Lux in flux

With a range of issues to contend with, including the future of Ucits, the Madoff scandal and the global recession, Luxembourg has reached a critical moment. Angele Spiteri Paris talks to some of the fund centre's leading industry figures

Photograph by Michel Brunat

Participants

- Angele Spiteri Paris, *Funds Europe* (chair)
- Jean-Marc Goy, counsellor to the director general, Commission de Surveillance du Secteur Financier (CSSF – the Luxembourg fund regulator)
- Camille Thommes, director general, Association of the Luxembourg Fund Industry (ALFI)
- Henk van Eldik, head of fund distribution, Ikano Fund Management SA
- Denise Voss, conducting officer, Franklin Templeton Investments
- Josée Denis, global TA product specialist, BNY Mellon Asset Servicing
- Michael Ferguson, partner, asset management leader, Ernst & Young
- Steve Bernat, head of transfer agency product, Citi Global Transaction Services

Angele Spiteri Paris (ASP), Funds Europe: The EC's proposals for the management company passport have been included in the most recent round of Ucits reforms, following advice from CESR, the Committee of European Regulators. ALFI was controversially opposed to the plans for the passport. Was this stance justifiable?

Camille Thommes (CT), ALFI: We are convinced that Ucits IV will bring numerous benefits to the industry and investors. Most measures will certainly bring the industry forward – for example, the notification procedure, merger, pooling and the key investor information document.

Since the publication of the European Commission green paper, we've examined the issues, particularly those regarding the management company passport, very carefully.

We're not opposed to this in principle, but we nevertheless highlighted the fact that this is a complex issue and there are a certain number of legal, regulatory and fiscal elements that need to be addressed.

We have made our position clear. When the European Commission released its document, initially it did not include the management company passport in the package. We supported that view but during the course of discussions, it was evident that a number of countries, mainly large countries, wanted to include the passport as part of the whole Ucits IV package.

The commission had asked CESR to give some advice regarding the passport and we participated in that consultation. But in the end a large majority was in favour of including the passport in the Ucits IV proposals. So we accepted that, although we would rather have solved the problems beforehand.

We also note that our views were shared by other regulators in various countries.

Now we will look at the more technical detail, at how those issues we addressed can be solved. It's a fact that we will live with the situation and we're quite committed to making it an opportunity for our industry.

Jean-Marc Goy (JMG), CSSF: The CSSF was also not in favour of introducing the management company passport in the Ucits directive. I would like to stress that our position was not that we were opposed to the idea of the passport in principle, but that we had serious and fundamental concerns from the perspective of a supervisory authority.

We consider that the current framework has had very positive repercussions as the Ucits sector has grown continuously over the last years. The current Ucits framework is clear and simple and does not raise any legal or tax questions.

We were concerned that the new system, with the introduction of the management company passport, would lead to a split supervision and to structures and procedures that would be more complex, more burdensome, more time-consuming and also more costly.

We expressed our concerns in the accompanying letter to CESR's advice to the European Commission on the management company passport. As a matter of fact, we were not the only supervisory authority that had concerns. There were four other CESR members that also voiced their concerns.

We were worried that the introduction of the management company passport could have a negative impact on investor protection. It's crucially important that supervisory authorities can properly exercise their enforcement powers in the context of a remote management company in a different jurisdiction.

So for all of these reasons we were not in favour of a management company passport. In spite of this, it is interesting to note that ALFI is expecting a lot of improvements from the Ucits IV directive.

The directive is in the process of being adopted and I believe that, as in the past, Luxembourg will swiftly implement the new rules. We will prepare ourselves to ensure the best possible supervision in view of the new structures. Cost efficiency was one of the main arguments for the changes and overall, one can hope that the Ucits IV directive will result in the creation of cost efficient Ucits of good quality.

Steve Bernat, Citi: the management company passport allows for the centralisation of processes and functions

Photograph by Michel Brumat

THE FUND MANAGER VIEW

ASP: Henk, from the perspective of a fund manager, what is your take on the passport?

Henk van Eldik (HVK), Ikano: For Ikano it is very simple as everything we do is in Luxembourg. Working for a large company with management companies in a number of countries before, we discussed it and colleagues were very much in favour because they felt it would bring more management quality into the single management company.

