



Luxembourg

MAJOR FUND LEGISLATION AND CIRCULARS

- Law of December 17, 2010 (2010 law) on undertakings for collective investment.
- Law of February 13, 2007 (SIF or 2007 law) on Specialised Investment Funds.
- CSSF Circular 02/80 relating to funds pursuing alternative investment strategies.
- CSSF Circular 91/75 on undertakings for collective investment.
- CSSF Circular 07/308 on rules of conduct for undertakings for collective investment in transferable securities with respect to the use of a method for the management of financial risks, as well as the use of derivative financial instruments.
- Grand-ducal regulation of February 8, 2008, concerning certain definitions of the law of December 20, 2002 on undertakings for collective investment (as amended) and transposing Commission Directive 2007/16/CE.
- Esma guidelines 10-788 of July 28, 2010 regarding publication in the prospectus of risk management methods and leverage.
- CSSF Circular 11/512 regarding the presentation of the main regulatory changes in risk management following the publication of CSSF Regulation 10-4 and Esma clarifications.
- CSSF Circular 11/509 regarding new notification procedures for Luxembourg funds seeking to market themselves in other EU member states and vice versa.

NUMBER OF FUNDS

As of 31 May 2011
Overall.....3,749

By legal form

Total FCPs 1,954
Total Sicavs 1,768
Others 27

2002 Law, Part I

FCP 1,160
Sicav 702
Others 0
Total 1,862

2010 Law, Part I

FCP 1
Sicav 1
Others 0
Total 2

2010 Law, Part II

FCP 288
Sicav 325
Others 6
Total 619

SIFs

FCP 505
SICAV 740
Others 21
Total 1,266

ADMINISTERED FUND ASSETS

As of 31 May 2011 (€ million)

Overall.....2,219,208

By legal form

Total FCPs 647,412
Total Sicavs 1,563,106
Others 8,690

2002 Law, Part I

FCP 466,790
Sicav 1,315,406
Others 0
Total 1,782,196

2010 Law, Part I

FCP 0
Sicav 171
Others 0
Total 171

2010 Law, Part II

FCP 82,678
Sicav 128,354
Others 949
Total 211,981

SIFs

FCP 97,944
Sicav 119,175
Others 7,741
Total 224,860

REGULATOR

Financial Sector Supervisory Commission (CSSF), 110 route d'Arlon, L-2991 Luxembourg.

DOUBLE TAXATION TREATIES

With 62 countries (as of June 2011): Armenia; Austria; Azerbaijan; Bahrain; Belgium; Brazil; Bulgaria; Canada; China; Czech Republic; Denmark; Estonia; Finland; France; Georgia; Germany; Greece; Hong Kong; Hungary; Iceland; India; Indonesia; Ireland; Israel; Italy; Japan; Latvia; Liechtenstein; Lithuania; Malaysia;

Malta; Mauritius; Mexico; Moldova; Monaco; Mongolia; Morocco; Netherlands; Norway; Poland; Portugal; Qatar; Romania; Russia; San Marino; Singapore; Slovakia; Slovenia; South Africa; South Korea; Spain; Sweden; Switzerland; Thailand; Trinidad & Tobago; Tunisia; Turkey; Ukraine; United Arab Emirates; United Kingdom; United States; Uzbekistan; Vietnam.

There are currently 19 new double taxation treaties under negotiation or awaiting for approval by Luxembourg's parliament: Albania; Barbados; Cyprus; Kazakhstan; Kuwait; Kyrgyzstan; Lebanon; Macedonia; Oman; Pakistan; Panama; Serbia and Montenegro; Seychelles; Sri Lanka; Syria; Tajikistan; Ukraine; United Kingdom (new conventions under discussion); Uruguay.

TYPES OF ALTERNATIVE FUND VEHICLE

Open-ended investment company

- Investment company with variable capital (société d'investissement à capital variable or Sicav)

Close-ended investment company

- Investment company with fixed capital (société d'investissement à capital fixe or Sicaef).

