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Introduction

On 1 February 2017, Deloitte Luxembourg and Elvinger Hoss Prussen together with its supporting partner Financial Times Live organized the fifth edition of the highly successful annual Cross-Border Distribution Conference at the New Luxembourg Congress Centre Kirchberg in Luxembourg City.

Around 500 pan-European industry participants gathered not only to listen to speeches and panel discussions focusing on capturing new opportunities for investors and fund managers, but also to hear opinions from eminent industry professionals.

Jacques Elvinger, Partner at Elvinger Hoss Prussen, opened the conference by saying that the evolution of regulations and the driving of the asset management industry to meeting investors' demands give rise to numerous topics for discussion. It was a powerful statement that accurately reflected this year's conference agenda—CMU, liquidity risk, harmonization, FinTech, RegTech, digitalization, fees—all topics that are hotly debated by the asset management industry.

In keeping with the conference's theme of capturing new opportunities for investors and fund managers, in his opening speech, Lou Kiesch, Partner at Deloitte Luxembourg, referred to the white paper drafted especially for the conference on how innovative thinking will create competitive advantage. The year 2020 is not in the distant future, but is coming up sooner than we think. It is the year in which the so-called Millennials will become the most important living generation. For them, information will be power and data will be the currency of the future. With this in mind, the theme for the conference was born. To quote Charles Darwin: "*It is not the strongest of the species that survive, nor the most intelligent, but the one most responsive to change*."

This certainly rings true when considering the phenomenal EU success story that is the cross-border fund industry as outlined by Baptiste Aboulian, Managing Editor of Ignites Europe. Last year net sales in cross-border funds raised €60 billion, taking the total to €3.6 trillion, accounting for just under half of all industry assets. Of course this success has been built over many years together with the creation of strong EU regulatory frameworks, resulting in funds being sold well beyond the EU. However Europe as we know it today is about to change quite dramatically; no conference is currently complete without mentioning Brexit and the US election.

Information and preparation are key to tackling any major challenge, so let us now delve into this digest and be informed on how best to prepare.

1. Keynote Opening Address

Speaker:
Sven Gentner
Head of Unit for Asset Management
DG FISMA, EU Commission

An update on the EU Commission's work in the field of cross-border distribution of investment funds

80 percent of UCITS and 40 percent of AIFs are marketed on a cross-border basis. However, one third are marketed in only one member state in addition to their home member state. Another third are sold in no more than four member states outside of their home member state. This illustrates that cross-border distribution is rather limited compared to other sectors. For the EU Commission this translates into forgone opportunities. The insufficient market integration across the EU results in a lack of economies of scale, limited supply, and insufficient choice for investors in some member states; costs are too high and performance is too low.

When comparing the EU industry with its US counterpart, the EU contains around 30,000 funds and has a smaller market, compared with 7,000 funds and a bigger market in the US. As a result, EU funds are much smaller than US funds—the average US fund is seven times the size of the average EU fund.

The EU Commission is concerned by those figures, especially in the current low return/low interest rate environment.

The investment behavior of retail clients is not as it should be as around one third of financial assets in the EU are held in bank accounts with no or very little return. In an environment of aging populations and reduced growth, this is not an ideal scenario.

Although the investment management industry in Europe is growing, important challenges remain—cross-border marketing of funds needs to accelerate to increase competition and choice, and costs to investors need to be reduced to facilitate further growth in the sector. Investors and regulators demand greater transparency and comparability of the cost and performance of funds and further improvements are necessary. There is an obvious lack of trust by retail investors in many of the offered products, which results in lack of investment.

Transparency and comparability will lead to more trust. Furthermore, there is the opportunity and challenge of new technology. Technology may help address some issues, and regulators must ensure the frameworks do not stand in the way.

The three key policy initiatives of the EU Commission are as follows:

1) Revision of the European Venture Capital and Social Entrepreneurship Fund frameworks
2) Increasing transparency on performance and fees in the retail investment sector
3) Outcome and follow-up of the 2016 consultation on regulatory barriers to cross-border marketing of funds

Revision of EuVECA and EuSEF

These regulatory frameworks were created with the intention of fostering growth in the venture capital and social entrepreneurship sectors within the EU. After two years in existence, there has been insufficient development of these frameworks. Improving access to funding for these small businesses is also a key element of the Capital Markets Union action plan. Last year the EU Commission proposed to open these frameworks up to larger managers and to broaden the range of eligible assets. The EU Commission hopes to conclude the trilogies with the EU Parliament and the EU Council by the end of June 2017.

Increasing transparency on performance and fees in the retail investment sector

A strong regulatory regime for the disclosure of key data to retail investors exists with the UCITS KIID, the PRIIPs KID, MiFID, MiFIR, and IDD. Once all these regimes are fully implemented, sufficient data will be generated to allow full transparency. However, the mere existence and availability of the information may not be enough. Retail investors must be able to make proper use of the information and understand what it means. In particular, investors must be able to compare products, have easy access to this comparative information, and understand the key indicators that are relevant to them, and this is not yet the case. According to a recent FCA study, around half of retail investors were not aware that they were paying charges for their funds.

The study also concluded that there was a weak price competition in the sector and that scope for increased efficiencies existed. The EU Commission has performed an analysis on the transparency of fees and performance, and the availability of simple and low-cost products for retail investors across the EU. The results are expected at the end of 2017. The EU Commission also started working with the ESAs on how to improve investor access to data, how to ensure the data can be understood, and that there is comparability, e.g., through online platforms.

