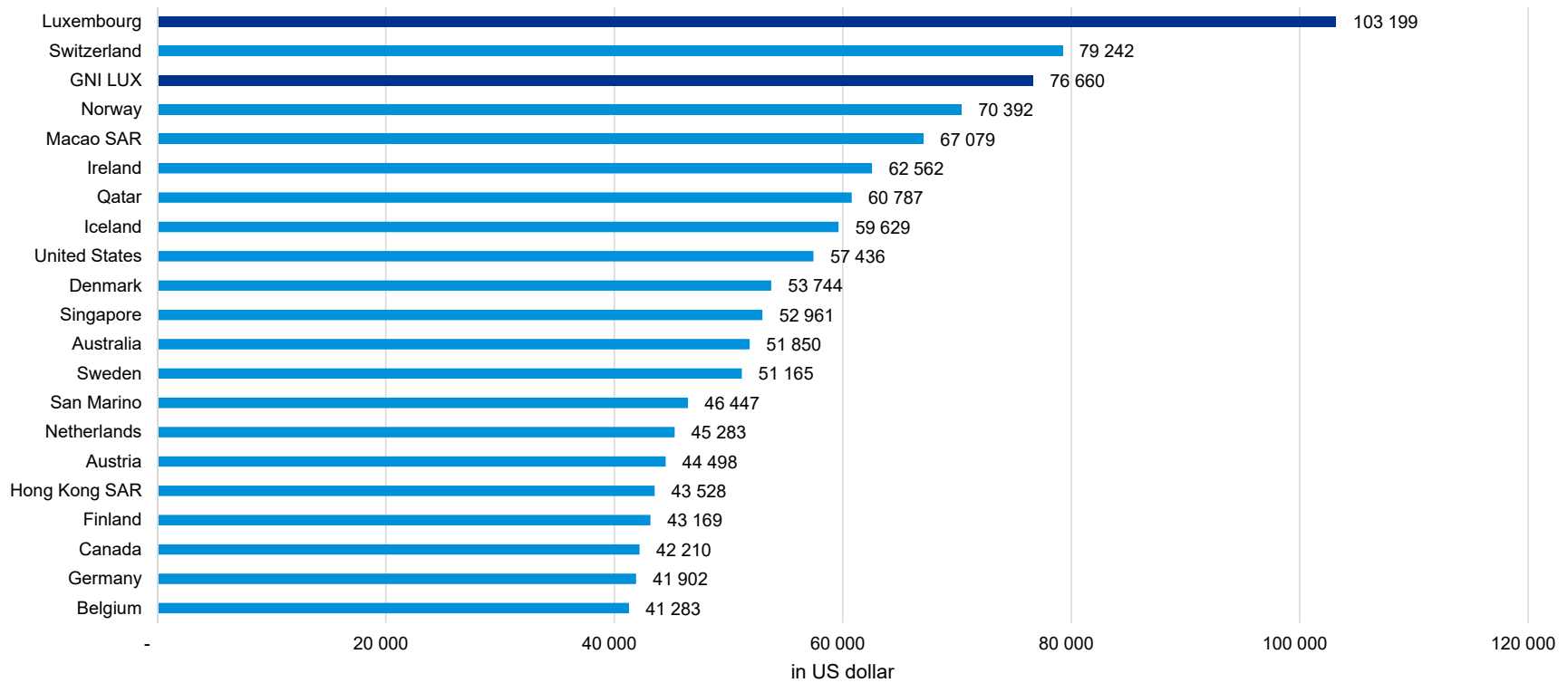


Source EU data: Eurostat
 Source US data: Worldbank.org
 2017-2020: Forecast statista.com



© 2017 KPMG Luxembourg, Société coopérative, a Luxembourg entity and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

GDP per capita 2016



Source: statista.com

GNI LUX: databank.worldbank.org

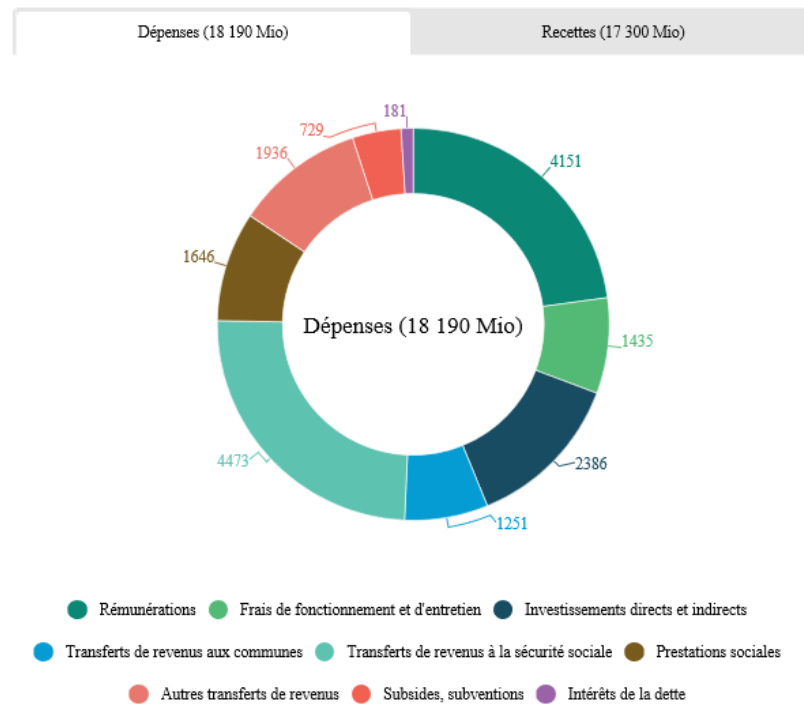


© 2017 KPMG Luxembourg, Société coopérative, a Luxembourg entity and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

Document Classification: KPMG Confidential

Budget 2018 - Expenses

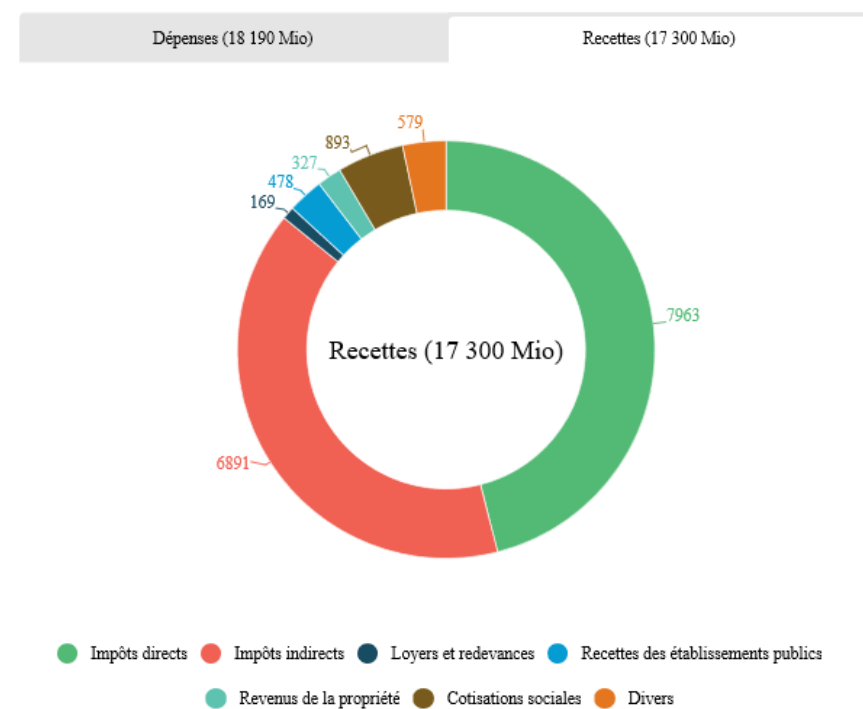
en millions d'euros



source: wort.lu

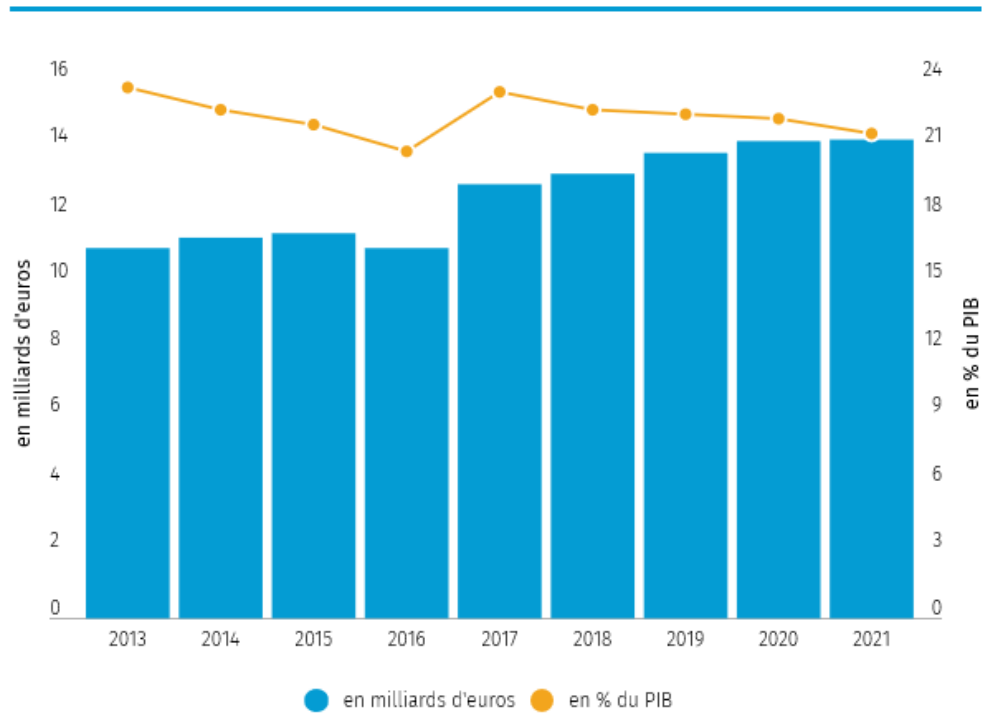
- Income

en millions d'euros



© 2017 KPMG Luxembourg, Société coopérative, a Luxembourg entity and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