From our discussions, we always felt that Luxembourg was the best place to have the management company, so I completely understand the hesitations that ALFI had and I completely agree with them. I would rather have seen these issues resolved rather than the way it is happening right now. But that decision has been taken and I think Luxembourg will benefit when it comes to management companies going forward.

ASP: Steve, what about from the perspective of an administrator?

Steve Bernat (SB), Citi: I can understand ALFI's position because Ucits is a well-regulated investment product with high investor protection. That's why the Sicav [a Luxembourg Ucits-compliant fund structure] has become a brand in markets like Asia, where high investor protection is top of the list when choosing foreign investment products.

At Citi, we were not against the management company passport because it will allow our business in Europe to centralise certain processes and functions that sometimes may be outside of Luxembourg where it makes sense. Ucits IV will probably speed this process up, through which we will be able to increase operational efficiency, but also reduce operating costs, which everybody will benefit from.

However, I'm wondering whether the operating models will be that different to what we have in place today. Up until now we were looking at models that would accommodate the global investor base that we service in Luxembourg. The Sicav is a product that is distributed globally and to accommodate the needs of global asset managers we had to leverage on client servicing operations in other centres, such as Asia.

I believe that a number of components of the Ucits IV directive will play to the advantage of Luxembourg. Especially the issue around cross-border fund mergers that the directive seeks to address by harmonising merger procedures to allow a consolidation of funds, therefore increasing their size, which ▸

should eventually bring economies of scale. Asset managers worldwide have spent the last couple of years looking at rationalising their product range. Instead of having products in multiple jurisdictions they are looking at consolidating in one jurisdiction. And here Luxembourg is well placed to capture a lot of that business, because of the global reputation and the infrastructure – the people and technology – it has built up over the last two decades.

All of that combined has attracted important asset managers globally in the past and this is not something that is going to change over night.

Denise Voss (DV), Franklin Templeton: My concern personally for Luxembourg is that if ALFI and the industry players don't move quickly then groups such as ours are going to go off and look at Ucits and the passport and take decisions that don't necessarily take all the factors into play. I know ALFI is starting to look at the management company passport and all of the elements of Ucits IV to come up with pragmatic, practical solutions that can be sold and be to the advantage of Luxembourg.

Josée Denis (JD), BNY Mellon Asset Servicing: I would echo those comments. From an industry perspective, you have to consider that Luxembourg has over 20 years' experience of putting in place a global cross-border infrastructure. Luxembourg-domiciled funds are today directly distributed in over 55 countries. Most practitioners here have between five to eight different fund administration servicing hubs across the world just to serve that global distribution of Luxembourg-domiciled products.

The industry anticipated Ucits IV and considered whether or not the management company passport would come into play. With support from ALFI, dedicated operations working groups are serving under the ALFI TA Forum, where we have already started to map out the various cross-border operating models that are in place today. We have two dedicated working groups in place looking at cross-border servicing requirements, business models and regulatory and compliance. One, the Global TA WG, is defining the various cross-border business models currently in place. We're looking at 'modelisation', that is, depicting various TA operating models showing exactly what cross-border administration means for funds distributed in Hong Kong, Singapore, Poland and so on. What's important here is the 'operational readiness' of the industry to be able to support any type of regulatory requirements under the new revised Ucits directive and the fund administration location where these funds may ultimately be serviced.

The other, The Business Ethics WG, is looking at the migration of a fund's book of business from one administrator – this includes the custodian, the fund accountant and the transfer agent – to another within the Luxembourg jurisdiction. Following this exercise, we'll also delve deeper into the migration between jurisdictions. We started working on that last September and it's going to be one of our key deliverables within the second quarter of this year. This will give us some insight into potential issues, such as key regulatory, compliance and quality assurance issues. Should one of our clients ask us to administer their products within their own jurisdictions, we will be able to ascertain exactly what this will entail. A big role for us administrators is to educate our own clients on the various operating models out there and the critical cross-border servicing requirements these encompass between jurisdictions.