Outcome and follow-up to the 2016 consultation on regulatory barriers to cross-border marketing of funds

In his speech, Mr. Gentner outlined five key takeaways from the consultation:

- Domestic marketing rules vary widely across the EU including what they contain, as well as how and when they are enforced. They are not always clear and transparent. Many respondents request better harmonization of the concept of "pre-marketing" and reverse solicitation along with their enforcement across various member states.
- It is difficult to find information on the level of regulatory fees, when they have to be paid, and what they are based on.
- Most respondents criticized the requirement to have a local paying agent in place—they are expensive and hardly used.
- There appears to be issues with the maintenance of the notifications, in particular with deregistration. For UCITS, the notification of updates is not harmonized, and under AIFMD the timing and method of notifications are often unclear; in both regimes deregistration is not harmonized at all
- Tax was cited as a major barrier to cross-border marketing, including issues with income tax reporting due to differing rules, a lack of access to double tax treaties, difficulties in obtaining relief or refunds for withholding tax, and tax discrimination for funds established in another member state.

As a result, even if a marketing passport exists under UCITS and AIFMD, a complex and in-transparent system of national rules has been created. The associated legal uncertainty and costs to navigate the system seem to play a role in hampering the cross-border marketing of funds. It is often not the local requirements themselves but the difficulty in understanding the different national systems and finding the right information that creates costs.
As a consequence, opportunities for integration and growth are not harnessed, investors have limited choice, competition is reduced, and performance is lower. This complex system will have adverse effects on the common online platforms that may develop across the EU in the future, which would offer a large potential for progress, growth, and integration.

The EU Commission is now reflecting on the most promising way forward. No decision has been made, with all options being considered ranging from agreements with member states to voluntary action, ESA level guidance on EU legislation, and changes to the regulatory framework. Many respondents advocated more harmonization at the EU level. All issues have to be addressed together, and the industry must have the chance to fully reap the potential of new technology. The EU Commission will soon provide a roadmap and a timetable for the next steps.

The investment behavior of retail clients is not as it should be as around one third of financial assets in the EU are held in bank accounts with no or very little return.

2. What are investors seeking from cross-border investment in the coming year?

Moderator:
David Ricketts
Associate Editor
Ignites Europe

Panelists:

- Jacqueline Lommen, Executive Director, European Pensions, Robeco
- Martin Parkes, Director, Government Affairs and Public Policy, BlackRock
- Richard Withers, Head of Government Relations Europe, Vanguard Asset Management, Ltd
- Karen Rouse, Vice President, Tax Transparent Funds Product Manager, Northern Trust
- Manuela Zweimüller, Head of Policy Department, EIOPA

- Current cross-border investment frameworks, such as UCITS, meet the requirements of today's investors
- Cross-border investing can be made more attractive by reducing costs for asset managers and therefore the product
- Initiatives such as PEPP, UK TTFs, and ELTIFs are expected to bring new opportunities for investors and asset managers
- CMU will remain a major initiative for Europe after Brexit

Despite the UCITS regime functioning well in Europe and as a global platform, and UCITS products are a great savings vehicle, direct retail investments currently only represent approximately one quarter of total investments.

This is not as a consequence of a lack of knowledge of the UCITS product, and therefore should not result in fundamental revisions of the UCITS framework. The UCITS product is understood across the globe and particularly well received in Asia. Continuous revisions of the UCITS regime could potentially endanger this global appeal.

Future changes should be limited to smoothing out remaining friction between the different member states, which lead to higher costs for asset managers and hence for the product that is sold within the various member states.

A reason for the low number of retail investments could be that European savers are insecure about the capital markets. For example, a BlackRock survey among 12,000 European savers shows that in many European countries, only one in five citizens have an ongoing relationship with a financial adviser. Also, two thirds of respondents hold their savings in cash. However for the long-term, confidence in capital markets should already be reinforced by past revisions of the UCITS framework.

An option to engage European citizens in capital markets is by making pensions, especially private pensions, more attractive. To illustrate, in the US, approximately US$7.5 trillion is invested in private pensions. In Europe, a recent EU analysis of market performance of personal pensions highlighted that the current private pension options are not considered affordable or required; providers are not trustworthy with fees and costs are too high.

Currently, EIOPA is working on the PEPP, a new complementary pension structure that should become a simple, trustworthy, standardized, long-term product for the third pension pillar. The target market would include EU citizens with average or lower income who can only save small amounts on an ongoing basis. EIOPA is developing "product pilots" based on different but necessary elements of PEPP, such as informing investors on default investment options and flexible elements, including guarantees and a cap on costs and charges. It is most likely that PEPP will be implemented across Europe by way of a so called "second regime," i.e., the EU product will be made available alongside local vehicles. PEPP is expected to provide huge benefits to both investors and the asset management industry.

An alternative option to reach more retail investors could result in the wrapping of UCITS into complex products, such as life cycle funds. Even though life cycle funds are more complex from the inside, they should be easy to understand and hence attractive for retail investors. Currently, those products can only be distributed locally as they cannot be labeled as UCITS.

In 2013, the UK TTF was established to compete with some of the tax transparency frameworks in Europe. TTFs are used as "pension scheme collectivization." Across the asset management industry, this fund structure is understood to bring opportunity and benefits of scale also for smaller pension schemes. In addition, it helps the multinational companies to increase governance of their products.

Since December 2015, ELTIFs are available. Until now, only a few asset managers appear to benefit from this option, partly because there seems to be a lack of knowledge and awareness of this product in the industry. Also, these initiatives usually need time to flourish. Investors, particularly high-net-worth wealth managers and smaller pension schemes have already taken an interest. However, a potential barrier for a successful cross-border distribution of the ELTIF could be the tax regime of cross-border investment in liquid assets, which in some cases has investors paying taxes twice.

Developing capital markets is and will remain essential after Brexit. The CMU will remain a major initiative for Europe especially given the position of the UK as a strong capital market contributor to the EU. For this reason, going forward, a cooperation between the EU and UK regulators to further develop the capital markets is expected.

All in all, the UCITS regime is considered fit for purpose and to serve investors well. Remaining differences among the member states, such as the tax framework, need to be ironed out to make cross-border distribution more cost efficient for both investors and asset managers. Recent initiatives such as the PEPP, UK TFF, and ELTIFs are all welcomed in the market.

A reason for the low number of retail investments could be that European savers are insecure about the capital markets.