Public debts



Sources : STATEC (2013 - 2016) ; site officiel du Budget de l'Etat (2017 - 2021)

source: wort.lu

Public debts

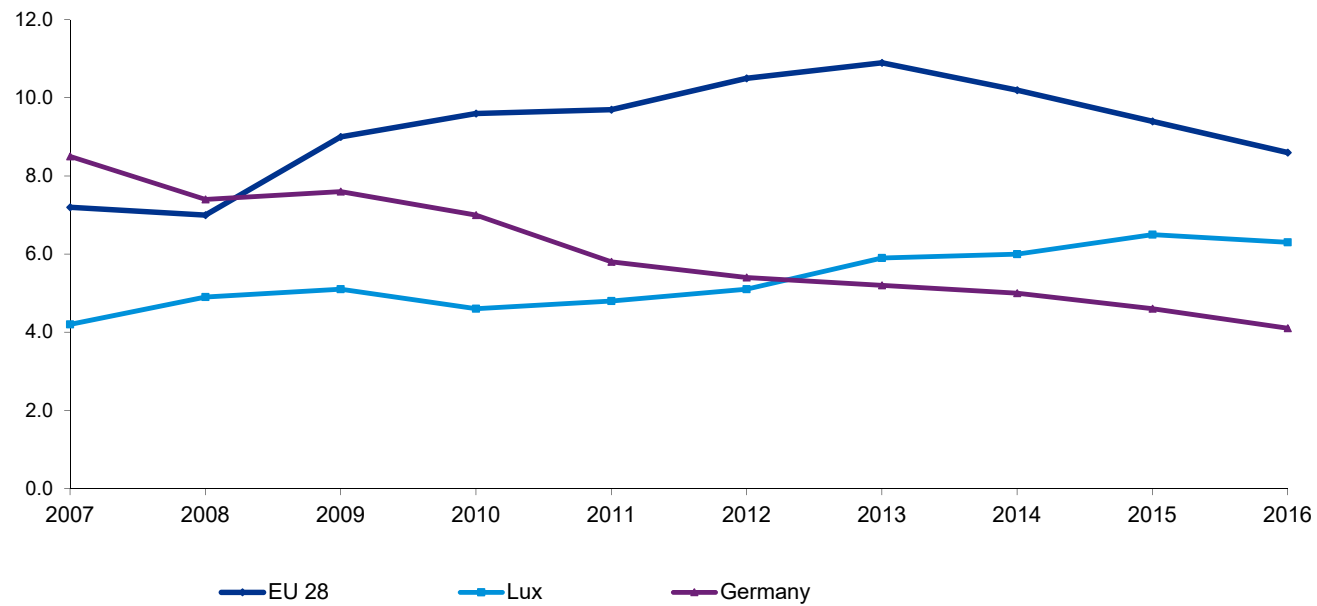
Evolution de la dette des administrations publiques



source: budget.public.lu

Unemployment rate

% of active population



Source: Eurostat



© 2017 KPMG Luxembourg, Société coopérative, a Luxembourg entity and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

Employment in the financial sector

**2016 saw an increase in staff numbers in all areas of the financial sector:
in total more than 45,000 employees**

Type of financial sector entity	Number of staff	Change in number and %
Banks	26,060	▲ 118 0%
Professionals of the Financial Sector	15,493	▲ 119 ▲ 1.0%
Management Companies	4,318	▲ 241 ▲ 6.0%

Source: CSSF, KPMG Banking Insights 2017



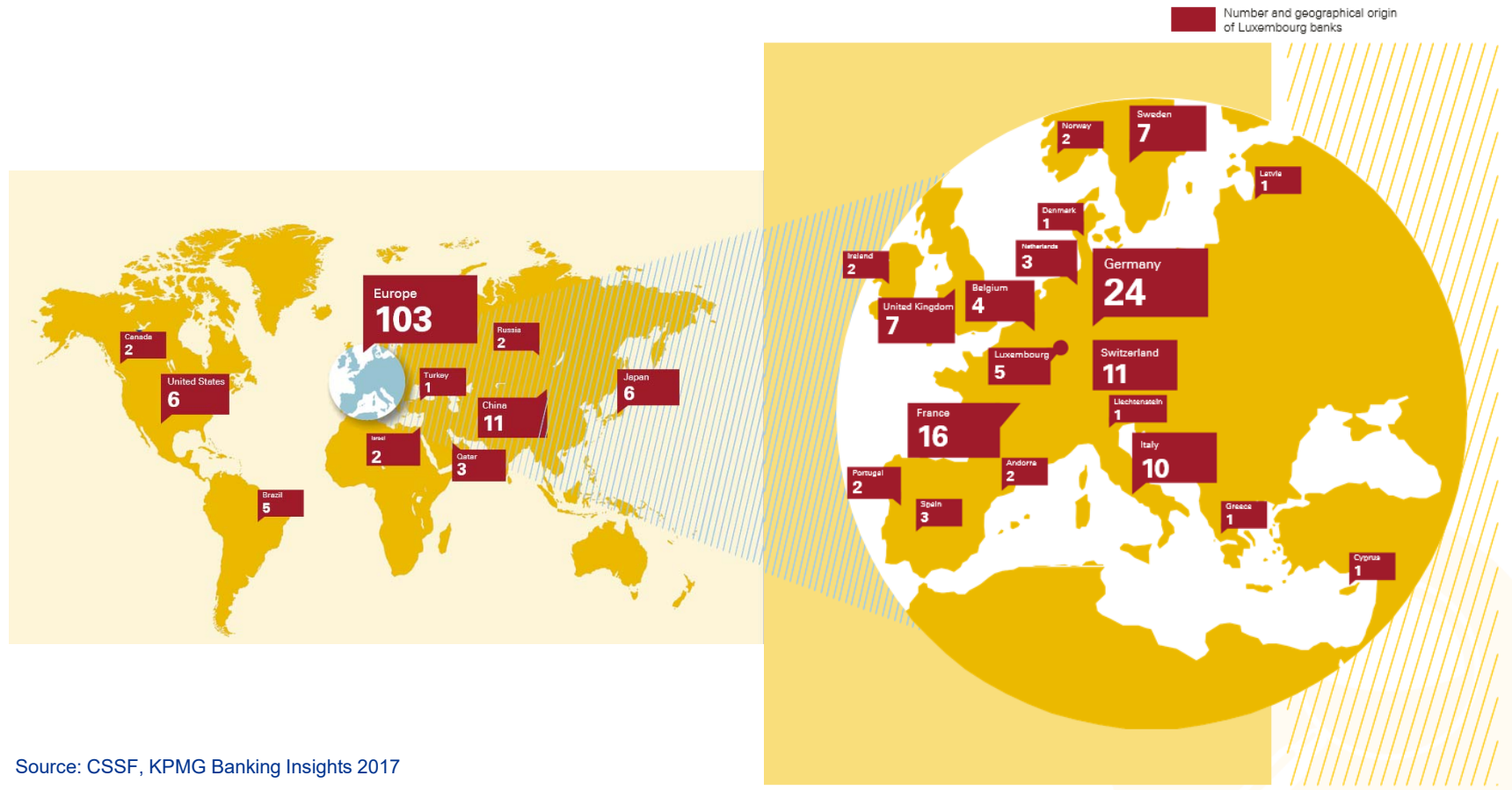
Insights into the financial sector



Banks



The International nature of Luxembourg banks

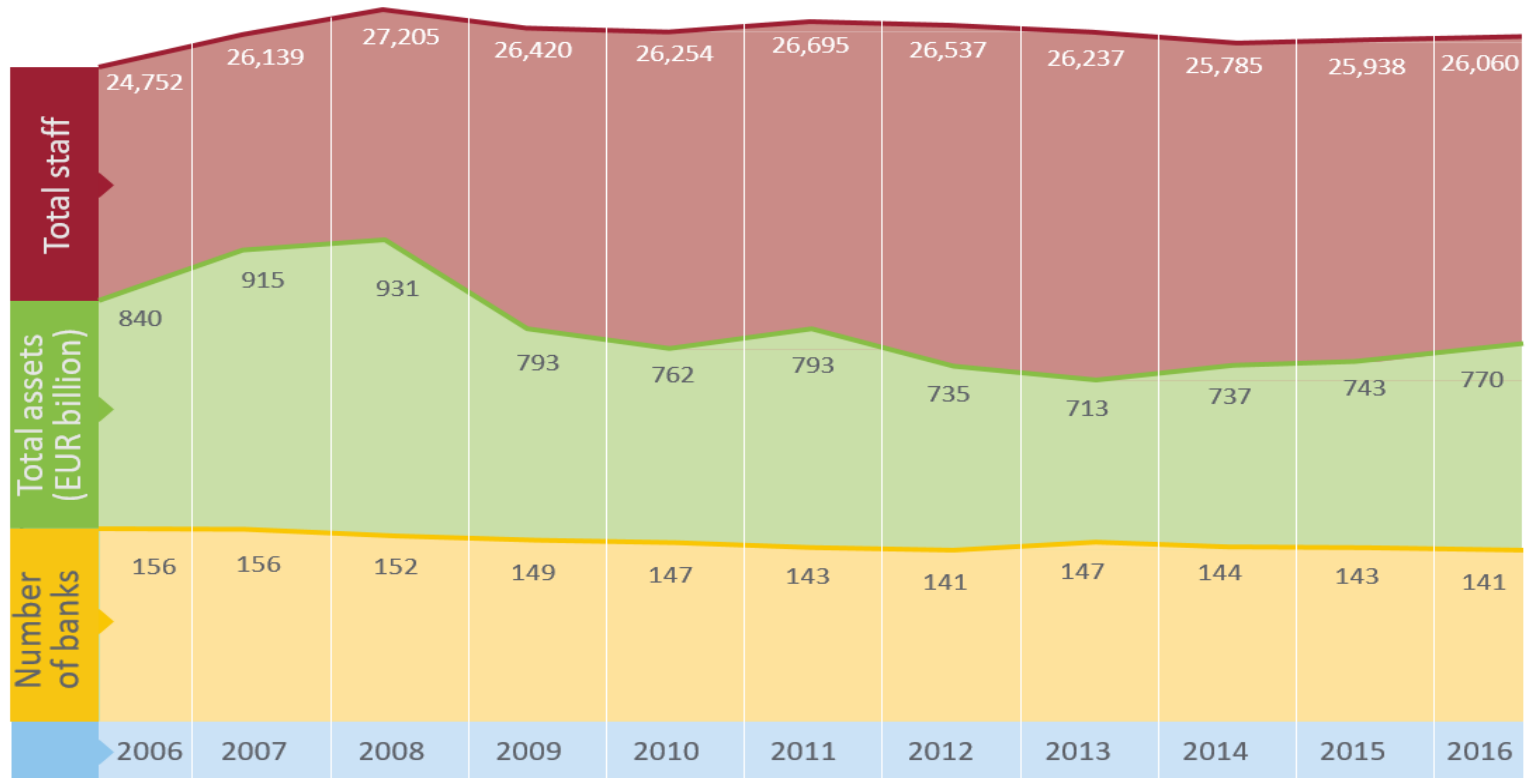


Source: CSSF, KPMG Banking Insights 2017



© 2017 KPMG Luxembourg, Société coopérative, a Luxembourg entity and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

