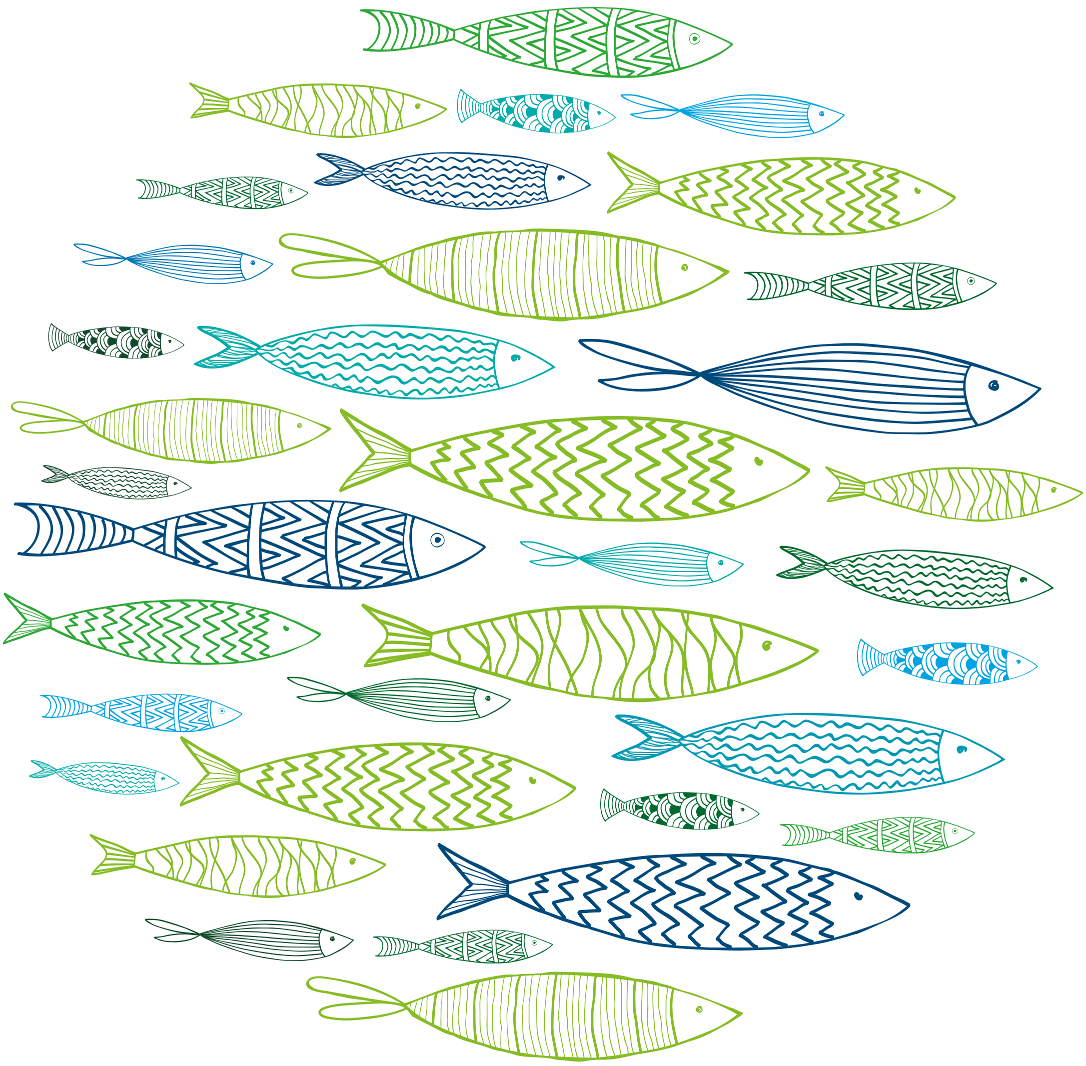
Deloitte.



Outlook and future of a maturing sector

Professionals of the Financial Sector (PSF) in Luxembourg

December 2023

Table of contents

Foreword

Each year, the Luxembourg financial center reasserts its leading position in the global financial market. Luxembourg's reputation for quality service among clients is built on the **expertise, innovation and know-how of its professionals of the financial sector (PSF).**

In 2022, **the PSF market showed definite resilience and maturity.** Its employment of 17,500 professionals exceeded pre-pandemic levels.

Driven by the market's consolidation trend through mergers and acquisitions (M&As), the number of PSF ultimately decreased in 2022, compared to 2021. As of 31 December 2022, 260 PSF were supervised by the CSSF compared to 266 as of 31 December 2021. Consolidation is going on and 255 PSF are supervised at the end of September 2023.

Still, the market's overall performance and need for talent keep growing, given the rise in net results. Overall, **PSF are seizing the many market opportunities** served by new trends and regulations, while reinforcing efficiency and synergies.

Through our detailed analysis of the PSF market, we hereby present **this industry's key trends and evolutions in an ever-changing environment.**

Integrating the latest PSF figures with detailed commentary, our report analyzes this dynamic market and provides an overview of the PSF categories and developments. It also features **interviews with key people** of the financial center and topical articles by industry-dedicated professionals. The results confirm the PSF's importance to the Luxembourg economy.

We kindly thank **Marco Paternò Castello, Stephane Argyropoulos,** and **Raoul Mulheims** for their valuable contributions to this report. Their complementary industry experience offers valuable insight into the latest PSF news and the sector's prospects.

We hope you enjoy the read.

Raphaël Charlier
Partner, PSF Leader

Adil Sebbar
Managing Director, Banking & PSF

Introduction

PSF: a wide range of services in a regulated environment

Professionals of the financial sector (PSF) are defined as regulated **entities offering financial services other than receiving deposits from the public** (a function strictly confined to credit institutions). Therefore, this industry covers a wide range of financial and even non-financial services.

PSF, which are supervised by the Luxembourg regulatory authority,[1] enjoy special access to the financial market's activities and fall within the financial sector's specific sphere of information confidentiality and security.

This special access is not without consequences regarding governance, structure, risk management, and prudential supervision. It is governed by the Law of 5 April 1993, as amended, relating to the financial sector ("the Law").

PSF's professional secrecy obligation is defined by Art. 41 of the Law, and was reinforced by the General Data Protection Regulation (GDPR), which came into force on 25 May 2018[2].

By virtue of the information confidentiality and security demands, many non-financial actors have made the necessary efforts, often on a large scale, to obtain PSF status. This allows them to serve other financial sector players.

There are **three categories of PSF,** depending on the type of activity carried out and the nature of the services provided, namely:[3]

- **Investment firms** (Arts. 24-1 to 24-9 of the Law) are defined as firms supplying or providing investment services to third parties on a professional and ongoing basis. These are mainly:
  1. Investment advisers
  2. Reception and transmission of orders in relation to one or more financial instruments
  3. Execution of orders on behalf of clients
  4. Portfolio managers
- **Specialized PSF** (Arts. 25 to 28-11 of the Law) are entities active in the financial sector that do not offer investment services. They mainly include:
  1. Corporate domiciliation agents
  2. Registrar agents
  3. Family offices
- **Support PSF** (Arts. 29-1 to 29-6 of the Law) act principally as subcontractors offering operational services on behalf of credit institutions, PSF, payment institutions, electronic money institutions, insurance and reinsurance undertakings, pension funds, and undertakings for collective investment (UCIs). They also act on behalf of specialized investment funds (SIFs), investment companies in risk capital (SICARs), venture capital companies, approved securitization entities, and reserved alternative investment funds (RAIFs). They include:
  1. Support PSF not involved in information technology, namely Client communication agents (Art. 29-1) and Financial sector administrative agents (Art. 29-2).
  2. Support PSF involved in information technology, namely IT systems and communication networks operators of the financial sector (Art. 29-3).
  3. Support PSF offering Dematerialization or digital document conservation services (Arts. 29-5 and 29-6).

Professionals of the financial sector (PSF) are defined as regulated entities offering financial services other than receiving deposits from the public.

This report presents the **industry's scope** in Luxembourg and gives a clear view of the **different types** of PSF and how they have **evolved.**

Over many years, Deloitte has developed the necessary expertise to support and advise all forms of PSF across all development stages, from creation to growth.

1. Commission de Surveillance du Secteur Financier (CSSF).
2. Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC (europa.eu).
3. The licenses' numbering and denominations are based on the version of the Law of the Financial Sector dated 5 April 1993 as applicable as at 31 December 2023.

1 Scope of PSF in the Luxembourg economy

1.1 A strong economic player

Analysis of PSF's importance and review of their economic and social impacts

Market size

In 2022, the overall number of PSF fell from 266 to 260 (2.3%) compared to the end of 2021, driven by the drop in the number of investment firms and support PSF (5.9%), but slightly offset by the rise in the number of specialized PSF (4.2%).

The main PSF categories in 2022 remained specialized PSF and investment firms, accounting for 38% and 37%, respectively, at year-end.

The PSF market's development can be divided into three phases:

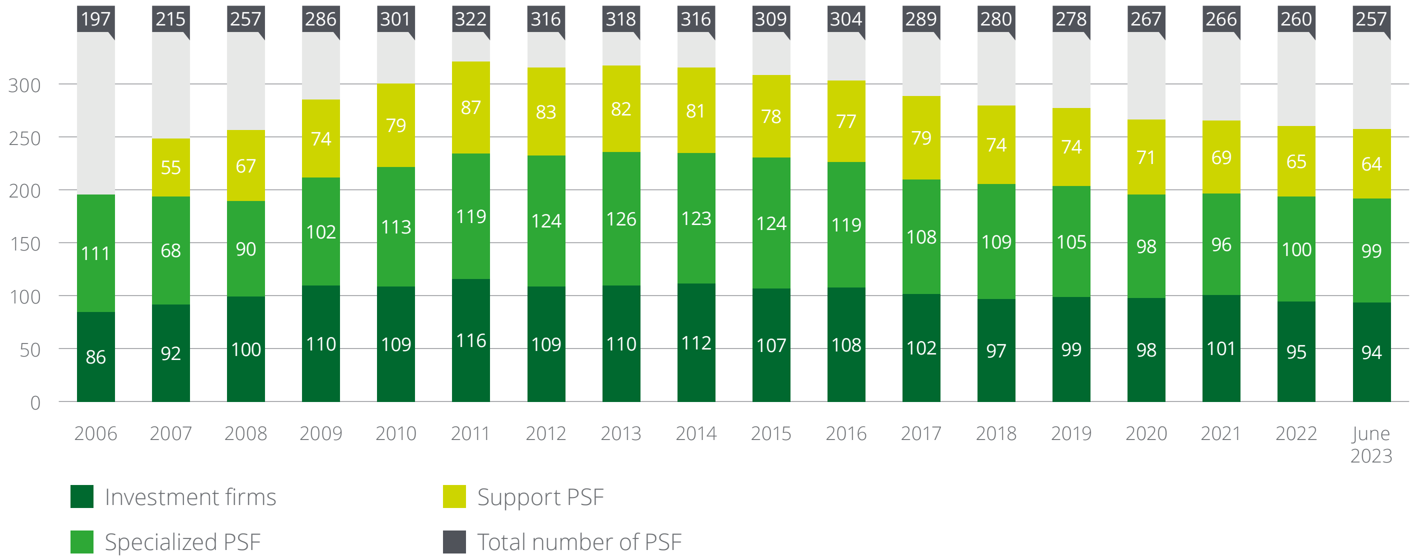
- From 2006 to 2011, the number of PSF increased by 64%, peaking at 322 entities, mainly due to the financial center's growth. This was particularly visible in the rise of investment funds, corporate domiciliation agents, and the financial and non-financial services in demand from Luxembourg financial institutions, such as banks, insurance companies and funds.
- From 2012 to 2016, the number of PSF stabilized at 304 entities, mainly due to a better understanding of the licensing requirements of the services provided.
- Since 2017, the number of PSF[4] has dropped from 289 in December 2017 to 260 in December 2022. This reduction was mainly due to PSF's growing costs in keeping up with digitalization and new regulations, including the Anti-Money Laundering Directive (AMLD),[5] the second Markets in Financial Instruments Directive (MiFID II),[6] and additional governance requirements. Also playing a part was the rise in merger transactions to pool resources to reduce costs and reach a critical size. While 2018 to 2020 marked three years of consolidation for investment firms, 2020 was a more significant consolidation year for specialized PSF, with this trend continuing for investment firms and support PSF.

At the same time, the number of employees soared from 16,744 at the end of 2021 to 17,518 by the end of 2022, representing a 5% increase.

In 2022, staff costs for investment firms decreased by 7%, but rose for both specialized PSF (12%) and support PSF (4%). Overall staff costs for PSF increased by 4%, triggered by the jump in the number of employees and 2022's wage indexations.

4. Including branches.
5. Directive (EU) 2015/849 of the European Parliament and of the Council of 20 May 2015 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing, amending Regulation (EU) No 648/2012 of the European Parliament and of the Council, and repealing Directive 2005/60/EC of the European Parliament and of the Council and Commission Directive 2006/70/EC.
6. Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU.

Figure 1a: Annual change in the number of PSF by category



Source: CSSF's list of PSF

Figure 2: PSF change by category—2021 and 2022 entries and exits

Source: CSSF list of PSF as at 31 December 2022

Changes within each PSF category

The variation in the number of PSF across all categories between December 2021 and December 2022 was due to new companies being founded, existing entities being converted into PSF, and PSF changing types.

PSF withdrawals were mainly due to entities relinquishing their PSF status due to strategy changes, liquidations, or mergers between different PSF.

Some entities that refocused their activities adapted their status accordingly, with one investment firm and one support PSF becoming specialized PSF in 2022.

In 2022, the number of PSF dipped slightly. The decrease in investment firm numbers (by six entities) and support PSF numbers (by four entities) were partially offset by the rise in specialized PSF numbers (by four entities).

Investment firms

The **net decrease** in investment firms **by six entities** in 2022 was due to:

- **Additions:** one new branch of a foreign company obtained investment firm licenses in 2022.
- **Removals:** seven entities relinquished their investment firm licenses and were removed from the CSSF's investment firm list, of which **one was reclassified** as a specialized PSF and **two were merged with other PSF.**

Specialized PSF

As in previous years, this PSF category experienced the largest inflow and outflow of entities. The **net increase** of specialized PSF in 2022 **by four entities** was due to:

- **Additions:** eight entities were added to the CSSF's list of specialized PSF. **Six were incorporated** during the year or obtained their license. **Two changed their category** from investment firm and support PSF to specialized PSF.
- **Removals:** four entities were removed from the list of specialized PSF.

Support PSF

The **net decrease** of support PSF in 2022 **by four entities** was due to:

- **Removals:** four entities were removed in total. **One changed its category to specialized PSF,** and **three continued operating without a support PSF license.**

This reduction trend for investment firms is seemingly due to the consolidation of the activities. While the reduction in support PSF is partially related to questions regarding this type of license's added value and its high cost.

Overview of PSF contribution to the financial sector

- The Luxembourg financial sector remains the key strength of the country's economy and its main contributor, representing more than 25% of its gross domestic product (GDP). It is the main contributor to Luxembourg's national income per person, which is among the highest in the world. Luxembourg is the second-largest fund administration center globally after the US, with the volume of Luxembourg-domiciled investment funds climbing to EUR5.9 trillion in 2022. Luxembourg's fund industry has positioned itself as one of the favored domiciles for sustainable investment funds in the EU.[7]
- Financial sector employment has grown by approximately 9,616 jobs since 2007, reaching a total of 51,279 employees in 2022.[8] The proportion of the PSF workforce to the total financial sector workforce remained stable at 34.2% on 31 December 2022 compared to 34.5% on 31 December 2021.
- The Luxembourg financial sector has rebounded from the COVID-19 financial crisis. According to the European Commission's *2023 Country Report – Luxembourg:* "Luxembourg's economy recovered rapidly after the COVID-19 crisis, but the momentum was slowed down by a less supportive international environment, amid inflationary pressures, shifting monetary policy and uncertainty about the economic impact of Russia's war in Ukraine."[9]
- While the international economic and political situation remained relatively stable in 2022, the Russia-Ukraine war created volatility and a high inflationary environment. "The global economic impact of Russia's war in Ukraine worsened the international environment, to which Luxembourg's economy is highly sensitive."[10]

PSF balance sheets and net aggregate results

The total balance sheet of all PSF amounted to €8.9 billion as at 31 December 2022, almost the same amount as at 31 December 2021.

This lack of significant change was due to the 8% (€89 million) decrease in investment firms' total balance sheet being outweighed by the increase in support and specialized PSF's total balance sheet (€51 million for Support PSF and €66 million for Specialized PSF).

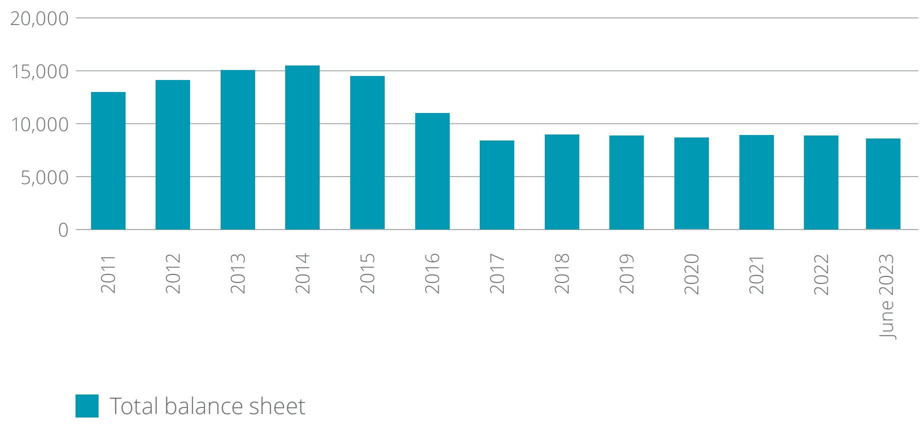
PSF's total balance sheet was €8.6 billion as at 30 June 2023, representing a fall of 3.7% compared to 31 December 2022.

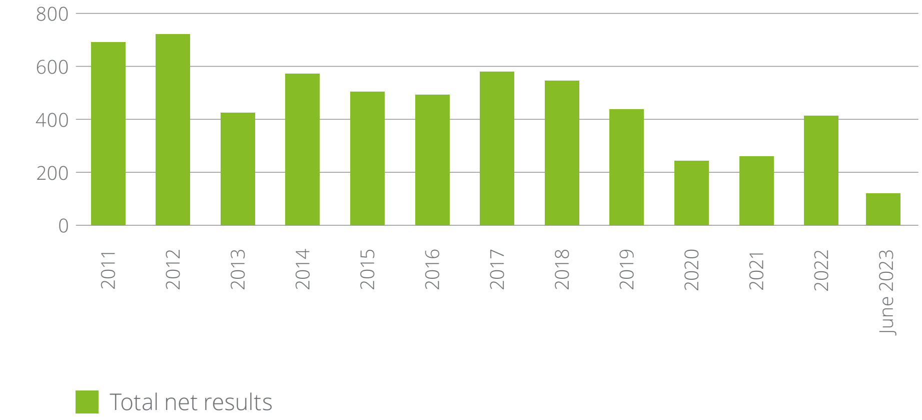
The net result for 2022 rose by 53% compared to 2021, up to €422 million. This was mainly due to specialized PSF's net result increasing by €164 million—or 181% compared to 2021—primarily driven by the sale of Fundsquare S.A. by Bourse de Luxembourg (the Luxembourg Stock Exchange).

When this outlier is excluded, the total net result of PSF in 2022 decreased by more than €25 million, or 9% compared to 2021, and the net result of specialized PSF dropped by €6 million in 2022 compared to 2021, or 6%.

7. European Commission, 2023 Country Report - Luxembourg, June 2023.
8. CSSF, Annual Report 2022, August 2023.
9. European Commission, 2023 Country Report - Luxembourg.
10. Ibid.

Figure 3: Evolution of total balance sheets and net results of PSF (in € millions)





Source: CSSF statistics

Investment firms also reported a 33% fall compared to 2021, while support PSF's net result increased by 28%, showing the highest net result amongst the three PSF categories (excluding the Bourse de Luxembourg outlier).

According to CSSF data as at 30 June 2023, the PSF sector recorded a provisional net result of €165 million for the first six months of activity in 2023, representing a pro-rata fall of 22% per annum compared to 2022. However, this represents a 69% rise compared to the PSF's provisional net result as at 30 June 2022 for the first six months of activity in 2022, which amounted to €97.25 million.

As at 30 June 2023, investment firms accounted for €33.9 million, specialized PSF accounted for €98 million, and support PSF accounted for €32.8 million.

Figure 4: Breakdown of balance sheet totals and net results totals by PSF category

Total balance sheet in € millions

	2020		2021		2022		June 2023	
	Volume	Relative share	Volume	Relative share	Volume	Relative share	Volume	Relative share
Investment firms	1,249	14%	1,063	12%	974	11%	889	10%
Specialized PSF	5,779	67%	6,172	70%	6,238	70%	6,320	74%
Support PSF	1,616	19%	1,629	18%	1,680	19%	1,351	16%
Total	**8,645**	**100%**	**8,864**	**100%**	**8,892**	**100%**	**8,560**	**100%**

Total net results in € millions

	2020		2021		2022		June 2023*	
	Volume	Relative share	Volume	Relative share	Volume	Relative share	Volume	Relative share
Investment firms	94	40%	116	42%	77	18%	34	21%
Specialized PSF	96	41%	91	33%	255	60%	98	59%
Support PSF	44	19%	70	25%	90	22%	33	20%
Total	**233**	**100%**	**277**	**100%**	**422**	**100%**	**165**	**100%**

Total net results in € millions (excluding outlier)

	2020		2021		2022		June 2023*	
	Volume	Relative share	Volume	Relative share	Volume	Relative share	Volume	Relative share
Investment firms	94	40%	116	42%	77	31%	34	21%
Specialized PSF	96	41%	91	33%	85	34%	98	60%
Support PSF	44	19%	70	25%	90	36%	33	20%
Total	**233**	**100%**	**277**	**100%**	**252**	**100%**	**165**	**100%**

* June 2023 figures based on the year-to-date figures

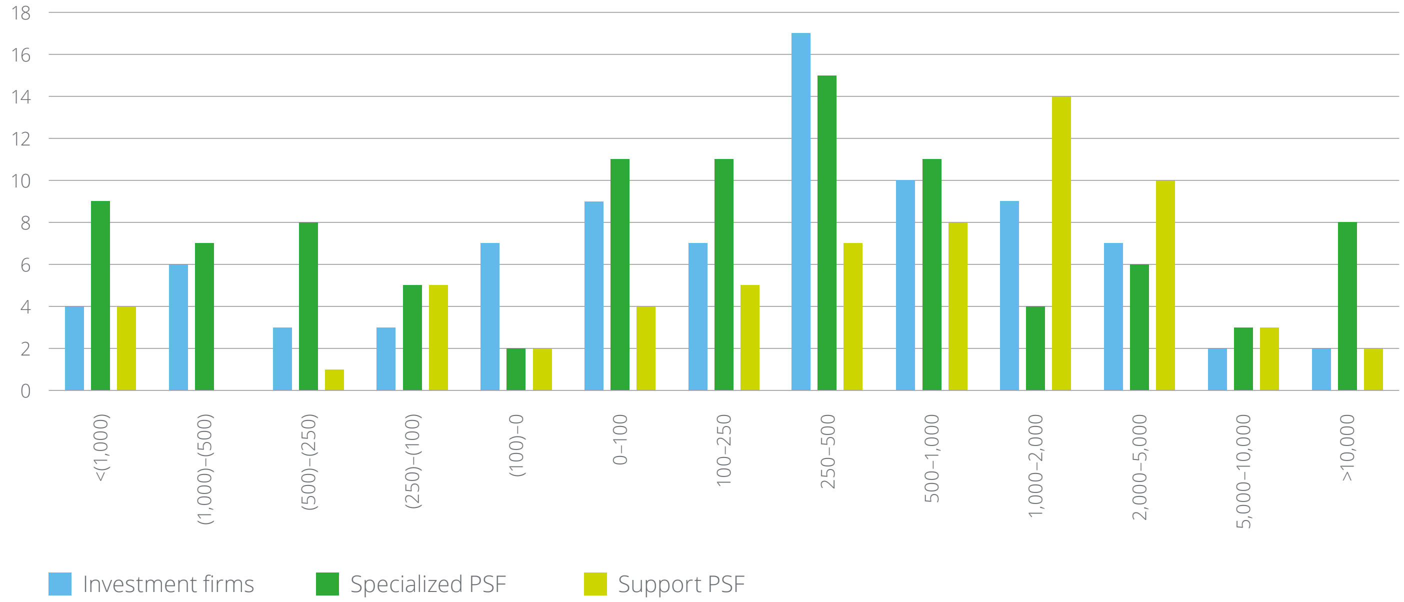
Source: CSSF statistics

An analysis of profits by category shows that:

- **Investment firms' net profits dropped by 33%** in 2022.
- **Specialized PSF's net profits surged by 180%** in 2022, and their net profit share soared to 60% compared to 33% in 2021. However, when an outlier is removed, **specialized PSF's net profits decreased by 6%.**
- **Support PSF's net profits rose by 28%** in 2022.

Figure 5a: Breakdown of PSF by net profit bracket as at 31 December 2022 (in € thousands)

Following our analysis of the financial statements that we received, the structure of the main profit trends is as follows:



The average net profit of a PSF entity increased from €1.09 million in 2021 to 1.62 million in 2022.