3. Managing fund liquidity risk—the next big challenge?

Speaker:
Patrik Karlsson
Director, Market Practice and Regulatory Policy,
International Capital Markets Association

Managing fund liquidity risk in Europe—an AMIC/EFAMA report from April 2016

During the last years, AMIC and EFAMA found widespread perception of an insufficient appreciation of how investment funds, fund managers, and fund management companies manage liquidity risk. Many are aware of a liquidity mismatch potential between investors and investments, but there was insufficient appreciation of how this was actually managed. Therefore AMIC and EFAMA decided to document existing related regulations and tools culminating in the publication in April 2016 of the report "Managing Fund Liquidity Risk in Europe".

The report is based on three parts—practical management of day-to-day fund liquidity risk, the existing regulations of the AIFM and UCITS directives, and the existing market-based tools available in normal and exceptional circumstances.
Recommendations and suggestions of improvements of the frameworks were also included in the report. The most important recommendation to keep in mind is that the tools and regulations in Europe are both comprehensive and adequate to manage fund liquidity risk.

Regarding day-to-day liquidity risk management, the most important stage is the pre-launch stage for the fund. A number of liquidity risks need to be considered and managed with the key variables being the expected liquidity risk for the fund in the market and the expected liquidity requirement for the targeted audience.
The pre-launch stage involves intense discussions with national regulators since they play an important role in authorizing the fund. Ongoing dialogue with the investors, and particularly institutional investors, is also extremely important for the mutual understanding of all involved parties.

The report entitled "Examination of Liquidity of the Secondary Corporate Bond Markets" published by IOSCO in August 2016, found that liquidity conditions have deteriorated since the financial crisis, but not markedly. The role of market makers is changing due to new technology, and as a result investment funds are adapting to this new environment.

It is important to recognize that the existing regulations AIFMD and UCITS are robust frameworks that the industry should not be afraid of promoting. These regimes both require permanent and independent risk management functions, the need to implement risk management policies, and monitoring illiquid assets.

The market-based tools for managing fund liquidity risk exist mostly outside of the regulations, and are therefore considered as complimentary tools. They are divided into two categories: "levy the cost of leavers/joiners" and "exceptional tools."
In the tools that levy the cost of leavers and joiners, we find swing pricing, dual pricing and redemption fees, and dilution levies whereas the exceptional tools consist of redemptions-in-kind, "out of money gates", dealing suspension, "side-pockets", and temporary borrowing from non-governmental sources.

European industry associations have noted that they would like to have access to more tools for managing fund liquidity risk, and this is one of the main recommendations in the report. ESMA and the EU Commission should encourage all authorities to make as many tools available as possible, and to improve the use of existing data for better systemic risk analysis. Both these would then help the regulators have a better understanding of the management of fund liquidity risk. To provide a better understanding of the subject, national and European associations should encourage the development and promotion of best practices guidelines, while also being considered as tools to enhance the current frameworks.

So what has happened since the report was published? There is an ongoing dialogue with the policymakers, and in January 2017, the FSB published its "Policy Recommendations to Address Structural Vulnerabilities from Asset Management Activities," which includes the tools for managing fund liquidity risk. IOSCO is also updating its "Principles of Liquidity Risk Management for Collective Investment Schemes," originally published in March 2013. Both of these publications show that the regulators are recognizing that the tools mentioned in the report should be made available to fund managers and investors.

AMIC and EFAMA are preparing another report together to be published in 2017 on the use and measurement of leverage, another topic where there is an insufficient appreciation of how leverage is actually used and measured. The aim of this report will once again encourage the development of national and European guidelines.

The market-based tools for managing fund liquidity risk exist mostly outside of the regulations, and are therefore considered as complimentary tools.

4. Harmonizing cross-border distribution—is a truly single market possible?

Moderator:
Owen Walker
Commissioning Editor, Special Reports
Financial Times

Panelists:

- Peter de Proft, Director General EFAMA
- Matthieu Lucchesi, Head of Asset Management Regulatory Division, AMF
- Jean-Marc Goy, Counsel for International Affairs, CSSF
- Richard Stobo, Head of Investment Management Team, ESMA

Cross-border distribution is characterized by an investment fund being sold by promoters outside of its home market. In 2016, 30 percent of the total European assets under management from the fund industry were sold outside of their home country. This is a 67 percent increase from 2015, showing the potential for an EU single market and the increase in share of cross-border funds.

The current UCITS framework works well within the EU, while noting that many non-EU countries take the EU structure as an inspiration for their own markets. The Luxembourg market leads by example in terms of transposing EU regulations into local requirements. Luxembourg is the second largest fund industry after the US, and as such, funds domiciled in Luxembourg are distributed across over 70 countries worldwide. True cross-border distribution should not be limited to the EU; the real competition lies outside the EU. Although in the past years, various issues regarding the current framework have been addressed, there is still room for improvement to achieve a truly single market.

Distribution networks today remain largely domestic due to the lack of common definitions among member states.

To reduce domestic bias and accomplish harmonization and convergence, the supervisory authorities should work together more closely and remain competent in supervising markets, providing tailored financial advice and ensuring information is accessible. ESMA is also working on reducing friction between EU institutions, home state, and host state supervisory authorities. Each entity has its own role and responsibilities in ensuring investor protection, improving current systems, and reducing national gold-plating rules.

Supervisory authorities and policy makers wish to maintain and sometimes further develop their local markets by continuing to impose certain legacy practices, but such actions will not help end the era of national gold-plating. The multitude of standards for notification processes, the lack of common definition of some investor categories, and various national requirements are all considered as barriers to the objectives that the asset management industry is trying to achieve. It seems difficult to enter a market when there are no clear national guidelines.

Although complementing EU regulations with local rules would guard investor preferences, as the market moves toward greater harmonization and convergence, domestic specificities should be avoided. Ensuring marketing documents are appropriate, accessible, and tailored to local investor preferences could be considered as an alternative to move away from investor protection through gold-plating measures. By introducing harmonized guidelines and acting as a central hub, ESMA would play a key role in this new era.