Size of the Luxembourg banking industry



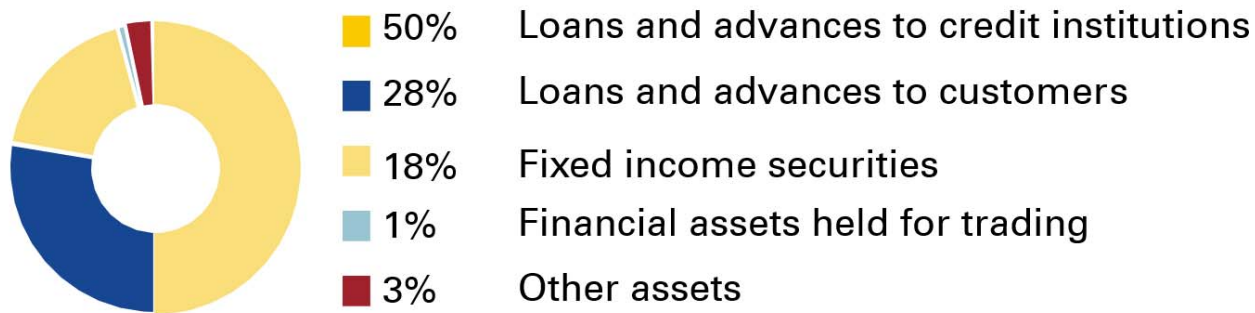
Source: CSSF, KPMG Banking Insights 2017



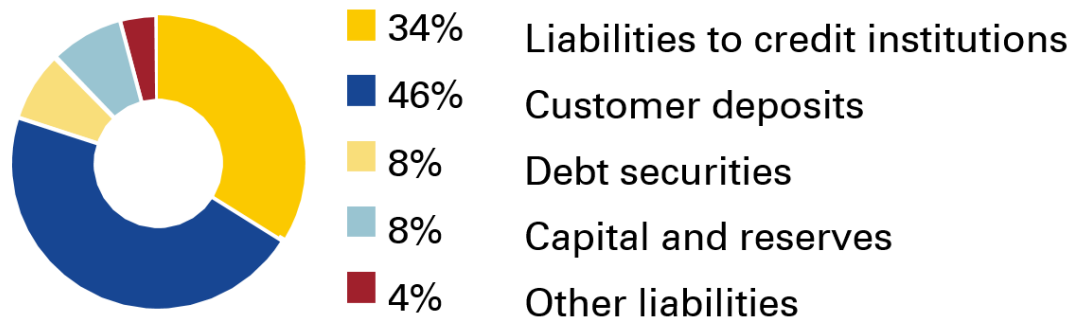
© 2017 KPMG Luxembourg, Société coopérative, a Luxembourg entity and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

Assets and Liabilities

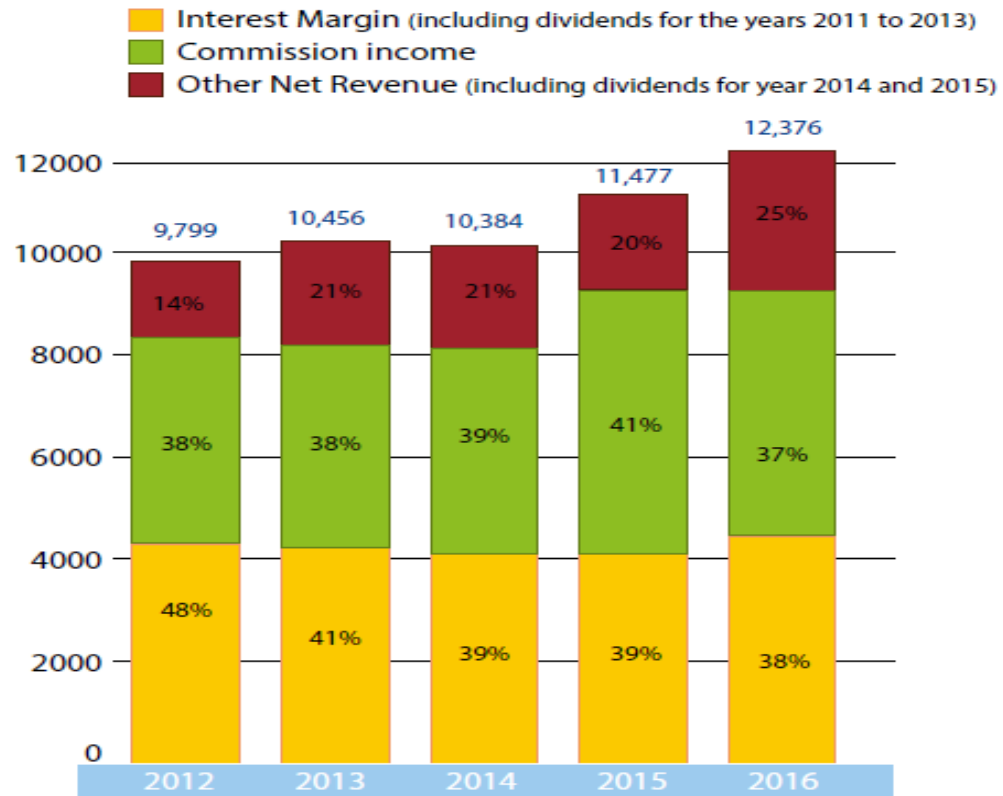
Composition of assets 2016



Composition of liabilities 2016



Banking Income

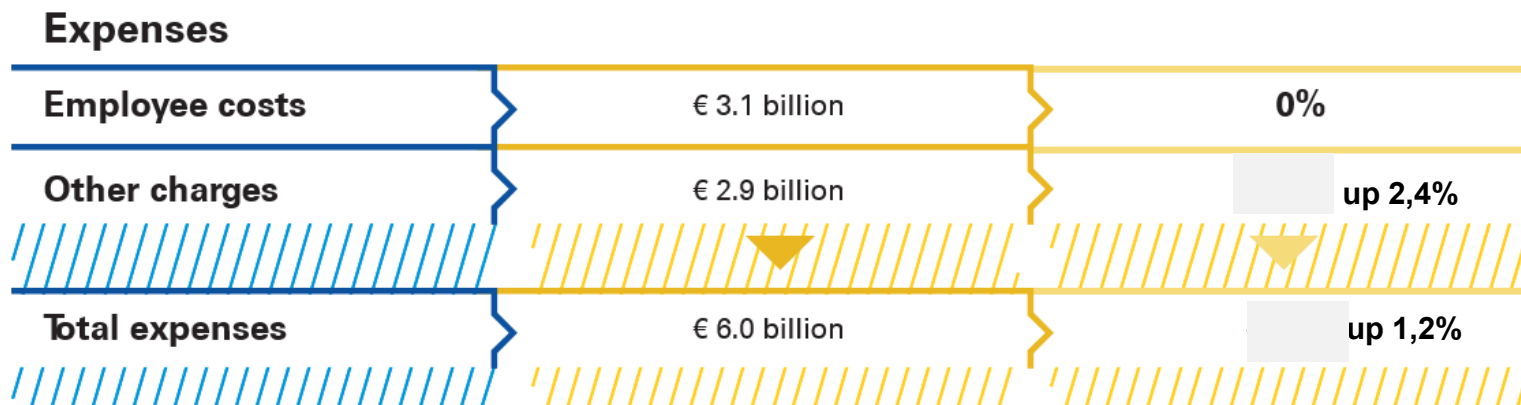


Source: CSSF, KPMG Banking Insights 2017



© 2017 KPMG Luxembourg, Société coopérative, a Luxembourg entity and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

Banking expenses



Source: CSSF, KPMG Banking Insights 2017

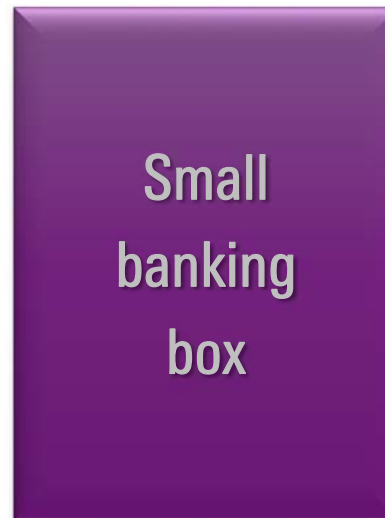
- Staff cost remain stable and in line with the development of number of employees
- During 2015 and 2016, other charges rose by more than EUR 500 million which is mainly linked to IT investments due to new regulations.