Common Contractual Fund (similar to unit trust in UK law)

- Common contractual fund (fonds commun de placement or FCP)

AVAILABLE TYPES OF CORPORATE VEHICLE

Sicavs under the 2010 law must be set up as a public limited company (SA). Under the SIF law Sicavs and Sicafs may be set up as a:

- Public limited company (SA)
- Partnership limited by shares (SCA)
- Private limited liability company (S.à.r.l)
- Co-operative organised as an SA

AUDIT REQUIREMENT

- Audit requirements governed by Article 154 of the 2010 law
- Luxembourg regulation requires that all Luxembourg funds be audited at least annually (for certain funds semi-annually) by a Luxembourg auditor approved by the CSSF and a member of the Luxembourg Institute of Auditors

FINANCIAL STATEMENT REQUIREMENTS

2010 Law

- Audited annual financial statement must be published within four months of the financial year-end, and be available 15 days prior to the annual general meeting
- Unaudited semi-annual financial statements must be published and sent to the CSSF within two months of the end of the period to which they relate

SIF Law

- Audited annual financial statement must be available to investors within six months of the end of the financial year

OVERALL COST OF FUND ESTABLISHMENT

CSSF Regulatory fees:

Funds set up under the 2010 law and under the SIF law

- €2,650 for a single-compartment fund
- €5,000 for an umbrella fund

Luxembourg and EU-domiciled UCIs

- Listing fee: €1,250
- (for funds domiciled in EU countries other than Luxembourg): €1,250
- Maintenance fee:
 - €1,875 for first listing
 - €1,250 for second listing
 - €875 for third listing and
 - €500 for fourth and subsequent listings

Non EU-domiciled UCIs

- Listing fee: €2,500
- Visa fee: €2,500
- Maintenance fee
 - €2,500 for first listing
 - €1,875 for second listing
 - €1,250 for third listing and
 - €625 for fourth and subsequent listings

REGULATORY APPROVAL TIME (BY THE CSSF)

Fast-track procedure promises (but does not guarantee) a response to applications with the regulator's comments within 10 working days. No prior authorisation is currently required for funds set up under the SIF law. In general regulatory approval is quicker for SIFs than for funds established under 2010 law.

Luxembourg

By Rémi Chevalier and Olivier Sciales, Chevalier & Sciales

Why Luxembourg?

Over little more than two decades the Grand Duchy of Luxembourg has become one of the leading global domiciles and service centres for investment funds, and is today the world's second-ranking fund centre by domiciles assets behind only the United States. The industry has grown hugely since the establishment of Luxembourg's first fund in 1959, when the first fund was established. From 805 funds at the end of 1990, their number has grown to 3,749 funds, comprising a total of 13,186 investment portfolios, at the end of May 2011.

The industry's growth has benefited from the welcoming attitude of the Luxembourg authorities toward foreign capital and investment, as well as the country's prime location in the heart of Europe, close to the main markets targeted by investment funds, its highly qualified multilingual workforce, and its political, economic and social stability. The grand duchy's competitive position has also been bolstered by a tax regime favouring the establishment of funds, as well as a legislative framework designed to accommodate both traditional and alternative investments, aided by the government's focus on implementing European Union directives in an expeditious and manner and with regard to the views of the industry. All these factors have consolidated Luxembourg's position as an international investment fund distribution hub with some EUR2.2trn (about USD3.1trn) in net assets at the end of May 2011.

Legal and regulatory framework

The law of December 17, 2010 incorporated into Luxembourg's legislation the Ucits IV directive, the latest iteration of the EU's regime for cross-border distribution of investment funds to retail investors, dating back to 1985. The law differentiates between Undertakings For Collective Investment In Transferable Securities (Ucits, regulated largely by Part I of the 2010 law) and other Undertakings For Collective Investment (UCIs or Part II funds, so called after Part II of the 2010 law which governs them).

The law of February 13, 2007 established Specialised Investment Funds as a vehicle designed for alternative investments and other funds aimed at sophisticated investors. On July 1, 2011, the Luxembourg government endorsed a new draft law amending the SIF law in the light of recent EU legislation, including the Alternative Investment Fund Managers Directive formally adopted by the EU on June 8, as well as the increased experience

of Luxembourg's financial regulator, the Financial Sector Supervisory Commission (usually known by its French acronym, CSSF), in overseeing this type of fund.

The new draft law covers areas such as rules on the delegation of functions by managers, the avoidance of conflicts of interest, the authorisation of SIFs and of individuals in charge of them, measures preventing the use of SIFs as pure holding structures, and extending to SIFs the ability of one compartment of an umbrella fund to invest in other funds within the same structure.