Despite its strategic role in the capital markets, there have been conflicting approaches to ESMA's recent opinion on share classes. Some have perceived this as a step back and too restrictive, others see this as a positive. The non-admissibility of share classes aimed at hedging factor-specific exposures apart from currency risk has been the most widely discussed point of opinion.

The EU asset management industry has been facing a lack of competitiveness against non-EU asset management firms, and for some, this opinion potentially exacerbates this issue. The creation of share classes is essentially demand-driven, and ESMA's choice appears incompatible with investors' current pursuits. The opinion will eventually force investors to redeem current shares and reinvest in a new vehicle, thereby increasing costs in a period where investors and managers are seeking to cut expenses.

On the other hand, the industry understanding is that the opinion will allow for reductions to the exposure to risks that investors are not necessarily aware of, specifically contamination risks. The initial targets of the opinion were the holders who were not invested in such classes and who would potentially suffer if something went wrong.

The differences in objectives and investment strategies will not be prohibited, but will be limited to sub-fund levels.

The era ahead will include harmonization, standardization, and unity among all member states to provide a wider range of choice and facilitate processes. In line with this new era will come digitalization, interconnectivity, and innovation; however, with these technological advancements comes increased risk. The thieves are no longer robbing banks, but stealing information online and using the fund industry as a source. With greater exposure to cyber theft, terrorism, and money laundering, will the fourth AML directive be considered as detrimental or beneficial for the creation of a truly cross-border single market including not only EU and EEA member states but also the US and Asia?

Although complementing EU regulations with local rules would guard investor preferences, as the market moves toward greater harmonization and convergence, domestic specificities should be avoided.

5. Challenges and opportunities in global fund distribution in the year ahead

Moderator:
Baptiste Aboulian
Managing Editor
Ignites Europe

Panelists:

- Euan Munro, CEO,
  Aviva Investors

- Jeremy Soutter, Global Head of Product Development and Management,
  Standard Life Investments

- Christophe Girondel, Member of the Executive Committee and Global Head of Distribution,
  Nordea Asset Management

- Gavin Rankin, Managing Director, Head of Managed Investments EMEA,
  Citi Private Bank

The global fund distribution landscape is poised for change in response to political and economic uncertainty, changing investor appetites, and a myriad of regulatory reforms.

Investment behavior is evolving: passive funds are challenging actively managed products; regulations are imposing more transparency; the dialogue between financial industry players and investors is instrumental for the continuous understanding of investors' needs and appetites as well as their financial education and training.
Each of these developments are dictating and reshaping distribution models and strategies.

What are customers looking for?

Historically, customers used to accumulate wealth in pension saving plans regularly fed pursuant to their employment contracts, as provision for their retirement. This behavior has changed with classical safe securities such as government bonds no longer delivering the average rate of return expected by investors.

The debate between passive and active funds continue to dominate with alternative and private equity funds being drawn into the discussion.

While many investment flows are nowadays targeting passive investment products with a lower fee rate, the market is observing increasing demand for alternative solutions, such as actively-managed, outcome-oriented funds. Those investors are looking for funds that provide income with a reasonable level of volatility, beating inflation and liability rates. Outcome solutions are generally not provided by passive investments, but by products with more complex investment techniques and a higher level of fees.

Due to their increased complexity, outcome funds face two key challenges:

- Regulators are convinced that they may be offered to local retail investors
- These products require effort from the distributors to properly inform and educate investors about their features

Educating investors and managing their various expectations are key success factors for distributors.

Two examples of expectations include:

- The main expectation across the globe is the same: generate return. However, the level of comfort of investor risk appetites differs widely across geographical regions
- High net worth investors often look for sophisticated solutions, while asset allocation, income, target return, or capital preservation products may be privileged by retail investors

A paradox often heard on the market is that active managers are challenged on the level of risk they are taking versus passive funds as if passive funds would not be facing volatility, which sometimes may actually be higher than that of actively managed funds.

Increased fee disclosure: trends and hazards

The panelists agreed on the necessity to improve fee disclosures and the importance of transparency to maintain trust between the industry and investors. In the light of the recent FCA passive management review, asset managers must deal with increased regulators' requests for transparency and fee disclosure. Asset managers are also required to communicate to investors upfront on the level of fees levied in the fund.

The FCA seemed to prefer the disclosure of an all-in fee pretty close to the ongoing charges that the industry already discloses.

One could believe that an increased regulatory appetite for high transparency on fees is motivated by the conviction of regulators that investors would prioritize products with a lower level of fees.
This view is challenged by industry players relying on the essence of investment products that answer customers' investment and long-term capital needs. These fundamental principles are likely to be better addressed by outcome-oriented funds.

There are grounds to believe that the requirement for increased fee disclosure shall be complemented by disclosures on the nature, objective, outcome and investment horizon of the product. Communication by asset managers and attention by investors to this information is crucial. Increased awareness about the investment through better communication with the investors is key to a sound relationship between the financial industry and the investors.

Is the ban on inducement likely to change the industry?

The UK RDR has fundamentally changed the relationship between asset managers and investors. Wealth managers were requested to move from an advisory and sales business to a more discretionary-oriented business. This required greater focus on the outcome, which is certainly positive news for investors. However, RDR may have created an advice gap. While high-net-worth individuals are still keen on paying fees for advice, the largest investor segments are questioning the need to pay for advice for which they thought they did not have to pay in a pre-RDR scenario.

Are robo-advisers expected to fill the advisory gap?

RDR has increased the total level of fees levied at both the level of the fund and fees charged by the adviser. Robo-advisers might themselves provide a mechanism to reduce the cost of advice, however investors have not yet fully embraced robo-advisers and are still looking to complement this with a personal touch.

Is the asset management industry in a trend of "de-globalization?"

The industry had been searching for global solutions, seeking further efficiency in the field of investment management and asset servicing. Initiatives such as fund pooling or the creation of fund of funds or feeder fund structures did not really take off.