Small institutions are being hit harder than the «big players»

Proportionality in banking regulation for small institutions

Advantages

- Fundamental relief in administrative expenses for small institutions
- Clear and consistent distinction creates effective simplification



Disadvantages

- Frameworks for small and large institutions have to be coordinated
- Possible definition problems for threshold values

The Luxembourg *Private Banking* sector - Overview

More Assets, less revenue:

- Private Banking AuM in Luxembourg **rose by 3%** compared to the previous year, reaching €361bn
- This evolution confirms a **consolidation of the sector**, with AuM now standing at **35%** above the level reached before the financial crisis in 2008

AuM	EUR 360.7 bln* (EUR 350.6 billion**)	+3% 
Revenues	EUR 1.64 bln of revenues* (EUR 1.66 bln**)	-1.2% 
FTEs	Directly employed: 6,733* (6,605**) Client facing staff: 1,427* (1,544**)	+1.9% 

- There is however a **decrease in the revenues** mainly linked to the global shift to **(U)HNWIs** (smaller clients are historically more profitable), to the **low interest rates** environment and to the **increase in operating costs** due to IT investments and regulatory requirements (ROA down to 4% compared to 2015)
- The number of staff **increased by 1.9%**, after two consecutive years of contraction, compared to the overall increase of 0.5% for the banking sector

Source : PBGL / KPMG analysis

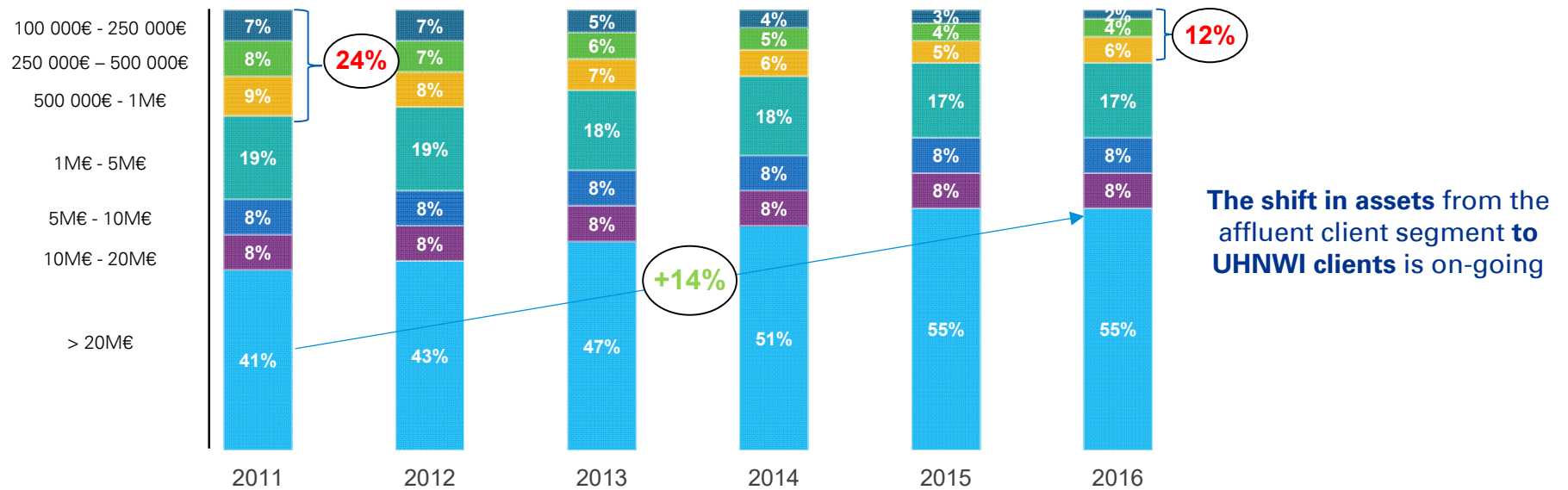


© 2017 KPMG Luxembourg, Société coopérative, a Luxembourg entity and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

28

The Luxembourg Private Banking sector - AuM

Evolution of Wealth Bands in terms of Assets



Source : PBGL / KPMG analysis



© 2017 KPMG Luxembourg, Société coopérative, a Luxembourg entity and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

Areas to watch out for 2018

3 Supervision Areas with top priority:

- Business models & determining factors of earnings power
- Credit risk with focus on NPL and concentration risk
- Risk management



EUROPEAN CENTRAL BANK



App-only banks

New entrants are trying to capitalize on customer use of digital technology. They have no costly branch network or call centres, **it's all about the app**. Monzo reported 240,000 active customers earlier this year and estimates that this will go up to half a million by year end with the launch of their current accounts. The secret to success for all app based banks will be **large scale customer capture**.

Open Banking and PSD2

Customer centricity is a fundamental value of Open Banking and could result in a new wave of “customer layer” entrants and payment initiation services.

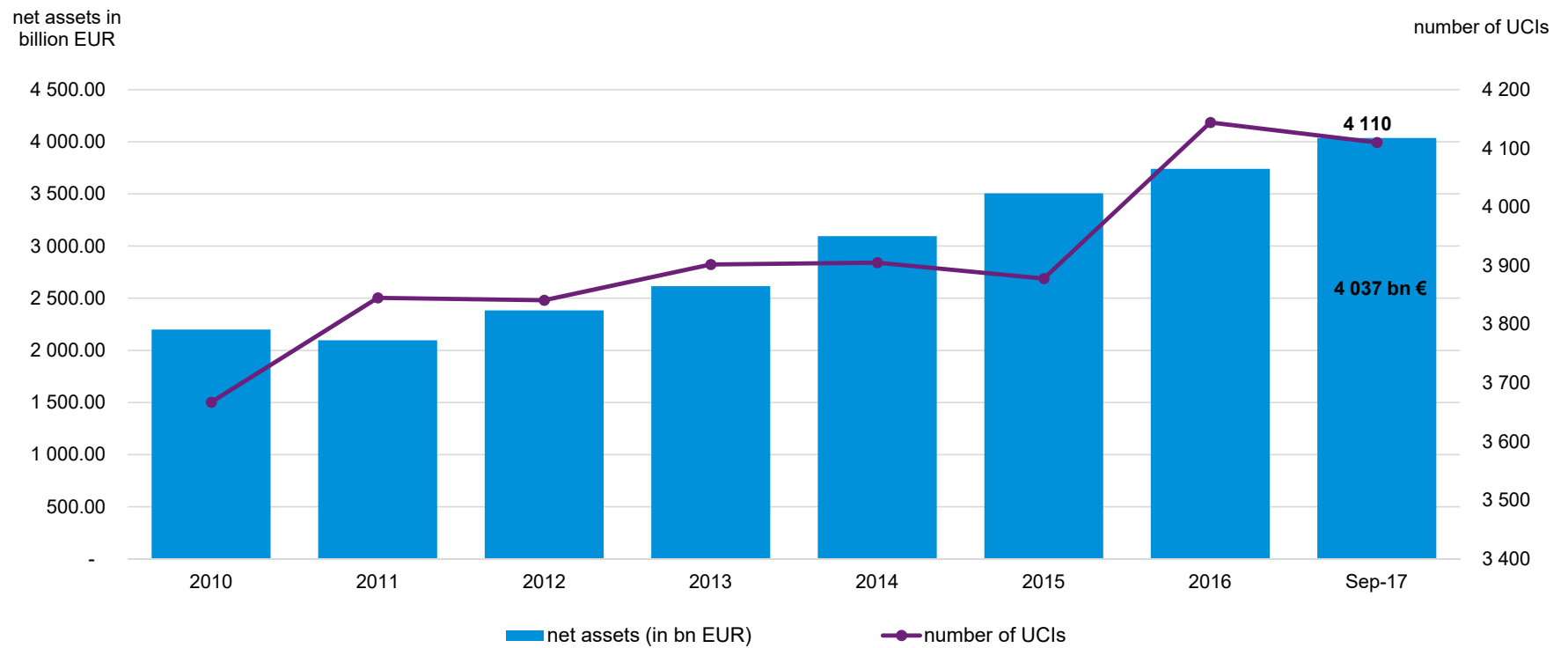
Payments

Even before PSD2, the payments space was evolving fast – see the recent Vantiv/Worldpay merger. The UK's Payment Systems Regulator believes up to ten new providers could gain **access to the interbank payment system** within one year.



Funds

Development of the funds sector



Source: CSSF

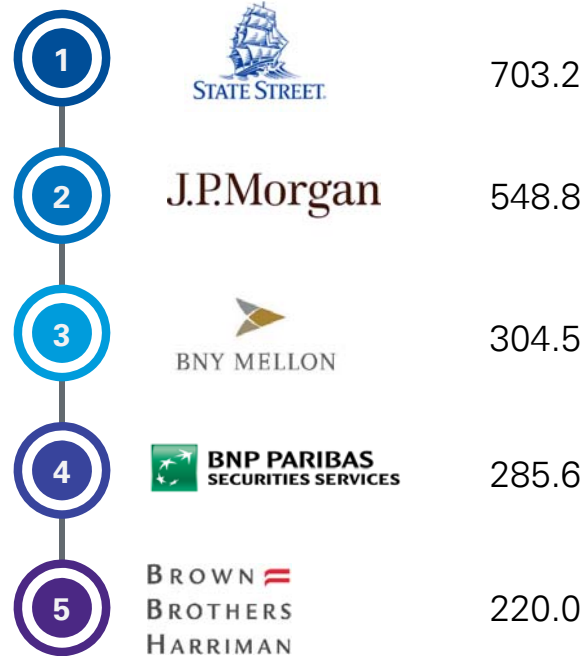


© 2017 KPMG Luxembourg, Société coopérative, a Luxembourg entity and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