Figure 5b: Comparison of breakdown of PSF by net result bracket in 2021 and in 2022 (in € thousands)

	Investment firms		Specialized PSF		Support PSF	
	2021	2022	2021	2022	2021	2022
Loss	25%	26%	24%	31%	28%	18%
Profit between 0 and 100	18%	10%	17%	11%	0%	6%
Profit between 100 and 1,000	30%	40%	33%	37%	39%	31%
Profit between 1,000 and 5,000	20%	19%	18%	10%	29%	37%
Profit > 5,000	7%	5%	8%	11%	4%	8%
	100%	**100%**	**100%**	**100%**	**100%**	**100%**

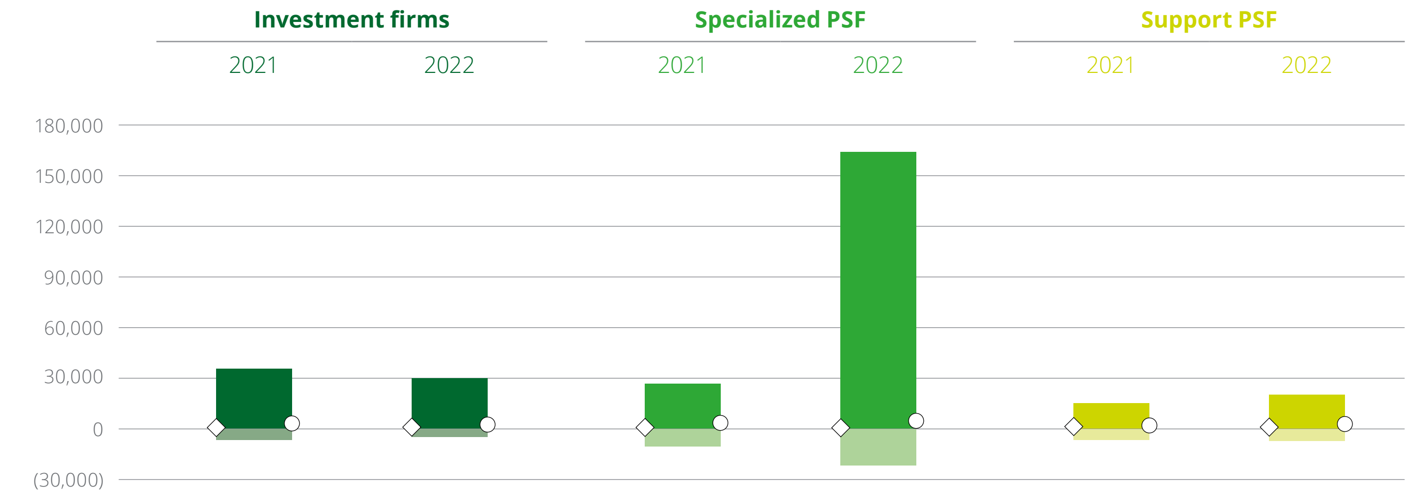
Investment firms:
The largest net result for investment firms in 2022 was €30.7 million compared to €36.5 million in 2021. The lowest net result was a loss of €4.8 million in 2022, compared to €6.7 million in 2021. The three largest net results in 2022 were attributed to Attrax Financial Services S.A., CapitalatWork Foyer Group S.A. and Macquarie Investment Management Europe S.A., representing a total amount of €51.1 million. The average net result slipped from €1.25 million in 2021 to €0.81 million in 2022, while the median increased from €192,000 to €292,000. In 2022, 26% of investment firms were still making losses.

Specialized PSF:
The net results of specialized PSF decreased in 2022 compared to 2021, ranging from a loss of €22.2 million (€26.1 million in 2021) to a profit of €170 million for Bourse De Luxembourg (€27.4 million in 2021, for Credit Suisse Fund Services (Luxembourg) S.A.). The three largest net results were attributed to Bourse De Luxembourg, Intertrust (Luxembourg) S.a r.l. and Danieli Finance Solutions S.A., representing a total amount of €226 million. Due to Bourse De Luxembourg's exceptional sale, the average profit almost tripled from €0.95 million to €2.55 million, while the median remained flat at around €210,000. However, in 2022, 31% of specialized PSF were making losses compared to 24% in 2021, which is also in line with the 6% decrease in this PSF category's total net result in 2022 compared to 2021.

Support PSF:
Net results of support PSF ranged from a loss of €7.2 million to a profit of €20.5 million recorded by Proximus Luxembourg S.A. in 2022. The average net result jumped from €1.01 million in 2021 to €1.4 million (57%) in 2022, mainly due to only 18% of support PSF posting losses in 2022 compared to 28% in 2021.

The average net profit of a PSF entity in 2022 amounted to €1.62 million compared to €1.09 million in 2021.

Figure 6a: Range and average net results by PSF category as at 31 December 2021 and 31 December 2022 (in € thousands)



	Investment firms 2021	Investment firms 2022	Specialized PSF 2021	Specialized PSF 2022	Support PSF 2021	Support PSF 2022
Maximum	36,466	30,724	27,415	170,003	15,729	20,528
Minimum	(6,654)	(4,811)	(10,304)	(22,169)	(6,595)	(7,169)

	Investment firms 2021	Investment firms 2022	Specialized PSF 2021	Specialized PSF 2022	Support PSF 2021	Support PSF 2022
◇ Median	192	292	215	214	342	628
○ Average	1,145	813	948	2,552	1,020	1,385

Figure 6b: Close-up on median and average net results by PSF category as at 31 December 2021 and 31 December 2022 (in € thousands)

	Investment firms 2021	Investment firms 2022	Specialized PSF 2021	Specialized PSF 2022	Support PSF 2021	Support PSF 2022
◇ Median	192	292	215	214	342	628
○ Average	1,145	813	948	2,552	1,020	1,385

Main expenses of PSF

Of the analyzed financial statements, the main PSF expenses in 2022 were:

- Staff costs
- External expenses and other operating expenses
- Tax on profit

Year upon year, the distribution of these expenses remained relatively stable. However, their weighting did vary significantly from one PSF category to another.

For **investment firms**, personnel expenses accounted for 51% of identified expenses in 2022. External expenses and other charges were the next highest at 45%.

For **specialized PSF**, external expenses and other operating expenses accounted for the most identified costs in 2022, while the weight of staff costs remained stable in 2022 compared to 2021.

Among **support PSF**, external expenses and other charges ranked first, accounting for 73% of identified expenses for 2022. They were followed by personnel expenses, representing 26% in 2022.

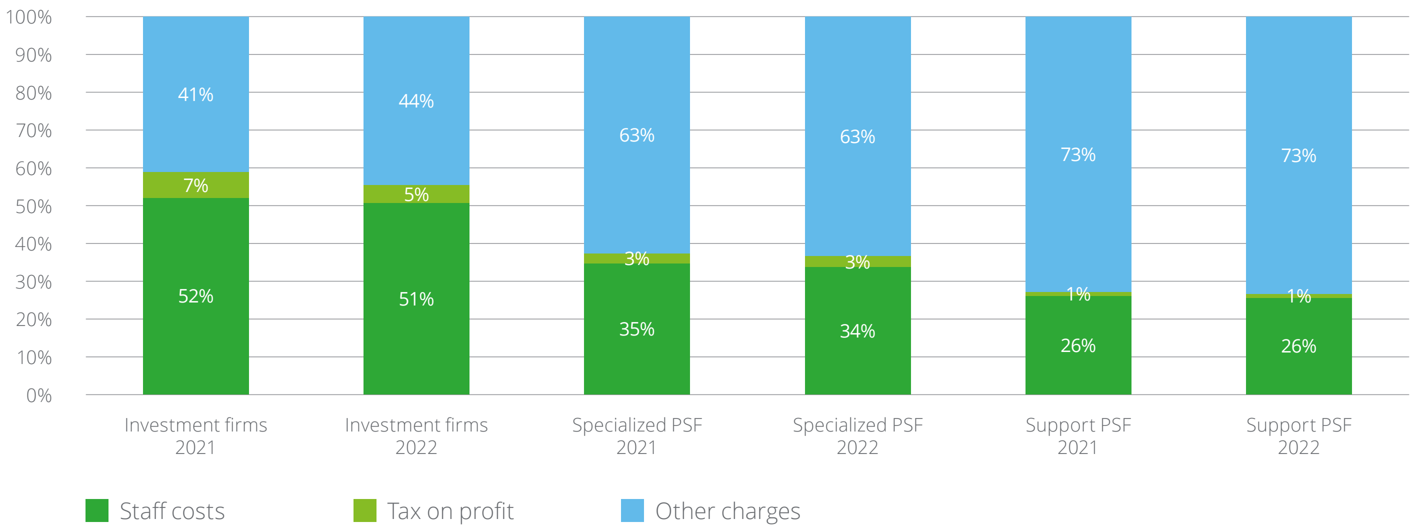
While staff costs rose by 4% overall, their proportion to the overall expenses remained stable for support PSF (26% both in 2021 and 2022) and slightly decreased for investment firms (from 52% in 2021 to 51% in 2022) and specialized PSF (from 35% in 2021 to 34% in 2022).

This could be due to all other costs rising more in proportion, despite indexations.

In 2022, the average annual cost of an employee was:

- For investment firms: €151,000 (€166,000 in 2021)
- For specialized PSF: €79,000 (€82,000 in 2021)[11]
- For support PSF: €80,000 (€75,000 in 2021)

Figure 7: Breakdown of the main expenses per PSF category as at 31 December 2021 and 31 December 2022 (in %)

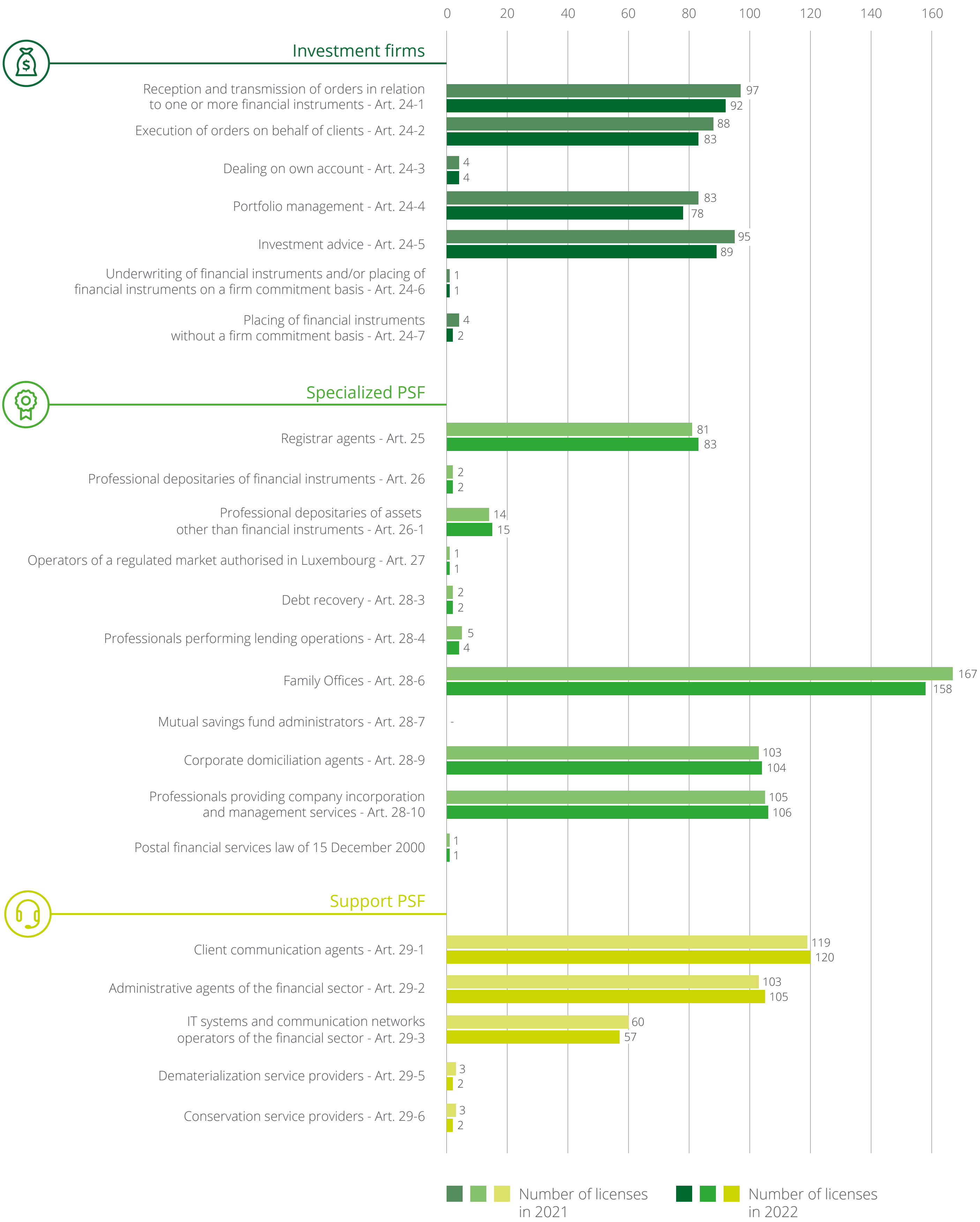


Source: CSSF and Deloitte statistics

11. Figures exclude Post Luxembourg.

Among investment firms, personnel expenses accounted for 51% of identified expenses in 2022, similar to recent years despite indexations.

Figure 8: Total number of PSF licenses as at 31 December 2021 and 31 December 2022 (including branches)



Distribution of licenses

As at 31 December 2022, the most widely granted license was Art. 28-6, or Family offices. It has remained a great success since its launch in 2013, being granted to 61% of all PSF, 91% of investment firms and 72% of specialized PSF. This license has remained relatively stable, registering a negligible decrease in 2022 (158) compared to 2021 (167).

The next most popular licenses were:

- Art. 29-1: Client communication agents;
- Art. 28-10: Professionals providing company incorporation and management services;
- Art. 29-2: Administrative agents of the financial sector;
- Art. 28-9: Corporate domiciliation agents;
- Art. 24-1: Reception and transmission of orders in relation to one or more financial instruments; and
- Art. 24-5: Investment advice.

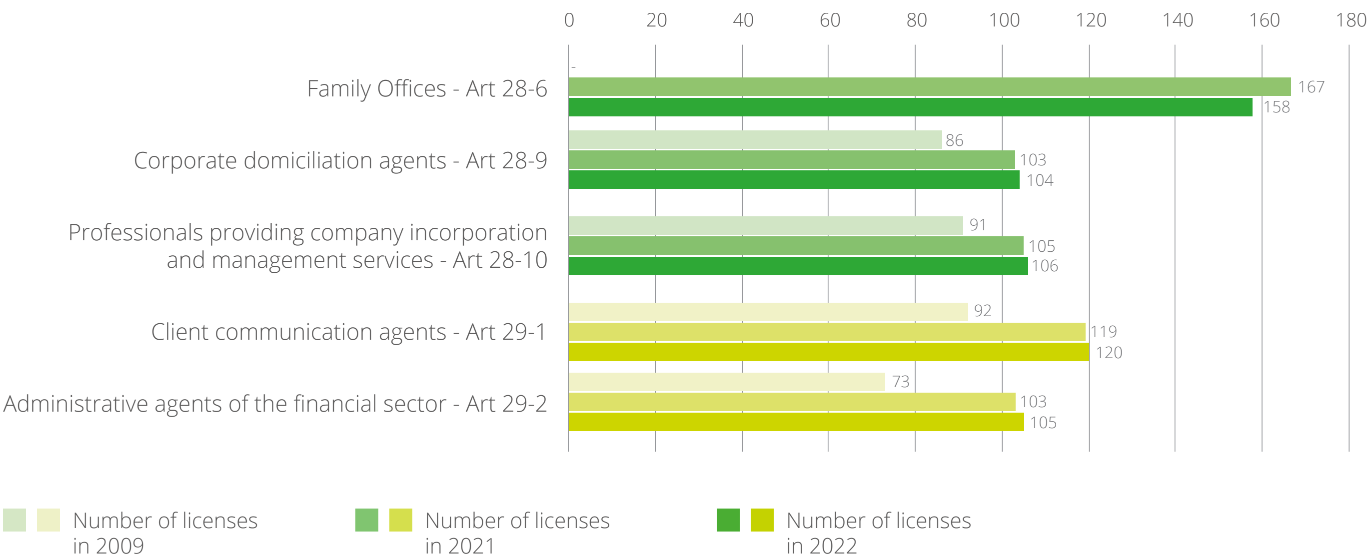
These account for 69% of licenses as at 31 December 2022.

The Corporate domiciliation agent license (Art. 28-9) has increased in popularity by 21% since 2009, climbing from 86 licenses to 104 in 2022. Similarly, the Administrative agents of the financial sector license (Art. 29-2) surged by 44% in the same period, rising from 73 to 105 licenses.

Finally, in 2022, 15 specialized PSF held the Professional depositary of assets other than financial instruments license under Art. 26-1, an increase of one entity compared to 2021.

As at 31 December 2022, the most widely granted license was still Art. 28-6, Family offices.

Figure 9: Change between 2022, 2021 and 2009 in the main five PFS licenses (including branches)



The following five licenses were not granted to any entity as at 31 December 2022:

- Art. 24-8: Operation of a multilateral trading facility (MTF);
- Art. 24-9: Operation of an organized trading facility (OTF);
- Art. 28-5: Professionals performing securities lending;
- Art. 28-7: Mutual savings fund administrators; and
- Art. 28-1: Central account keepers.

The period between 2009 and 2014 was a dynamic phase in the granting of PSF licenses, with their number consistently rising year upon year.

This surge was due to PSF tending to apply for more licenses than needed when setting up. This was usually made in the hope of avoiding subsequent applications to the CSSF to extend their licenses, in case firms decided to expand their range of activities.

Since 2015, we have seen the number of licenses shrink, in line with the decline in the number of PSF. We also note that some PSF are refocusing on their core businesses and shedding the costs and requirements of certain licenses.

For the eighth year running, the most widely granted licenses were for specialized PSF, with 42% of licenses granted in 2022 compared to 27% in 2009. Figure 10a shows the change in the number of licenses per category between 2022 and 2021, broken down as follows:

- PSF created during the year;
- PSF that already existed and obtained supplementary licenses or decided to relinquish certain licenses; and
- Entities that completely gave up their PSF status.

While the trend in recent years has been to broaden service ranges to better cope with recessions, professionals appear to have gained a certain degree of maturity in their service offerings. The number of licenses granted to support and specialized PSF has decreased at a similar rate to the decrease in the number of actors.

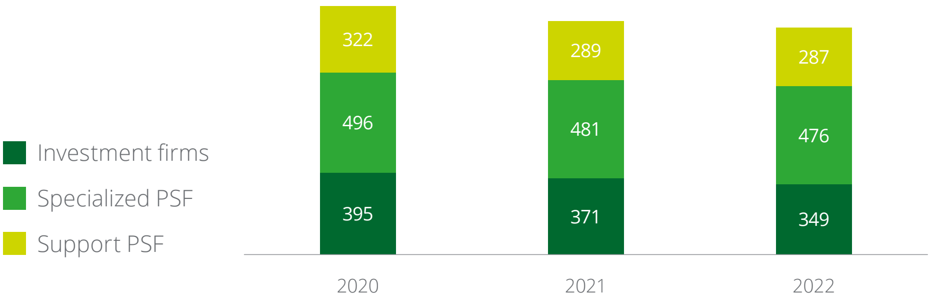
Investment firms mostly hold five licenses, mainly Arts. 24-1, 24-2, 24-4, 24-5 and 28-6. While most specialized PSF hold six or seven licenses, they usually use only three or fewer, mainly Arts. 28-6, 28-9, and 28-10. This homogeneity is less pronounced for support PSF, who mainly hold one or two licenses, Arts. 29-1 and 29-2.

The most widely granted licenses are those for specialized PSF.

Figure 10a: Change in PSF licenses over 2022

Source of increases and decreases in licenses	Investment Firms 2022	Specialized PSF 2022	Support PSF 2022
PSF created	5	31	–
Existing PSF	–	–	(2)
PSF withdrawals	(45)	(13)	(6)
Total change in the number of licenses 2022	**(40)**	**18**	**(8)**

Figure 10b: Change in and breakdown of licenses since 2020



The Figure 10a represents the movements within each category of PSF and the figure 10b represents the movements within each category of the license.

Figure 11: Distribution of PSF by number of licenses as at 31 December 2022

Number of licenses	Investment firms 2022	Specialized PSF 2022	Support PSF 2022
1	5	11	44
2	2	5	10
3	3	13	7
4	2	2	2
5	51	11	2
6	6	44	–
7	15	14	–
8	4	–	–
9	1	–	–
10	5	–	–
11	1	–	–
Total	**95**	**100**	**65**

1.2 The PSF: a consistent and steady employer

As of 30 June 2023, PSF employed 17,217 people, compared to 7,679 employed by management companies and 26,350 by banks.

Evolution of PSF employment
According to the CSSF's Annual Report 2022, the Luxembourg financial sector employed 51,279 people as at 31 December 2022, of which 51% worked in banks, 14% in authorized investment fund managers according to chapter 15 of the Law of 17 December 2010 and to the Law of 12 July 2013 ("management companies"), and 34% in PSF (of which 50% work in support PSF).[12]

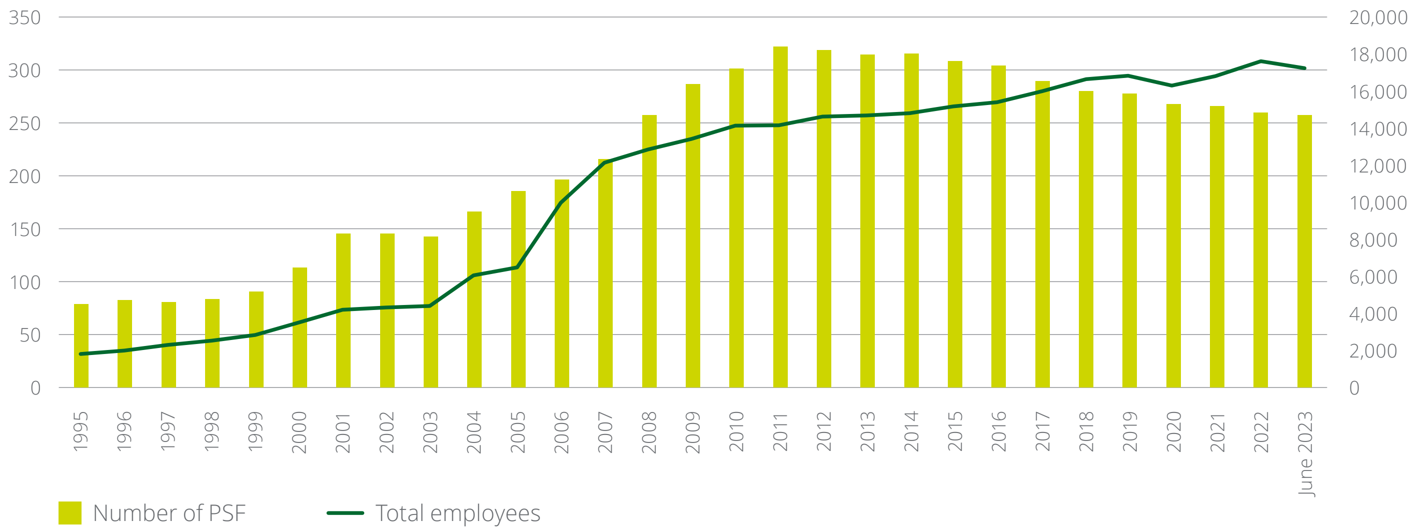
Boasting 17,518 jobs as of 31 December 2022, the number of people employed by PSF increased by 5% compared to December 2021. While PSF's 2022 employment figures were relatively stable, the number of employees dropped slightly to 17,217 as of 30 June 2023—representing a 2% decrease.

The employee breakdown by PSF category in 2022 saw investment firm employees increase by 3% and specialized PSF by 15%, compared to 2021.

As of 31 December 2022, investment firms employed an average of 21 people compared to 19 in 2021, specialized PSF an average of 69 people compared to 62 in 2021, and support PSF an average of 134 people compared to 129 in 2021.

Regarding financial sector employment as a whole between 2009 and 2022, PSF employees increased by 30%, whereas people employed by banks stayed stable between December 2009 (26,420) and December 2022 (26,012).

Figure 12: Evolution of the number of PSF and its employees



Source: CSSF statistics derived from the CSSF's annual reports and newsletters.

12. CSSF, Annual Report 2022.

PSF's average employment figures are kept high thanks to a handful of entities generating a significant number of jobs:

- In 2022, the top five largest investment firms employed 718 people (two firms employed over 100 employees). These companies' workforces accounted for 37% of the total investment firm employees. Without these five entities, investment firms would only have an average workforce of 14 people.
- Of the 16 specialized PSF that employed more than 100 people[13] in 2022 (15 in 2021),[14] 11 had over 150 employees, totaling 3,351 people. They were Aztec Financial Services (Luxembourg) S.A., Intertrust (Luxembourg) S.à r.l., Alter Domus Alternative Asset Fund Administration S.à r.l., UI efa S.A. (formerly European Fund Administration S.A.), International Financial Data Services (Luxembourg) S.A., Apex Fund Services S.A., IQ EQ (Luxembourg) S.A., TMF Luxembourg S.A., Arendt Services S.A., Vistra (Luxembourg) S.A. and Langham Hall (Luxembourg) S.à r.l.
- Five support PSF employed more than 500 people in 2022, totaling 3,283 employees and representing 38% of the total support PSF workforce. These were Proximus Luxembourg S.A., Brink's Security (Luxembourg) S.A., Sogeti (Luxembourg) S.A., Clearstream Services S.A. and POST Telecom S.A.

Figure 13: Changes in the number of employees by PSF category

	2021		2022		Evolution 2021-2022		June 2023*		
	Total	Part	Total	Part	Total	Change	Total	Change	Part
Investment firms	1,903	11%	1,958	11%	55	3%	1,947	-1%	11%
Specialized PSF	5,949	36%	6,852	39%	903	15%	7,240	+6%	42%
Support PSF	8,892	53%	8,704	50%	-188	-2%	8,030	-8%	47%
Total	**16,744**	**100%**	**17,514**	**100%**	**770**	**5%**	**17,217**	**2%**	**100%**

Source: CSSF statistics derived from the CSSF's annual report and newsletters.

13. These figures do not include POST Luxembourg.
14. Ibid.
* This development does not mean a net creation or loss of jobs, but includes the transfer of existing jobs from the non-financial sector to the financial sector and vice versa. The decrease in Support PSF employees is mainly related to the removal of 4 PSF: Eviden Luxembourg S.A., Devoteam S.A., Randstad Digital Luxembourg PSF S.A., and Collaboration Betters the World PSF S.à r.l.

Employees of support PSF accounted for 50% of all PSF staff as of 31 December 2022.