Actually, in reality there is no true single market for the asset management industry due to two factors; regional flavors for fund structures in Europe and local regulatory constraints outside of Europe often impose asset managers to create locally-focused structures to avoid the risks of contamination.

This market fragmentation explains the proliferation of product needs. There is a risk that fragmentation will be further emphasized even in Europe through the various gold-plating requirements.
Will the "target market" definition imposed by MiFID II further increase such fragmentation?

Brexit and its effect on cross-border distribution

Following Brexit, asset managers will look differently at the UK. The lack of clear information from political spheres and regulators does not currently support asset managers' decisions in distributing products as well as investors' decisions on whether to invest or to remain invested for the long-term.

The industry is willing to manufacture funds in place of expertise for the specific asset class, and therefore hopes that the negotiation between the UK and the EU will maintain this facility. However, the industry is likely to take actions relating to the selection of the fund domiciles ahead of the negotiations. Typically, asset managers are expected to create UK OEICs for the purpose of addressing the UK domestic market and conversely, UK OEICs shall no longer be considered for distribution within the EU.

The debate between passive and active funds continue to dominate with alternative and private equity funds being drawn into the discussion.

6. A concise outlook on the US post-election

Speaker:
Stuart Fross
Partner and Business Lawyer
Foley & Lardner LLP

Mr Fross started by illustrating some recent developments since President Trump's inauguration and referred to the President's campaign promises relating to immigration, a Southern border wall and healthcare.

The inauguration of President Donald Trump has generated global attention. He won the election with a small budget, saved money for his party, and overcame all opposition within his party and nationally. He is an amateur politician—but with all of that, he has people's share of mind and the attention of other politicians around the world to an extraordinary degree. But what does the Trump effect mean for the Luxembourg fund industry?

Mr Fross indicated that President Trump plans to cut corporate taxes from approximately 39 percent to 20 percent and to end interest deductibility on corporate tax returns (for most companies), in favor of investment deductions. If this happens, the price of after-tax leverage will increase if interest cannot be deducted from the expense line. Further, Luxembourg private equity and venture capital funds that have implemented US investment AIVs investing in US real assets may need to be restructured.

Mr Fross alluded to the President's promise to spend on infrastructure. To fund this, President Trump's plan is to create a corporate tax holiday, expecting US companies to repatriate US$1 trillion of offshore assets back to the US at a moderate tax rate, when it can then be reinvested.

Since the fund industry necessarily follows the money, be sure to see how his plan unfolds, as we may see a significant movement of money back to the US, if only temporarily, before it is redeployed with investment managers.

Mr. Fross pointed out that while President Trump's plans for change include moving past and potentially repealing Dodd Frank, the administrative agencies like the SEC, the CFTC and the Department of Labor, are still caught in the 2008 financial crisis mentality.

The SEC is particularly attentive to disclosures made by funds distributing in the US. For example, ten private equity firms were fined penalties up to US$50 million for incompletely disclosing conflicts of interests. European funds intending to distribute in the US should think carefully about their disclosures and how they manage conflicts of interest, given the US regulatory mindset.

A multitude of legal documents include the wording "may", but flexible disclosure may not be enough. Rather, the SEC is looking for either investor explicit consent or approval by a properly formulated corporate governance mechanism of the kind often seen in Luxembourg funds.

Mr Fross concluded by suggesting that EU-based fund managers should, when considering capital formation in the US, keep three layers in mind: the Trump agenda, the distinctly different agenda of US regulators, and the independent agendas of the several state legislatures, particularly in California.

European funds intending to distribute in the US should think carefully about their disclosures and how they manage conflicts of interest, given the US regulatory mindset.

7. Technology—disruption or innovation for cross-border investors and fund managers?

Moderator:
David Ricketts
Associate Editor
Ignites Europe

Panelists:

- Cora van Nieuwenhuizen, MEP, Rapporteur on FinTech on behalf of the European Parliament
- Furio Pietribiasi, Managing Director, Mediolanum Asset Management
- Franck Guiader, Head of FinTech, Innovation and Competitiveness, AMF
- Gert Rautenberg, CEO, Global Fund Analytics

FinTech is the marriage of two industries that encompasses a-once-in-a-lifetime opportunity for asset managers to modernize distribution and employ new technologies.

Around 60 percent of asset managers fear losing part of their business to FinTech, yet less than half have actually implemented FinTech in their business model. This is despite the knowledge that the young generation of investors is much more digital-savvy and looking for new processes compared to the baby boomer generation. The rise of robo-advisers, mobile applications, digitalization, and direct consumer platforms are changing the fund industry, and all will have a direct impact on the traditional advice models. In the UK, the FCA has set the trend and the rest of the EU needs to catch up.

Investors have understood that it is no longer just about buying when the market rises and selling when the market falls. New technologies offer higher speed, lower costs, more choice and more convenience for investors, but at the same time allows asset managers to redefine their operating models to sell the right product to the right investor. The development of technology in the fund industry is crucial to the sustainability of the business. There is more and more pressure to reduce costs, be more efficient, and innovate across the value chain.

A variety of possibilities exist within FinTech, allowing companies to analyze client behavior, tailor products, lower costs, deliver better results, and enhance investors' decision-making process.

Artificial intelligence can help the asset allocation model by better understanding and adapting to market indicator conditions. Blockchain technology can include and help improve projects that disrupt the traditional value-chain-like settlement processes, KYC, onboarding, or communications between the market participants. Robo-advisers, although still quite scarce within the EU, will allow firms to interact with the part of the population that is self-learning about capital markets and wants to invest by itself.

It is not just about maximizing profits; the return on the market and the return for the clients are different. The client does not always buy the right product or does not follow the anticipated behavior; therefore, new technologies can fill these gaps and help maximize the probability of investments and generating profits. To achieve this, the industry must accept to move on, to leave behind its past legacy, to identify the skillsets allowing for the improvement of operating models, and above all to implement the automation to fit future client behaviors.