Other recent regulatory developments include the issue of CSSF Circular 11/512 presenting the main regulatory changes in risk management following the publication of CSSF Regulation 10-4 and clarifications by the European Securities and Markets Authority (Esma) as well as the CSSF Circular 11/509 regarding the new notification procedure for Luxembourg Ucits seeking to market their shares or units in other EU member states, and for Ucits from other member states seeking to market in the grand duchy.

Luxembourg funds with no other amendments to be implemented before December 31, 2011, other than those required by compliance with the document CESR/10-788 and the 2010 law, may benefit from a fast-track authorisation procedure under which in principle (although this is not guaranteed) the CSSF will transmit its comments and observations to the applicant within as little as 10 working days.

Luxembourg investment funds are now divided into three categories:

- UCIs or Part II funds (619 as of the end of May 2011).
- Ucits (Ucits, 1,864 in May 2011).
- SIFs (1,266 in May 2011).

Ucits

Ucits are designed for retail investors, and benefit from the so-called EU 'passport' that allows them to be marketed freely throughout all 27 EU member states as well as other countries belonging to the European Economic Area with a minimum of notification requirements. Transferable securities are defined in Article 1 of the 2010 law as shares in companies or other equivalent securities, bonds and other forms of securitised debt, and any other negotiable securities, including certain types of derivative instrument, that carry the right to acquire transferable securities by subscription or exchange.

Four categories of fund investing in transferable securities fall outside Part I of the 2010 law:

- Closed-ended funds.
- Funds that raise capital without promoting the sale of their shares or units to the public within the EU.
- Funds whose management regulations or constitutional documents stipulate that they may be sold only to the public in countries that are not EU member states.
- Categories of funds determined by the Luxembourg financial regulator, the CSSF, for which the investment policy rules laid down in Chapter 5 of the 2010 law are inappropriate in view of their investment and borrowing policies.

Part II funds

By contrast, UCIs established under Part II of the 2010 law may only market their shares or units in other EU countries or elsewhere if they comply with the individual conditions laid down by the authorities in the country concerned. The criterion determining whether a fund is subject to Part I or Part II of the 2010 law is its planned investment objective; Part I of the 2010 law applies only to funds whose the sole objective is investment in transferable securities, whereas a Part II fund may invest in other types of asset, making them suitable as the legal form for the establishment of alternative investment vehicles including hedge, venture capital and real estate funds.

SIFs

The SIF law of 2007 replaced the legal framework previously applicable to institutional funds through a law of 1991 by establishing a statutory regime specifically designed for investment funds aimed at sophisticated investors. The SIF is a lightly regulated and tax-efficient fund offering promoters an onshore alternative to traditional offshore jurisdictions such as the Cayman Islands or British Virgin Islands when deciding on the jurisdiction in which to set up a fund and type of vehicle to use. Like Part II funds, investment funds created under the SIF law are subject to the individual distribution rules of each country where they are marketed.

Regulatory body

The CSSF authorises and oversees all Luxembourg registered funds. Its annual regulatory fees for funds under the 2010 law and SIFs are EUR2,650 for a single compartment fund and EUR5,000 for a multiple compartment fund.

Future regulatory changes

Non-Ucits funds established in Luxembourg and other EU member states, as well as managers domiciled within

EU countries, will be subject from July 22, 2013 to the provisions of the Directive on Alternative Investment Fund Managers, which will provide a harmonised regulatory framework for the distribution across the EU of funds aimed at sophisticated investors.

The directive was formally agreed on June 8 this year and the date of entry into force is July 21, 2011, although members states have two years to transpose its measures into national law. Detailed 'Level 2' implementation measures are expected to be put in place by the European Commission over the next year to 18 months, on advice from the European Securities and Markets Authority (Esma). Esma is scheduled to deliver its advice to the Commission by November 16, 2011 following consultation with industry members and representative organisations.

Constitution of a fund and legal structures

Investment funds may take the form of an open-ended investment company (known as a Sicav after its French acronym), of which there were 1,768 at the end of May 2011, a closed-ended investment company or Sicaf, of which there were 27 in May 2011, or a common contractual fund (FCP) with a management company (1,954 in May 2011). Any of these entities may be established as an 'umbrella' structure with multiple compartments or sub-funds with different investment policies. In this case each compartment is treated as a segregated entity whose assets belong to and may be claimed by only investors in that particular sub-fund; creditors of or investor in other sub-funds have no claim against the assets.