Figure 14a: Distribution of PSF by number of employee bracket as of 31 December 2022

Figure 14b: Average number of employees by PSF category in 2021 and 2022

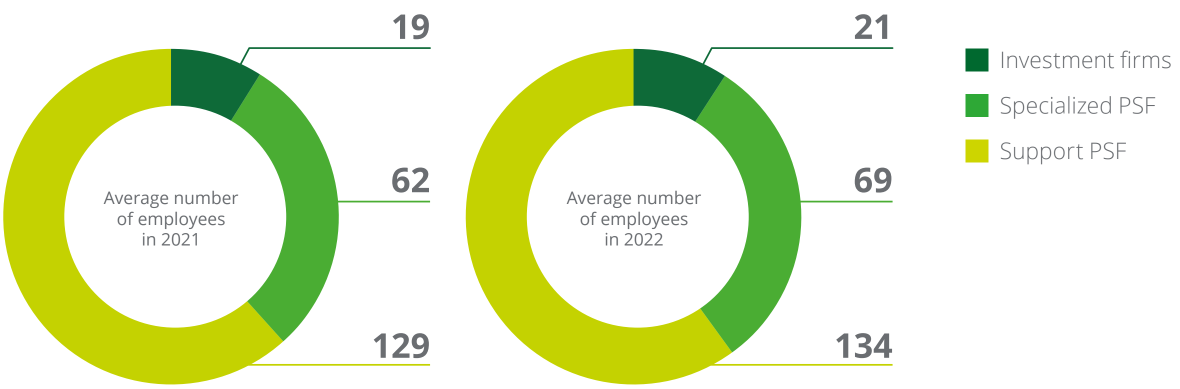


Figure 14c: Evolution of the average number of employees by PSF category between 2011 and 2022

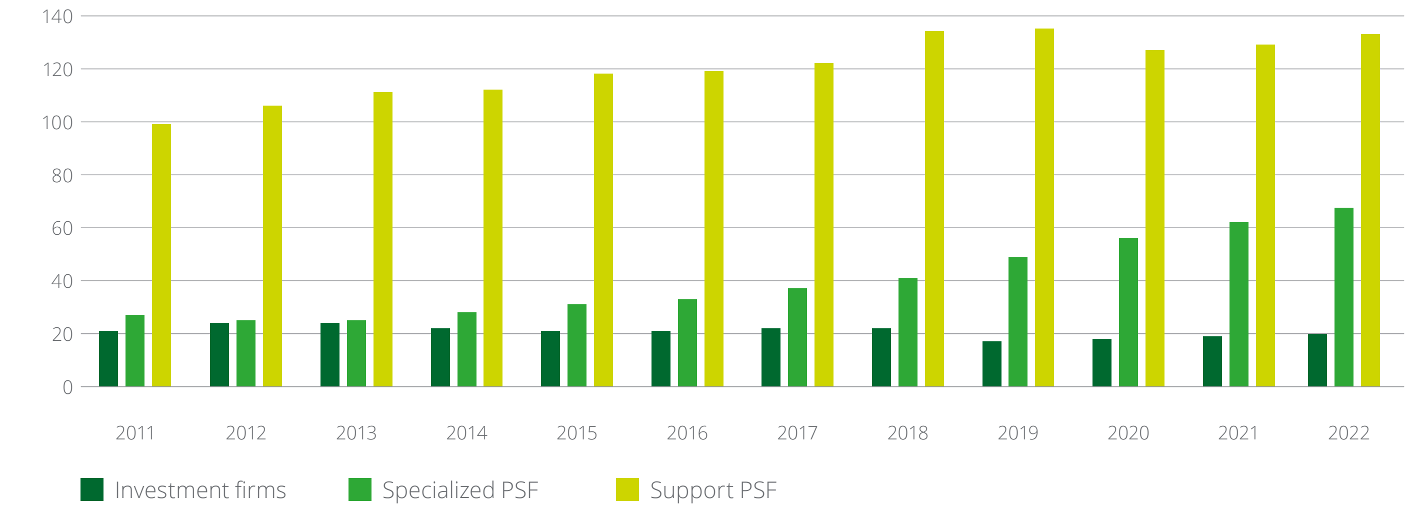
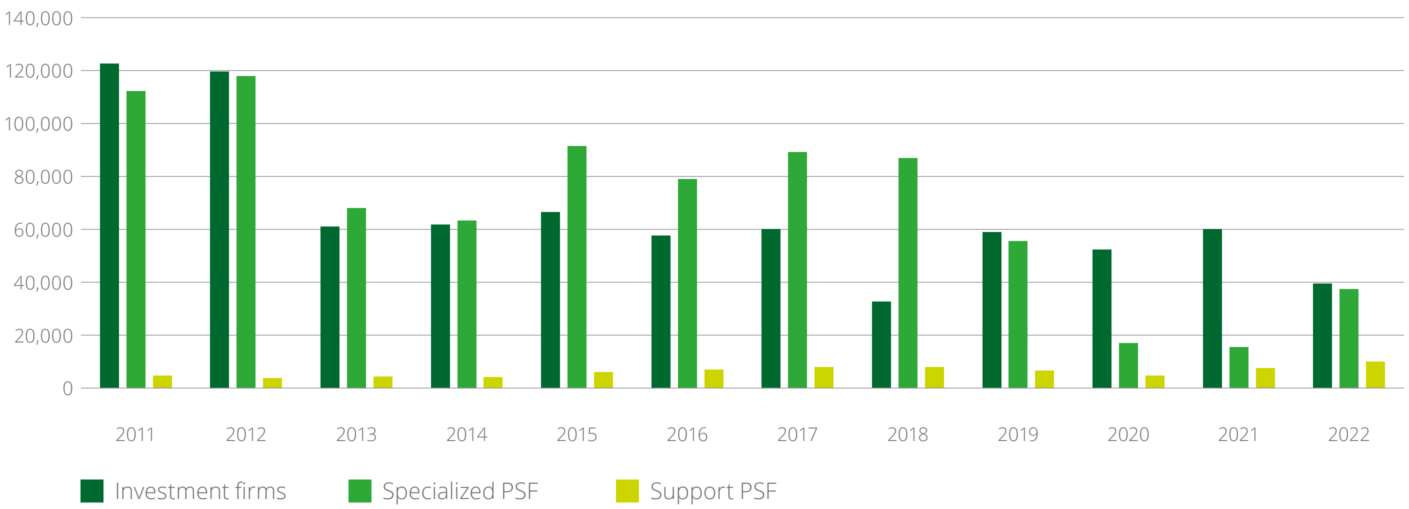


Figure 14d: Evolution of the average net result per employee by PSF category between 2011 and 2022



Average net result per employee

By analyzing the CSSF's *2022 Annual Report*, we estimate 2022's average profit per employee to be €24,000. Compared to €16,500 in 2021, this signifies a net result increase of 46%.

However, if the Bourse de Luxembourg's outlying result is omitted, the average net result per employee in 2022 regressed to the 2020 level of €14,500, representing a 13% decrease compared to 2021.

The average number of employees steadily increased in 2022 for specialized PSF compared to 2021 while it remained stable for support PSF and investment firms. For what regards the average net result per employees, it decreased for investments firms and increased for support PSF. For what regards specialized PSF, it significantly increased from €16,000 to €37,000.

However, specialized PSF's increase was mainly due to the Bourse de Luxembourg's net result of €170 million. Excluding this outlier, the average net result per employee would amount to €12,000 in 2022, a slight dip compared to 2021's €16,000.

The average net result per specialized PSF employee varied widely in 2022, between a loss of €178,000 and a net result of €7,065,000 per employee.[15] This was a larger variation compared to 2021's loss of €6,513,000 and net result of €296,000.

The rise in the average net result per support PSF employee, illustrated in Figure 15, was partially driven by significant growth in this category's net results—from €70 million in 2021 to €90 million in 2022—while the number of employees remained stable.

Investment firms' average net result per employee amounted to €39,000 in 2022 compared to €61,000 in 2021, also mainly due to these firms' net results falling from €116 million in 2021 to €77 million in 2022, while the number of employees remained stable.

Workforce of support PSF

Of the support PSF firms employing 50% of all PSF staff, telecommunication and IT services generate most of these jobs (these figures do not include POST Luxembourg).

These organizations include:

- In the telecommunication sector, Proximus Luxembourg S.A. and POST Telecom S.A. both employ more than 1,300 people alone.
- In the IT solutions and services sector, Sogeti Luxembourg S.A., Proximus Luxembourg S.A., Clearstream Services S.A. and Brink's Security Luxembourg S.A. together employ more than 2,800 people.

These six companies account for 47% of all support PSF jobs.

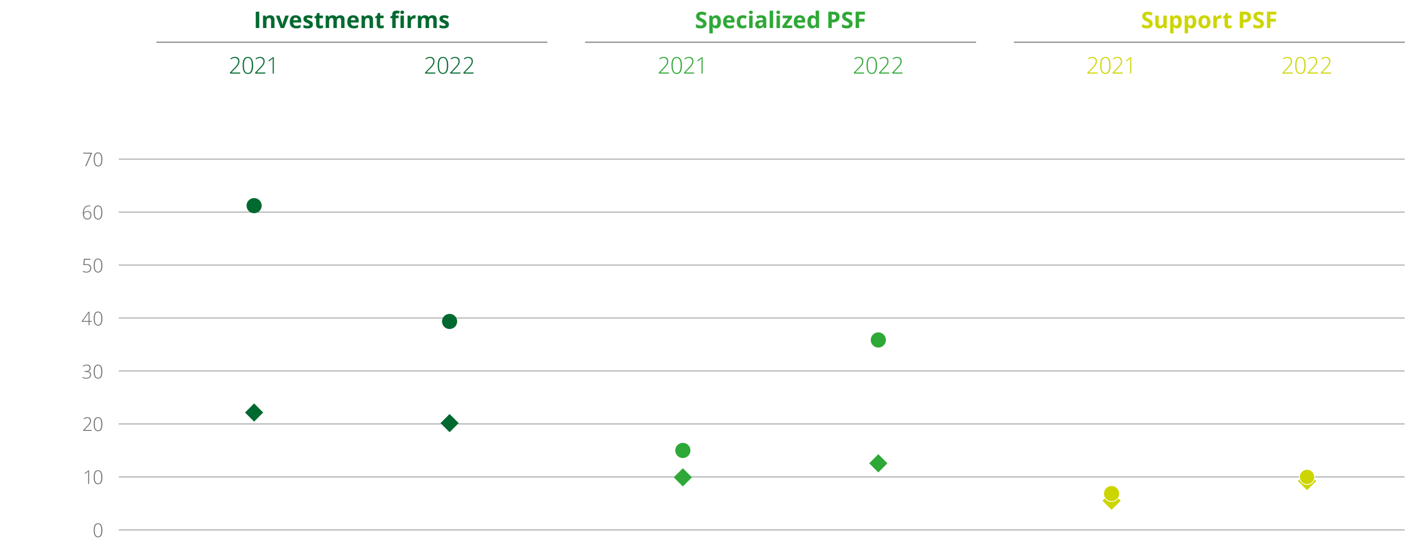
15. The analysis does not include data from Post Luxembourg.

Figure 15a: Range and average net results by employee by PSF category as at 31 December 2021 and 31 December 2022 (in € thousands)

	Investment firms 2021	Investment firms 2022	Specialized PSF 2021	Specialized PSF 2022	Support PSF 2021	Support PSF 2022
Maximum	623	293	296	7,065	48	130
Minimum	(447)	(208)	(6,513)	(178)	(8,607)	(125)

	Investment firms 2021	Investment firms 2022	Specialized PSF 2021	Specialized PSF 2022	Support PSF 2021	Support PSF 2022
◇ Median	22	20	10	13	6	9
○ Average	61	39	15	37	8	10

Figure 15b: Close-up on median and average net results by employee by PSF category as at 31 December 2021 and 31 December 2022 (in € thousands)



	Investment firms 2021	Investment firms 2022	Specialized PSF 2021	Specialized PSF 2022	Support PSF 2021	Support PSF 2022
◇ Median	22	20	10	13	6	9
○ Average	61	39	15	37	8	10

2 Categories of PSF

2.1 Licenses in detail

The following table schematically sets out the various categories of PSF, as well as the different PSF license types.

Article license minimum capital or financial base

Authorized to act as →

Investment firms

Article	License	Minimum capital or financial base
24-1	Reception and transmission of orders in relation to one or more financial instruments	€75,000 (€150,000)
24-2	Execution of orders on behalf of clients	€75,000 (€150,000)
24-3	Dealing own accounts	€750,000
24-4	Portfolio management	€75,000 (€150,000)
24-5	Investment advice	€75,000 (€150,000)[a]
24-6	Underwriting of financial instruments and/or placing of financial instruments on a firm commitment basis	€750,000
24-7	Placing of financial instruments without a firm commitment basis	€75,000 (€150,000)
24-8	Operation of an MTF[b] in Luxembourg	€150,000
24-9	Operation of an OTF[c] in Luxembourg	€150,000 (€750,000)[d]

Specialized PSF

Article	License	Minimum capital or financial base
25	Registrar agents	€125,000
26	Professional depositaries of financial instruments	€730,000
26-1	Professional depositaries of assets other than financial instruments	€500,000
27	Operators of a regulated market authorized in Luxembourg	€730,000
28-3	Debt recovery	
28-4	Professionals performing lending operations	€730,000
28-5	Professionals performing securities lending	€730,000
28-6	Family Offices	€50,000
28-7	Mutual savings fund administrators	€125,000
28-9	Corporate domiciliation agents	€125,000
28-10	Professionals providing company incorporation and management services	€125,000
28-11	Central account keepers	-

Support PSF

Article	License	Minimum capital or financial base
29-1	Client communication agents	€50,000
29-2	Administrative agents of the financial sector	€125,000
29-3	IT systems and communication networks operators of the financial sector	€125,000
29-5	Dematerialization service providers of the financial sector	€50,000
29-6	Conservation service providers of the financial sector	€125,000

a) Conditional on the production of evidence of a subscribed and fully paid-up share capital of no less than €75,000, where the investment firm is not permitted to hold client money or securities belonging to its clients.
Conditional on the production of evidence of a subscribed and fully paid-up share capital of no less than €150,000, where the investment firm is permitted to hold client money or securities belonging to its clients.

b) MTF: Multilateral Trading Facility

c) OTF: Organised Trading Facility

d) €750,000, where this firm engages in dealing on own account or is permitted to do so.

This brochure's appendix features key PSF information by license type, including the license's legal definition and products and services offered, the minimum required capital (or the capital base) and, where applicable, the amount of civil liability insurance required by law to carry out the activity.

Due to the high number of licenses that are mostly unrelated to one another, a combination of licenses is theoretically possible. Therefore, examining the main license combinations held by the various PSF can shed light on market trends.

Figure 16 groups licenses by major PSF category, illustrating how these categories overlapped as of 31 December 2021 compared to 31 December 2022.

While PSF can combine several licenses, a PSF's principal license, allocated by the CSSF, determines its PSF category.

For example, an investment firm license takes precedence over other specialized PSF or support PSF licenses to become the PSF's principal status. Therefore, the PSF is identified as an investment firm.

A specialized PSF license takes precedence over a support PSF license to become the PSF's principal status. The PSF will be identified as a specialized PSF as a result.

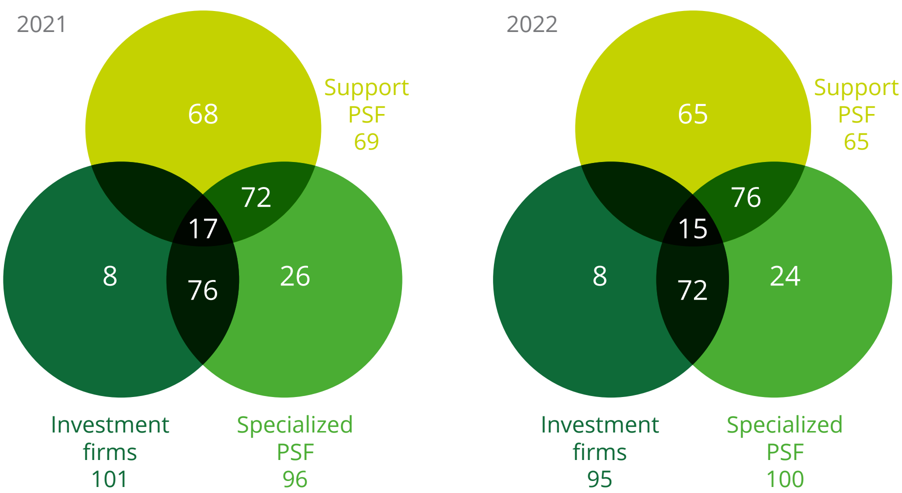
Accordingly, only PSF that do not hold an investment firm or specialized PSF license are identified as support PSF.

The total number of PSF analyzed as at 31 December 2022 was 260. This included:

- Ninety-five investment firms, of which 72 had specialized PSF licenses, and 15 had both specialized and support PSF licenses;
- One hundred specialized PSF, of which 76 had support PSF licenses; and
- Sixty-five support PSF.

Regarding the branches we included in this analysis, all seven entities held only investment firm licenses.

Figure 16: Licenses of PSF by category



2.2 Investment firms

As the only PSF category with a European passport to distribute their products and services, investment firms can set up branches and freely provide services just by filing a single notification to the authorities of other EU Member States.

The number of investment firms included in this analysis was 95 (including seven branches of foreign entities).

At the end of 2022, all investment firms held one or more of the following four licenses:

- 97% had a license for the Reception and transmission of orders in relation to one or more financial instrument (Art. 24-1);
- 94% had a license for Investment advice (Art. 24-5);
- 87% had a license for the Execution of orders on behalf of clients (Art. 24-2); and
- 82% had a license for Portfolio management (Art. 24-4).

Many of these investment firms also held additional licenses for other PSF categories, particularly the Family offices license (Art. 28-6), with over 93 investment firms holding this license.

Investment firms' other additional licenses primarily concerned Providers of company incorporation and management services (Art. 28-10), Client communication agents or Financial sector administrative agents (Arts. 29-1 and 29-2), Registrar agents (Art. 25) and Corporate domiciliation agents (Art. 28-9) (Figure 17).

Investment firms now fall into two categories: those governed by the Common Reporting Regulation (CRR) and those that are not.13 In practice, the former are more closely supervised and fall under the European Central Bank's (ECB) scope. By the end of 2022, one-fifth of these entities were governed under the CRR.

The CRR's scope—as defined in its Art. 4 (1) (2)—is limited to investment firms providing certain investment services that are considered to be quasi-banks. These are mainly private portfolio managers that directly offer accounts carried by a bank via so-called omnibus accounts to their customers.

CRR investment firms are subject to specific rules, particularly regarding consolidated supervision. They must provide specific prudential reports to regulators, such as liquidity coverage requirements (LCR) or net stable funding requirements (NSFR).

On 26 June 2021, a new prudential regime entered into force for investment firms: the Investment Firms Regulation (IFR)[16] and the Investment Firms Directive (IFD).[17] This regulatory framework aims to be better suited to investment firms' activities, with specific reporting requirements proportionate to their relative size, nature, complexity of business model, and risk profile.

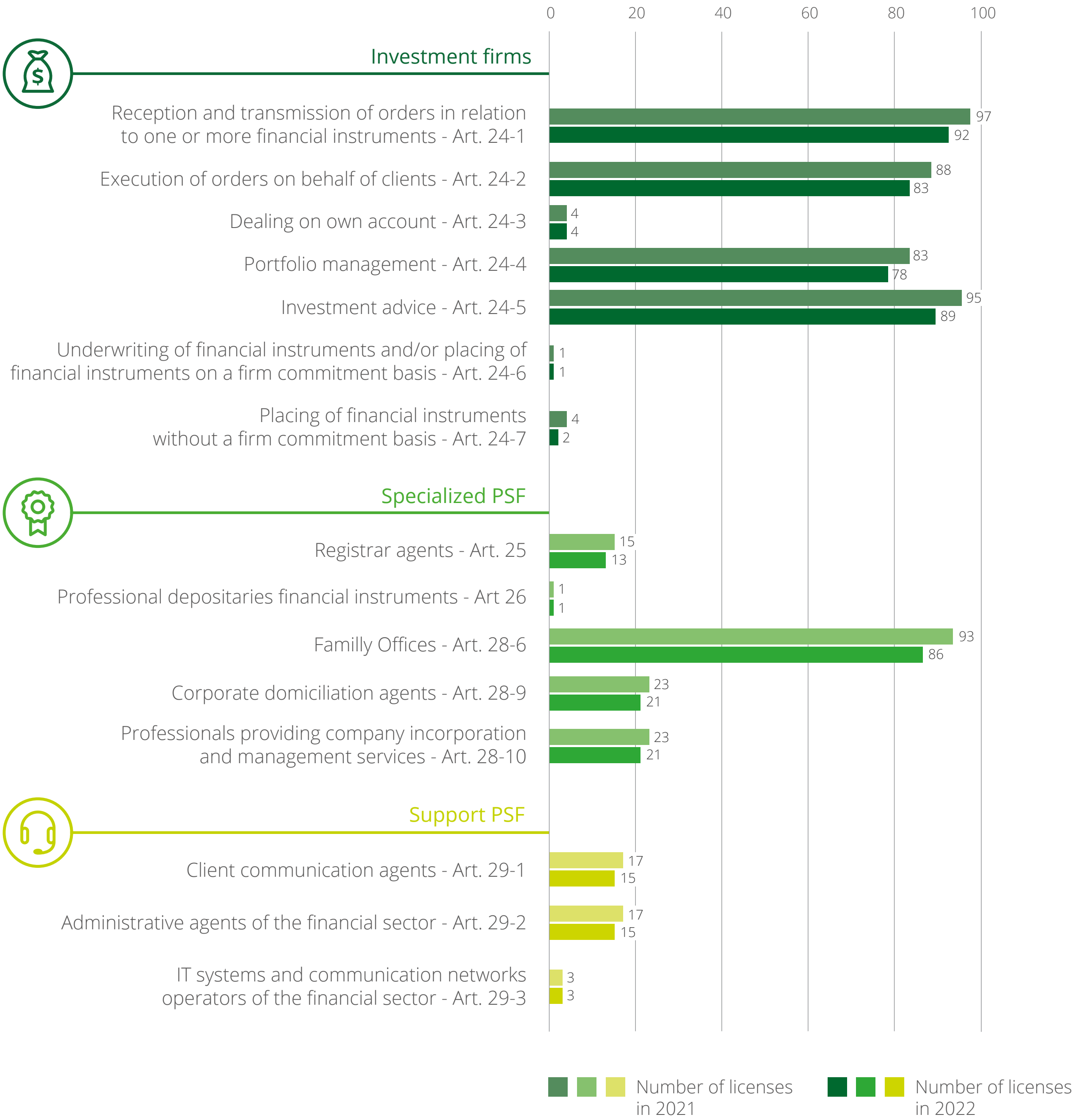
Investment firms fall into three different categories: class 1, class 2 and class 3. Essentially, the IFR/IFD regime applies to small and non-interconnected investment firms (class 3) and other than small and non-interconnected investment firms (class 2). Large and systemically relevant investment firms (class 1) continue to fall under the CRR and the fourth Capital Requirements Directive (CRD VI) prudential regime.[18]

According to the CSSF's 2022 Annual Report, one-third of Luxembourg entities have been categorized as class 2 investment firms and two-thirds as class 3 investment firms. No class 1 investment firms have been identified.[19]

This categorization process considers industry specificities when estimating minimum regulatory capital requirements, such as assets under management (AuM), the value of client orders handled, assets safeguarded and administered, and total daily trading flow.

16. Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and amending Regulation (EU) No 648/2012.
17. Regulation (EU) 2019/2033 of the European Parliament and of the Council of 27 November 2019 on the prudential requirements of investment firms and amending Regulations (EU) No 1093/2010, (EU) No 575/2013, (EU) No 600/2014 and (EU) No 806/2014.
18. Directive (EU) 2019/2034 of the European Parliament and of the Council of 27 November 2019 on the prudential supervision of investment firms and amending Directives 2002/87/EC, 2009/65/EC, 2011/61/EU, 2013/36/EU, 2014/59/EU and 2014/65/EU.
19. Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC.
20. CSSF, Annual Report 2022.

Figure 17: Licenses granted to investment firms as at 31 December 2021 and 31 December 2022



Interview with Stéphane Argyropoulos

Board Member at AMFIE

Association coopérative financière des fonctionnaires internationaux

INTERVIEWED BY
RAPHAËL CHARLIER AND ADIL SEBBAR
22 SEPTEMBER 2023

WHAT DEVELOPMENTS ARE YOU SEEING IN THE ASSET MANAGEMENT INDUSTRY?
The long period of low interest rates in previous years has prompted many investors to reconsider the need to invest in riskier assets in hopes of achieving acceptable returns, leading to a shift in investment profiles.

This contrasts with the recent rapid and significant rise in interest rates, which is not easy to manage and can create additional challenges, particularly due to investors' expectations of higher returns. We had to reallocate portfolios to different asset classes with varying returns to generate a better yield. For profiles heavily invested in fixed-rate instruments, it will take about another year to adjust the asset allocation and offer returns more in line with market expectations, while keeping in mind the risk of losses in case of a resale of fixed income products.

In the coming months, it will be necessary to communicate with our clients to explain our investment approach, our thinking on the cost/return and risk/return ratios, and to offer differentiated services. We remain convinced that the quality of the service, the advice provided, and the relationship must remain at the centre of our concern. This will enable a natural selection in a context of democratization observed in recent years of investment services, which is characterized by instant offerings from banks seeking liquidity to manage turbulence, driven by increased digitalization and instantaneous information. Let's keep in mind that digitalization is a means, not an end it itself.

In addition to the turbulence caused by the changing interest rates, there is also a shift in the client base, which is becoming younger. This clientele is exposed to a greater democratization of finance, where even influencers are starting to talk about finance. This increased democratization provides access to more investment solutions but also exposes individuals to a greater risk of misinformation, which is detrimental to investor protection. These trends reinforce the need to invest in the relationships with our clients and educate as many people as possible about financial matters.

WHAT ARE THE MAIN OPPORTUNITIES FOR THE PSF THAT YOU REPRESENT?
In line with my outlook on the further development of the asset management industry, an important opportunity for the sector we represent is to bring innovation,

which can be achieved through the development of Artificial Intelligence (AI), at three levels. Firstly, to better understand the client, define their needs, and create differentiated solutions based on individual needs. Secondly, at the operational level, to propose investment scenarios tailored to investors' preferences, particularly ESG considerations, their investment horizon and their risk appetite (AI makes it possible to simulate investment portfolios and the impact of certain scenarios). Lastly, in the compliance function, to process vast amounts of information, identify relevant analysis parameters, quantify the risk from different angles, and provide timely alerts to internal control/ management functions. At present, there is no ready-to-use solution available. The financial effort required for medium-sized investment management house may still be too significant to consider in the short term. However, the sector needs to collaborate with other stakeholders, such as IT support PSFs, to identify concrete application areas for innovation. This collaboration will contribute to improving the client experience, developing services in line with future expectations, enhancing risk management, and ensuring the sustainability of market players.