There is a paradox between how the fund industry is perceived and how it acts. The financial industry is and was always associated with technology due to its image of computer users; however, it is now lagging behind because of its historical legacy practices. The industry needs to become more focused, more entrepreneurial, and more willing to experiment. If the fund industry players do not offer the new generation of clients what they are looking for, then other players will enter the market and do just that.

Some of these threats will potentially come from inside the fund industry itself, but more tellingly from non-financial firms like Amazon or Google who are looking to capture a share of the market.
The development of technology is not new and has been pushing firms worldwide to adapt. The rise of FinTech in particular should push financial players to rethink their service offerings. FinTech has already triggered new action plans, and new partnerships are beginning to form between asset managers, startups, and non-financial firms. Although firms are moving toward new technologies, the role of EU institutions and supervisory authorities is also a key driver.

As much as innovation needs to be regulated, regulations also need innovating. The interaction between the different players could be better organized, and supervisory authorities should play a role in reconciling these actors. Regulators must also remember to leave room for the new technologies to flourish. The FCA with its Regulatory Sandbox, and the European Parliament with its FinTech report, are paving the way for the asset management industry to embrace change to reach out to its future investors.

Around 60 percent of asset managers fear losing part of their business to FinTech, yet less than half have actually implemented FinTech in their business model.

8. Where next for fees in a low-income world?

Moderator:
Owen Walker
Commissioning Editor, Special Reports
Financial Times

Panelists:

- Cora Gibbons, Head of Product Development, Barings
- Andrew McNally, CEO, Equitile Investments
- Massimo Tosato, Former Executive Vice Chairman, Schroders
- Sheenagh Gordon-Hart, Partner, The Directors' Office

As low yields persist, investors are paying ever closer attention to the cost of their investment solutions. What steps do fund managers need to take to rebuild investors' trust in fees and how can this be achieved in the context of increasing regulation?

How do fees in Europe differ from other jurisdictions?

Before the ban on inducements raised by MiFID, the remuneration of the different agents active in investment management, asset servicing, and distribution of European domiciled funds used to be embedded in the fees levied by the fund. This practice is not seen in US-domiciled funds as retrocession of fees is forbidden. Typically, US-domiciled funds are marketed through a product wrapper, from where distribution costs are levied. Investment management fees are slightly lower for US-domiciled funds than for European-domiciled funds. This difference is explained by the higher volume of assets for the same asset class.

The level of fees largely differs for locally domiciled funds in Asia. As an illustration, fees in Taiwan are quite high while fees applicable to Australian domiciled funds are among the lowest in the world for share classes marketed to institutional or retail investors.

There is a general trend in Europe for fee reduction on both actively- and passively-managed products, still in the context of the proliferation of funds. Reading the recent FCA study on the asset management industry, it raised concerns that around half of the investors were not informed that fees were levied. In this kind of case, questions must be asked about whether the KIID has satisfied its objective and if understandable information on fees is actually provided to investors.

This complexity is further emphasized in Europe by the absence of harmonization across countries on the fees' structure and composition. The treatment of performance fees is a typical example. Generally, the comparability of fee level is not easy in the current regulatory environment across Europe. It may appear more difficult to compare fees levied from the fund's assets in Europe than in other jurisdictions.

How to rethink the current fee structure?

In the current model, fixed percentage management fees do not consider any economies of scale. These incentivize asset managers to asset gather, which may not be to the benefit of investors. Furthermore, hedge funds charge a high level of performance fees in addition to these fixed percentage management fees. The remuneration of asset managers is not linked to the actual production costs. Current fees are often based on market standards, competitive scenarios, and the risk return profile of the product.

So what are the considerations that the industry should reflect on to move to a more social model?

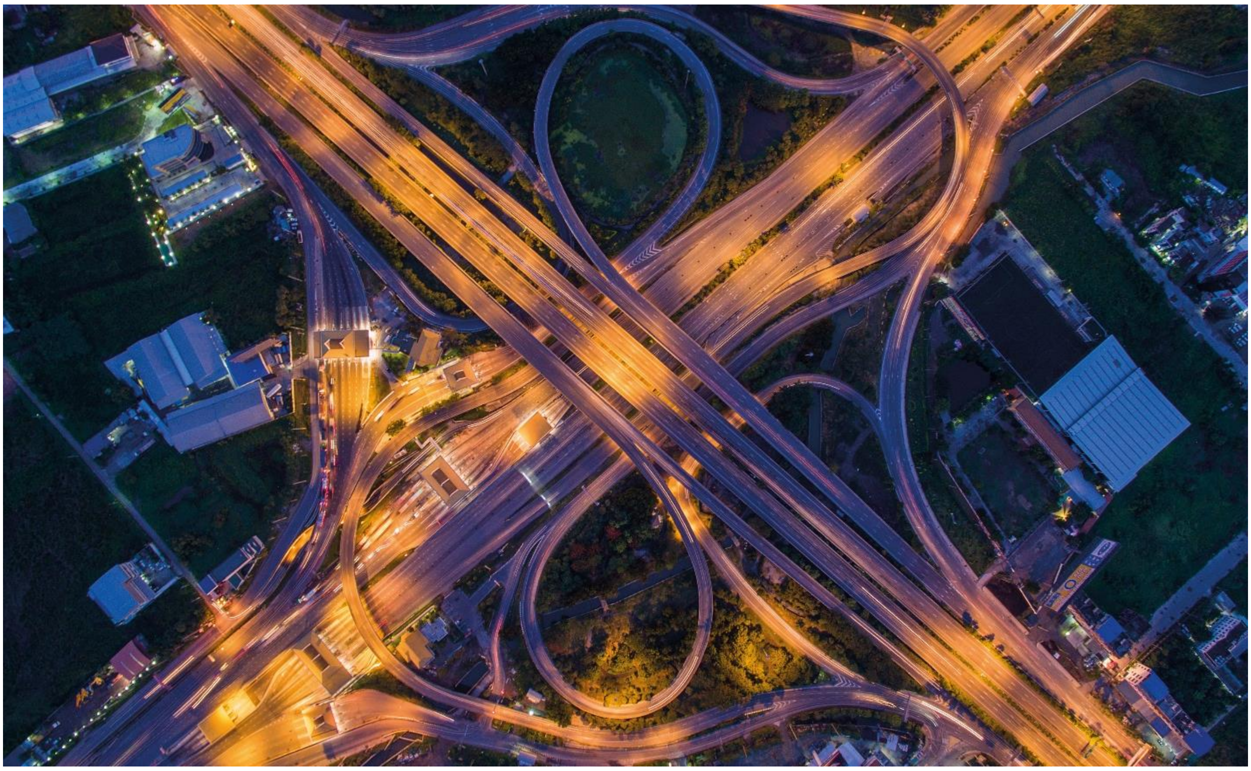
- The level of remuneration of the asset managers should not only be linearly linked to the performance of the underlying assets
- It should consider production costs
- It should also consider the value that was created for the investor
- The fee structure should allow not only for comparison across actors in different countries, but also for the type of services