Sicavs and Sicafs

A Sicav is a open-ended investment company whose capital is always equal to its net assets, and for which no formalities are required for increases and reductions in capital through investments in or redemptions of its shares at investors' request at a price equal to the net asset value per share. By contrast, a Sicaf is a closed-ended investment company whose investors do not have the right to redeem their shares at their request before any expiry of the fund's term.

FCPs

An FCP is a common contractual fund, the liability of whose joint owners is limited to the amount they have invested. It should be noted that an FCP has no legal personality and therefore must be managed by a Luxembourg management company, whereas a Sicav or Sicaf can be managed by its board of directors. Ucits in the form of FCPs are managed by management companies under the conditions laid down in Chapter 15 of the 2010 law, whereas Chapter 16 of the 2010 law

lays down the conditions under which management companies manage Part II funds.

Choosing a legal structure

The choice of whether to create a fund as an FCP or as an investment company (Sicav or Sicaf) is mainly based on tax considerations. An FCP is tax transparent, a concept guaranteed in the Luxembourg tax legislation. Marketing and operational considerations are also relevant to the choice of this vehicle since a Luxembourg-domiciled FCP benefits from the high service standards provided by management companies in the grand duchy.

The cultural background of different countries appears to influence the choice of promoters whether to create a fund as an FCP or as an investment company. For example, FCPs are traditionally widely used in Germany, while in France investors are more familiar with investment in Sicavs.

Fund establishment expenses

According to the latest regulation regarding regulatory charges, issued on April 1, 2010, formation expenses comprise a fixed capital duty amounting to EUR75 for all funds, notary's fees, legal fees, and a CSSF filing duty of EUR2,650 for a single-portfolio fund or EUR5,000 for an umbrella fund, whether the fund is established under the law of December 17, 2010 or is a Sicar or SIF. The formation expenses may also comprise a Stock Exchange listing fee of EUR1,250 for a Luxembourg fund, a listing fee of EUR1,250 and visa fee of EUR1,250 for an EU fund, and a listing fee of EUR2,500 and visa fee of EUR2,500 for a non-EU fund.

Minimum capitalisation

The minimum capitalisation of EUR1.25m required under both the 2007 and 2010 laws must be reached within 12 months following approval by the CSSF in the case of a SIF, compared with six months for a fund set up under the 2010 law.

Regulatory control

If it is subject to continuous supervision by the CSSF, a fund set up as a SIF does not require regulatory approval prior to incorporation, but it is a condition sine qua non for funds set up under the 2010 law. While funds established under the SIF law are not required to have a promoter, the directors of the fund are subject to approval by the CSSF; they must enjoy a good reputation and be able to demonstrate appropriate experience.

In complying with the establishment requirements, fund promoters can benefit from the overall financial infrastructure in Luxembourg, which included 143 banks as of the end of June 2011.

Investors' eligibility

Investment funds set up under the 2010 law are authorised for public distribution and there is no restriction on the eligibility of investors, whereas by contrast the SIF law incorporates restrictions on qualifying investors. SIFs are reserved for "well-informed investors" able to understand and assess the risks associated with investments in such a fund. Well-informed investors are defined as institutional investors, professional investors, or any other investors who have declared in writing that they are well-informed investors and either invest a minimum of EUR125,000 or are certified by a bank, investment firm or management company as having the appropriate expertise, experience and knowledge to understand investment in the fund adequately.

Investment restrictions

Within the broad principle of risk spreading, different types of fund are subject to varying rules governing the scope of their investment policy. The rules are significantly restrictive in the case of Ucits, rather lighter for Part II funds and substantially lighter for SIFs.

Ucits

The 2010 law imposes a range of restrictions upon investments by Ucits that have been clarified by recent statements from the regulator:

- Circular CSSF 07/308 lays down rules for the implementation of a risk management framework, including regarding the use by Ucits of derivative financial instruments. The rules, which follow the extension of the range of financial instruments in which Ucits can invest in the 2002 Ucits III directive and the Luxembourg law of the same year transposing it into national legislation, stipulate that a Ucits must determine which it is 'sophisticated' or 'non-sophisticated'. A sophisticated Ucits is required to employ a risk management unit independent of the portfolio management functions capable of identifying, measuring, monitoring and controlling the risks associated with the portfolio's positions on a daily basis; it may make substantial use of derivatives. By contrast, non-sophisticated Ucits may have less substantive risk management units and may measure and control financial risks related to investments on a bi-monthly basis; they may use derivatives only for hedging purposes. The circular also sets out valuation rules stipulating that overall risk exposure related to derivatives should not exceed the total net asset value, consisting of the total value of the fund's portfolio less its liabilities. Ucits' overall risk exposure may not exceed 200 per cent of NAV on a permanent basis.
- The grand-ducal regulation of February 8, 2008 clarifies the notion of Ucits as provided in the 2002 and 2010

laws, in light of the Commission Directive 2007/16/EC.