The innovation stage prior to AI certainly involves a greater digitalization of compliance and front-end processes to improve their efficiency. However, this digitalization should be seen as a means and not an end – it should allow managers to devote more time understanding their clients and prospects and offering investment solutions better suited to their needs. In terms of innovation, the development of Fintechs in Luxembourg, whether in the field of KYC, payment solutions, tools made available to the Clients Relationship Management (CRMs function, etc.) is a welcome development. These innovations undoubtedly contribute to the development of the financial sector and its reputation internationally.

From an economic point of view, a trend toward a gradual increase in savings is expected, which should lead to higher assets under management. The increase in interest rates should enable the development of new asset classes, especially in private debt products. In listed securities, we observe high volatility, which can be a source of opportunities.

WHAT ARE THE MAIN CHALLENGES FACING LUXEMBOURG IN THE BUSINESS SECTOR YOU REPRESENT?

A major challenge is the significant regulatory framework, which remains important for players in the sector. This regulation is certainly necessary for the proper functioning and credibility of the sector. Historically, Luxembourg has shown flexibility in interpreting and implementing European and international regulations, thus attracting foreign players. The current challenge is to consider the implementation of this regulation, to prevent a tightening of this flexibility, and to avoid a situation of tighter constraints in Luxembourg in comparison to other European countries. This is essential for the country's attractiveness. This challenge is even more significant as the international offering is expanding, both in terms of location and products.

Luxembourg has also invested greatly in education and must continue to do so, to train upcoming generations, to attract and retain talent and to allow them to live in Luxembourg. It is essential for Luxembourg to offer training in high value-added professions, particularly in investment decisions and front office functions.

WHAT EXPECTATIONS DO YOU HAVE FOR THE NEXT GOVERNMENT?

In line with my earlier remarks, there is a need to foster an environment of innovation. Initiatives have already been taken, such as the establishment of the Luxembourg House of Financial Technology (LHoFT).

Continuous progress and staying at the forefront are essential, and sustainable finance is certainly an important topic. The ESG offerings needs to be expanded, and the definition of ESG investments must be professionalized with clearly defined criteria.

Tax fraud: what was the outcome of the FATF visit for PSF?[21]

Carole Hein
Managing Director
Deloitte Luxembourg

Antoine Lienard
Director
Deloitte Luxembourg

On 27 September 2023, the Financial Action Task Force (FATF) published its latest mutual evaluation report for Luxembourg ("the report"), giving the country a good result overall.[22] The report also found Luxembourg had answered, in practice, the FATF's previous recommendation by making tax crime a primary money laundering offense.

It must be noted that Luxembourg has made significant progress in its approach regarding the fight against money laundering and the financing of terrorism (AML/CFT) in the past few decades.

In 2009, the FATF raised concerns about Luxembourg's approach to tax offenses and its connection to money laundering. In response, Luxembourg's Chamber of Deputies removed sanctions on banking secrecy breaches, seen as revolutionary for the financial sector. This change was the starting point for reporting suspicious transactions regarding tax offenses, and fostering transparency and cooperation between financial service players and authorities to combat financial crimes and, more specifically, tax crimes.

In 2017, Luxembourg strengthened its anti-tax fraud measures through legislative reforms, making certain tax crimes a criminal offense in Luxembourg legislation. The CSSF issued Circular 17/650, which outlined the obligations of all professionals subject to AML/CTF regulations.[23] In 2020, recognizing the particular risks of the investment fund sector, the CSSF introduced industry-specific indicators[24] to identify the laundering of tax crimes.

The Luxembourg Finance Intelligence Unit's (FIU) annual reports have highlighted the effectiveness of these measures since 2017, providing valuable data on the prevalence and types of tax-related financial crimes. In their latest publication, the number of suspicious transaction reports (STRs) regarding tax fraud surged in 2021 and 2022:

- In 2022, the FIU received a total of 47,341 STRs, representing a 32% increase compared to 2020. Of these, 6,307 were related to tax fraud, compared to 1,641 reported in 2020.
- Most STRs regarding tax fraud were submitted by banks and other financial institutions, followed by insurance companies and other non-financial businesses.
- PSF made 313 and 309 declarations to the FIU in 2021 and 2022, respectively, of which 34 and 31 were regarding tax crimes.

This shows that PSF have effectively implemented policies and processes to identify and report suspicious transactions related to tax crimes.

The FATF's latest mutual evaluation of September 2023 takes these improvements into account. First, it states that the CSSF has a good understanding of the Luxembourg financial sector's tax-related money laundering risks, due to its importance to the economy and the cross-border nature of many transactions. It also recognized that a dedicated team is in charge of this specific area.

21. PSF: Professionnels du Secteur Financier i.e. Professionals of the Financial Sector
22. FATF, Anti-money laundering and counter-terrorist financing measures - Luxembourg - Mutual Evaluation Report, September 2023.
23. CSSF, Circular CSSF 17/650 (as amended by Circular CSSF 20/744), February 2017.
24. CSSF, Circular CSSF 20/744, July 2020.

Notably, regarding the effective implementation of measures to combat tax crimes, the FATF report made no distinction between PSF and other financial sector actors subject to AML obligations, such as banks and insurance companies.

Finally, the FATF specifically noted that financial services actors are monitoring transactions to ensure they understand their tax implications and are satisfied with their clients' tax obligations. Therefore, the FATF's recommendations were mainly for the non-financial market, as it believes the financial services industry already has the means to efficiently comply with Luxembourg regulations.

In conclusion, the latest FATF report finds that PSF have made significant investments in compliance and generally understand their professional AML/CFT obligations and risks. To maintain its FATF good rating, the Luxembourg financial industry must continue investing in training, updating policies and processes, and monitoring AML risks related to tax crime. Therefore, the CSSF will watch PSF closely to ensure they keep up the good work.

MiCA and its impact on PSF

Thibault Chollet
Partner
Deloitte Luxembourg

On 9 June 2023, the Markets in Crypto-Assets (MiCA) Regulation was published in the Official Journal of the EU, marking a significant milestone for the European cryptocurrency markets.[25] With MiCA's well-defined legal framework that regulates crypto assets, Europe solidifies its status as a global leader in shaping standards for the cryptocurrency realm. Other regions like the UK, Switzerland, Australia and Hong Kong are taking cues from MiCA to enhance their competitiveness in the global market.

1) What does MiCA apply to?

When MiCA comes into effect in 2024, it will apply to:

- Crypto assets like stablecoins, e-money tokens, utility tokens and similar assets not covered by current financial rules.
- Those who issue or offer these crypto assets.
- Crypto-asset service providers (CASPs) like trading platforms, crypto exchanges, custody services, portfolio managers, advisors, and transfer services for crypto assets.

MiCA will not apply to:

- Decentralized crypto projects like Bitcoin that have no clear issuer. However, MiCA does apply to CASPs that deal with these decentralized assets. So, if a European exchange decides to list these assets, they will be treated as the issuer under MiCA.
- Most unique, non-fungible tokens (NFTs) that represent digital items like art and music are not part of MiCA. However, if many identical NFTs are issued, they will be considered fungible and fall under MiCA's rules.

To support the market's assessments, the European Securities and Markets Authority (ESMA) will provide more details on which crypto assets meet the category of financial instruments and, as a result, fall under MiCA's scope. Image 1 further illustrates what is under MiCA's scope.

2) ESMA's secondary rulemaking

MiCA's rules will apply to most assets and issuers from **30 December 2024**. However, issuers and CASPs that already deal with stablecoins must comply by **30 June 2024** and get MiCA authorization before that date.

Here's the thing: While the crypto market must act fast and plan its strategy, many crucial details of how the new rules will work in practice are determined through secondary rulemaking, called "Level 2" measures in EU policy. Essentially, it is up to ESMA to develop these rules, either through regulations or implementing technical standards. This means another 12 to 18 months of uncertainty in some areas of the European law for crypto players.

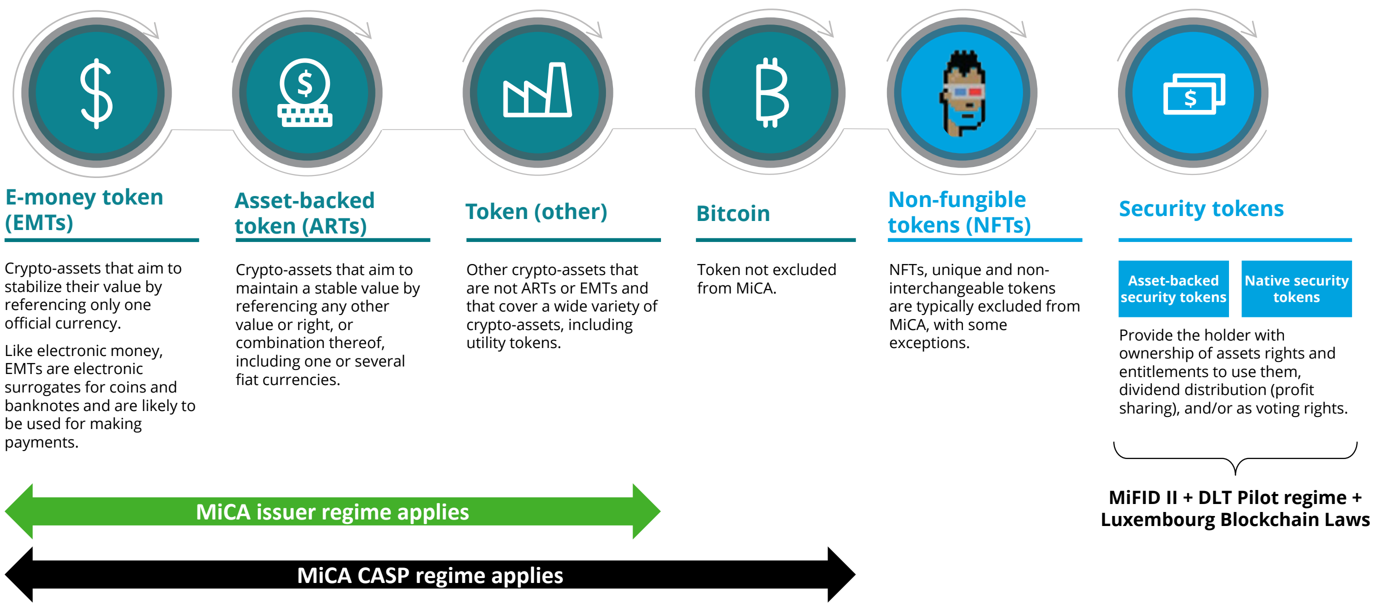
To navigate this gap and given the tight compliance deadlines, market players should closely monitor the consultative versions of these technical standards when released, as these versions often closely resemble the final texts.

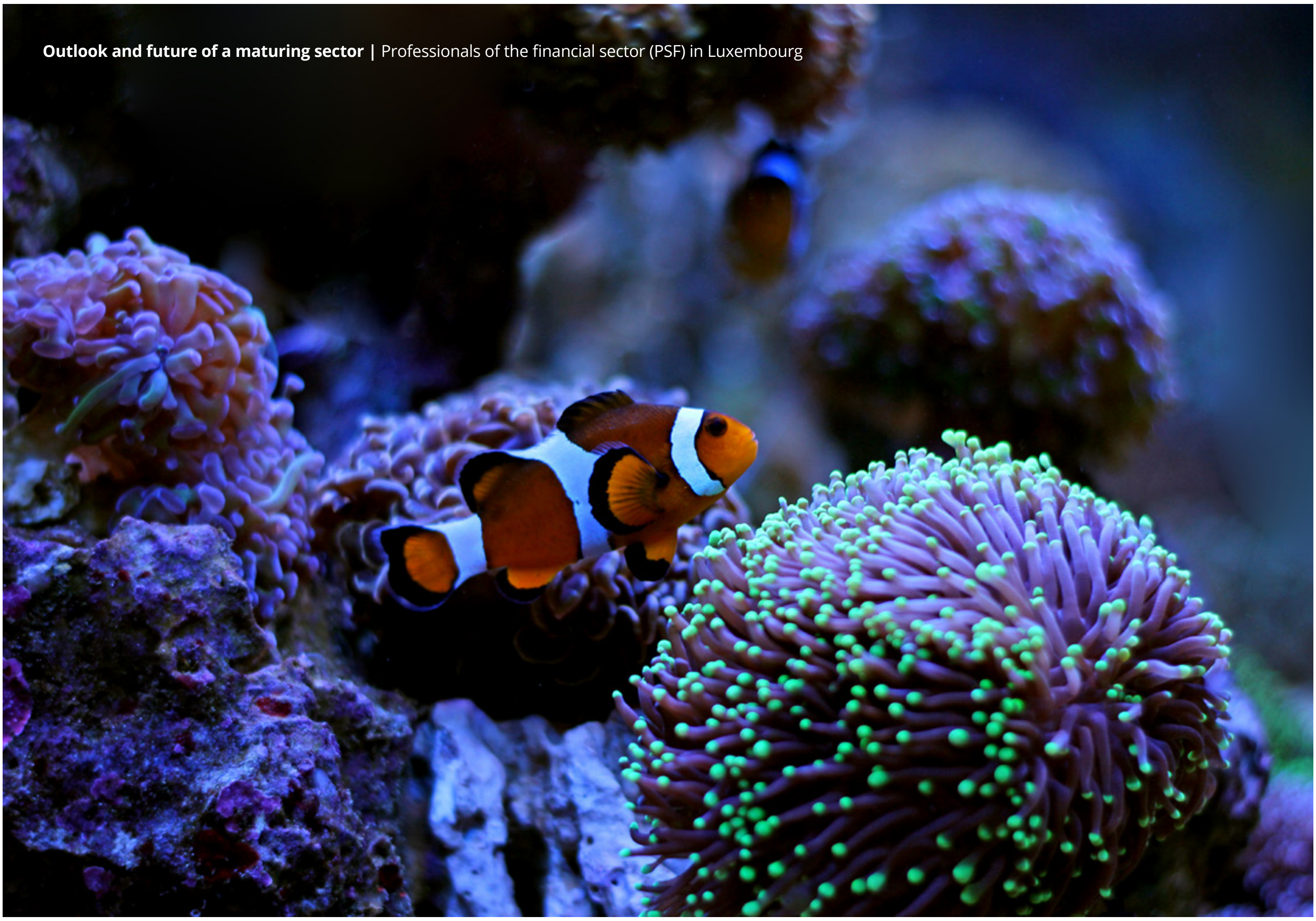
3) What does MiCA mean for financial firms versus unregulated firms?

Financial companies will not need new authorization under MiCA if they are already authorized for similar services under existing financial regulations. However, they must still follow most of MiCA's rules, especially how they organize and conduct their business. Banks, in particular, should follow the Basel Committee's rules on handling crypto assets, which complement MiCA. These international standards, adapted for the EU's use, will help banks plan for capital requirements and compliance, especially for less risky crypto assets (Group 1).

25. Regulation (EU) 2023/1114 of the European Parliament and of the Council of 31 May 2023 on markets in crypto-assets, and amending Regulations (EU) No 1093/2010 and (EU) No 1095/2010 and Directives 2013/36/EU and (EU) 2019/1937.

Image 1: Crypto-assets classification under MiCA





On the flip side, unregulated crypto firms must adapt to being fully regulated. They will need MiCA authorization and must meet various prudential and organizational requirements. Crypto firms with good business plans and consumer protection measures can thrive in this growing crypto economy by setting themselves apart from risky projects.

4) Why does the right location matter for your crypto business?

As a regulation, MiCA will apply directly in each EU Member State without the need for national adoption. However, not all Member States have the same approach to crypto businesses and innovation. Luxembourg is one of the few that has specific rules for CASPs, allowing them to register with the Commission de Surveillance du Secteur Financier (CSSF) to operate locally. This regime helps crypto businesses operate legally until MiCA comes into effect, easing their engagement with investors in Luxembourg with the CSSF's support.

Therefore, the future looks rosy for registered CASPs in Luxembourg; once MiCA becomes active, those already familiar with the CSSF may be seen as trusted local players. When licensed under MiCA in Luxembourg, CASPs can use an EU passport to expand their operations and reach investors across the EU.

Additionally, Luxembourg has created an attractive legal framework for security tokens through a series of blockchain laws:

- Blockchain law I (March 2019) allows securities to be registered and held electronically, including using distributed ledger technology (DLT).
- Blockchain law II (January 2021) formally recognizes the issuance and circulation of dematerialized securities based on DLT, and broadens the scope of Central Account Keepers' (CAK) services for non-listed debt securities.
- Blockchain law III (March 2023) implements the EU's DLT Pilot Regime Regulation[26] and allows DLT for financial collateral arrangements.

Luxembourg's framework has attracted issuers and stakeholders in the security value chain, leading to the launch of many digital asset projects. With MiCA coming into play, Luxembourg's regulatory environment will be even more attractive for forward-thinking actors looking to leverage the potential of digital assets and DLT.

5) How can PSF prepare for MiCA?

MiCA's regulations present several opportunities for PSF in Luxemburg, including:

- **Banks offering crypto assets as investment products**
  Banks will receive further clarity on how to offer crypto assets as investment products, allowing them to diversify their product offerings and cater to the growing demand for crypto assets. PSF, especially those working in banks, can leverage their expertise to develop and market crypto assets as investment products. This could involve creating investment strategies, managing the

26. Regulation (EU) 2022/858 of the European Parliament and of the Council of 30 May 2022 on a pilot regime for market infrastructures based on distributed ledger technology, and amending Regulations (EU) No 600/2014 and (EU) No 909/2014 and Directive 2014/65/EU.

risk associated with crypto assets, and providing advisory services to clients interested in crypto investments.

- **Central administration support for crypto assets**
  MiCA will also enable central administrations to support clients (like funds) in managing and valuing crypto assets in their portfolios. They can work with clients to integrate crypto assets into their investment portfolios, manage the wallets holding these assets, provide valuation and risk management services, or ensure they comply with regulatory requirements. Central administrators could also provide funds with different venues to buy or sell crypto assets, either by expanding their own capability or partnering with crypto exchanges.

- **Custodian and depository bank services**
  Another significant opportunity for PSF lies in the role of custodians or depository banks, with MiCA recognizing the need for crypto assets' secure storage and safekeeping. As a result, custodian banks can play a crucial role by specializing in developing secure custody solutions for cryptocurrencies and ensuring compliance with regulatory standards. This includes implementing robust security measures, managing private keys, and offering safe storage and transfer services for crypto assets. In doing so, custodian banks can become trusted partners for institutional and retail clients needing a secure way to hold and manage their crypto holdings. These banks would likely need to offer a level of abstraction so that their clients can access crypto assets issued on various DLT seamlessly and transparently.

6) What Deloitte can provide

Deloitte is a trusted partner for PSF, offering comprehensive services to support and empower their journey in the rapidly evolving landscape of crypto assets and DLT. Our expertise includes these key areas:

- **Strategy and operating model design:** We collaborate closely with clients to conceptualize the right strategy and operating models through workshops and in-depth discussions. By analyzing market dynamics and PSF's internal potential, we tailor solutions to their specific needs. Additionally, we can help PSF design business cases that help them grasp the advantages of crypto assets and analyze the impacts on their operating model.
- **Technology selection:** Deloitte has substantial industry experience with blockchain technologies. We can help PSF select the most suitable platform to transform their vision into a tangible product. Our knowledge of the FinTech market accelerates the selection of the right technology partners.
- **Use cases/proofs of concept development:** We employ a proven process for robust experimentation and rapid prototyping. Our agile cross-functional teams excel in developing proofs-of-concept (PoCs) and maturing them into fully-fledged solutions. By leveraging our portfolio of prebuilt assets and development kits, we can catalyze PSF's blockchain journey.
- **Implementation:** Deloitte's expertise in smart contract development, technology implementation, industry expertise and change management guides PSF through the complexities of implementation and seamless integration of blockchain with their existing operating model. We ensure a smooth transition while mitigating challenges along the way.
- **Regulatory compliance:** Deloitte also supports fulfilling regulatory requirements, including assisting PSF with the CSSF's notification process for crypto-asset services activities, and adapting PSF's regulatory and risk management framework to comply with the new MiCA regulation.

2.3 Specialized PSF

Unlike investment firms, specialized PSF do not benefit from the European passport but may carry out financial activities in Luxembourg. As of 31 December 2022, there were 100 specialized PSF, four more entities compared to the end of 2021.

During 2022, four specialized PSF were added to the CSSF's PSF list—with one switching from an investment firm and one from a support PSF—which were offset by the four PSF removed from the CSSF's list.

This category is split into three main sub-groups.

The first sub-group includes 82 Corporate domiciliation agents (Art. 28-9) at year-end 2022 (79 in 2021).

We note that:

- In 81 of 82 cases, these entities were also licensed as Professionals providing company incorporation and management services (Art. 28-10), and in 72 of 79 cases, they were licensed as Family offices under Art. 28-6; and
- About 83% (68) were licensed as Registrar agents (Art. 25), and about 87% (71) were Client communication agents and Financial sector administrative agents (Arts. 29-1 and 29-2).

The second sub-group included 70 Registrar agents (Art. 25):

- All held support PSF licenses as Client communication agents (Art. 29-1) and Financial sector administrative agents (Art. 29-2);
- Almost all held specialized PSF licenses as Corporate domiciliation agents (Art. 28-9), Professionals providing company incorporation and management services (Art. 28-10), and Family offices (Art. 28-6); and
- Only two were licensed as IT systems and communication networks operators of the financial sector (Art. 29-3).

The third and last sub-group included four (five in 2021) Professionals performing lending operations (Art. 28-4). This license appears unique in that, apart from one case, it is not held together with any other license. These entities carried out financial or operational leasing activities and were mainly the subsidiaries of banks, such as Banque Internationale à Luxembourg, ING and BNP Paribas, and a subsidiary of an international group.

The number of licenses held by specialized PSF slightly increased from 467 in 2021 to 484 in 2022.

Between 2009 and 2021, the number of specialized PSF licenses rose from 254 to 484, a 91% growth over 12 years. Apart from the Family offices license launched in 2013, the most significant increase in licenses granted to specialized PSF between 2009 and 2021 was for support PSF licenses, particularly Arts. 29-1 and 29-2.

Figure 18: Licenses granted to specialized PSF as at 31 December 2021 and 31 December 2022

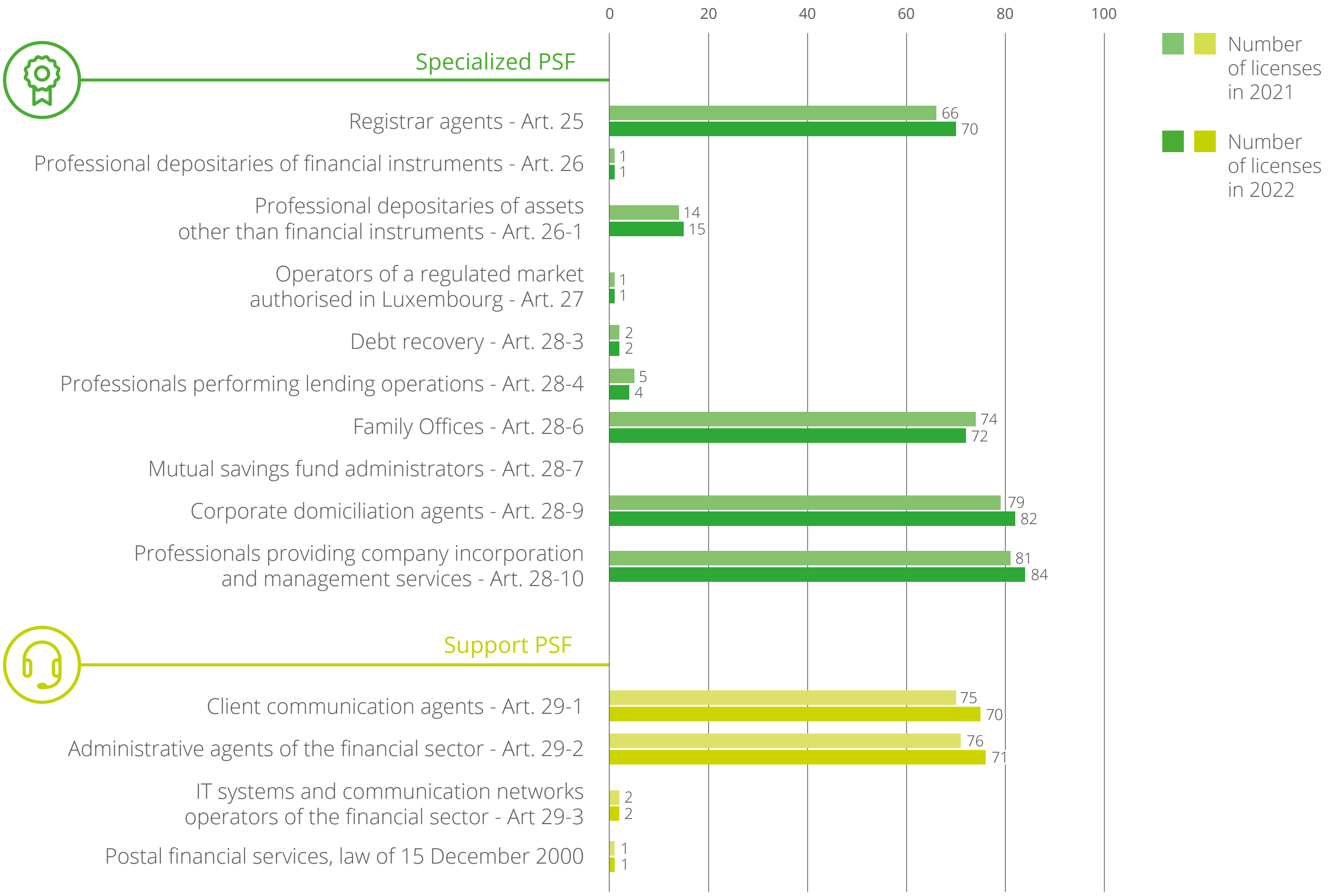
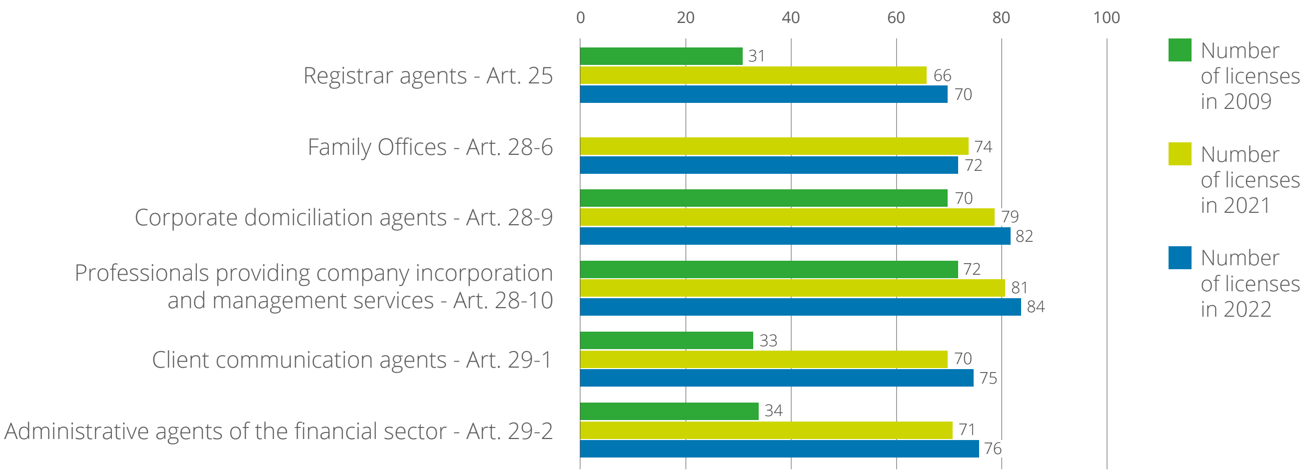


Figure 19: Change in the six main licenses held by specialized PSF as at 31 December 2022



Interview with Marco Paternò Castello

Managing Director and Board member of Luxembourg Fund Services

INTERVIEWED BY
RAPHAËL CHARLIER AND KEVIN VENTURA
22 SEPTEMBER 2023

WHAT CHANGES DO YOU EXPECT FOR SPECIALIZED PSF REGARDING CORPORATE DOMICILIATION AND CENTRAL ADMINISTRATION SERVICES?