It must be remembered that the same model might not be appropriate for each target market and jurisdiction as countries have taken different positions on performance fees. For example, the “symmetrical performance fee model” in the US obliges asset managers to pay back performance fees in case of negative returns.

Looking beyond the asset management industry, and so as not to penalize this industry, a level playing field should be reached across the various financial industries. Furthermore, efforts are required across the entire value chain, including asset managers, distributors, and product wrappers. For a fund to be competitive, all such components must be considered.

Is there too much regulatory focus on fees?

Transparency is required. The investment management industry appears to be giving the right amount of attention to standards of disclosure and transparency.
However there is a risk that too much focus on fees would remove some products from the list of available solutions to investors. Policy makers, regulators, and industry players should therefore not reduce investors’ choice but rather focus on education and awareness. Another risk of too much focus on fees is that the most competent managers move to other disciplines such as investment research and investment management of illiquid products, which are considered to be les fee-sensitive.



In the current model, fixed percentage management fees do not consider any economies of scale.

9. Brexit—into the unknown?

Moderator:
Baptiste Aboulian
Managing Editor
Ignites Europe

Panelists:

- Alexander Schindler, EFAMA President, Member of the Executive Board of Union Asset Management Holding AG
- Urban Funered, Director of Public Policy, Fidelity International
- Sean Tuffy, Senior Vice President and Head of Regulatory Intelligence, Brown Brothers Harriman
- Henriette Bergh, Former Head of UK and Europe Multi-Asset Product and Manager Solutions, Schroders

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- Despite the uncertainty of Brexit, the fund industry is already feeling the impacts
- A smooth transition is key and mutual recognition would be a favorable outcome
- Current fund domiciles such as Luxembourg and Ireland might benefit from cross-border management companies and MiFID firms moving into the EU

The UK represents the largest asset management business outside the US. The UK has played a major role in developing several EU regulations affecting cross-border fund distribution and also employs more than a third of all people working in the fund industry. Therefore, Brexit will affect and change many areas of the industry in the coming years.

Brexit has been accepted by the majority in the UK, including the asset management industry. Asset managers in the UK and Europe are already starting to prepare for the possible impacts. EFAMA has set up a task force to identify the most pressing topics to be discussed with European regulators.

One of the greatest repercussions of Brexit will be the changes in cross-border fund distribution and fund passporting. Currently around £5.7 trillion in assets are managed in the UK, of which approximately £1.2 trillion are managed on behalf of European investors.

Also, the UK is the third biggest domicile for UCITS funds. Currently, it is unclear if European investors can maintain investments in UK funds and continue to invest, and if UK investors can remain and continue to invest in European funds. If this will not be possible in the future, investors will be required to sell those investments.

Europe used to and must continue to attract international investors. The current situation leads to uncertainty, therefore, a smooth transition and possible mutual recognition is key.

To ensure this with as little impact on investors as possible, a mutual recognition between the fund types would need to be established.

UCITS and AIFMD would remain the leading regulations; the UK would need to keep "home" regulation aligned to these frameworks. However, even if mutual recognition is achieved after Brexit, the ongoing development of European regulations, such as UCITS VI and MiFID II will be affected.

Until now, the UK has had a large influence on defining EU fund industry regulation. After Brexit, the UK will no longer take part in the regulatory developments, which will be a loss of an important voice in Europe when deciding the evolution of the fund industry regulatory framework.

Brexit will also affect not only UK-based MiFID firms that sell investment management services across Europe and cross-border management companies, but also similar firms from outside Europe. While the UK firms and management companies will most likely move into the EU, US or Asian asset managers may well mirror this approach but could also leave Europe altogether.

To illustrate this, 58 percent of assets managed in the UK are managed by non-UK asset management companies and roughly 50 percent of those are managed by US managers. Countries that could potentially benefit from MiFID firms and management companies moving into the EU are Ireland and Luxembourg, as those UK-domiciled firms are most likely to move into countries where their funds are domiciled. In that case, Luxembourg and Ireland, the biggest UCITS domiciles in Europe, would benefit from net inflows and jobs. Non-EU asset managers may also decide to locate their European headquarters in these countries—potentially a significant impact for the UK.

Brexit will also affect soft issues, such as talent management. The asset management industry employs 37,000 directly in the UK and 90,000 in total. People working in the asset management industry are used to being mobile. It is now unclear how Brexit will affect EU citizens currently working in the UK and UK citizens currently working in the EU. Furthermore, Brexit might cause changes in the different activity fields of the value chain of asset management, such as investment banking, trading, and banks. Brexit may end up reshaping the asset management business model as a whole.

In summary, even if the outcome and timeline of Brexit remain unclear, asset managers have already detected the main areas of impact and are starting to prepare for different scenarios.

One of the greatest repercussions of Brexit will be the changes in cross-border fund distribution and fund passporting.

10. Keynote Address

Speaker:
HE Minister Pierre Gramegna
Luxembourg Minister of Finance

A view of the cross-border distribution industry and Luxembourg's future outlook.