NO CONVTROVERSY

Michael Ferguson (MF), Ernst & Young: To go back to the question, my view is that it wasn't particularly controversial. As the largest Ucits domicile, Luxembourg was justified in raising its concerns. We should always remember that Ucits is a brand. It is not only a European brand but a global one. So this discussion cannot just be contained within Europe. For example, the significant sales growth over the last twelve months has come primarily from Asia, therefore how this brand is perceived in Asia is very important.

Like anything in life, the proof of the pudding will be in the eating. We've seen the CESR guidance and revised Ucits directive. What will really matter now is how this is going to work in practice.

Everyone here today recognises that one of the key objectives of the industry at the moment is cost containment. Luxembourg should and will take the lead to ensure the CESR guidance/directive is implemented in practical terms to ensure efficient cost process for all parties concerned, while at the same time maintaining strong investor protection.

Denise Voss, Franklin Templeton: Luxembourg can be a centre of exellence for asset management

Photograph by Michel Brumat

The whole debate over the introduction of the passport is now over, lets move on with the implementation.

JMG: In this context it is interesting to note that CESR is already preparing to start the level 2 work concerning the Ucits IV directive and we have a very busy schedule ahead of us to see exactly how all these questions can be resolved. If a Ucits fund is established in one member state and the management company is established in another member state and some activities are delegated to yet other member states or non-member states, then the structures are complex and the rules need to be clear. We are starting to tackle the issues and we know it is expected that CESR will come up with very clear and precise rules.

CT: Regarding Luxembourg's positioning in Asia and the large-scale acceptance of the Ucits product in that region, it is important to regularly inform the regulators there about Ucits IV and the impact of how it might work in practice. We should not exclude the distributing countries from the debate as they put a lot of trust in the regulatory framework. We should avoid jeopardising the high quality of Ucits and the quality of the brand.

FRONT OFFICE EXCELLENCE

ASP: ALFI has shown its keenness to attract front-office activities, such as portfolio management and research, to Luxembourg. ALFI's board of directors resolved in 2005 to ▸

include asset management in the scope of the association. How is this ambition developing and is it realistic? Could Luxemburg really become a centre of excellence for asset management in the same way that it has for fund administration?

DV: Luxembourg can absolutely be a centre of excellence for asset management. However, I don't believe anyone expects it to be an enormous part of the economy.

There are already examples of traditional pure asset management activity in Luxembourg – ING and Nordea, for example – and we've seen other asset managers set up here over the last couple of years. These are mainly smaller, boutique-type players, but they are coming to Luxembourg. Given the infrastructure, access to fund administration, the regulatory environment, the flexibility, access to regulators and people in the government, you can see why.

Also, some asset managers prefer to be far from the madding crowds of London and New York. The late Sir John Templeton set up his international equity team in the Bahamas. That was a conscious choice to be away from all the noise that you get when you're in London etc. There have been some strides made, some brochures, some information put out into the market. But it's a long haul because people don't necessarily automatically think of Luxembourg and asset management together. It is there and it's developing.

Michael Ferguson, Ernst & Young: asset management will prove challenging for Luxembourg

Photograph by Michel Brumat

MF: Given the consolidation that's going on in the industry, it's obviously important for Luxembourg to think about diversifying. Asset management is one of these potential diversifications. I personally believe, rightly or wrongly, it's going to be very challenging for Luxembourg to become a 'real' asset management centre. In order to make that happen there'll have to be some real out-of-the-box thinking. We may want to look at what some of our close European neighbours have done and been successful at in this area. For asset management, we're competing with locations such as Paris and London. We would also need to take a closer look at such issues as infrastructure and also think about putting some very specific incentives together to attract this type of business.

Before we talk about asset management, I don't think we should dismiss fund administration. In times of dislocation, as we have had over the last 18 months, fund administration becomes the front line, whether we like it or not.

DV: I don't think anyone expects Luxembourg to become a London or a New York in portfolio management.

MF: Perhaps more of a Zurich or a Geneva.

CT: The opportunity is there to attract small to medium-sized companies or boutiques. Things, however, need to be improved. But I think Ucits IV can be an opportunity for us to attract companies to set up their asset management business in Luxembourg.