- Circular CSSF 08/339 (as amended by Circular 08/380) implements the guidelines of the Committee of European Securities Regulators (Cesr, which became Esma on January 1, 2011) in relation to eligible assets for investment by Ucits, and provides additional clarifications relating to the eligible asset rules of the successive Ucits directives, which has been expanded to include not only transferable securities and money market instruments but bank deposits, funds of funds, derivatives and funds tracking recognised financial indices.

Non-Ucits Part II Funds

While there are no restrictions on eligible assets in which a Part II fund may invest, its investment policy is subject to approval by the CSSF, and certain rules are laid down in Circular IML 91/75 (as amended by Circular CSSF 05/177), while others are specifically applicable to funds pursuing alternative investment strategies. These rules are laid down in Circular CSSF 02/80, which states that:

- Aggregate commitments in terms of short selling may not exceed 50 per cent of assets, and no more than 10 per cent of securities of the same type issued by the same issuer may be sold short.
- Borrowings must not exceed 200 per cent of net assets.
- Counterparty risk, defined as the difference between the value of assets given as guarantee and the amount borrowed, may not represent more than 20 per cent of the fund's assets per lender.

SIFs

Specialised investment funds set up under the law of February 13, 2007 are not required to comply with any detailed investment restrictions or leverage rules. The legislation merely states that a SIF should apply the principle of risk diversification under which the collective investment of funds must be made in assets "in order to spread the investment risks". The CSSF clarified in Circular 07/309 that:

- A SIF may not invest more than 30 per cent of its assets or commitments in securities of the same type issued by the same issuer.
- Short sales may not result in the SIF holding a short position in securities of the same type issued by the same issuer representing more than 30 per cent of its assets.
- When using derivatives, the SIF must ensure a similar level of risk-spreading via appropriate diversification of the underlying assets.

However, the CSSF may, if it deems the circumstances appropriate, grant exemptions to these rules on a case-by-case basis.

Reporting and audit requirements

Prospectus

Funds are obliged to issue a prospectus containing a presentation as well as economic and commercial information on the fund and its management company. The law of July 10, 2005 on prospectuses for securities specified that closed-ended funds falling outside Part I of Luxembourg's fund legislation were exempt from the obligation to publish a full prospectus, although such funds were still obliged to publish a simplified prospectus. This was also obligatory for Ucits funds up to July 1, 2011, when the law of 2010 replaced the simplified prospectus for new funds by the Key Investor Information Document. According to the 2010 law, the prospectus must include the information necessary for investors to make an informed judgment about the proposed investment in the fund, and especially of the risks involved, and it must be updated whenever necessary for this purpose.

In May 2011 the CSSF announced in a newsletter that changes to a fund's prospectus that simply involve replacing references to the 2002 law with the 2010 law may be carried out during the next update to the prospectus, at the latest by December 31, 2011. At the same time Ucits funds must also comply with the Esma guidelines 10-788 of July 28, 2010, which require inclusion in the prospectus of information relating to risk management.

This includes the method used to calculate global exposure by differentiating between the commitment approach, relative Value at Risk approach and absolute VaR approach; For Ucits adopting the VaR approach, the expected level of leverage and any possibility of higher leverage levels; and information on the reference portfolio when UCITS use the relative VaR approach. The CSSF plans to issue circulars over the coming months regarding the Esma guidelines and particularly the risk management elements.

Prospectuses of Ucits funds investing in money market instruments also require updating in response to the May 2010 Cesr guidelines establishing a common definition for such funds and differentiating them into two categories, money market funds and short-term money market funds.