Top players: Fund Administrators & Promoters

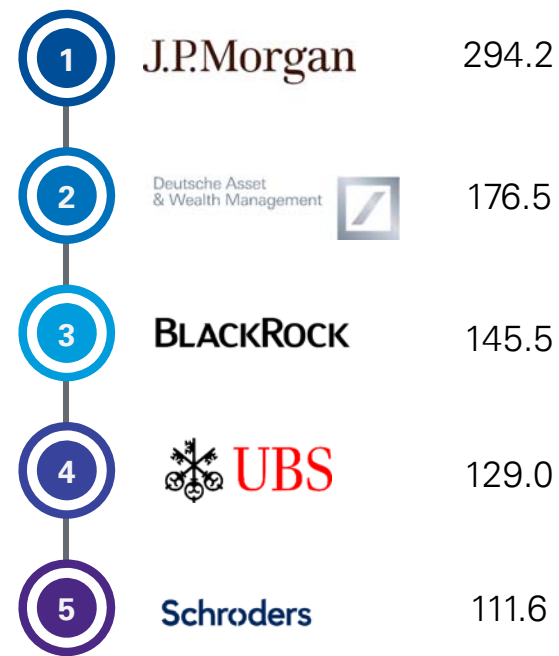
Top 5 Fund Administrators

Net Assets in billion USD, YE 2016



Top 5 Fund Promoters

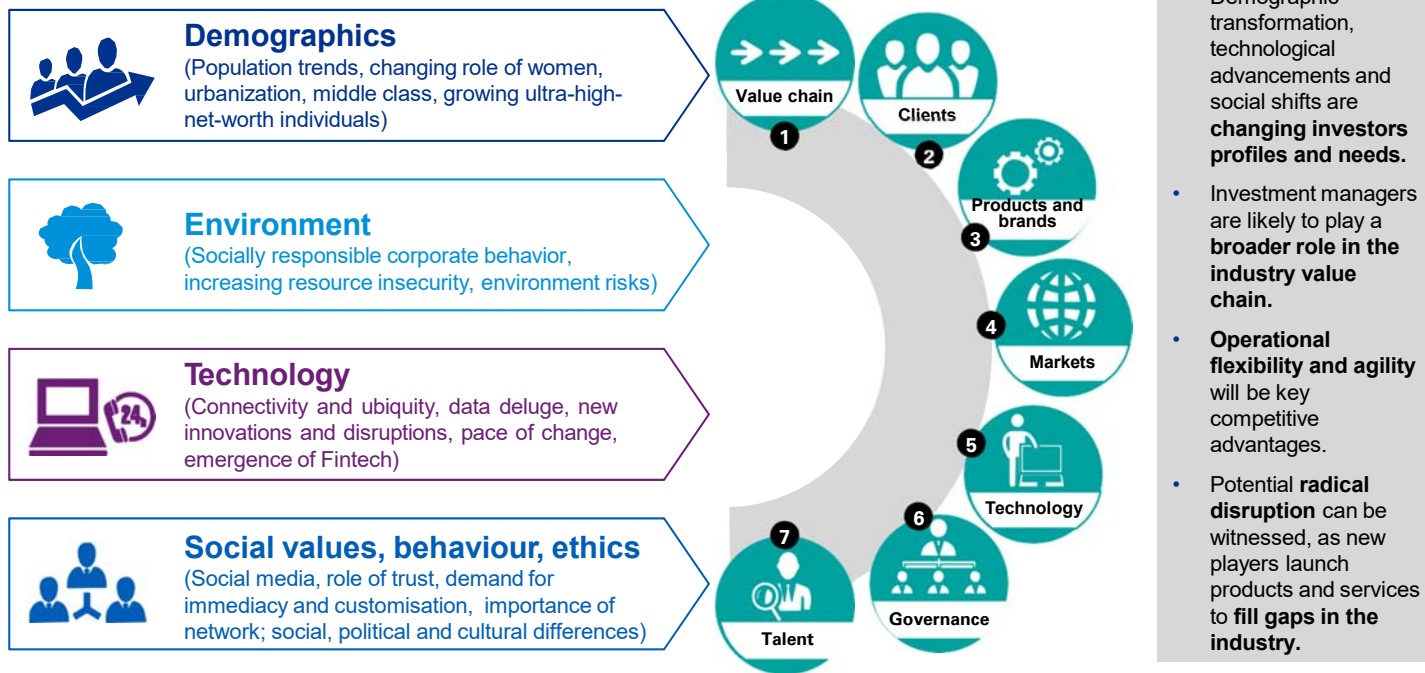
Net Assets in billion USD, YE 2016



Source: Monterey

Megatrends: opportunities and challenges

Shifts in demographics, environment, technology and social values and behaviors continue to reshape the asset management landscape

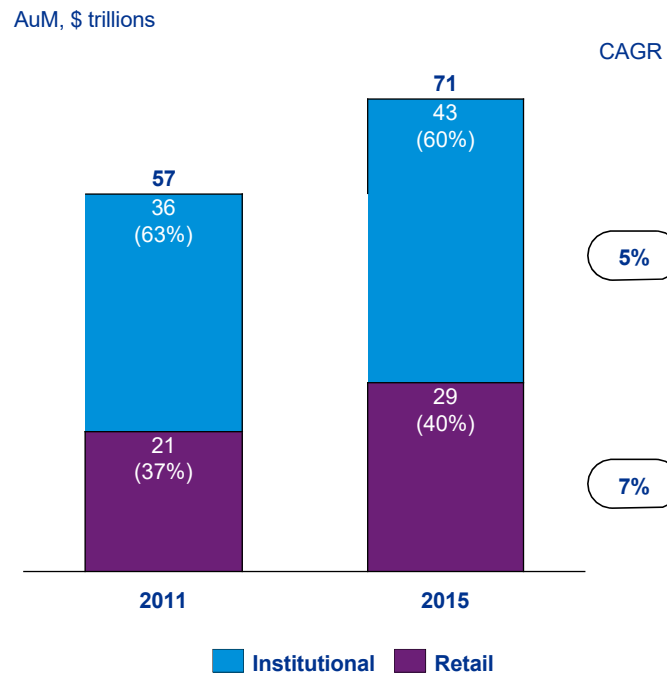


Source(s): 1. 'Investing in the future', KPMG, 2015

Increase in retail investments

The shift towards retail investors requires managers to re-examine their channel and product strategies

Investor structure of global asset management industry⁽¹⁾



Global asset management is gradually shifting from institutional to retail.

- The proportion of retail investment **increased from 37% to 40%**, and absolute asset size grew by 35% between 2011 and 2015.⁽¹⁾
- Total global AUM increased from US\$57trillion to US\$71trillion, where **retail sector contributed more** than institutional.⁽¹⁾

The shift towards retail is mainly driven by:

- Worldwide **rise of wealth**, especially in developing markets
- **Rise of long term investment** products such as insurance and retirement plans
- **Weak performance** of pension plans which leads to diminishing asset value
- **Gradual shift from DB to DC** plans which provides more discretionary power to retail investors

Due to the expected continuing rise of retail investment, asset managers have adjusted their strategies, for example:

- In 2016, Schroders signed **strategic partnership** with Hartford Funds, which will assist with retail channels
- PIMCO is implementing **distribution partnerships** in Asia, such as Hong Kong and China with a focus on private and retail banks, insurers and independent Advisors

Source(s): 1. 'Global Asset Management 2016: Doubling Down on Data', BCG.

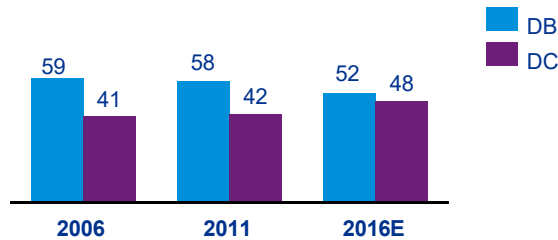


© 2017 KPMG Luxembourg, Société coopérative, a Luxembourg entity and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

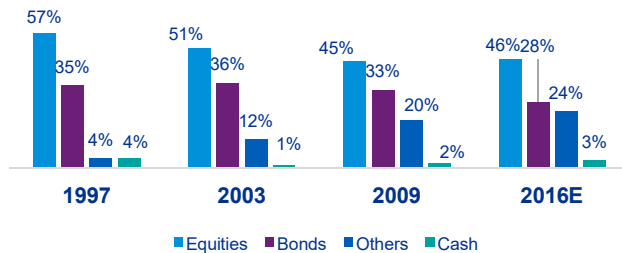
Pension funds: shifting from DB to DC

Pension assets continue to grow but gradually shifting from Defined Benefits (DB) towards Defined Contribution (DC), which has a significant impact on asset allocation

DB/DC asset split for p7* countries (a)(1)



Asset allocation trends (4)



Growth of pension asset

Pension fund assets continue to grow, mainly driven by the rise of DC pension funds.

five years.⁽¹⁾

- DC fund grew at 5.6% CAGR over the past 5 years, outweighing DB assets, which have grown at 2.6%.⁽¹⁾

Shifting from DB to DC

There is a gradual shift of pension assets from DB to DC, due to the reform of retirement offerings.

- It is estimated that DC assets accounted for more than 48% of global pension assets in 2016, compared with 41% in 2006.
- In 2015, only 20% of the Fortune 500 companies offered a DB plan (traditional or hybrid) to new hires, decreasing from 59% among the same employers in 1998.⁽³⁾
- Of the 60% companies with DB plans, 52% have changed or closed their DB plans ⁽⁴⁾.

Increasing allocation on alternatives

Allocation to other assets including alternatives has increased from 4% in 1997 to 24% in 2016, while, allocations to equities and bonds have decreased.⁽¹⁾

Note(s): a. P7 countries include Australia, Canada, Japan, Netherlands, Switzerland, UK and US

Source(s): 1. 'Global Pension Assets Study 2017', Willis Tower Watson, 2017; 2. 'Global pension fund assets edge upwards in 2016', Willis Tower Watson, 2017; 3. 'The Big Push To Insource Pension Assets?', Pension 360, 2017;

4. 'A Continuing Shift in Retirement Offerings in the Fortune 500', Tower Watson, 2016

© 2017 KPMG Luxembourg, Société coopérative, a Luxembourg entity and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

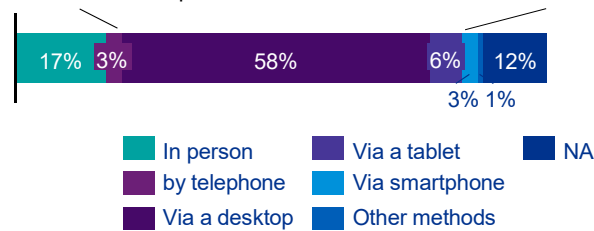


Customer experience: Online accessibility and mobile

Online accessibility and mobile services have become a 'must have' to attract a new generation of customers

Customer trends

Of all the consumers, 67% use the online or mobile channel to research on financial products^{(1)(a)}



1st

Customers ranked **'having an online platform'** as the most important factor when choosing an investment provider.⁽²⁾

56%

More than half the customers (56%) are **interested in using digital savings and investment tools/services.**⁽²⁾

7%

About 7% of consumers are **interested in using automated advice platforms.**⁽²⁾

Key insights

Digital presence is imperative for both traditional players and disruptors to market financial products.