The consolidation trend

The consolidation trend of market players, initiated some years ago, will undoubtedly continue in the years to come. Clear drivers for this trend are improving financial KPIs through mergers or acquisitions, such as net turnover, EBITDA and number of clients, and compensating for growing compliance costs due to the complexity of the regulatory landscape. Specialized PSF are aggregating their resources to face these challenges while maintaining quality for their clients and achieving reasonable financial KPIs.

However, this trend risks standardizing the Luxembourg market's services, which would be detrimental to its diversity and could depersonalize client relationships. Smaller players like us typically offer very personalized and tailor-made services that are actively sought after by some clients. Increased standardization could as well reduce Luxembourg's attractiveness as a marketplace, and smaller players offering a different experience could cease existing.

And outsourcing trend

The outsourcing trend somewhat echoes the market player consolidation trend, with the industry exploring outsourcing to find appropriate resources amid the current scarcity. However, we strongly believe in maintaining as close a relationship as possible with our clients by keeping operations in-house and staff local.

WHAT ARE THE MAIN CHALLENGES FACING LUXEMBOURG IN YOUR BUSINESS SECTOR?

People management

Unsurprisingly, people management remains a hot topic for us specialized PSF. Finding the right talents, training and retaining them is still one of our main priorities. We give significant attention to nurturing a harmonious work environment and pushing our teams to maintain a regular onsite presence to build relationships. Although teleworking has significantly developed the market, we believe onsite presence remains essential to both training and developing relationships. One of our key differentiators is our staff's experience and proximity to our clients.

Managing profitability and quality

Another challenge we face is balancing profitability and the quality we deliver to our clients. This is even more important for players like us that seek organic growth, which requires client satisfaction and profitability.

The ever-increasing cost of compliance drives us to find alternative solutions, including partnerships and business combinations. Over the past few years, we have seen a gradual decrease in margins and difficulties generating profits. The financial pressure is now palpable, reinforcing the need for us to maintain our level of quality.

Keeping up with regulatory updates and investments in technologies

It has become a key challenge for market players to keep up with the new regulatory requirements impacting our clients. While our attention was recently on the new ESG requirements for alternative investment funds, the upcoming impact of ATAD 3 on holding companies is our next challenge. In these circumstances, anticipating regulatory updates for our clients also remains a key success factor.

Notably, there is also a constant need to invest in new tools to maintain the quality our clients expect and increase the efficiency of our processes.

WHAT ARE THE MAIN OPPORTUNITIES FOR THE PSF YOU REPRESENT?

Regulatory updates

While regulatory updates can be seen as a challenge, we also consider them opportunities to assist our clients in this journey. For example, as ATAD 3 is expected to significantly impact holding companies, we are currently finding suitable solutions for our clients that may be affected. The potential hit on corporate structures could also boost the alternative investment funds sector.

Economic landscape

The high-interest rate environment is hindering fundraising for new investment funds. Investment fund managers must now demonstrate specific sector expertise to attract investors, such as in cybersecurity, which was not necessarily the case in the past. This slows down the private equity market's development and our activity as a specialized PSF.

Similarly, infrastructure investment funds now focus on ESG-related investments to offer both financial and non-financial performance. Notably, Luxembourg has become a European leader in sustainable finance thanks to early steps taken by the regulator and the government. This is an undeniable competitive advantage for the country, which the entire marketplace should maintain through appropriate support.

WHAT EXPECTATIONS DO YOU HAVE?

Considering the significant challenge in attracting and retaining talents, coupled with the rising cost of living, reducing labour costs would offer some relief to the entire market. Several measures could help the market's competitiveness, including reducing the cost of social security, scaling down taxation (for employers or employees), or lowering the VAT rate.

In addition, it has become crucial for the CSSF to carefully consider the situation of smaller players, or boutiques. If regulatory costs keep increasing, and given the current inflation levels, players of our size could struggle to compete. It is our belief that a diversified marketplace is crucial for Luxembourg; therefore, promoting flexible and unregulated structures would significantly benefit the marketplace.

M&A trends in the PSF industry

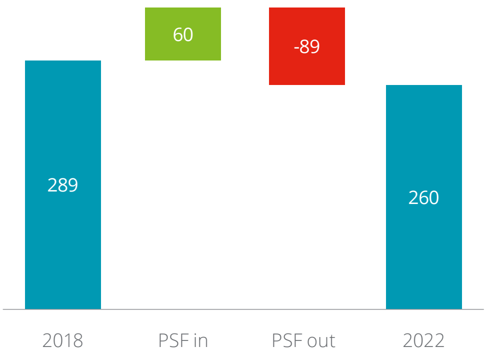
Justin Morel De Westgaver
Partner
Deloitte Luxembourg

Nicolas Schoukens
Managing Director
Deloitte Luxembourg

M&A activity has been a key driver of Luxembourg's PSF landscape evolution in recent years

Over the past decade, Luxembourg's PSF landscape has experienced significant shifts. While the number of PSF increased by 64% from 2006 to 2011, peaking at 322 in 2011, it gradually contracted to 260 by the end of 2022. Notably, 60 new PSF were registered and 89 PSF were removed from the CSSF's list during the 2018–2022 period, resulting in a net reduction of 29 PSF.

Figure 1: Development of PSF from 2018 to 2022



While the main reason for the 2018–2022 decline in the number of PSF was the relinquishment of PSF licenses, M&A played a substantial role across each PSF type, indicating a continued consolidation trend.

Approximately 12% of PSF reductions stemmed from external mergers, with 11 PSF absorbed during the 2018–2022 period. Additionally, 15% were due to internal reorganizations that are often initiated through M&A deals. While this trend is seen across all three PSF types, specialized PSF represented over half (54%) of these external acquisitions and internal reorganizations, compared to about 25% of investment firms and about 21% of support PSF. Figure 3 illustrates the distribution across the different PSF types over this period.

Figure 2: Reasons for PSF reduction from 2018 to 2022

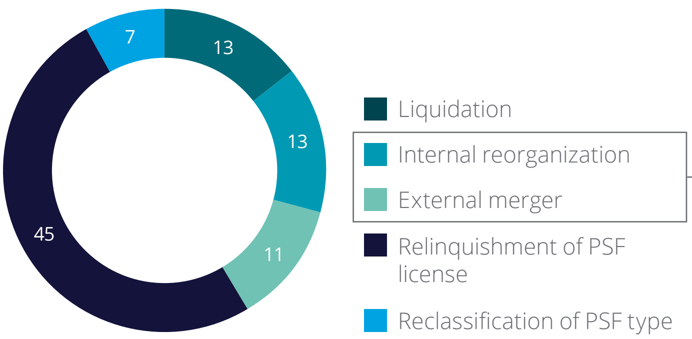
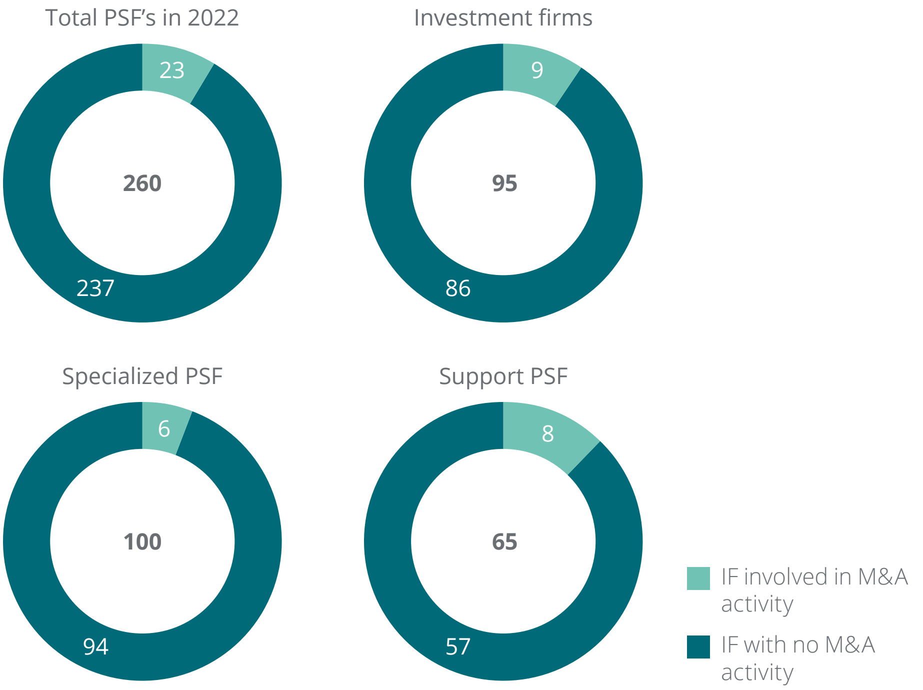


Figure 3: External mergers and internal reorganizations from 2018 to 2022

By the end of 2022, 9% of the PSF population (or 23 PSF) had been involved in M&A transactions between 2018 and 2022, with a consistent distribution across the different PSF types.

Figure 4: PSF active in 2022 involved in M&A activities between 2018 and 2022



Internal and external forces driving this M&A activity

Several key factors are instrumental in driving the PSF sector's M&A activity, either originating within the sector or from the broader economic and market situation. While generally common to all PSF types, these factors vary in degree depending on their specificities.

The most instrumental internal factors include:

- **Lower organic growth:** The sector's organic growth is weaker than a decade ago, when double-digit growth was more common. In response to this noticeable decline, certain PSF have actively explored M&As.
- **Diversification:** positive dynamics in certain segments, especially alternative investments, have spurred many players to explore vertical integration strategies to amplify their client exposure and extend their service offering. This strategic move fuelled M&As to access new capabilities and solutions more rapidly. Notably, in this competitive landscape, where talent acquisition remains a significant challenge, M&As also offer a pathway for firms to secure the diversity of expertise and skills increasingly needed to thrive in this evolving market environment.
- **Regulatory dynamics:** the rise and evolution of regulations in the PSF sector, such as Pillar 2,[27] the second and third Anti-Tax Avoidance Directives (ATAD II/III),[28] the sixth Directive of Administrative Cooperation (DAC6),[29] the Corporate Sustainability Reporting Directive (CSDR)[30] and MiFID II, coupled with intensifying global scrutiny, have created a favorable environment for mergers.

  The high cost of non-compliance has incentivized PSF to explore M&A transactions to achieve best-practice compliance, while absorbing its cost on a larger base. Navigating this complex regulatory landscape demands not only expertise but also a global footprint, helping firms adapt to changes and remain competitive.
- **Technology:** while a relatively young industry, the PSF sector was historically less technology-driven. However, today's clients increasingly expect secured, customizable, and uninterrupted access to data and services, driving PSF to integrate robust technology capabilities into their offerings. Technology is viewed as complementary to traditional client relationships, and firms seeking to boost their competitiveness often turn to M&A to acquire tech-savvy assets and expertise.

External factors have also influenced the level of M&A activity over the past years, including:

- **Globalization trends:** The ongoing globalization of financial services has increased demand for multi-jurisdictional expertise and capabilities. Clients that operate internationally seek PSF service providers capable of addressing their intricate needs while maintaining exceptional service standards. In response, PSF are compelled to expand their geographic reach, making M&A transactions an attractive way to acquire the necessary resources and expertise to provide seamless cross-border solutions.
- **Private equity:** Some PSF segments have historically attracted private equity investors due to their strong growth potential, stable and recurring revenues, solid cash flow conversion, and positive trends around multiples. As a result, these actors have catalyzed the PSF sector's M&A activities between 2018 and 2022 (on both the buy- and the sell-side) and have invested in most of the industry's largest players.

27. OECD's Tax Challenges Arising from the Digitalisation of the Economy – Global Anti-Base Erosion Model Rules (Pillar Two).
28. Council Directive (EU) 2017/952 of 29 May 2017 amending Directive (EU) 2016/1164 as regards hybrid mismatches with third countries.
29. Council Directive (EU) 2018/822 of 25 May 2018 amending Directive 2011/16/EU as regards mandatory automatic exchange of information in the field of taxation in relation to reportable cross-border arrangements.
30. Regulation (EU) No 909/2014 of the European Parliament and of the Council of 23 July 2014 on improving securities settlement in the European Union and on central securities depositories and amending Directives 98/26/EC and 2014/65/EU and Regulation (EU) No 236/2012.

- **Founder transitions:** Business founders are increasingly exploring viable exit strategies, attracted by strong valuation multiples, amongst other factors. Founders are also embracing M&As to seek financial support for their future growth strategies, such as expanding internationally. Additionally, M&As allow a company's legacy and principles to be passed on, ensuring a seamless shift in leadership while protecting the brand's identity and mission.
- **Funding costs:** The lower funding costs between 2012 and 2022 allowed buyers to present more attractive offers to sellers. That being said, we note the recent interest rate shift may temporarily affect the volume of M&A activities, as rising rates could create discrepancies between sellers' price expectations and prospective buyers' intentions.

Key success factors for M&A transactions

Although interest in M&A transactions has stayed high over the last decade, this process remains complex and time-consuming. A notable percentage of transactions falter or fail due to a myriad of different factors, underscoring the intricate nature of these strategic undertakings. Mastering some key success factors is essential for organizations to efficiently navigate the M&A landscape and achieve their objectives.

Conclusion

Luxembourg's PSF landscape has significantly changed in the past decade, with M&A activities playing a significant role. Key drivers of these M&As include a myriad of internal and external factors.

Understanding the complexities of M&As is crucial for success. By recognizing change drivers, understanding M&A intricacies, and considering key success factors, PSF can position themselves for long-term success and adaptability. M&A transactions remain a strategic tool for achieving these goals and responding effectively to changing market conditions.

Key success factors	
Well-defined M&A strategy	This is a pivotal element of M&As for both sellers and buyers. Organizations must view M&A activities as an integral part of their broader strategy to ensure the primary focus remains on maximizing value creation. By aligning M&A efforts with a well-defined strategic vision, organizations can not only enhance their chances of success, but also safeguard themselves against impulsive decisions that may hinder the company's long-term growth and stability.
Thorough preparation	A fundamental principle of M&A transactions is preparation. Adequate groundwork is essential for success, including comprehensive due diligence and strategic planning. Intricately preparing the foundation allows organizations to make informed decisions and mitigate potential pitfalls along the M&A process.
Seeking expert advice	Given the M&A process' intricate and challenging nature, seeking professional advice is essential. This goes beyond due diligence to understanding the nuanced aspects of risk allocation, value assessment, completion mechanisms, working capital adjustments, and deal structuring. Expert guidance in analyzing and negotiating these elements can be the difference between a successful deal and an unfavorable one.
Alignment of interests	Establishing transparency with all stakeholders is a foundational principle in any successful M&A transaction. It begins with onboarding all involved parties to ensure everyone is well-informed and aligned with the goals and objectives. This process extends to the deal's structure, where effective and transparent communication is pivotal. By fostering open dialogue and actively addressing concerns, organizations can create a framework where all parties' interests are harmonized and aligned. This not only fosters trust but also paves the way for smoother transitions and more favorable outcomes in M&A activities.
Post-merger integration planning	The true measure of an M&A transaction's success is not at the signing of the sale contract but in the subsequent integration phase. Implementing a well-structured post-merger integration (PMI) plan is essential for realizing the merger's anticipated benefits and ensuring the newly merged entity functions efficiently and cohesively.

The VAT status of directors

Raphaël Glohr
Partner
Deloitte Luxembourg

Michel Lambion
Managing Director
Deloitte Luxembourg

In the 2022 PSF brochure, we introduced the Court of Justice of the European Union's (CJEU) "TP" case,[31] lodged by the Luxembourg Civil Tribunal regarding the VAT status of directors of companies. A milestone was set on 13 July 2023, with the Advocate General, Ms. Kokott, opining that a director is not a VAT-taxable person. If the CJEU follows her opinion, the consequences would be significant—waiving directors' VAT administrative burdens and companies' unrecoverable VAT, which includes many PSF with nil or partial VAT deduction rights.

BACKGROUND

In 2016, the Luxembourg VAT authorities issued Circular 781, clarifying that a company director is a VAT-taxable person providing taxable services. This obliged directors to register for VAT, file VAT returns and apply VAT on their fees, and imposed a financial burden on companies that cannot fully or partially deduct the VAT on their costs.

Notably, directors could apply the small undertaking regime exemption[32] when their annual turnover is less than €35,000 and, more importantly, the fund management exemption of Art. 44.1.d) of the Luxembourg VAT law when their fees are paid by an entity like a UCI(TS), AIF, SICAR, SV, or a pension fund.

"TP", a lawyer member of the Luxembourg bar and a non-executive director of different Luxembourg companies, believed Circular 781's position was wrong and decided not to apply VAT on his director fees. He was reassessed by the Luxembourg VAT authorities, and the affair came to the Luxembourg Civil Tribunal, which referred the case to the CJEU.

THE ADVOCATE GENERAL'S CONCLUSION

The discussion's starting point is to determine whether a director of a company meets the requirements to qualify as a VAT-taxable person, which is defined as "any person who, independently, carries out in any place any economic activity, whatever the purpose or results of this activity",[33] knowing the concept of economic activities includes the supply of goods and services.

In this respect, the Advocate General notes that directors do not act independently but rather as members of a collegial body imposed by law, and examines if they personally support an economic risk. According to Art. 448.1. of the Luxembourg company law, "no personal obligation arises on the part of the directors in relation to the commitments of the company."[34] She adds that the liability in the tort, including the one for the company's tax and VAT liabilities, is irrelevant because it affects all persons, including employees under their employer's authority who are non-taxable VAT persons.

She notes that director remuneration is not determined through negotiations, which is characteristic of an activity performed independently. Instead, it is unilaterally set by the company and unaffected by workload. Even if a director receives a variable remuneration[35] (which is not the case for Mr. TP), it is not equated with assuming personal risk. Instead, it is a share in someone else's profit, such as the variable part of an employee's remuneration.

In addition, Ms. Kokott rules that Mr. TP's status as a VAT-taxable person for his work as a lawyer does not "contaminate" his directorship activity because the two activities are independent. Lastly, she points out that director fees being subject to VAT would violate the principle of the neutrality of the legal form—because companies with no or limited VAT deduction right and that are obliged to appoint directors would be disadvantaged compared to other persons without this obligation, such as sole traders. Therefore, the Advocate General proposes

31. C-288/22, "TP", was lodged on 29 April 2022 with the CJEU. The request for a preliminary ruling and the Advocate General's conclusions are available on the CJEU's website.
32. Loi du 12 février 1979 concernant la taxe sur la valeur ajoutée.
33. Art. 9 of the Council Directive 2006/112/EC implemented in Art. 4 of the Luxembourg VAT law.
34. Loi du 10 août 1915 concernant les sociétés commerciales dans sa version coordonnée par le règlement du 5 décembre 2017.
35. ILA, *Remuneration of non-executive directors – Market practice in Luxembourg*, 2020. The report indicates that 88% of directors receive fixed remuneration, while only 1% of directors receive a variable remuneration exclusively. The remaining 11% receive only attendance fees or a mix of attendance fees and fixed or variable remuneration.

to the CJEU that natural persons acting as company directors should not be considered as VAT-taxable persons, because they do not carry out an independent economic activity.

WHAT HAPPENS IF THE CJEU DECIDES A DIRECTOR IS NOT A TAXABLE PERSON?
We have summarized the consequences as follows, depending on the type of company:

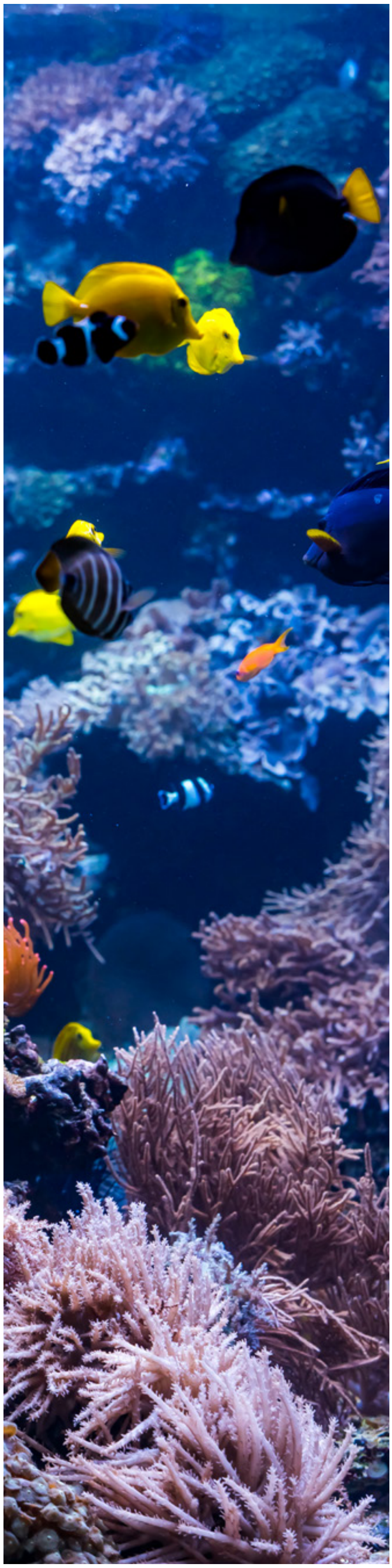
1. Entities benefiting from the fund management VAT exemption under Art. 44.1.d) VATL	• No financial impact. • No practical impact, except the removal of the obligation to register to pay VAT on some foreign supplies.
2. Companies with a full VAT deduction right	• No financial impact, except that VAT would become non-deductible for directors. • Practical impacts: - Issuing credit notes and new invoices if the director is established in Luxembourg. If the director is established outside Luxembourg, the company could correct the previously self-assessed VAT. - Deregisting the director, who would no longer be obliged to file VAT returns.
3. Companies with no or partial VAT deduction right	• Financial impact: companies would be able to recover VAT, and VAT would become non-deductible for directors. • Same practical impacts as for companies with a full VAT deduction right.

Some directors have set up their own companies to exercise their mandates, while in group companies, some companies are designated as directors of others. Because the questions to the CJEU refer only to natural persons, this may mean the CJEU's decision ignores legal ones. However, limiting the decision to natural persons would contradict the principle of the neutrality of the legal form quoted by Ms. Kokott, and would imply two different VAT treatments for the same activity due to the difference in legal status, which would be unusual and impractical.

WHAT HAPPENS IF THE CJEU DECIDES A DIRECTOR IS A TAXABLE PERSON?
If the CJEU confirms the Luxembourg VAT authorities' position, the impact would be limited in Luxembourg to definitively closing the question.

WHEN COULD WE EXPECT THE DECISION?
On the CJEU's agenda, the decision is scheduled for the 21st of December 2023.

In conclusion, as this case is undeniably important for the Luxembourg marketplace, concerned persons should closely follow its development.



2.4 Support PSF

Similar to specialized PSF, support PSF do not benefit from a European passport. Three-quarters of these entities are from other countries and are part of a group; while a few belong to banks, the majority belong to specialized IT groups, such as Xerox, IBM, HP, Tata and Atos. The remaining one-quarter are local and standalone.

Our analysis shows that three main licenses co-exist in this category.

The first group of 32 entities held Client communication agent licenses under Art. 29-1 at the end of 2021 (compared with 33 entities at the end of 2020), of which 41% also held Administrative agents licenses under Art. 29-2 (13 entities). Administrative agents are automatically authorized to carry out activities as client communication agents.

The second group of 55 PSF held licenses under Art. 29-3 as IT systems and communication networks operators of the financial sector at the end of 2021 (56 at year-end 2020). In 18 cases, they also held licenses under Art. 29-1, while 12 held licenses under Art. 29-2 as at December 2021.

The third group includes Providers of dematerialization services to the financial sector (Art. 29-5) and of Conservation services to the financial sector (Art. 29-6). The number of licenses held by support PSF slightly decreased between 2020 and 2021 (from 115 licenses to 111).