Issuing document

As part of the lighter regulatory regime than that for Part II funds governed by the 2010 law, SIFs are required only to produce an 'issuing document' comprising the information necessary for investors to make an informed judgment investment in the fund, although the 2007 law does not specify any minimum content. The issuing documents and any subsequent changes to it must be communicated to the CSSF.

Financial statement

Luxembourg funds (or their management companies in the case of common contractual funds) are required to publish at least an annual report and, in the case of investment companies and FCPs governed by the 2010 law, also a half-yearly report covering the first six months of the fund's financial year. The annual report must include audited accounts and a report on the fund's business, as well as any other information necessary for investors to make an informed judgement about the fund. The audit must be conducted by an authorised independent auditor who is qualified and a member of the Luxembourg Institute of Auditors (IRE). The auditor must report promptly to the CSSF if any information provided to investors does not truthfully describe the financial situation of the fund, or if the auditor becomes aware during the audit that any fact or decision is liable to constitute a material breach of the law or regulations, or to affect the ongoing functioning of the fund.

It should be noted that unlike a fund established under the 2010 law, a SIF is not obliged to disclose details of its portfolio as part of the information necessary for investors to make an informed judgment about the fund, nor is it required to publish the net asset value per share of the fund, as is the case for Ucits and Part II funds.

Key Investor Information Document

Until July 2011 Ucits funds were also required to produce a simplified prospectus, providing a summary of the main prospectus. Under the Ucits IV directive, implemented into Luxembourg's domestic legislation by the law of December 17, 2010, this is replaced by the Key Investor Information Document (KIID for short), designed to provide full but concise information on the fund's main features, written in plain, non-technical language and produced in a standard format, usually on two A4 pages.

Designed to provide investors with a more easily understandable picture of the fund's activities than was provided by the simplified prospectus, the KIID seeks to describe in straightforward terms the fund's investment strategy, the risks involved, the service providers used by the fund, the charges levied against the fund's assets for investment management and other services, and its recent performance where this is applicable. A separate KIID must be produced for each Ucits fund or sub-fund, and may also be produced for different classes of shares or units in the same fund or sub-fund where there may be significant differences in performance between them. The KIID should enable investors to make an informed choice about investing in a fund without reading the full prospectus, and it should enable them to compare one fund with another easily.

Ucits funds in existence before July 1, 2011 have up to one year (until July 1, 2012) to produce a KIID for the

first time (although they must do it sooner if there is any material change in the nature or performance of the fund that would require an updating of its prospectus). Subsequently significant changes to the fund, such as in its risk/reward profile or its management, will require the issue of an amended KIID, and it must be updated at the end of each year. It must be published in at least one of the official languages, or another language approved by the local regulator, of any EU country in which the fund is to be marketed.

Taxation of funds

Luxembourg Ucits, Part II funds and SIFs do not pay income and capital gains taxes in the grand duchy, nor is stamp duty payable on share issues or transfers.

There is a fixed capital duty of EUR75 to be paid upon incorporation. In addition, some funds are also subject to an annual subscription tax. Under the SIF law this annual subscription tax is levied at 0.01 per cent of the fund's net assets, compared with a standard rate 0.05 per cent for funds under the 2010 law. However, the rate is 0.01 per cent for funds whose exclusive policy is investment in money market instruments or bank deposits. Other funds, such as certain institutional cash funds and pension pooling funds, are exempted from the subscription tax, no matter under which law they are set up. The 2010 law extended or confirmed this exemption for exchange-traded funds and funds whose primary aim is investment in microfinance institutions. It should be noted that investors may invest in a SIF by means of equity or debt in order to benefit from effective tax optimisation, and that SIFs do not have to respect any particular debt-equity ratio.

Luxembourg has signed double taxation treaties with 62 countries, and 19 others are under negotiation or awaiting approval from Luxembourg's parliament or from the other country. These agreements seek to eliminate or reduce withholding taxes on foreign income or capital gains. However, only 30 of these treaties are applicable to Sicavs, whether in the form of a Ucits, Part II fund or SIF.

Stock Exchange Listing

Luxembourg funds in the form of Ucits, Part II funds and SIFs as well as foreign funds may be listed on the Luxembourg Stock Exchange. Various conditions must be met by foreign funds seeking a listing on the exchange, notably that the fund promoter is of good reputation and has adequate and appropriate professional experience.

The annual Luxembourg Stock Exchange listing fee for Luxembourg and EU funds is currently EUR1,875 for a first line of quotation, EUR1,250 for a second, EUR875 for a third and EUR500 for a fourth and any additional lines of quotation.