JD: Obviously I would like to attract more asset managers so I can administer their assets! From a practitioner's perspective, we have been getting more requests to manage smallish boutiques on the more alternative side of the fund industry. We have to be much more open and flexible to funds besides long-only funds. All of us in this space have had to create our own alternative investment administration unit. We now have to administer real estate funds, funds of funds, hedge funds, funds of hedge funds, etc, and I don't think that's going to stop.

Following what Camille said, after small and medium boutiques, maybe the bigger players will see that there's a success story in Luxembourg.

HVE: Ikano has been in Luxembourg since 1999 and the reason we chose Luxembourg was because we decided not to be a fundamental research manager. Being in Luxembourg as a fund selector is excellent because you're very close to a lot of funds and to the discussions that are going on.

Fundamental houses will probably spread all over the world because the only way for them to generate alpha is by being in the local market, rather than by sitting in London taking an investment decision, for example, Indian stocks. But in the area of fund selectors, we will see many more local managers.

There are also macro managers who do not have to sit in a particular country. An area where Luxembourg is extremely strong is private banking and private banking is very much macro management where strategic asset allocation for clients is important, meaning you're not questioning whether you should invest in a US or a Japanese small-cap manager. You're thinking much more strategically. Therefore, the knowledge base is building up in this area, which can also be used in asset management.

I think there's a shift in investors' needs with them saying, 'I'd like to have a fund that brings me between 6-9% a year and I don't care how you do it.' There are needs to be fulfilled, and although Luxembourg is maybe a niche today, in future it could manage a lot of those assets.

CHANGING ASSET BASE

ASP: Josée, you mentioned you've been asked to administer more alternative funds. How would you say the financial crisis is changing the profile of the Luxembourg funds industry's asset base?

JD: This crisis is unfortunate but it is not the first one Luxembourg has gone through, and we've always come out of the storm. For us, it's definitely an opportunity because we use this period to take stock of our current business model. The growth has been so exponential in the last three to five years that administrators have had to adapt quickly and have not had the time to truly sit back and look at the bigger picture. Now we have the chance to do that. It is an opportunity for us to look at the model we've built and see where there's room for improvement in terms of operating efficiencies, controls, etc. It will give us the occasion to make sure our infrastructure is operationally ready once the markets start to pick up again.

Another topic that is important is risk management. We're focusing on our costs, compliance, regulation, quality assurance, operating controls, and so on. It's not that we've never done it in the past, it's just that now we have an opportunity to take this time to fully review our operating platform and exercise even more scrutiny with regards to our operating procedures and the quality assurance of the services we provide.

JMG: There are a series of aspects to the current financial crisis, which can be divided into two parts. On the one hand, the events that are not related to the recent Madoff affair, and on the other hand the events that are. The events not related to the Madoff affair – the sub-prime crisis, the Lehman Brothers collapse, etc – will most probably affect the asset base of the Luxembourg fund industry. It may result in a decrease of activities. However, such a decrease of activities should be limited to the short term.

We may see a trend towards more traditional and conservative low-risk products that are more appropriate for the investor who does not have an aggressive, high-risk investment style.

The events related to the Madoff affair may also have a negative impact. Currently, there is vocal criticism of certain aspects of the Ucits directive and its implementation and application in certain EU member states. There is considerable pressure on Luxembourg in this regard in particular with a view to the functions and responsibilities of the depository. This negative press may affect the Ucits and investment fund sector of the whole European Union and among others the Luxembourg Ucits and investment fund sector.

Jean-Marc Goy, CSSF: investor protection is of the utmost importance for Luxembourg

Photograph by Michel Brumat

INVESTOR PROTECTION

I would like to emphasise that investor protection is of the utmost importance for the Luxembourg supervisory authority. The Luxembourg law implementing the Ucits directive is in line with the directive. Yet if the EU member states should come to the conclusion that there is a need to further elaborate the current regime we will gladly and actively participate in amending the framework.

The CSSF has recently been informed that some investment fund service providers that are big global players have plans to set up more additional activities here in Luxembourg and these new activities should compensate for the possible decrease that may result from the financial crisis.

DV: It's very clear that the last 12 months ending October, Luxembourg only suffered significant net redemptions in October, while in November they were relatively limited. One of the main reasons for this is the diversification of the asset base in Luxembourg. Obviously there is much more investment in cash funds than there has been, but there is still a significant portion of the assets in bonds and equities. Asset diversification and the variety of funds offered is going to help Luxembourg in the future.