Figure 20: Distribution of support PFS licenses as at 31 December 2021 and 31 December 2022

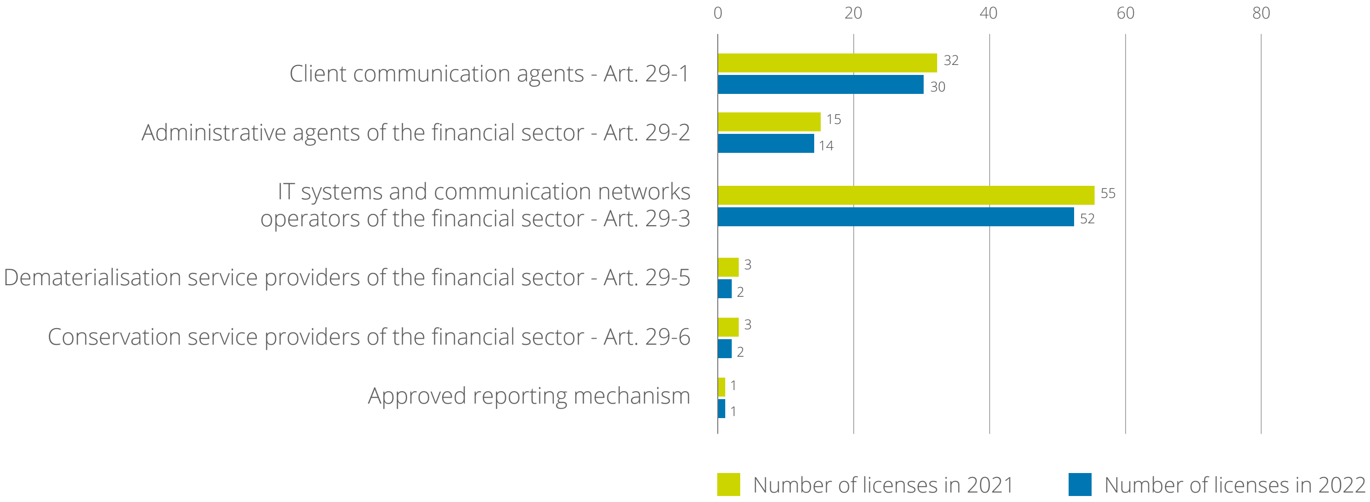
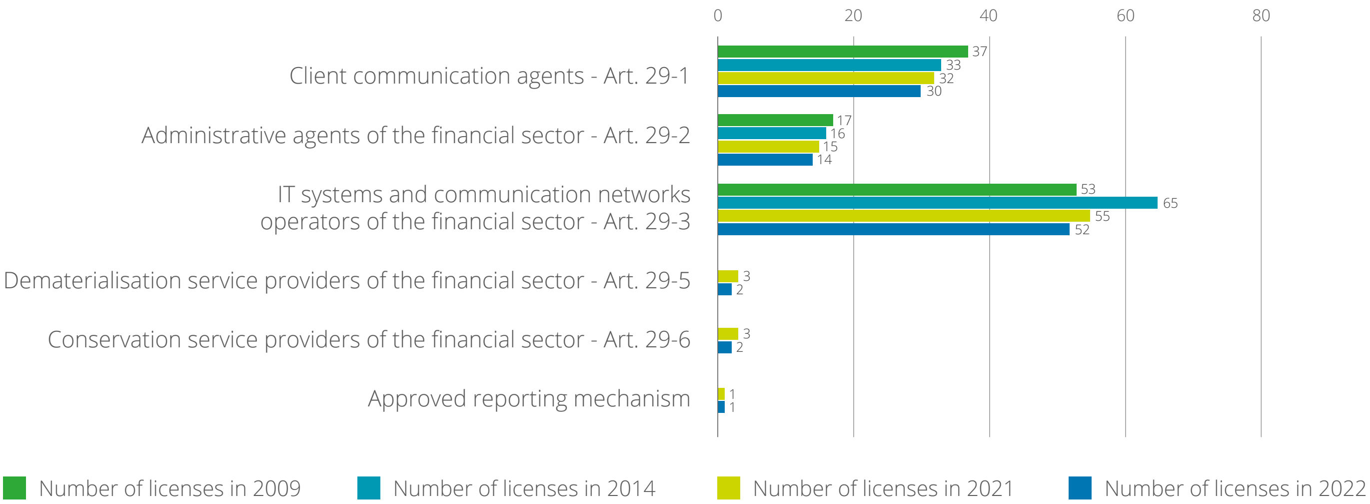


Figure 21: Change between 2022, 2021, 2014 and 2009 of licenses granted to support PSF



* Articles 29-3 and 29-4 merged as a result of the law of 21 July 2021. The comparative figure indicated for article 29-3 - IT systems and communication networks operators of the financial sector represents the sum of the number of licences granted for articles 29-3 and 29-4 according to the previous framework.

Interview with Raoul Mulheims
Co-Founder and CEO of Finologee

INTERVIEWED BY
ADIL SEBBAR AND KEVIN VENTURA
12 OCTOBER 2023

HOW HAS THE SUPPORT PSF LANDSCAPE EVOLVED IN RECENT YEARS, AND WHAT CHANGES DO YOU SEE ON THE HORIZON?
On the one hand, the range of services has changed little in recent years, with established players like data centers, managed services, reporting solutions, and software and hardware providers maintaining the same offerings.

On the other, we have witnessed the arrival of a new generation of players who have introduced new digitalized services through centralized platforms. However, this trend remains limited to a small number of new players, despite the potential competitive advantage of support PSF licenses. This advantage could be realized by adapting the regulatory framework to accommodate these players' marketplace enhancements; for example, regarding modern outsourcing setups and the restrictions that specifically apply to support PSF.

The new regulatory requirements for significant or critical outsourcing arrangements have increased due diligence obligations. This has prompted some Luxembourg-regulated entities to regard outsourcing setups as too complicated to manage and consider alternatives, such as insourcing some tasks and/or processes. Therefore, these requirements could push certain players to limit their services to specific areas of expertise, threatening the market's service diversity.

These additional requirements for both support PSF and their regulated clients have contributed to the consolidation or withdrawal of some support PSF players in recent years.

WHAT ARE THE MAIN OPPORTUNITIES FOR THE SUPPORT PSF THAT YOU REPRESENT?
The EU's Digital Operational Resilience Act (DORA) could be a significant opportunity for Luxembourg's support PSF.[36] Key areas of this EU regulation, which will come into force on 17 January 2025, include the supervision of critical ICT third-party providers (CTTP), periodical threat-led penetration testing (TLPT), harmonization of information and communication technology (ICT) risk management rules, and ICT incident classification and reporting rules.

Support PSF already meet many of DORA's requirements under current rules, including CSSF Circular 20/750.[37] This experience could help enhance both PSF's value proposition and market perception. It also makes support PSF natural partners for in-scope Luxembourg financial sector players that lack the required expertise regarding the governance of ICT-related risks.

Luxembourg is better equipped for DORA than other countries, as in-scope Luxembourg financial entities have direct access to providers already familiar with most requirements and practices.

36. Regulation (EU) 2022/2554 of the European Parliament and of the Council of 14 December 2022 on digital operational resilience for the financial sector and amending Regulations (EC) No 1060/2009, (EU) No 648/2012, (EU) No 600/2014, (EU) No 909/2014 and (EU) 2016/1011.

37. CSSF, Circular CSSF 20/750 (as amended by Circular CSSF 22/828): Requirements regarding information and communication technology (ICT) and security risk management, updated December 29, 2022.

Another opportunity lies with the setup of mutualized platforms, which help IT service providers and their customers gain better control over costs and access to greater expertise, improving the quality of services and granting guarantees. As a large financial center, Luxembourg is a big enough market to allow several players to build competing mutualization-based value propositions, stimulating innovation.

Finally, with support PSF's framework and licenses specific to Luxembourg, there is an interest in mapping requirements against international standards like ISAE 3000 and ISO 27001. Support PSF's international clients are typically more familiar with these types of global standards and less so with Luxembourg-specific setups.

By adopting this approach, such as by streamlining requirements and definitions where it makes sense, we could ensure our expertise is efficiently valued and ease international promotion and development. This could even lead to the creation of a "Luxembourg financial industry IT provider quality kit", where existing and new regulations would be mapped against international standards and, de facto, enforced by the regulator.

This development could provide a true competitive advantage over other financial centers, offering pre-approved providers and services as well as harmonized rules for assessment and due diligence, and resulting in huge economies of scale for regulated entities when choosing their providers.

WHAT ARE THE MAIN CHALLENGES YOUR INDUSTRY FACES?

Even if companies hold a support PSF license, regulated clients must still conduct initial and ongoing due diligence when selecting them as suppliers. Nevertheless, one major aim of support PSF licenses' introduction was to provide Luxembourg financial institutions with a framework of trust, with these suppliers' financial regulation and oversight allowing regulated entities to minimize their own due diligence.

With recent regulatory changes and national implementation decisions, the benefits of this generic supervision are diminishing. Regulators are seeking increased accountability of regulated entities through the due diligence and monitoring of their support PSF suppliers. Regarding outsourcing regulations, Luxembourg support PSF are subject to restrictions and obligations that do not apply to international providers delivering services to Luxembourg entities, resulting in a form of discrimination.

Luxembourg support PSF have gained expertise that is the envy of other countries. Therefore, we need to remain pragmatic in adopting proportionate rules and maintain a level playing field, especially regarding providing services to financial entities considered critical and important. After all, we already have a mature framework for regulating IT providers that we can build on, specifically when implementing new regulations like DORA.

WHICH INITIATIVES COULD HELP SUPPORT PSF'S DEVELOPMENT?

Typically, each regulated entity in the financial industry must carry out its own due diligence and risk assessment process for services or products that a support PSF provides. Granted, the impact and level of risk of these services or products can differ between actors, depending on their specific situation and setup. However, many audits and assessments are generic and conducted in the same way, with each institution collecting and reviewing the same data and drawing the same conclusions.

Therefore, a centralized certification or validation for products or services could greatly benefit the industry. This process could be periodically reassessed to prevent hundreds of entities from replicating work, suppliers providing the same information, auditors reviewing the same process, and reports containing the same descriptions.

If this process is not set up or managed by regulators, a certification framework could be implemented in a cascaded way with assessments and certifications delegated to authorized bodies, similar to ISO certifications. This could hugely benefit the Luxembourg financial industry as a whole, reducing the burden of assessing IT suppliers and managing risk, which currently lies with each individual institution.

Support PSF and their clients would also benefit from the reduction of operational and administrative requirements in areas where support PSF are subject to the same rules as other regulated entities, but do not provide financial services to their clients. For example, as support PSF do not process fund transfers and do not accept deposits, the risk of money laundering is substantially lower. Applying proportionality principles in these areas will likely lead to efficiency gains for both support PSF and their regulated clients.

Let's explore more DORA

Laureline Senequier
Partner
Deloitte Luxembourg

This article is based on a publication from Deloitte's EMEA Center for Regulatory Strategy and has been adapted for the Luxembourg market.

AT A GLANCE:

- The EU's Digital Operational Resilience Act (DORA) entered into force on 16 January 2023 and will apply from 2025. It is the EU's most significant regulatory initiative on operational resilience and cybersecurity in the financial service (FS) sector and goes a considerable way to consolidating and upgrading the requirements firms will face.
- DORA will require firms to adopt a broader business view of resilience, with accountability clearly established at the senior management level. It will apply to most FS firms operating in the EU and sets binding rules for ICT risk management, incident reporting, resilience testing and third-party risk management (TPRM).
- DORA also establishes the world's first framework that allows FS supervisors to oversee critical ICT third-party providers (CTPPs), including cloud service providers (CSPs).
- The regulation provides a basis for firms to prepare for its implementation. It is expected to be finalized in the European Parliament's October 2023 plenary session.
- Firms should now conduct a gap analysis and develop a roadmap to design and implement an enhanced operational resilience framework by Q4 2024, in line with DORA's new requirements.
- Firms should also consider how DORA can catalyze how they manage digital risks and understand the impact of operational disruptions on their business and customers.
- In this analysis, produced with Deloitte's expert colleagues around Europe, we explore the significant changes that firms will need to make because of DORA and potential implementation challenges across DORA's five pillars.

INTRODUCTION

DORA entered into force on 16 January 2023 following its publication in the EU Official Journal (OJ)[38] and FS firms must begin assessing how its rules will impact them. We believe **DORA is a game changer** that will push FS firms to fully understand how their ICT, operational resilience, cyber and TPRM practices affect the resilience of their most critical functions and develop entirely new operational resilience capabilities, such as advanced scenario testing methods.

To do this, firms face a relatively tight 24-month implementation period, which began 20 days after the publication in the OJ. This means that, **by 17 January 2025, relevant FS supervisors will expect firms to fully comply with all of DORA's new requirements**, including how these requirements are elaborated through the European Supervisory Authorities' (ESAs) secondary rulemaking.

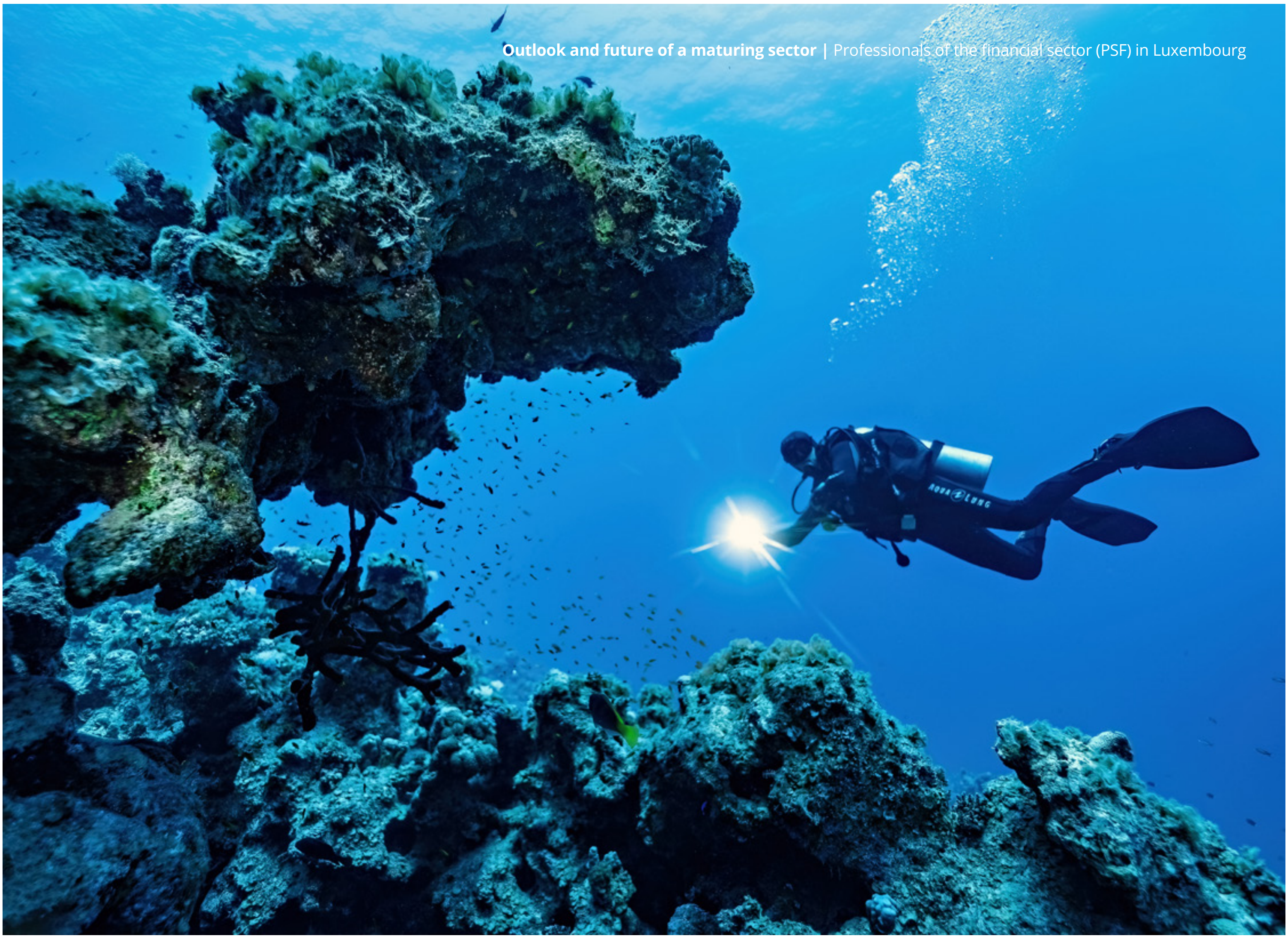
Part I: What does the final DORA regulation mean for firms?

DORA's five pillars deliver the following implications for firms:

1. ICT risk management requirements: a broader focus across critical business functions

DORA's ICT risk management framework puts the onus on firms' management bodies to take full and ultimate accountability for managing ICT risks, setting and approving their digital operational resilience strategy, and reviewing and approving the firm's ICT third-party providers (TPPs) policy, among other responsibilities. DORA empowers competent authorities to apply administrative penalties and remedial measures on the firm's management body members for any compliance breaches.

38. Publications Office (europa.eu).



DORA's ICT risk management requirements are largely in line with the EBA Guidelines on ICT Security and Risk Management[39] ("EBA Guidelines") and the EIOPA Guidelines on information and communication technology security and governance ("EIOPA Guidelines"),[40] but their newly binding nature through primary legislation will intensify firm's supervisory scrutiny.

The **ICT risk management framework requires firms to set risk tolerances for ICT disruptions supported by key performance indicators (KPIs) and risk metrics**. Firms must also **identify their "critical or important functions"** (CIFs) and map their assets and dependencies. The inclusion of CIFs in the final DORA text was a significant change, refining the focus of activity throughout the entire framework, particularly regarding incident reporting, testing and TPRM.

Meeting these requirements will require most firms to broaden their operational resilience capabilities, more clearly articulate their risk appetite for disruption across critical functions (and not just for technology failures or cyber incidents), and more accurately map and understand the connections between their ICT assets, processes and systems, and how they support service delivery.

A new inclusion in DORA's final text is that firms must conduct business impact analyses based on "severe business disruption" scenarios (which is also in the EBA Guidelines). This will likely increase firms' supervisory pressure to develop more sophisticated scenario testing and build redundancy and substitutability into the systems that support their CIFs.

2. ICT incident classification and reporting: consolidation of existing requirements but with significant enhancements

DORA's incident reporting framework is meant to streamline several existing EU incident reporting obligations that apply to FS firms. Nevertheless, it will create a substantial new classification, notification and reporting framework, pushing firms to improve their ability to collect, analyze, escalate, and disseminate information for ICT incidents and threats. In our view, **most firms do not currently possess all the capabilities to assess incidents' quantitative impact** and analyze their root causes in line with DORA.

While the published DORA text adds "significant cyber threats" to the list of events that firms must classify, reporting these events will be optional, in line with parallel amendments made to the Network Information Security Directive

39. EBA, Guidelines on ICT and security risk management, November 29, 2019.

40. EIOPA, Guidelines on information and communication technology security and governance, October 12, 2020.

(NIS2).[41] However, if a client or counterparty is exposed to a significant cyber threat, DORA requires FS firms to notify them and provide information on appropriate protection measures to defend against the threat. Entities must also record all significant cyber threats, requiring a higher incident management capability to monitor, handle and resolve cyber incidents.

For ICT-related incident reporting, the **published text** delegates **reporting deadlines to the European Supervisory Authorities (ESAs) to specify in technical standards** (due July 2024). This means that firms will not receive a clearer view of the new framework's operational feasibility for some time.

Finally, the ESAs are also expected to prepare a joint report assessing the feasibility of further centralizing incident reporting by establishing a single EU hub for firms' major ICT-related incident reporting. Streamlining ICT-incident reporting is expected to reduce the FS' compliance burden of multiple incident reporting requirements, while also supporting a better collective understanding of cyber threats on a cross-border basis.

3. Digital operational resilience testing: introducing challenging new requirements

DORA requires all in-scope firms to test their digital operational resilience (except for microenterprises) by:

- Showing they conduct an appropriate set of security and resilience tests on their "critical ICT systems and applications" (a potentially more granular definition than CIFs) at least annually.
- Fully addressing any vulnerabilities identified through these tests. Together with the business impact analysis requirement, this could become a significant supervisory focus and push firms to develop broader and more accurate testing and scenario analysis capabilities.
- Conducting "advanced" threat-led penetration testing (TLPT) every three years for firms above a certain threshold of systemic importance and maturity, which will be specified in regulatory technical standards (RTS) (unless amended by national authorities on a firm-by-firm basis).

The TLPT methodology should be developed in line with the ECB's existing TIBER-EU framework. Therefore, firms currently using or transitioning to TIBER testing can have some confidence this will count towards DORA's advanced testing requirements.

DORA also requires FS firms to include all TPPs supporting CIFs in advanced testing exercises. As this is uncommon in the FS sector's current TLPT exercises, it will likely require significant planning and mapping of TPPs to CIFs. If a TPP cannot participate for security reasons, DORA allows the TPP to conduct its own TLPT as a form of "pooled testing" for the FS firms to which it provides services. This is a developing area of shared assurance and will need the industry's collective action to operationalize.

4. TPRM: strengthening the European FS framework

While DORA's TPRM requirements are broadly aligned with the ESA Guidelines, the ESMA and EIOPA Guidelines only cover outsourcing to CSPs. Therefore, DORA will expand these requirements to non-CSP ICT outsourcing for firms not applying the EBA Guidelines.

DORA's TPRM requirements, like the ESA Guidelines, contain several contractual terms that firms must include in ICT outsourcing contracts by the January 2025 implementation deadline. By including these in a binding law, FS firms will face increasing pressure to negotiate these terms with their providers where they have been unsuccessful before. Certain terms, such as the TPP providing "unrestricted access to premises" in contracts supporting CIFs, may be more difficult to implement than others.

While developing a "holistic multi-vendor strategy" is an optional part of the ICT risk management strategy, supervisors will still have some leverage over FS firms here. Firms must conduct concentration risk assessments of all outsourcing contracts that support the delivery of CIFs. While this will be a challenging task in itself, it may also make certain operating model decisions difficult to justify to supervisors without adopting a multi-CSP or multi-vendor approach, or having a credible resilience framework to demonstrate why this is not needed.

5. CTPP oversight framework: the world's first FS oversight regime for third parties

The ESAs' new oversight powers are largely maintained by DORA's published text. This means TPPs designated as "critical" will be subject to extensive supervisory powers, allowing the ESAs to assess them, ask them to change security practices, and sanction them if they do not. This will push CTPPs to demonstrate they can improve the resilience of their own operations that support FS firms, particularly where the CIFs of FS firms are implicated.

The published DORA text adds several new safeguards around authorities' abilities to order FS firms to suspend or terminate their contracts with CTPPs. This should boost firms' confidence that these powers will only be used in exceptional circumstances and with due regard to their impact on the sector.

DORA's final version also significantly expands the role of the Joint Oversight Forum (JOF), a group comprising the ESAs, relevant authorities, supervisors, and independent experts. **The JOF will now play a more important role in developing consistent best practices for CTPP oversight and could, over time, establish a clearer standard for their expected level of resilience.**

41. Directive (EU) 2022/2555 of the European Parliament and of the Council of 14 December 2022 on measures for a high common level of cybersecurity across the Union, amending Regulation (EU) No 910/2014 and Directive (EU) 2018/1972, and repealing Directive (EU) 2016/1148 (NIS 2 Directive).

Part II: Important technical standards are still coming

Many critical details of how DORA's new rules will function in practice are delegated to secondary rulemaking (known in EU policy as "Level 2"). In most cases, the JOF will develop these rules as RTS or Implementing Technical Standards (ITS). However, regarding the CTPP oversight framework, the European Commission will develop two Delegated Acts. See Table 1 for a list of all Level 2 measures in DORA.

This means firms will experience another 12–18-month period of uncertainty in some areas of DORA, particularly regarding the ICT incident reporting framework and the rules and scope for advanced resilience testing. During this time, firms will need to forge ahead with implementation work based on the Level 1 text. Firms should also pay close attention to the consultative versions of the RTS and ITS when they are released, as they are usually quite similar to the final versions that the ESAs adopt.

Table 1: DORA's Level 2 mandates and timing

Level 2 mandate	Deadline for final ESAs standard
RTS on ICT incident and cyber threat classification procedures	January 2024
RTS on the level of detail required in firms' ICT TPP strategies	
RTS specifying further elements of the ICT risk management framework	
ITS on the register of information on ICT third-party contractual arrangements	
RTS on reporting of major ICT and cyber incidents to authorities	July 2024
RTS on scope and additional elements for advanced testing requirements	
RTS on key contractual provisions for subcontracting functions that support CIFs	
RTS on the designation of members of a Joint Examination Team	
RTS on information to be provided by a CTPP to the lead overseer	
Delegated Act from the European Commission on CTPP designation	
Delegated Act from the European Commission on oversight fees for CTPPs	
ESA report on the establishment of a central EU hub for incident reporting	24 months after the entry into force (estimated for Q3 2024)

Part III: The time is now for firms to act

Now that DORA has been published, FS firms need to seriously plan for its implementation. We believe DORA will drive FS firms to take a broader view of resilience and develop sophisticated new capabilities in areas such as CIF identification, reporting, impact measurement and testing.

DORA should be seen as a catalyst for firms to accelerate strategic change in managing digital risks, and how effectively senior management and boards can evaluate the business impact of operational disruptions and understand the mitigants at their disposal.

Doing this over 24 months will be a significant task, not least as firms will have to factor in Level 2 technical standards as they become available and are finalised. Getting a head start before the implementation period will buy firms valuable time to prepare. In particular, firms should bear the following two considerations in mind:

1. Prepare for increased supervisory engagement

Now that DORA has entered into force, it will grant national and EU-level supervisors sweeping new mandates and powers on digital operational resilience. Instead of seeing DORA as a “box-ticking” compliance exercise, firms should expect their relevant authorities to develop supervisory frameworks, harnessing their new powers to improve firms’ ability to assess and enhance their operational resilience-related capabilities. As supervisors’ understanding of operational resilience grows, so will their likely demands for firms. Firms should also be conscious that where multiple authorities are involved, whether prudential/conduct, home/host, or national/EU-level, differing supervisory objectives and priorities around the impact of ICT disruptions may make keeping up with expectations even more challenging.

To understand how these supervisory frameworks are likely to develop, firms should focus on areas of DORA that demand regular outputs that can be challenged by supervisors. For example, the new business impact analysis requirements in DORA’s ICT risk management chapter, read alongside firms’ requirement to carry out resilience testing for systems supporting CIFs at least annually and to “fully address” any vulnerabilities identified, may become a significant area of scrutiny for firms. Supervisors are likely to push firms on the severity of scenarios used, the sophistication of testing methods, the granularity of the underlying systems mapping and the completeness of remediation work to address vulnerabilities.

2. Identify capabilities that will require investment/development

Many of DORA’s new requirements will demand substantial investment in the governance, risk, and compliance framework around ICT, cyber and TPRM functions, as well as follow-on work to address operational vulnerabilities identified. Firms should conduct a gap analysis based on DORA’s final Level 1 requirements and update it as draft Level 2 standards become available. This will allow them to identify current shortfalls in capabilities, resources and expertise that will need to be corrected during the 24-month implementation period. Based on our analysis of the final DORA agreement, this gap analysis should particularly focus on:

- ICT risk governance practices, including the identification of CIFs;
- The maturity of incident and threat data collection and analysis capabilities;
- The sophistication of scenario testing and severe scenario design;
- The integration of ICT outsourcing processes and data (including firms’ ability to analyze concentration risks in third and fourth parties).