Online platforms are gaining customer traction and enable cross-selling of products.

Digital innovations can lower the barrier of investing, and when combined with in-person services, would cater to a wider customer segment.

Note(s): a. Based on survey of 1684 users aged 18+ who own any financial product;

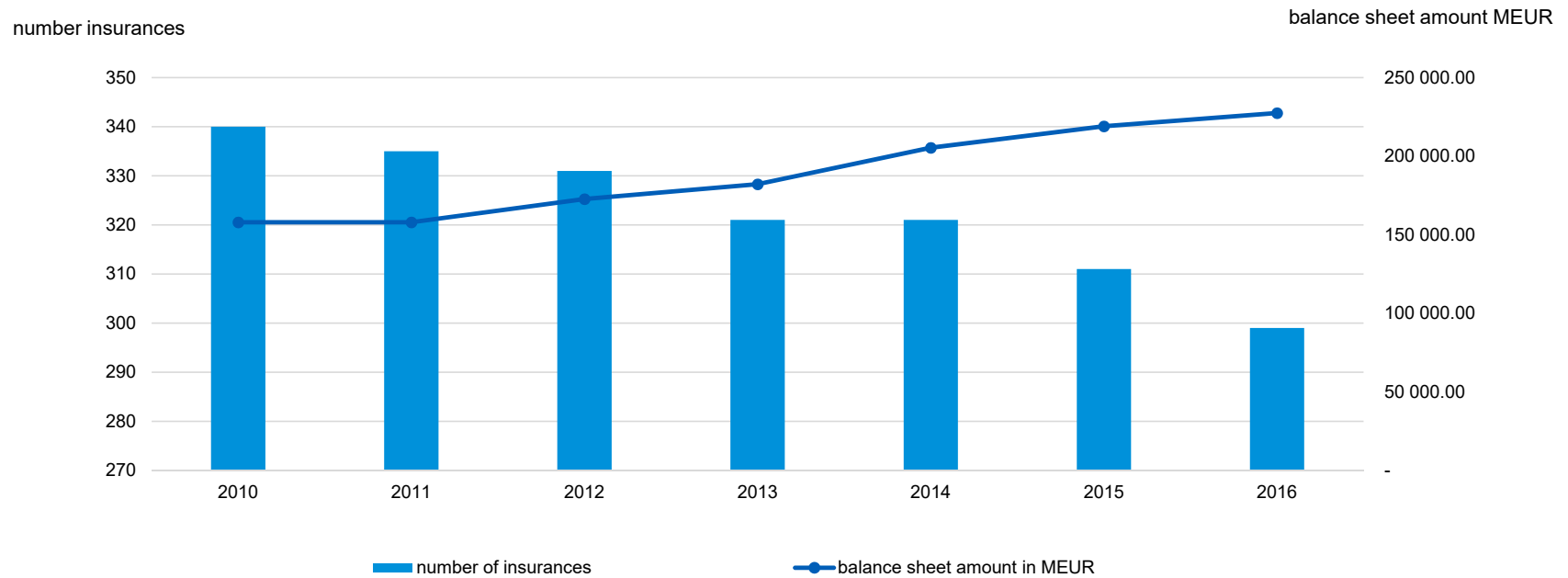
Source(s): 1. 'Mobile Financial services – UK – February 2015', Mintel; 2. 'Consumers, Saving and Investing – UK – January 2017', Mintel

© 2017 KPMG Luxembourg, Société coopérative, a Luxembourg entity and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.



Insurances

Development of the insurance sector



Source: CAA Annual Report 2010 - 2016

Luxembourg – a new hub for Insurance companies?

- London is the most important hub for the European insurance market
- Due to the loss of access to the European Single Market after Brexit, a lot of insurers are searching for new locations
- The most attractive locations are Luxembourg, Brussels and Dublin

Some insurers already decided for Luxembourg



CNA / HARDY

Blackstone

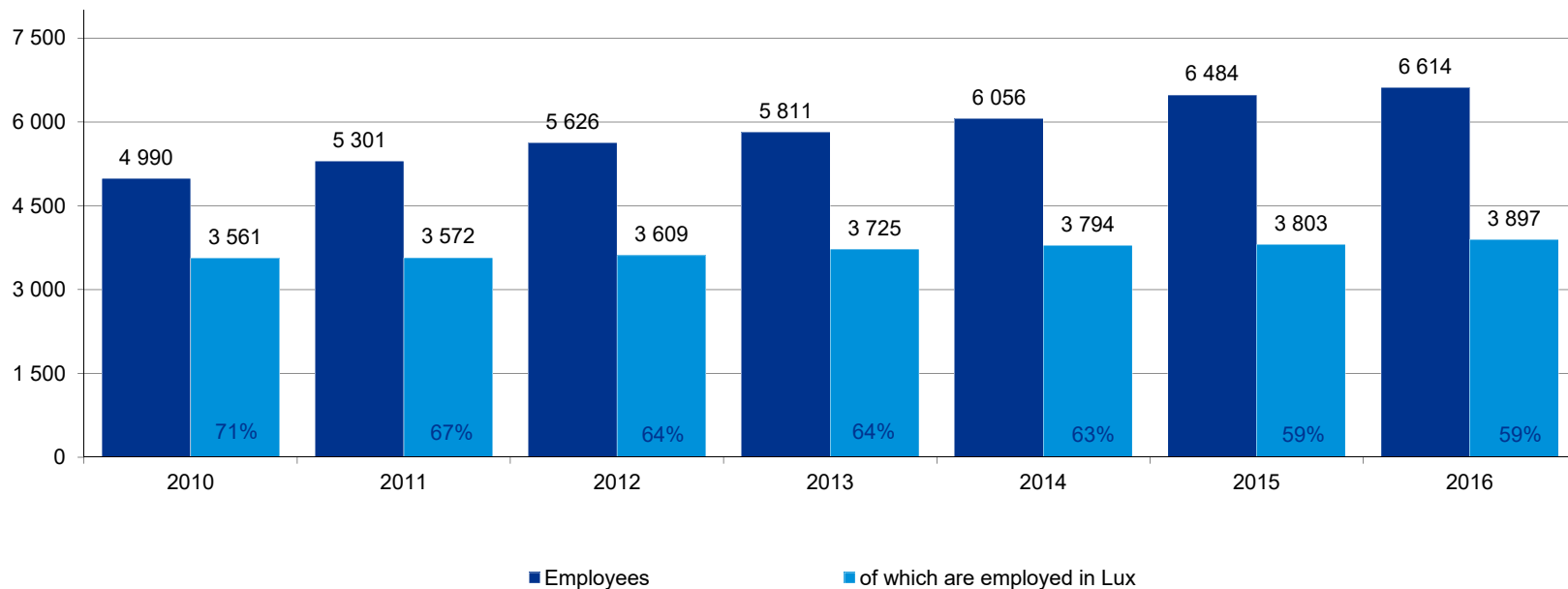


Liberty
Specialty Markets



Employment in the insurance sector

Employees



Source: CAA Annual Report 2010 - 2016

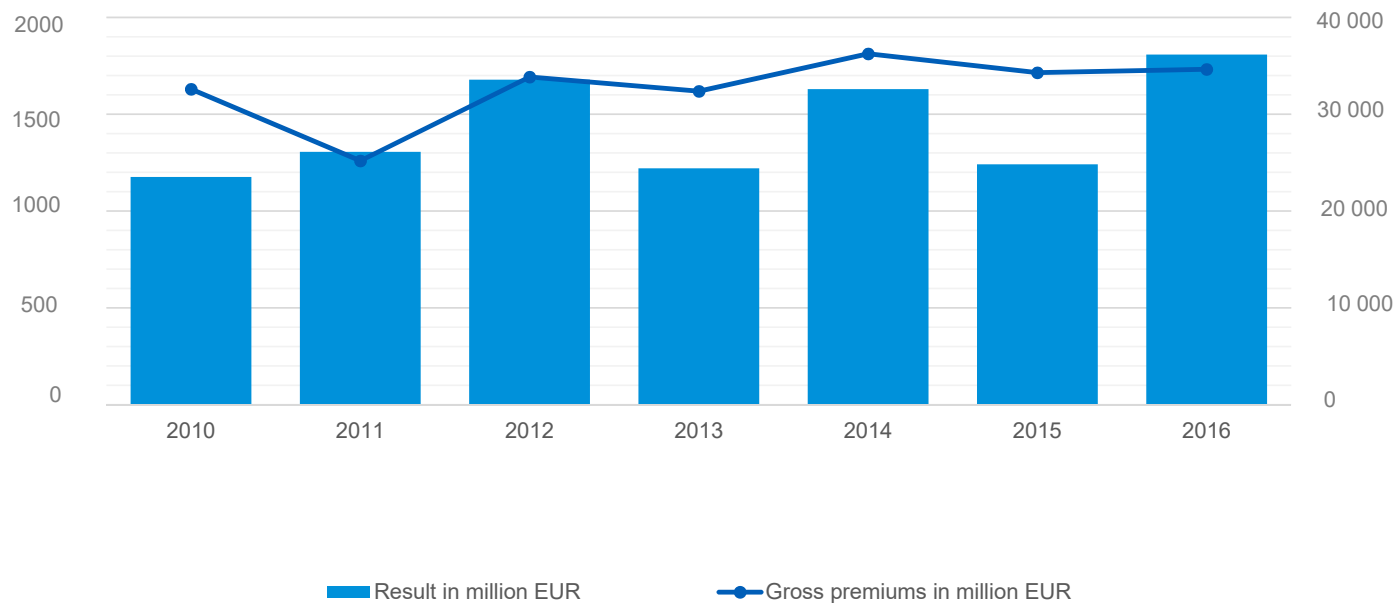


© 2017 KPMG Luxembourg, Société coopérative, a Luxembourg entity and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

Profitability of the insurance sector

Result in million EUR

Gross premiums in million EUR



Source: CAA Annual Report 2010 - 2016



© 2017 KPMG Luxembourg, Société coopérative, a Luxembourg entity and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

Digitalisation - the end of traditional insurance?