At-a-glance guide to Luxembourg funds

	Ucits funds (Part I of the 2010 Law)	Part II funds (Part II of the 2002 Law)	SIFs (2007 Law)
CSSF approval required prior to incorporation	Yes	Yes	No
Supervised by CSSF	Yes	Yes	Yes
EU Passport	Yes	No	No
Eligible assets	<ul style="list-style-type: none"> - Transferable securities - Bank deposits - Money market instruments - Fund of funds - Financial derivatives - Index tracking funds 	Unrestricted but subject to CSSF approval	Unrestricted
Eligible investors	Unrestricted	Unrestricted	Well-informed investors <ul style="list-style-type: none"> - Institutional investors - Professional investors - Investors declaring that they are well informed and either invest a minimum of €125,000 or are certified by a bank, investment firm or management company as capable of making an informed decision on investment in the fund
Need for a promoter	Yes, although this may change in the future	Yes, although this may change in the future	No
Investment restrictions	<ul style="list-style-type: none"> - Provisions of the 2010 Law - Provisions of Circular CSSF 08/339, investment possible in: <ul style="list-style-type: none"> • Transferable securities • Deposits • Money market instruments • Liquid financial assets • Other undertakings for collective investment 	<ul style="list-style-type: none"> - Provisions of the 2010 Law - Circular IML 91/75 (as amended by Circular CSSF 05/177) - For Part II funds pursuing alternative investment strategies, Circular CSSF 02/80, relating to short sales, borrowing and investment restrictions 	Compliance with risk-diversification rules: <ul style="list-style-type: none"> - SIF may not invest more than 30% of assets or commitments in securities of the same type from the same issuer - Short position in securities of the same type from the same issuer may not exceed 30% of SIF's assets - When using derivatives, SIF must ensure similar level of risk-spreading via diversification of underlying assets
Tax treatment	<ul style="list-style-type: none"> - No income tax - Annual subscription tax of 0.05% of NAV (exchange-traded funds exempt). - Fixed capital duty of €75 - No withholding tax on dividend distributions and interest payments 	<ul style="list-style-type: none"> - No income tax - Annual subscription tax of 0.05% of NAV (exchange-traded funds and microfinance funds exempt) - Fixed capital duty of €75 - No withholding tax on dividend distribution and interest payments 	<ul style="list-style-type: none"> - No income tax - Annual subscription tax of 0.01% of the NAV (microfinance funds exempt) - Fixed capital duty of €75 - No withholding tax on dividend distributions and interest payments
Issue and redemption of shares or units	For Sicav or FCP, issue, redemption or repurchase price must be based on NAV	For Sicav or FCP, issue, redemption and repurchase price must be based on NAV	<ul style="list-style-type: none"> - No requirement that issue, redemption or repurchase price be based on NAV - Can issue shares at a pre-determined fixed price - Can repurchase shares below NAV
Disclosure of portfolio	Yes	Yes	No

Conclusion

The Luxembourg investment fund industry, benefiting considerably from its location in a strong and multi-faceted international financial centre, is now a recognised label for funds throughout Europe and in other parts of the world. The country's greatest asset is undoubtedly the commitment of the political authorities to support the fund industry and the financial sector as a whole, demonstrated by a long and ongoing track record of proactive measures to meet the needs of industry participants and investors, both through the early

incorporation of European directives into domestic law and in the far-sighted and careful drafting of national legislation. These efforts have contributed substantially to the creation of a stable and protective environment favourable to the positive development of the market.

This longstanding pragmatism on the part of the Luxembourg authorities, also seen in the measured and calm approach of the CSSF to the fallout from the recent global financial turmoil, has proved invaluable in protecting the interests of investors during times of global economic uncertainty.

In the post-crisis environment, Luxembourg has addressed the key issue of transparency through national and European regulations that provide new investors with a highly protective framework that compares very favourably with those of many traditional offshore jurisdictions. This will be developed further by the European Union's Directive on Alternative Investment Fund Managers, finalised on June 8 and coming into force on July 21 this year. When the directive's provisions take effect starting in mid-2013, the AIFM Directive will put in place a harmonised regulatory framework for alternative fund managers seeking to market products within the EU that will include greater disclosure levels than the industry has typically adhered to in the past. ■

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