Also it is not only the asset base that is diversified but the client base as well. The distribution networks are diversified. We're not just all dependent on one type of client or one market. The asset base has suffered and there is going to be more of a weighting towards cash, but it's a fundamentally a sound base from which we can go forward once the crisis has been worked through.

CT: The financial crisis has been less harmful to the Luxembourg fund industry then to other jurisdictions. This is due to the diversification of our product range, the variety of the distribution markets we serve.

We've obviously been affected indirectly. There have been and still are issues around illiquid instruments that cause problems in valuing the instruments.

At ALFI we have tried to step up our efforts to help the industry cope with these challenges, especially during the month of October. It's quite clear that assets have come down. If we look at the figures, there's been a drop in assets of €500bn for 2008. However, it's worthwhile stressing that 85% of the drop is due to bad market performance and only 15% is due to net outflows of money. We had a difficult month in October with over €70bn of outflows, but overall we remain confident. We have a regulated and sound environment here in Luxembourg and we've faithfully transposed the provisions of Ucits into our national law.

MADOFF FRAUD

Regarding the Madoff affair, this is something no one could have imagined. I would like to stress that the main responsibility of the scandal lies in the US. It's a fraud committed by a US company controlled by the local regulators. Obviously ALFI calls for a rapid disclosure of the cases now under discussion. It is up to the regulator to go through the whole chain of responsibilities and identify what were the roles of the various services providers and to check whether they have diligently done their work.

JMG: Indeed we should not forget that when we talk about the Madoff scheme, we are talking about serious fraud and considerable criminal energy.

SB: The financial crisis was caused by the banking sector and even though the funds industry is impacted, it has not suffered to the same degree as the banking sector. This is confirmed by the latest ALFI statistics. The number of funds between January and November has increased by more than 17%. At the same time we must acknowledge that we've seen significant outflows over the last few months, so the landscape will certainly change.

Investors have lost confidence in fund managers and so managers probably need to reposition themselves and think about how to regain investor confidence. A recent KPMG survey on the impact and lessons learnt from the crisis for investment managers came to the conclusion that the fund management industry was too product-led and not sufficiently customer-focused.

A Citi sponsored survey focused on the gap between asset managers and high-net-worth investors came to the similar conclusion that asset managers need to learn more about the needs of their customers. Investors are going to want more transparency and more simple products. They will probably do more of their own analysis and risk assessment rather than just relying on rating agencies. For us third-party administrators, talking about risk management, there will certainly be more controls that we'll need to perform that asset managers will certainly push down to us as administrators.

HVE: In reaction to what Steve said about product development and the point about asset managers needing to understand their clients better, I fully agree. But we have to realise that if we take, as an example, the European space, the majority of our clients are banks and the minority are independent financial advisers, pension funds and insurance companies. So if I were to go to my client and ask which product they would like, ▸

Josée Denis, BNY Mellon Asset Servicing: the industry must be 'operationally ready' to support new regulatory requirements under the new Ucits directive

Photograph by Michel Brumat

the client would ask which one I proposed. The simple reason for this is that the client has another 25 asset managers asking exactly the same question. When we asset managers don't get the demand, we create that demand by setting up whatever we think is a good idea – a convertible fund, a high-yield fund, a gold mining fund – wherever we think there is a beta opportunity.

I definitely acknowledge this disconnect but I don't think that there's necessarily a plausible answer to it available today. If there was, then probably ALFI would have already played a clear role passing that on to the end investor.

MF: I would personally ask the question, how 'will' the financial crisis impact the Luxembourg fund industry? We've got to recognise that Luxembourg is part of the global world, especially when it comes to the funds industry. I believe there is going to be significant consolidation of fund products at a European level driven by cost containment and lower asset levels. This will impact Luxembourg. There is not only going to be consolidation at the fund product level, but also at the distributor level and at the manufacturer level. After all, look what is happening in the banking industry. There are many examples of where there used to be three banks six months ago and now there's one. I expect lots of mergers within countries and across borders.