Car sharing concepts and autonomous driving

New Challenges

Less damage?

Therefore: Less need for insurers?



Smarthome incl. detection systems for fire, water, gas, etc. in houses

Need to evolve from simple *risk taker* to *value-added service provider*



What is coming next?



BREXIT

GBP/EUR remains low since Brexit referendum

CCY Conversion Rate GBP - EUR



What's in it for Luxembourg?

Passport rights:

- 5.467 entities settled in the UK have 359.953 passport rights
- Without these rights, no financial services may be offered in the EU
- Entities are looking for a new mainstay in the EU continent

→ Luxembourg is a potential destination

Decision 20 Nov 2017 - Reallocated from London:

→ EBA will find new home in Paris where ESMA is already

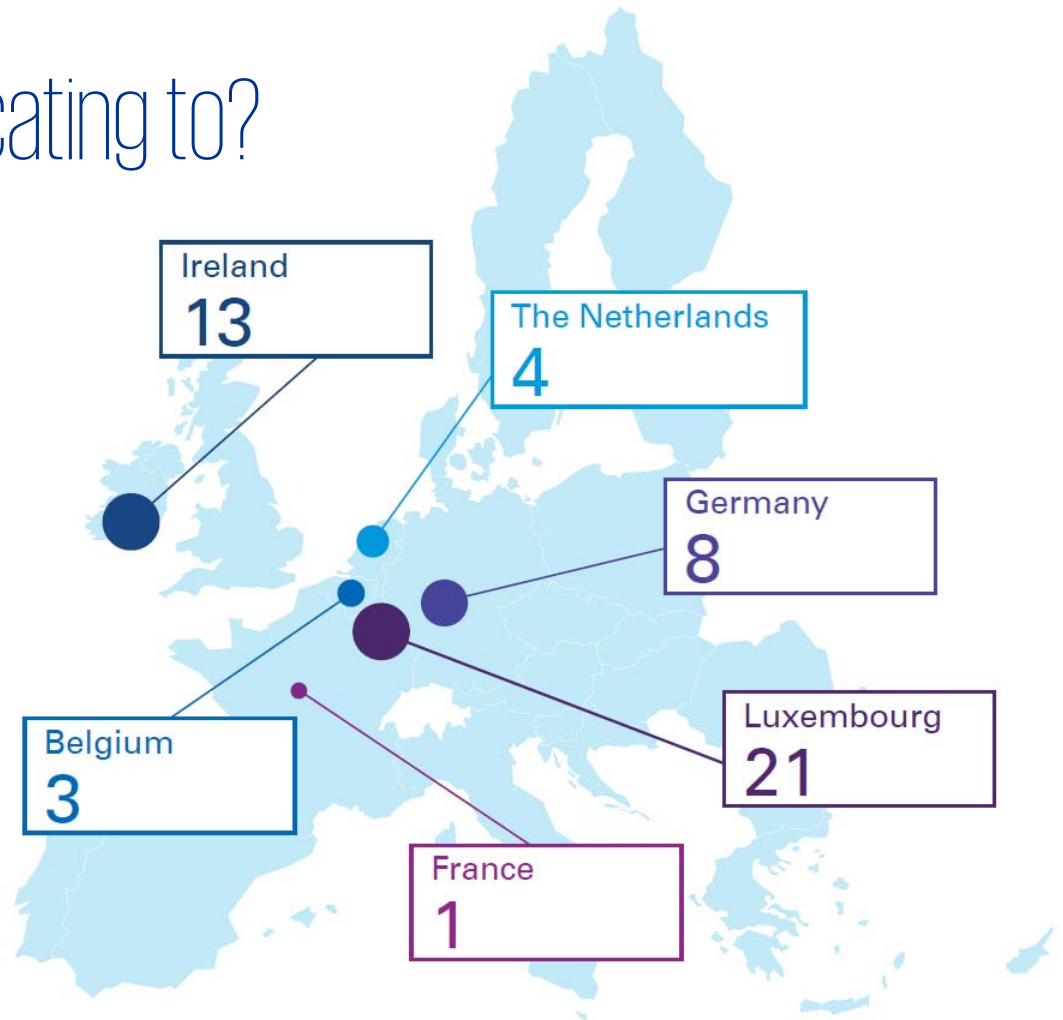
→ EMA going to Amsterdam



Where are companies relocating to?

On the Brexit Journey

Brexit transformation agenda



Source: Press announcements up to June 2017



© 2017 KPMG Luxembourg, Société coopérative, a Luxembourg entity and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

Euro-Clearing after Brexit

London is facing renewed pressure over its dominance of the €1tn (£880bn)-a-day euro clearing

The move by the Frankfurt-based ECB – the central bank for the 19 countries using the euro – follows a report by the European commission that called for the EU to have more powers over clearing of financial products denominated in euros after Brexit.

Using the technical term for clearing houses – central counterparties – the ECB made clear that London was in its regulatory sights, as it demanded “clear legal competence in the area of central clearing”. The bank said: “These powers include a significantly enhanced role for central banks of issue in the supervisory system of central counterparties, in particular with regard to the recognition and supervision of systemically important third-country CCPs clearing significant amounts of euro-denominated transactions.”

What is euro-denominated clearing?

Euro-denominated clearing refers to the trade of financial products, such as derivatives priced in euros. Clearing houses act as buyer and seller in these trades. They agree to take on the risk of a default, on behalf of the actual buyers and sellers such as investment banks, in exchange for a payment. London clearing houses dominate the euro side of things, dealing on a daily basis with €1tn of foreign-exchange contracts (converting an amount of euros into another currency), compared with €400bn in New York.



The argument about where euro clearing should take place raged even before the referendum.

George Osborne, when he was chancellor, had taken the matter to the court to fight an attempt by the ECB to argue that clearing houses – such as the LCH – should be based in the Eurozone when they handle trades in euros. In 2015, the general court of the EU had ruled that the ECB did not have the power to demand such a move.

The euro clearing issue is one of many competitive threats to the City in the wake of the Brexit vote. Europe’s pre-eminent financial centre is also battling to retain major investment banks – from Goldman Sachs to UBS – that are openly considering moving British-based operations to the EU.

Source: *theguardian.com* 23 July 2017



Digitalisation

Breakthroughs are revolutionizing the economy

Technologies of the future and their economic effects until 2025

Sales of new industries

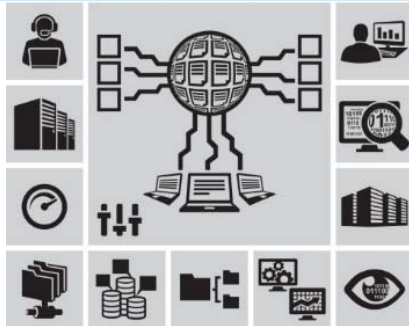
Mobile Internet 3,7 through 10,8 tn USD

Artificial Intelligence 6 tn USD

The Internet of Things 2,7 through 6,3 tn USD

Big Data

90% of the world's data has been generated in the last two years



Loss of work places due to intelligent computing

140 Millions

“The only thing that’s changed is everything” (Apple)

“In the land of the digital deficit”

The 21st century technologies are dominated by the US, Asia and Israel
Europe has missed out on digitalisation:

- Banks usually do not transfer funds until the next working day
 - Technically this should be feasible within a few seconds
- Complex 22-digit IBAN numbers are required
 - Why are e-mail addresses not accepted? PayPal has been doing this for a long time already
- Banks charge about 30 EUR to transfer 1.000 EUR from Luxembourg to New York
 - Startup company TransferWise does the same job faster and for only 4,98 EUR
- Tax Offices accept tax returns electronically, but all the vouchers must be sent by post



Apple, Google & Co. - new competitors for banks

The “Big5” are heading towards banking and payment systems:



amazon

Google



- Facebook obtained a banking license in Ireland in 2016
- According to media articles, Google has held a banking license since 2007
- Google, Apple and Amazon offer payment systems for their customers
- Microsoft is said to have a license for finance transfers with one of its subsidiaries in the US


→ With PSD2 EU-directive, the framework is changing in favor of these tech giants


interface infrastructure vs. data protection

Traditional players expanding in the digital sector

Traditional players are responding to the disruption by developing or acquiring new technologies

 Big Data

 Aladdin is a platform developed by BlackRock that combines analytics with portfolio management, trading and operations, allowing portfolio managers to make more informed decisions


 Axa Investment Manager has entered into a collaboration with MKT MediaStats, a market data and analytics platform


 Blockchain

 In 2016, GS filed a patent application for a blockchain based system that would offer “nearly instantaneous execution and settlement” of trades involving stocks and bonds. The bank also filed for a blockchain patent for forex trading.


 JP Morgan is in trial of Blockchain in currency clearing and settlement. It is working on a new Blockchain network, Quorum, that would allow the bank to use a publicly available system for confidential transactions


 Artificial Intelligence


 Bridgewater has built a team for analytics and AI called Systematized Intelligence Lab⁽¹⁾. The plan is to automate the day to day management including the investment aspects

 Point 72 Asset Management is developing AI tools to automate the work done by execution traders

 Robo-advisors

 Blackrock acquired a robo-advisor venture called FutureAdvisor, integrated it with BlackRock’s investment and risk management division

 Charles Schwab launched intelligent portfolios, offering fully automated services with no advisory and account services fees

 Vanguard launched a robo-advisor initiative in 2015 with service covering technology and human wealth management

Source(s): 1. IMD



© 2017 KPMG Luxembourg, Société coopérative, a Luxembourg entity and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative (“KPMG International”), a Swiss entity. All rights reserved.