Luxembourg's Minister of Finance Pierre Gramegna opened with: "*If I were to tell you that after my speech everything has become clearer to you, it's probably because you have not understood me, because we live in a very confusing time with different signals that make prediction of the future rather difficult*." He also mentioned that if you are looking for a stable country, then Luxembourg is the place to be.

Currently the world is witnessing globalization fatigue, and the risk is that some people think the problems are due to globalization. People are disappointed because they don't appear to reap the benefits; they feel like traded goods, seeing others getting richer while they become poorer. This is a question of wealth distribution, not globalization. We should continue to educate people about globalization and ensure everyone benefits, and not be surprised by the opposition against globalization.

In Europe, we are not great at announcing our achievements. Europe's current growth rate is around 1.5-1.7 percent, the best growth rate since the financial crisis, and for the first time in 8-10 years, the unemployment rate is below 10 percent. The Finance Minister said his message when travelling around the world is twofold, firstly Europe is doing much better than what you read, and secondly Luxembourg is doing even better.

Brexit was a topic that was mentioned in many of the conference sessions. According to our Finance Minister, when looking at this from an EU country perspective, a worrying part is that we are losing the largest financial center in the world. We should however choose to look at Brexit in a corporate manner without a punishing attitude, build bridges, be realistic about the consequences, and not be in a hurry. Swiss banks have set a good example; they are not part of the EU, but that does not prevent them from being active and present within it.

Looking from the UK's perspective, it is obvious that they can't have their cake and eat it (too). Theresa May, the UK's Prime Minister, has announced that the UK has chosen the hard Brexit, but was there ever a soft Brexit? Soft Brexit was effectively an illusion of being inside and outside the EU at the same time, one which is not compatible with reality. EU Directives allow for the free movement of goods and services; the UK may choose to keep EU regulations and enshrine them in British law, but when the courts will interpret them, divergences will occur. A more probable outcome is that the UK will adopt new regulations that will be different to those of the EU, since the exit's goal is to be independent and have the power to decide themselves. Hence logically there was only ever a hard Brexit.

The free movement of people should not be influenced by Brexit, since the single market is an economical project and not a political one; but trying to separate them is a problem. The UK and the European countries should unite by allowing people to stay where they are. People living in foreign countries are there legally, working, contributing socially, and paying taxes, so on what grounds could or should you ask them to leave? The Finance Minister did provide the audience with the reassurance that British citizens are welcome in Luxembourg.

There are four major pillars in Luxembourg's financial sector, with FinTech as the fifth pillar that will affect all of the other four pillars. FinTech is about sharing and open borders, with a quick dispatch to conquer markets. After the Brexit vote, Luxembourg received a lot of interest, especially from small tech startups. It is more important for them to have immediate access to the EU market than to the people around them.
As a small country, Luxembourg has a rare chance with its critical mass of players; on one hand there are 145 banks serving as potential clients for the new FinTech startups, and on the other, these banks may wish to develop their own solutions. Interaction and an open mind will be key, hence the importance of the recent launch of the Luxembourg House of Financial Technology.

We are in a fascinating period and Luxembourg is well-positioned to benefit. Prior to the Brexit vote, Luxembourg corporate income tax was reduced from 21 percent to 18 percent, indicating we are attractive but not aggressive. We can afford to be attractive as our public finances are under control, and we are ready to receive new customers in a responsive and responsible way.

The Finance Minister finished by paying tribute to the role of the regulator.

In today's world, credible solutions are paramount, and developing strong pragmatic solutions that comply with EU regulations is what Luxembourg's regulator has done.
As an example, Luxembourg was among the first countries to accept and regulate virtual currencies, and now we have a full set of regulations and institutions catering to the needs of this market. Luxembourg has come a long way with transparency, which is key for its reputation, and in the end a good reputation is what will move you forward.

11. Glossary

AIF	Alternative Investment Fund
AIFMD	Alternative Investment Fund Managers Directive
AMF	Autorité des Marchés Financiers, French Supervisory Authority
AMIC	Asset Management and Investors Council of the ICMA
AML	Anti Money Laundering
CEO	Chief Executive Officer
CMU	Capital Markets Union
CSSF	Commission de Surveillance du Secteur Financier, Luxembourg Supervisory Authority
DG FISMA	Directorate-General for Financial Stability, Financial Services and Capital Markets Union
EEA	European Economic Area
EFAMA	European Fund and Asset Management Association
EIOPA	European Insurance and Occupational Pensions Authority
ELTIF	European Long-Term Investment Fund
EMEA	Europe, the Middle East and Africa
ESA	European Supervisory Authorities
ESMA	European Securities and Markets Authority
EU	European Union
EuSEF	European Social Entrepreneurship Funds
EuVECA	European Venture Capital Funds
FCA	Financial Conduct Authority, UK Supervisory Authority
FinTech	Financial Technology
FSB	Financial Stability Board
ICMA	International Capital Market Association
IDD	Insurance Distribution Directive
IOSCO	International Organization of Securities Commissions
KID	Key Investor Document
KIID	Key Investor Information Document
KYC	Know Your Client
MEP	Member of the European Parliament
MiFID	Markets in Financial Instruments Directive
MiFID II	second incarnation of the Markets in Financial Instruments Directive
MiFIR	Markets in Financial Instruments Regulation
OEIC	Open-Ended Investment Company
PEPP	Pan-European Personal Pension Product
PRIIPs	Packaged Retail and Insurance-based Investment Products
RDR	Retail Distribution Review
RegTech	Regulatory Techology
SEC	Securities and Exchange Commission, US Supervisory Authority
UCITS	Undertakings for Collective Investments in Transferable Securities
UCITS VI	Sixth incarnation of the Undertakings for Collective Investments in Transferable Securities Directive
UK	United Kingdom
UK TTF	United Kingdom Tax Transparent Framework
US	United States

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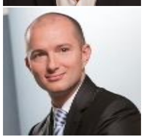

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