Some parts of the FS sector, such as large cross-border groups, will already have higher levels of capabilities than others and a head start in complying with DORA’s new requirements. However, supervisors are likely to expect better-developed capabilities from larger firms, and market-leading capabilities in critical-service firms where operational disruptions could have systemic consequences. Therefore, DORA is likely to challenge all firms during the 24-month implementation period. They should waste no time and begin to plan this implementation today.

CESOP's new obligations from 2024: are payment services professionals (PSPs) prepared?

Cédric Tussiot
Partner
Deloitte Luxembourg

Michel Lambion
Managing Director
Deloitte Luxembourg

Alexandre Havard
Partner
Deloitte Luxembourg

A European Commission workshop on 15 September 2023 highlighted the many uncertainties that remain three years after the CESOP Directive was enacted and a FAQ issued in July 2023. It also showed that, while the first CESOP reporting is due on 30 April 2024 at the latest and that substantial penalties may apply, many concerned persons are still behind in their implementation. This is easily understandable, considering the lack of clarity and the rules' complexity.

Directive (EU) 2020/284 of 18 February 2020[42] regarding the central electronic payment information system (CESOP), completed on 6 April 2022 by an Implementing Regulation,[43] imposes reporting obligations on EU payment services providers (PSPs) regarding cross-border payments they make for their clients to combat VAT fraud. CESOP was implemented in Luxembourg by the law of 26 July 2023.[44]

WHY?

The fight against tax and VAT fraud is a major concern for both national governments and the European Union. The EU estimates that VAT fraud through e-commerce represents around €5 billion, or 10% of the EU's total VAT fraud, which can only increase as e-commerce develops.

Some anti-VAT fraud measures are already in place, such as the requirement for businesses to file traditional VAT returns and EC Sales List reports. Since 2023, platforms are also obliged under the seventh Directive on Administrative Cooperation (DAC 7) to report certain transactions to relevant authorities, such as the sale of goods, short rental of properties or cars, and personal services when they facilitate them.[45]

WHO?

All PSPs are concerned, including banks and electronic money establishments under the revised Payment Services Directive's (PSD2) scope.[46]

While the payee's PSP is primarily responsible for CESOP reporting, if this PSP is not established in the EU, the payer's PSP established in the EU will be responsible instead.

WHAT?

Under the new rules, EU PSPs will have to report cross-border payments to CESOP when a payee receives more than 25 cross-

42. Council Directive (EU) 2020/284 of 18 February 2020 amending Directive 2006/112/EC as regards introducing certain requirements for payment service providers
43. Commission Implementing Regulation (EU) 2022/1504 of 6 April 2022 laying down detailed rules for the application of Council Regulation (EU) No 904/2010 as regards the creation of a central electronic system of payment information (CESOP) to combat VAT fraud
44. Loi du 26 juillet 2023 portant modification de la loi modifiée du 12 février 1979 concernant la taxe sur la valeur ajoutée en vue de la transposition de la directive (UE) 2020/284 du Conseil du 18 février 2020 modifiant la directive 2006/112/CE en ce qui concerne l'instauration de certaines exigences applicables aux prestataires de services de paiement
45. Council Directive (EU) 2021/514 of 22 March 2021 amending Directive 2011/16/EU on administrative cooperation in the field of taxation
46. Directive (EU) 2015/2366 of the European Parliament and of the Council of 25 November 2015 on payment services in the internal market, amending Directives 2002/65/EC, 2009/110/EC and 2013/36/EU and Regulation (EU) No 1093/2010, and repealing Directive 2007/64/EC

border payments from an EU payer during a quarter. The 25-payment threshold was selected because the average online purchase is around €90; when multiplied by 100 (the annual payment threshold), this results in an amount close to €10,000, a common threshold for other tax obligations.

Concerned parties will report using an XML file, whose format and content are detailed in EU documentation. In brief, this reporting should include information about:

- The payee: name; BIC number; VAT number or tax identification number (TIN); account ID; address; and BIC of the payee's PSP;
- The transaction: date/time, amount, and currency; and
- The payer's location and the Member State where the payment originated (or its destination if a refund).

WHEN AND TO WHOM?

This quarterly reporting must be sent to the relevant national VAT authority, which will transmit it to CESOP. PSPs must report by the end of the month following each calendar quarter at the latest. Therefore, the first CESOP reporting must be provided by 30 April 2024 at the latest.

The role of the national VAT authorities is mostly passive. They will mainly act as "intermediaries" between the PSPs and CESOP and will not have direct access to the data, even if they must ensure their national electronic systems properly collect this payment information and prevent the transmission of incomplete information.

CESOP and its agents will analyze the data collected. This includes, for example, aggregating payee data to identify payees that multiply accounts to avoid reporting; performing payment crosschecks; flagging suspicious payees; and performing manual checks.

Member States will designate specific agents who will act as "Eurofisc liaison agents" and have access to CESOP to examine data that may be relevant to their Member States; for example, information about residents who may not be compliant with their VAT obligations. Therefore, not all tax agents will have access to this information.

WHERE?

In principle, PSPs should report in the country where they are established.

However, as PSPs may have branches in and/or provide services in other Member States, they may also have to report in these Member States. Therefore, PSPs could face multiple reporting obligations, as well as struggle to determine the reporting location in some situations. For example, a client may have several bank accounts in different Member States or receive payments in different forms, such as bank transfers, card payments and e-money

payments, which is often the case in a very international country like Luxembourg.

WHICH PENALTIES?

The Luxembourg law of 26 July 2023, which implemented the CESOP Directive in a new Article 70ter of the VAT law, also defines the applicable penalties under Article 77—from €250 to €10,000 per infringement and a penalty of €25,000 for every day the reporting is delayed after a request is made.

Some other Member States will impose much higher penalties.[47] For example, the Netherlands foresee penalties of up to €900,000 per quarter, while Germany and Lithuania foresee penalties of €5,000, respectively, and Germany €6,000 per breach or infringement and Latvia €14,000 per reported error.

It is important to note that breaches or infringements can also occur for over-reporting due to incorrectly applying the CESOP rules. For example, incorrectly reporting domestic transactions or reporting a transaction for a payee who received fewer than 26 transactions during a quarter.

WHAT SHOULD PSPS DO NOW?

For PSPs with foreign branches and/or that provide services under the EU's freedom to provide services,[48] they must first determine where the reporting should be done and under which circumstances. This could be quite complex, especially in Luxembourg's international market.

Collecting the necessary information may not seem too complex at first glance, as PSPs already collect most of the required data to process payments. However, some of this information may be spread across various systems, including outside their core banking systems and in know-your-customer (KYC) and anti-money laundering (AML) databases.

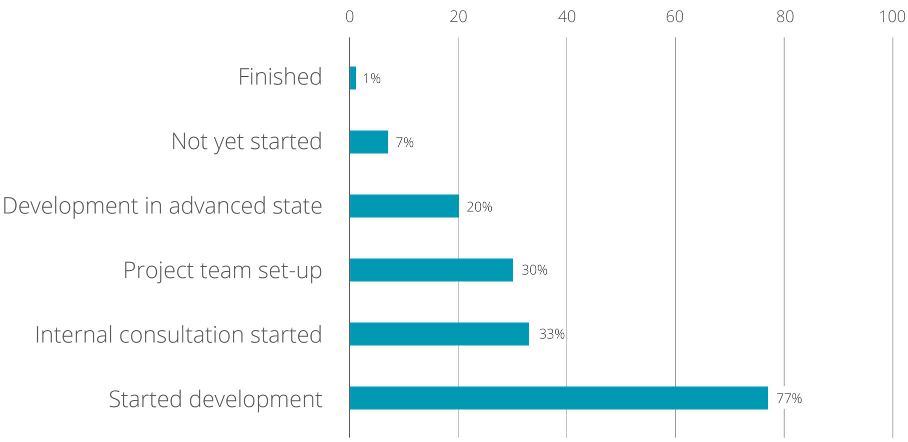
In addition, it can be extremely difficult to apply the CESOP "logic" to determine which transactions are reportable regarding the parties' location and the aggregation by payee using the threshold of 25+ transactions, including other rules. The complexity is heightened when PSPs operate across the entire EU, with high volumes of transactions to analyze and report every period.

If not already done, concerned PSPs should definitely consider the new reporting's impacts and ensure they are ready to comply by 1 January 2024.

WHO IS READY?

During a European Commission workshop on 15 September 2023, participants were asked about their level of preparedness regarding CESOP (Figure 1).

Figure 1: CESOP state of play



47. Deloitte, CESOP Implementation Monitor - update 10 August 2023, August 10, 2023.
48. Christina Ratcliff, Mathias Wosyka, Barbara Martinello and Davide Franco, Freedom of establishment and freedom to provide services, European Parliament, April 2023.

The results show that many in-scope PSPs will be very busy in the coming months. In addition, participants raised several questions during this workshop, which led the European Commission to issue an updated Guidleines and FAQ document on 23rd of November. The fact so many questions remain illustrates the complexity of implementing these new rules, even three years after the CESOP Directive's issuance on 18 February 2022, one year after the Implementing Regulation of 6 April 2022, the Regulation implementation guidelines of 11 October 2022 and the FAQ[49] of 28 July 2023 after the lengthy discussions of a dedicated expert group.

WHAT'S NEXT?

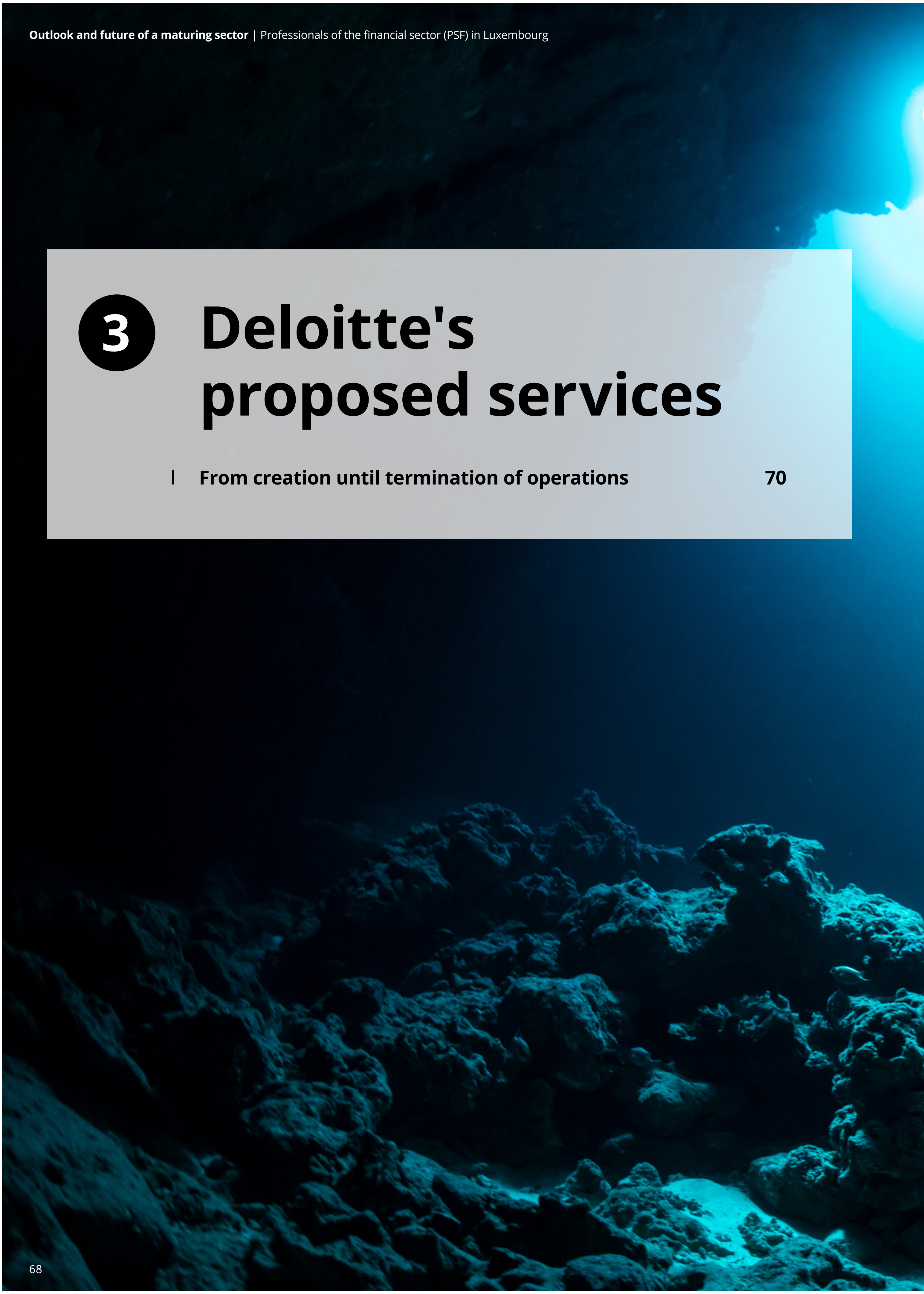
The Luxembourg VAT authorities[50] have set up a specific CESOP webpage with useful information, including a reference to the European Commission's FAQ, and some more technical information.[51]

PSP's will have to create a business eSpace on the MyGuichet.lu platform and submit an online certification procedure. This is supposed to be possible as from November 2023. It would be possible to send the reports to the Luxembourg VAT authorities as from beginning of April 2024. In this respect, it is worth noting that files must be validated beforehand using the validation module provided by the European Commission in order to avoid uploading files that will be rejected straight away. A further validation will be performed by CESOP. That implies that a file transmitted to the national authority could still be rejected despite the first validation. Lastly, the date of filing are confirmed (30 April, 31 July, 31 October 2024, and 31 January 2025).

They also had an information session together with the Luxembourg Banking Association (ABBL) on 10 November 2023.

Despite many practical questions remaining, the clock is ticking. In-scope PSPs must ensure they can provide their first reporting in April 2024.

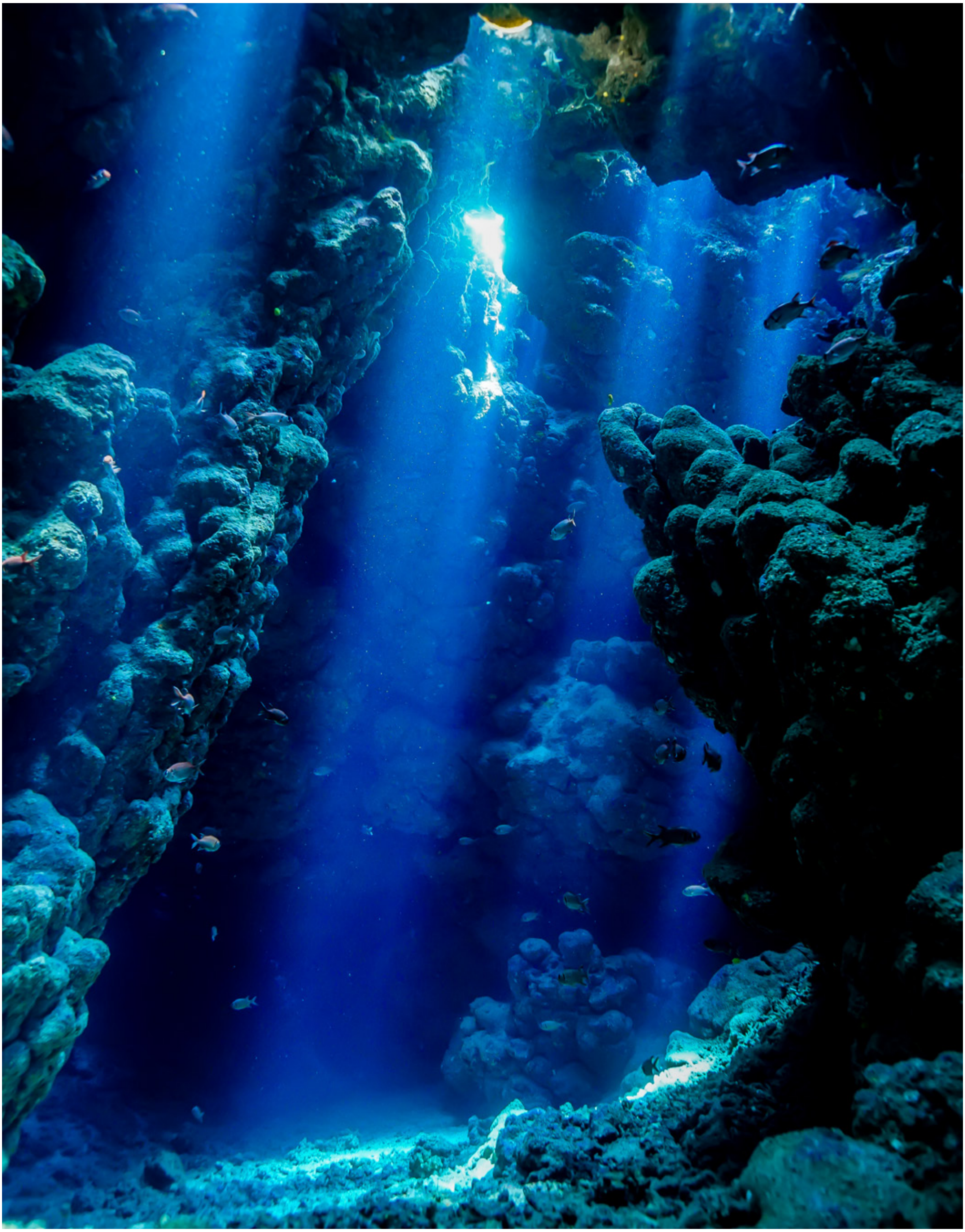
49. European Commission, "Central Electronic System of Payment information (CESOP)," accessed October 23, 2023.
50. Portail de la fiscalité indirecte, "Central Electronic System of Payment information (CESOP)," accessed October 23, 2023.
51. Portail de la fiscalité indirecte, "Central Electronic System of Payment information (CESOP)," accessed October 26, 2023.



3 Deloitte's proposed services

Over many years, Deloitte has developed its competencies and services to support and advise all types of PSF, whatever their stage of development.

Click here to access our wide range of services, or scan the below QR code



4 Useful addresses

4.1 Organizations representing PSF

Expanding representation across professional associations

PSF are subject to the supervisory authority of the CSSF. Holding the PSF status is subject to a license granted by the Minister of Finance, in consideration of the opinion given by the CSSF. The conditions for granting such a license include in particular initial capitalization, credit standing, the competence of the management and adequate governance, relying on a central administrative office based in Luxembourg.

The professional associations set out below are the most representative in terms of defending the interests of PSF:

Finance & Technology Luxembourg (FTL)

This association, formed in 2007, currently combines over 50 companies providing services to financial institutions. The mission of the association's platform is to inform its members about changes in prospects for the professions in question, create synergy between players with a view to securing Luxembourg projects with an international dimension. It also proactively handles current topics related directly to support PSF and FinTech companies.
Tel.: +352 43 53 66-1
www.financeandtechnology.lu

Association Luxembourgeoise des Family Office (LAFO)

This Luxembourg professional association has about fifty members and is specialized in Family Offices. The Family Officer serves as a service provider for 'families and asset entities', i.e. it coordinates, controls and supervizes all professionals involved in the provision of services to its clients (asset management, attorneys, tax advisers, banks, trustees, notaries, etc.).
Tel.: +352 621 135 933
www.lafo.lu

Luxembourg Alternative Administrators Association (L3A)

Created in 2004, the purpose of this association is to promote the Luxembourg trust industry and the representation of the professional interests of its members. It organizes seminars and other meetings and develops initiatives on a central level, which would be too costly or difficult for individual members. It safeguards the promotion of the commercial interests of trust companies and defend their interests with the authorities, in particular by participating in commissions and working groups.
It has contacts with authorities, other professional organizations, professional chambers and other corporate institutions.
Tel.: +352 621 33 98 98
Email: contact@l3a.lu
www.l3a.lu

Luxembourg Capital Markets Association (LuxCMA)

LuxCMA, constituted on 1 March 2019, is as a not-for-profit association (a.s.b.l.). LuxCMA has established four Working Groups and three Task-Forces. The main goal of the association is to bring all players in the primary capital markets around the table and materialize their common interests. In particular, LuxCMA will focus on facilitating the access to a wide network of capital market professionals; exchanging views about the future of the industry; sharing best practices with peers; sharing the latest information concerning legal and regulatory developments; setting market standards and providing input for capital markets sector proposals in cooperation with other industry associations, thereby influencing future policy-making.
Tel.: +352 47 79 36-1
www.luxcma.com.

Association des Banques Et Banquiers, Luxembourg (ABBL)

The ABBL was constituted in 1939. The ABBL represents the majority of financial institutions, regulated financial intermediaries, and other professionals established in Luxembourg, as well as lawyers, consultants, and auditors working in or for the financial sector.
The ABBL is providing its members with guidance and knowledge to operate in the financial market and under its regulatory environment. Furthermore, the ABBL provides a platform to discuss key industry issues and to define common best practice standards.
Tel.: +352 46 36 60-1
www.abbl.lu

ABBL investment firms working group

To provide a suitable platform to address the needs of independent asset managers, the ABBL has launched a new working group dedicated to the community of investment firms that are PSF regulated entities supervised by the CSSF.
Tel.: +352 46 36 60-1
www.abbl.lu

Association Luxembourgeoise des Fonds d'Investissement (ALFI)

The ALFI was established in 1988 and represents Luxembourg asset management and investment funds. The objective of the ALFI is to; "Lead industry efforts to make Luxembourg the most attractive international investment fund center".
Tel.: +352 22 30 26-1
www.alfi.lu

Luxembourg Private Equity and Venture Capital Association (LPEA)

The LPEA was constituted in 2010 and represents the interests of the Luxembourg private equity and venture capital industry.
The LPEA provides its members with analysis and industry trends, forums to exchange experiences, and offers of trainings and workshops.
Tel.: +352 28 68 19 602
www.lpea.lu

Numerous other organizations pertain to PSF, including the following:

The International Facility Management Association (IFMA)

Founded in 1980, IFMA is the largest international association for facility management professionals. With over 24,000 members in more than 100 countries, it is open to facility managers to give them the skills necessary for their business.
www.ifma.org

Fédération de l'IML - Information Lifecycle Management, du Stockage et de l'Archivage (FedISA)

Established on 26 November 2009, FedISA Luxembourg is a not-for-profit association serving innovation in matters of dematerialization and electronic archiving. Its aim is to bring together the players in the Luxembourg market experts, users and suppliers of information lifecycle management, dematerialization, electronic archiving and storage products and services, such as OSIPs and OSISs (support PSF).
www.fedisa.lu

ISACA

With more than 145,000 members in over 188 countries, ISACA is a major global provider of knowledge, certifications, exchange, sponsorship and training in terms of security and assurance of information systems, corporate governance concerning information technologies, IT risk control and conformity. Founded in 1967, ISACA sponsors international conferences, publishes a review, and develops international auditing and control standards for IT systems. The institution is open to IT auditors likely to be involved with PSF.
www.isaca.org

Foundation LHoFT (Luxembourg House of Financial Technology)

The foundation LHoFT is an initiative by the public and private sectors to stimulate technological innovation for the financial services sector in Luxembourg, connecting up the national and international Financial Technology community to develop the solutions that will shape tomorrow's world.
Tel.: +352 28 81 02 01
www.lhoft.com

Other useful addresses

Administration des contributions directes
Tel.: +352 40 800-1
www.impotsdirects.public.lu

Administration de l'enregistrement et des domaines
Tel.: +352 44 905-1
www.aed.public.lu

Association Luxembourgeoise des Compliance Officers (ALCO)
Tel.: +352 28 99 25 00
www.alco.lu

Cellule de Renseignement Financier (CRF)
Tel.: +352 47 59 81-447

Chambre de Commerce du Grand-Duché de Luxembourg
Tel.: +352 42 39 39-1
www.cc.lu

Commission de Surveillance du Secteur Financier (CSSF)
Tel.: +352 26 251-1
www.cssf.lu

Fédération des professionnels du secteur financier Luxembourg (PROFIL)
Tel.: +352 27 20 37-1
www.profil-luxembourg.lu

Fedil
Tel.: +352 43 53 66-1
www.fedil.lu

Système d'indemnisation des investisseurs Luxembourg (SIIL)

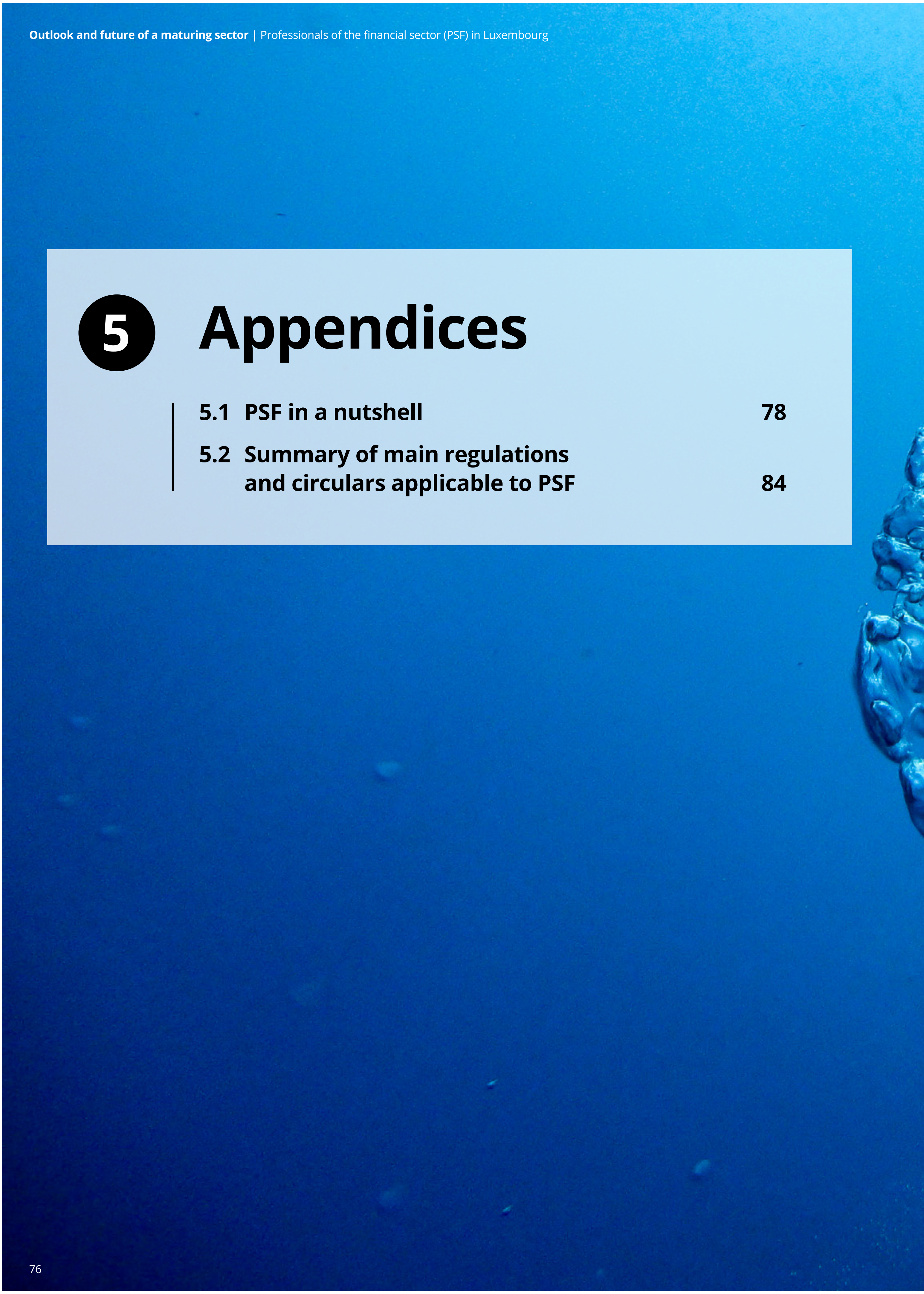
House of Training
Tel.: +352 46 50 16-1
www.houseoftraining.lu