Cyber attacks on banks: The risks are increasing

Worldwide: on average 85 attacks per Bank & year

Every third attack is successful.

For ca. 50% of the affected companies, it takes several months to reveal a successful attack.

64% of revealed attacks are revealed by the companies' own IT security personnel.

Most popular method: Phishing-Mails.

Targets: client data & cash transactions.

Not all attacks are coming from outside.

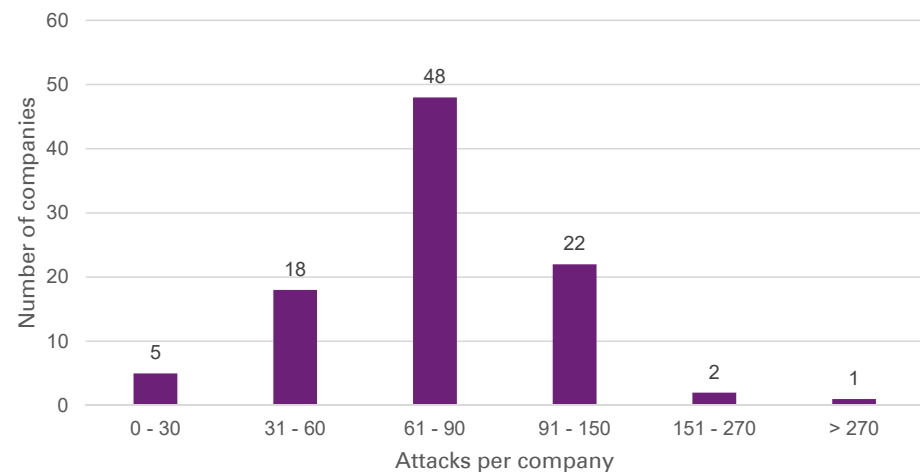
Focus of IT supervision: privileged users.

Password protection alone is a thing of the past

Not *everything* can be protected: Companies must invest permanently and purposefully.

Critical systems must be protected, privileged users supervised.

Banks & Financial Companies who revealed cyber attacks



Source: Accenture



Tax

Luxembourg Tax Reform

- Total Corporate Tax Rate 2018 is 26,01 %
- Minimum net wealth tax for SOPARFIs was increased to 4.815€ (+50%)
- Taxe d'Abonnement for funds still applicable

Important tax developments at OECD, EU or country level

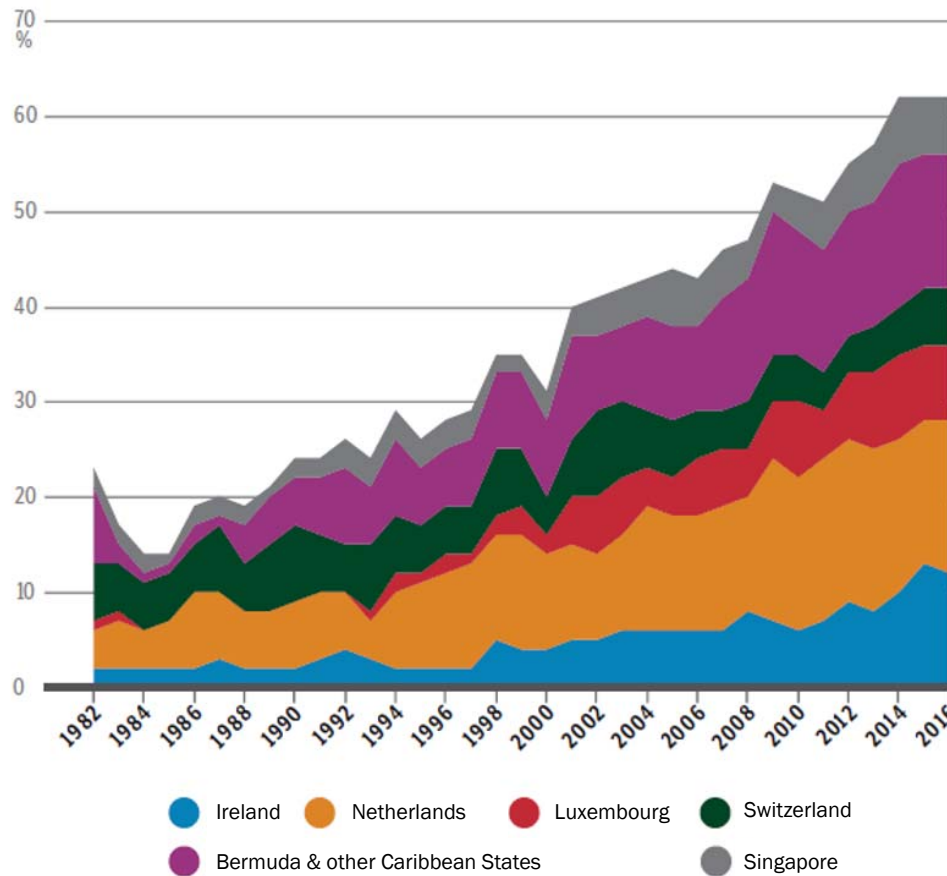
BEPS Base Erosion Profit Shifting
ATAD Anti Tax Avoidance Directive
CRS Common Reporting Standard
CCCTB Common consolidated Corporate Tax Base;
EU Tax Transparency
Automatic exchange of information
Country by country reporting

source: KPMG

Multinationals' tax practice

Where US multinationals are reporting their profits

Share of foreign profits of US groups in %



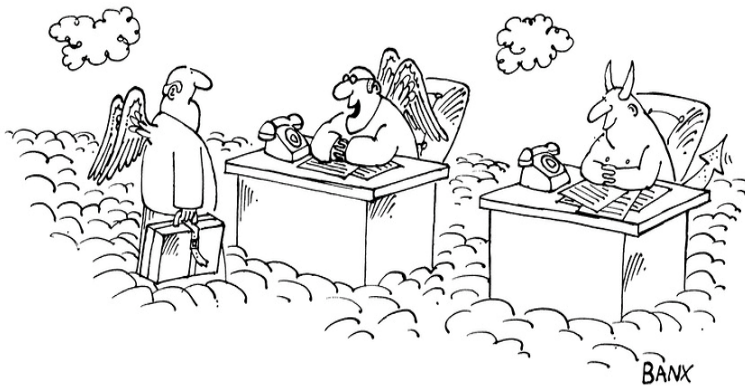
Source: University of California, Berkeley



© 2017 KPMG Luxembourg, Société coopérative, a Luxembourg entity and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

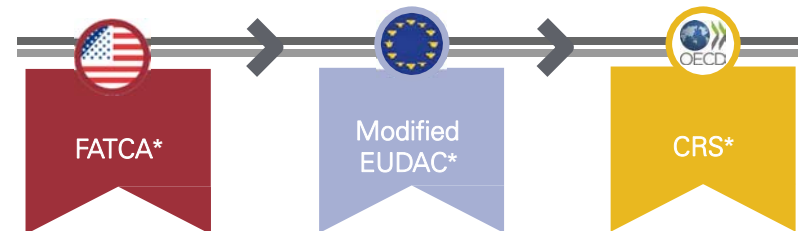
Document Classification: KPMG Confidential

FATCA & CRS - Transparency



"I deal with tax avoidance - he deals with tax evasion."

Towards a common standard on automatic exchange of information



For many years countries around the world have been engaging in the automatic exchange of information in order to tackle offshore tax evasion and other forms of non-compliance.

Since 2012, many jurisdictions have opted to implement FATCA on an intergovernmental basis, and, more specifically, to collect and exchange the information required to be reported under FATCA on the basis of a Model 1 FATCA Intergovernmental Agreement ("IGA"). Many of these jurisdictions have decided to leverage the investments made for implementing the FATCA IGA to establish automatic exchange of information relationships with other jurisdictions.

As a result, OECD, together with the G20 countries and in close cooperation with the EU have developed the Standard for Automatic Exchange of Financial Account Information in the form of a standardized automatic exchange model, which builds on the FATCA IGA to maximize efficiency and minimize cost

Paradise Papers - Compliance and Reputation

“ ... Isle of Man is today what Luxembourg used to be.”

Legal but not **legitimate?**

- Compliant to legal requirements
- Moral benchmarks vs laws?
- Apple: profits 62bn\$ tax 16bn\$

Source: FAS 12.11.17





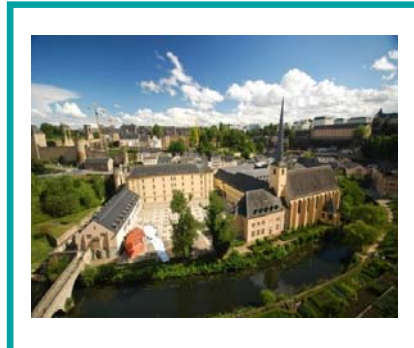
Outlook

Outlook



Banks

- „blood, sweat & tears“
- More and stricter regulation
- Higher cost, lower income
- ECB regulation aims to achieve a level playing field
- Increased competition in a complex environment
- Digitalisation & new players



Luxembourg

- Initiatives were triggered in the past years for sustainable growth outside the financial sector
- Ongoing long-term investments in education and infrastructure
- Public debt & Pension system
- Elections in 2018 and continuing Government commitment



Funds

- Fund ecosystem
- Demographic trend requires investments in equity instruments
- Funds are the best way to invest in equity
- EC proposal for ESMA responsibilities regarding 3rd country funds as a risk



Thank you very much for your patience!

The Luxembourg financial center in a new world

Thomas Feld December 2017

kpmg.lu



kpmg.lu/app



© 2016 KPMG Luxembourg, Société coopérative, a Luxembourg entity and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved

Merry Christmas & a happy & successful New Year 2018