Institut des Auditeurs Internes Luxembourg (IIA Luxembourg)
Tel.: +352 26 27 09 04
www.theiia.org/sites/luxembourg

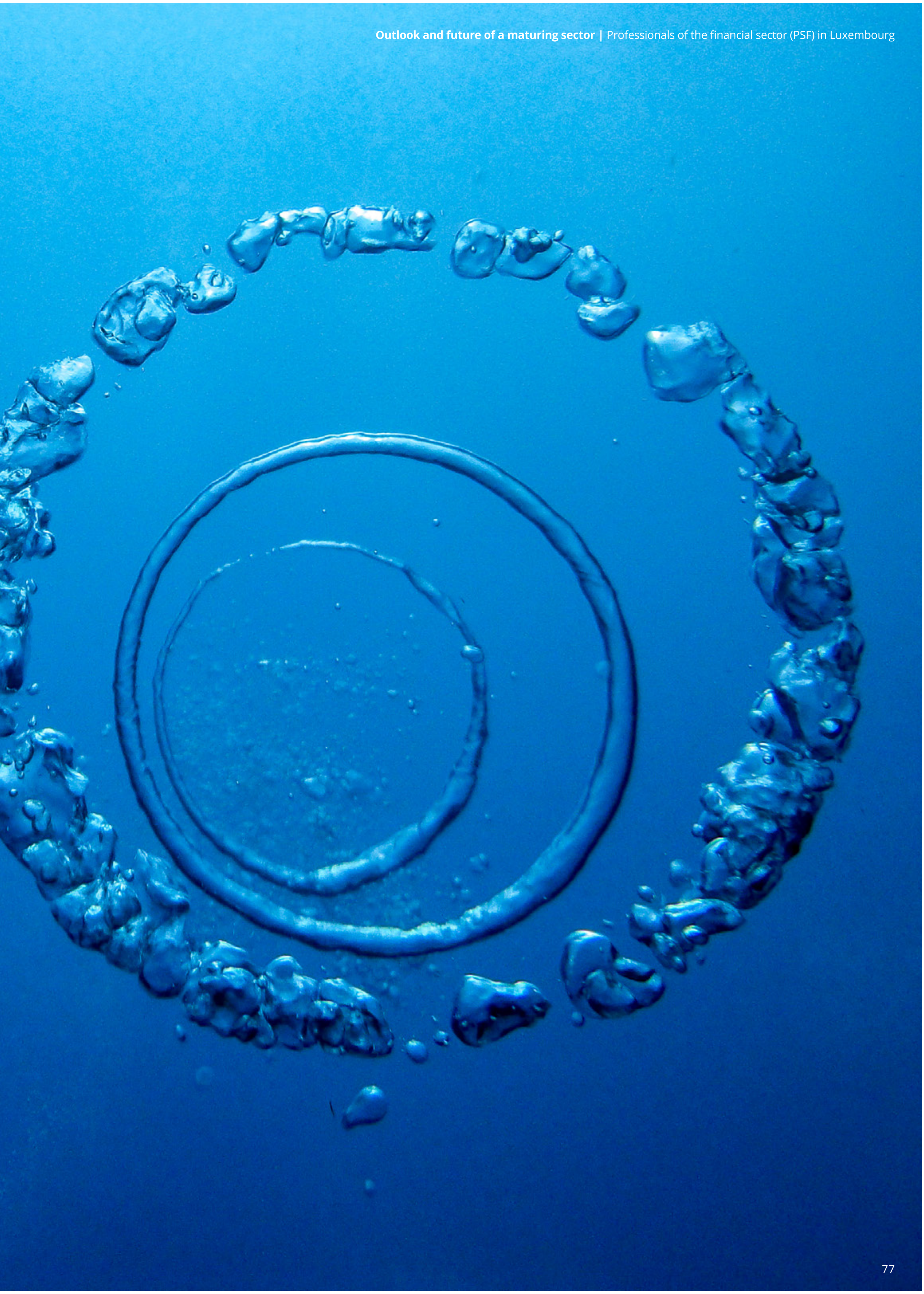
Institut des Réviseurs d'Entreprises (IRE)
Tel.: +352 29 11 39-1
www.ire.lu

Institut Luxembourgeois des Administrateurs (ILA)
Tel.: +352 26 00 21 488
www.ila.lu

Luxembourg for Finance (LFF)
Tel.: +352 27 20 21-1
www.luxembourgforfinance.com



5 Appendices



5.1. PSF in a nutshell

Investment firms

PSF activities	Article	Minimum capital or capital base €	Definition of the services
Reception and transmission of orders in relation to one or more financial instruments	24-1	€75,000 where the investment firm is not permitted to hold client money or securities belonging to its clients; otherwise €150,000	**Reception and transmission of orders in relation to one or more financial instruments** means the receiving or transmitting orders in relation to one or more financial instruments, without holding funds or financial instruments of the clients.
Execution of orders on behalf of clients	24-2	€75,000 where the investment firm is not permitted to hold client money or securities belonging to its clients; otherwise €150,000	**Execution of orders** on behalf of clients means acting to conclude agreements to buy or sell one or more financial instruments on behalf of clients and includes the conclusion of agreements to sell financial instruments issued by an investment firm or a credit institution at the moment of their issuance
Dealing on own account	24-3	€750,000	Dealing on own account means trading against proprietary capital resulting in the conclusion of transactions in one or more financial instruments
Portfolio Management	24-4	€75,000 where the investment firm is not permitted to hold client money or securities belonging to its clients; otherwise €150,000	**Portfolio management** means managing portfolios in accordance with mandates given by clients on a discretionary client-by-client basis where such portfolios include one or more financial instruments
Investment advice	24-5	€75,000 where the investment firm is not permitted to hold client money or securities belonging to its clients; otherwise €150,000	**Investment advice** means the provision of personal recommendations to a client, either upon its request or at the initiative of the investment firm, in respect of one or more transactions relating to financial instruments
Underwriting of financial instruments and/or placing of financial instruments on a firm commitment basis	24-6	€750,000	Underwriters of financial instruments are professionals whose business is to **underwrite financial instruments and/or place financial instruments on a firm commitment basis**.

Investment firms

PSF activities	Article	Minimum capital or capital base €	Definition of the services
Placing of financial instruments without a firm commitment basis	24-7	€75,000 where the investment firm is not permitted to hold client money or securities belonging to its clients; otherwise €150,000	This activity comprises the placing of financial instruments **without** a firm commitment basis.
Operation of an MTF	24-8	€150,000	**MTF** or **multilateral trading facility** shall mean a multilateral system, which brings together multiple third-party buying and selling interests in financial instruments – in the system and in accordance with nondiscretionary rules – in a way that results in a contract.
Operation of an OTF	24-9	€150,000 or €750,000 where this firm engages in dealing on own account or is permitted to do so	**OTF** or **organised trading facility** shall mean a multilateral system which is not a regulated market or an MTF and in which multiple third-party buying and selling interests in bonds, structured finance products, emission allowances or derivatives are able to interact in the system in a way that results in a contract.

Specialized PSF

PSF activities	Article	Minimum capital or capital base €	Definition of the services
Registrar agents	25	€125,000	Registrar agents are professionals whose business is to maintain the register of one or more financial instruments. The maintaining of the register includes the reception and execution of orders relating to such financial instruments, of which they are the necessary accessory.
Professional depositaries of financial instruments	26	€730,000	Professional depositaries of financial instruments are professionals who engage in the receipt into custody of financial instruments exclusively from the professionals of the financial sector, and who are entrusted with the safekeeping and administration thereof, including custodianship and related services, and with the task of facilitating their circulation.
Professional depositaries of assets other than financial instruments	26-1	€500,000	"Professional depositaries of assets other than financial instruments are professionals whose activity consists in acting as depositary for: – specialized investment funds within the meaning of the law of 13 February 2007, as amended, – investment companies in risk capital within the meaning of the law of 15 June 2004, as amended, – alternative investment funds within the meaning of Directive 2011/61/EU, which have no redemption rights that can be exercised during five years as from the date of the initial investments and which, pursuant to their main investment policy, generally do not invest in assets which shall be held in custody pursuant to Article 19(8) of the law of 12 July 2013 on alternative investment fund managers or which generally invest in issuers or non-listed companies in order to potentially acquire control thereof in accordance with Article 24 of the law of 12 July 2013 on alternative investment fund managers."
Operators of a regulated market authorised in Luxembourg	27	€730,000	Operators of a regulated market in Luxembourg are persons who manage and/or operate the business of a regulated market authorised in Luxembourg, excluding investment firms operating an MTF or an OTF in Luxembourg.
Debt recovery	28-3	-	The recovery of debts owed to third parties, to the extent that it is not reserved by law to certificated bailiffs, shall be authorized only with the assent of the Minister for Justice.
Professionals performing lending operations	28-4	€730,000	"Professionals performing lending operations are professionals engaging in the business of granting loans to the public for their own account. The following, in particular, shall be regarded as lending operations for the purposes of this article: (a) financial leasing operations involving the leasing of moveable or immoveable property specifically purchased with a view to such leasing by the professional, who remains the owner thereof, where the contract reserves unto the lessee the right to acquire, either during the course of or at the end of the term of the lease, ownership of all or any part of the property leased in return for payment of a sum specified in the contract;

PSF activities	Article	Minimum capital or capital base €	Definition of the services
Professionals performing lending operations (continued)	28-4	€730,000	(b) factoring operations, either with or without recourse, whereby the professional purchases commercial debts and proceeds to collect them for his own account "when he makes the funds available to the transferor before maturity or before payment of the transferred debts". This article shall not apply to persons engaging in the granting of consumer credit, including financial leasing operations as defined in paragraph (a) above, where that activity is incidental to the pursuit of any activity covered by the law of 2 September 2011 regulating the access to the professions of craftsmen, salesmen, industrials as well as to some liberal professions, as amended. This article shall not apply to persons engaging in securitization operations."
Professionals performing securities lending	28-5	€730,000	Professionals performing securities lending are professionals engaging in the business of lending or borrowing securities for their own account.
Family Offices	28-6	€50,000	Those persons carrying out the activity of Family Office within the meaning of the law of 21 December 2012 relating to the Family Office activity and not registered in one of the other regulated professions listed under Article 2 of the above-mentioned law are Family Offices and regarded as carrying on a business activity in the financial sector.
Mutual savings fund administrators	28-7	€125,000	"Mutual savings fund administrators are natural or legal persons engaging in the administration of one or more mutual savings funds. No person other than a mutual savings fund administrator may carry on, even in an incidental capacity, the business of administering mutual savings funds. For the purposes of this article, “mutual savings fund” means any undivided fund of cash deposits administered for the account of joint savers numbering not less than 20 persons with a view to securing more favourable financial terms."
Corporate domiciliation agents	28-9	€125,000	Corporate domiciliation agents referred to as other professionals of the financial sector in the list of paragraphs 1 of Article 1 of the law of 31 May 1999 governing the domiciliation of companies and referred to in this Article, are natural or legal persons who agree to the establishment at their address by one or more companies of a seat and who provide services of any kind connected with that activity. This Article does not refer to the other persons listed in the above-mentioned list.
Professionals providing company incorporation and management services	28-10	€125,000	Professionals providing company incorporation and management services are natural and legal persons engaging in the provision of services relating to the formation or management of one or more companies.
Central account keepers	28-11	-	Central account keepers are persons whose activity is to keep issuing accounts for dematerialized securities.

Support PSF

PSF activities	Article	Minimum capital or capital base €	Activity covered by the status
Client communication agents	29-1	€50,000	"Client communication agents are professionals engaging in the provision, on behalf of credit institutions, PSF, payment institutions, electronic money institutions, insurance undertakings, reinsurance undertakings, pension funds, UCIs, SIFs, investment companies in risk capital (*sociétés d'investissement en capital à risque*) and authorized securitization undertakings established under Luxembourg law or foreign law, of one or more of the following services: – the production, in tangible form or in the form of electronic data, of confidential documents intended for the personal attention of clients of credit institutions, PSF, payment institutions, electronic money institutions, insurance undertakings, reinsurance undertakings, contributors, members or beneficiaries of pension funds and investors in UCIs, SIFs, investment companies in risk capital and authorized securitization undertakings; – the maintenance or destruction of documents referred to in the previous indent; – the communication to persons referred to in the first indent of documents or information relating to their assets and to the services offered by the professional in question; – the management of mail giving access to confidential data by persons referred to in the first indent; – the consolidation, pursuant to an express mandate given by the persons referred to in the first indent of positions which the latter hold with diverse financial professionals."
Administrative agents of the financial sector	29-2	€125,000	Administrative agents of the financial sector are professionals who engage in the provision, on behalf of credit institutions, PSF, payment institutions, electronic money institutions, UCIs, pension funds, SIFs, investment companies in risk capital, authorized securitization undertakings, reserved alternative investment funds, insurance undertakings or reinsurance undertakings established under Luxembourg law or foreign law, pursuant to a sub-contract, of administration services forming an integral part of the business activities of the originator.
IT systems and communication networks operators of the financial sector	29-3	€125,000	IT systems and communication networks operators of the financial sector are professionals who are responsible for the operation of IT systems and communication networks that are part of the IT and communication systems belonging to credit institutions, PSF, payment institutions, electronic money institutions, UCIs, pension funds, SIFs, investment companies in risk capital, authorized securitization undertakings, reserved alternative investment funds, insurance undertakings or reinsurance undertakings established under Luxembourg law or foreign law. The activity of IT systems and communication networks operator of the financial sector includes IT processing or transfer of data stored in the IT systems. The IT systems and communication networks in question may either belong to the credit institution, PSF, payment institution, electronic money institution, UCI, pension fund, SIF, investment company in risk capital, authorized securitization undertaking, reserved alternative investment fund, insurance undertaking or reinsurance undertaking established under Luxembourg law or foreign law, or be provided to them by the operator.

PSF activities	Article	Minimum capital or capital base €	Activity covered by the status
Dematerialization service providers of the financial sector	29-5	€50,000	Dematerialization service providers of the financial sector are dematerialization or conservation service providers within the meaning of the law of 25 July 2015 on e-archiving in charge of the dematerialization of documents on behalf of credit institutions, PSF, payment institutions, electronic money institutions, UCIs, SIFs, investment companies in risk capital (SICARs), pension funds, authorized securitization undertakings, insurance undertakings or reinsurance undertakings, governed by Luxembourg law or by foreign law.
Conservation service providers of the financial sector	29-6	€125,000	Conservation service providers of the financial sector are dematerialization or conservation service providers within the meaning of the law of 25 July 2015 on e-archiving in charge of the conservation of electronic documents on behalf of credit institutions, PSF, payment institutions, electronic money institutions, UCIs, SIFs, investment companies in risk capital (SICARs), pension funds, authorized securitization undertakings, insurance undertakings or reinsurance undertakings, governed by Luxembourg law or by foreign law.

5.2 Summary of main regulations and circulars applicable to PSF

(as at 30.09.2023)

CIRCULAR/REGULATION	TOPIC			
		Investment firms	Specialized PSF	Support PSF
Organization and internal control				
91/78	Segregation of assets for private portfolio managers	X (1)		
93/95 and 11/515	License requirements	X	X	X
93/102	Activities of brokers or commission agents	X (2)		
95/120 (as amended by 22/806)	**Central administration**		X	X
96/126 (as amended by 22/806)	**Administrative and accounting organization**		X	X
98/143 (as amended by 22/806)	**Internal control**		X	X
04/146	Protection of undertakings for collective investment and their investors against Late Trading and Market Timing practices	X (3)	X (3)	X (3)
04/155 (as amended by 22/806)	Compliance function		X	X
12/538	Lending in foreign currencies	X	X (4)	
Regs G-D of 25 July 2015	Dematerialization and conservation of documents/electronic archiving			X (3)
15/631	Dormant or inactive accounts	X	X	X
17/651	Credit agreements for consumers relating to residential immovable property	X	X	X
17/669	Prudential assessment of acquisitions and increases in holdings in the financial sector	X	X	X
17/671 as amended by 18/698 and 19/718	Out-of-court resolution of complaints	X	X	X
Reg. 20-04	Measures for a high common level of security of network and information systems		X	
20/743:19/716	Provision in Luxembourg of investment services or performance of investment activities and ancillary services in accordance with Article 32-1 of the Law of 5 April 1993 on the financial sector	X		
20/750 (as amended by 22/828)	**Information and communication technology (ICT) and security risk management**	X	X	X

CIRCULAR/REGULATION	TOPIC			
		Investment firms	Specialized PSF	Support PSF
20/758 (as amended by 21/785 and 22/806)	**Central administration, internal governance and risk management**	X	X (5)	
22/827, updating 07/325 and 13/568 and 21/765	Branches in Luxembourg or activities exercised in Luxembourg by way of free provision of services; branches in another Member State or activities exercised in another Member State by way of free provision of services	X (3)		
21/769 as amended by 22/804	Governance and security requirements for supervised entities to perform tasks or activities through **telework**	X	X	X
22/806 repealing 17/656 and 17/654	**Outsourcing arrangements**	X	X	X
Remuneration				
10/437 sector	Remuneration policies in the financial	X	X	X
Fight against money laundering and terrorist financing				
11/528	Abolition of the transmission to the CSSF of suspicious transaction reports	X	X	X
11/529	Risk analysis regarding the fight against money laundering and terrorist financing	X	X	X
17/650 as amended by 20/744 offences	**Application extended to primary tax**	X	X	X
Reg. 12-02 as amended by CSSF regulation N°20-05 and Circulars 10/495, 15/609	**Fight against money laundering and terrorist financing**	X	X	X
19/732	Prevention of money laundering and terrorist financing: clarifications on the identification and verification of the identity of the ultimate beneficial owner(s)	X	X	X
20/740	AML/CFT implications during the COVID-19 pandemic	X	X	X
21/782 as amended by 23/842 and 23/843	Adoption of the revised guidelines, by EBA, on money laundering and terrorist financing risk factors	X	X	
MiFID				
07/307 as amended by CSSF Circulars 23/842 and 23/843	As amended by CSSF Circulars 13/560, 13/568 and 14/585	X		
19/723	ESMA Guidelines on the application of the definitions of commodity derivatives in Sections C6 and C7 of Annex I of MiFID II	X		
21/779	Adoption of the Guidelines of the European Securities and Market Authority ("ESMA") on certain aspects of the MiFID II compliance function requirements (ESMA35-36-1952)	X		
21/783	Application of the Guidelines of the European Securities and Market Authority on the MiFID II/MiFIR obligations on market data	X		

CIRCULAR/REGULATION	TOPIC			
		Investment firms	Specialized PSF	Support PSF
Prudential ratios				
06/260 **07/290 as amended by 10/451, 10/483, 10/497 and 13/568** **07/301 as amended by 08/338, 09/403, 10/494** **11/501** **11/505** **12/535** **13/572**	Capital adequacy ratios / large exposures; assessment process	X		
Reg. 14-01, 15-01 and 15-02 and 13/575, 14/582, 14/583, 15/606, 15/618, 15/620, 15/622, 20/756 and 21/784 as well as Regulation (EU) No 575/2013, ad hoc Commission Delegated Regulations (EU) and ad hoc Commission Implementing Regulations (EU)	Supervisory reporting requirements (IFD/IFR/ FINREP)	X (3)		
09/403	Sound liquidity risk management	X		
11/506 as amended by 20/753	Principles of a sound stress testing program	X		
16/02	Scope of deposit guarantee and investor compensation	X		
17/03, 17/649	Adoption of the guidelines issued by the European Banking Authority (EBA) on the methods of providing information in summarized or collective form for the purposes of the Banking Recovery and Resolution Directive (BRRD)	X		
Reporting				
05/187 completed by 10/433 and 21/770, 19/709	Financial information to be submitted to the CSSF on a periodic basis	X	X	X
08/364	Financial information to be submitted to the CSSF on a quarterly basis by the support PSF			X
08/369	Prudential reporting	X	X	X
10/457	Electronic transmission to the CSSF of the long form report and of the management letter	X		
11/503	Transmission and publication of financial information and relating deadlines	X	X	X
11/504	Frauds and incidents due to external computer attacks	X	X	X
13/577	Table "Responsible persons for certain functions and activities"	X		
23/833	Encryption specifications for reporting firms to the CSSF	X	X	X

CIRCULAR/REGULATION	TOPIC			
		Investment firms	Specialized PSF	Support PSF
Domiciliation				
01/28, 01/29, 01/47 and 02/65	Domiciliation		X (6)	
Supervision				
00/22	Supervision of investment firms on a consolidated basis	X (3)		
08/350 as amended by 13/568	Prudential supervisory procedures for support PSF			X
12/544 updated by 19/727	Optimization of the supervision exercised on the support PSF by a risk-based approach			X
15/629 as amended by 16/641	Supplementary supervision to be applied to financial conglomerates and definition of structure coefficients to be observed by the regulated entities belonging to these financial conglomerates	X		
19/716 as amended by 20/743	Provision in Luxembourg of investment services or performance of investment activities and ancillary services in accordance with Article 32-1 of the LFS	X		
External audit				
03/113, 13/571 and 21/768	Practical rules concerning the mission of external auditors of investment firms	X		

(1) applicable only to private portfolio management (art. 24-4)

(2) applicable only to Reception and transmission of orders in relation to one or more financial instruments (art. 24-1) and Execution of orders on behalf of clients (art. 24-2)

(3) depending on the activity of the PSF

(4) applicable only to professionals performing lending operations (art. 28-4)

(5) applicable only to professionals performing lending operations (art. 28-4) and only chapter 3 of part III of the circular (except sub-chapter 3.4) and paragraph 12 of chapter 2 of part III of the circular applicable

(6) applicable only to PSF providing domiciliation activities

Contacts

PSF

Raphaël Charlier
Partner - Audit - PSF Leader
+352 451 452 258
rcharlier@deloitte.lu

Adil Sebbar
Managing Director - Banking & PSF
+352 451 452 014
asebbar@deloitte.lu

Audit

Christiane Chadoeuf
Partner - Audit & Assurance Leader
+352 451 452 065
cchadoeuf@deloitte.lu

Advisory & Consulting

Patrick Laurent
Partner - Advisory & Consulting Leader
+352 451 454 170
palaurent@deloitte.lu

Xavier Zaegel
FRM Partner - Consulting
- IM & PERE Leader
+352 451 452 748
xzaegel@deloitte.lu

Laureline Senequier
Partner - Advisory & Consulting
+352 451 454 422
lsenequier@deloitte.lu

Assurance

Jeremy Pages
Partner - Assurance
+352 451 453 863
jpages@deloitte.lu

Banking

Pascal Martino
Partner - Banking and Human Capital Leader
+352 451 452 119
pamartino@deloitte.lu

Pascal Eber
Partner - Consulting – Banking, Insurance and non-FSI
+352 451 452 649
peber@deloitte.lu

Tax

Bernard David
Partner - Tax Leader
+352 451 452 799
bdavid@deloitte.lu

Raphaël Glohr
Partner - Indirect Tax-VAT
+352 451 452 665
rglohr@deloitte.lu

Carole Hein
Managing Director - Tax
+352 451 455 646
chein@deloitte.lu

Julien Lamotte
Partner - Cross-border Tax
+352 451 453 336
jlamotte@deloitte.lu

Enrique Marchesi-Herce
Partner - Transfer Pricing
+352 451 452 504
emarchesiherce@deloitte.lu

Accounting

Jeremy Spoidenne
Partner - Corporate & Accounting
+352 451 454 121
jspoidenne@deloitte.lu

Deloitte Private

Arnaud Willems
Partner - Deloitte Private Leader
+352 451 453 309
awillems@deloitte.lu

Corporate Finance

Joachim Heukmes
Partner - FA & CFA Leader
+352 451 452 037
jheukmes@deloitte.lu

Sustainability

Francesca Messini
Partner - Sustainability Leader
+352 451 452 791
fmessini@deloitte.lu

Governance, Risk & Compliance

Laurent Berliner
Partner - EMEA Financial Services Risk Advisory Leader
+352 451 452 328
lberliner@deloitte.lu

Nicolas Marinier
Partner - Forensic & Financial Crime
+352 451 453 042
nmarinier@deloitte.lu

Maxime Heckel
Partner - Forensic & Financial Crime
+352 451 452 837
mheckel@deloitte.lu

Martin Flaunet
Partner - Banking Audit Leader & Restructuring
+352 451 452 334
mflaunet@deloitte.lu

Jean-Philippe Peters
Partner - Risk Advisory Leader
+352 451 452 276
jppeters@deloitte.lu

Technology & Enterprise Application

Stéphane Hurtaud
Partner - Cybersecurity Leader
+352 451 454 434
shurtaud@deloitte.lu

Ronan Vander Elst
Partner - Technology & Innovation Leader
+352 451 454 322
rvanderelst@deloitte.lu

Clients & Industries

Nick Tabone
Partner - Clients & Industries Leader
+352 451 452 264
ntabone@deloitte.lu

Deloitte Luxembourg
20, Boulevard de Kockelscheuer
L-1821 Luxembourg,
Grand Duchy of Luxembourg
Tel.: +352 451 451
www.deloitte.lu