As far as products are concerned there's a huge shift back to basics, transparency, simplicity. These are the new in-vogue words. As regards alternative products, these in general had a very rough time, whether its hedge funds, private equity or real estate. However, as the banks are in the process of cleaning up their balance sheets, they are selling off, for example, commercial property mortgages and other assets. I see Luxembourg being used, in particular the Sif [specialised investment fund] structure, to create alternative products around these types of assets.

Henk van Eldik, Ikano: Europe holds a lot of prospects for Luxembourg, in pensions for instance

Photograph by Michel Brumat

FUTURE PROOF

ASP: Do you think that Luxembourg funds will remain unblemished in the crisis?

HVE: I think the future will prove who was right and who was wrong. In the crisis we've just had, there are always things that show up where you realise things could have been done better or processes that you thought were tried and tested did not work as perfectly as you expected.

To give one example, in a mutual fund you can hold a cash position and most mutual funds, at times like this, will hold cash positions. But the question is, am I comfortable holding a cash position with a bank as counterparty, in that I don't know whether that bank will be in trouble tomorrow?

If you had asked this question a year ago everybody would have laughed at you. Why did so many people misjudge the Lehman Brothers story? Because they never imagined it would fail or that the government would let it fail.

Then this leads to the issue of needing liquidity but not wanting to put it into bank deposits. So instead we put money in government bonds. This is something that was never discussed before and therefore it leads to new ways of thinking, it leads to lessons being learnt. From what I've seen Luxembourg has weathered this extremely well. The problem is that because we are the biggest centre, everything that will go wrong in Luxembourg, of course, will end up in the press.

NEW FRONTIERS

ASP: ALFI and Luxembourg have been targeting new markets such as the Far East and the Middle East. What are the results from these new markets and what are the prospects?

JD: The Far East and the Middle East are mature in our minds. We've had to embrace this development over the last four to five years. When I first arrived in Luxembourg, about 20 years ago, Flemings was the first to launch a Sharia-based fund [the Hansard Fleming Oasis International Equity fund]. That was 15 years ago so it's nothing new. What is new is the number of Sharia funds in ▸

Camille Thommes, ALFI: we must keep Asian regulators informed about Ucits products in the region

Photograph by Michel Brumat

Luxembourg, which is about a dozen to date. It was eight sometime in the middle of last year.

If I look to a short-to-medium term perspective for us as practitioners, I go back to what I said before. We have to make sure we fully ascertain our infrastructure – how we support our industry from an operational standpoint – together as a group.

From a Luxembourg fund industry perspective, we have to confirm we have a sound and robust infrastructure that is able to take on board any challenges that come our way. Everybody is envious of our growth and of where Luxembourg is positioned in the world, especially as a truly global fund administration centre. As Henk mentioned, any scandal is going to be looked out for.

At the end of the day we've always survived and thrived in the process. We now have to take it up a notch and promote to asset managers, distributors and the underlying investors that we indeed have a robust and sound operating platform and infrastructure in place. Whether it's new markets that we're going for, new products or new regulations/directives coming on board, we have always been on-trend and have continuously kept evolving our operating structure in line with industry developments as they arose.

Now it is about that marketing piece. With over 20 years of key experience in global cross-border fund distribution support and a global operating platform, Luxembourg is clearly a leader by example but it's something we haven't been good at marketing.

MF: It is important to highlight that these developments are due to the joint efforts of ALFI and the Luxembourg government.

It's important to point out the level of Luxembourg-domiciled funds distributed in the Far East. I believe it's well over 70% in Taiwan. We should also refer to the memorandum of understanding that we have with the Chinese government. It is important to demonstrate that this is a result of efforts by the Luxembourg government.

JMG: I can confirm that we have close contacts with the supervisory authorities in mainland China and that we do indeed have a memorandum of understanding with them.

Regarding the prospects for the future, in the short term our focus will definitely be on the implementation of the rules of the Ucits IV directive. There's a lot of level 2 and level 3 work to do at the CESR level. As the supervisory authority of Luxembourg, we will actively participate in all these working groups to make sure we have an appropriate framework to cover Ucits. As I indicated, we hope that in the future Luxembourg Ucits will provide even better quality and improved cost efficiency.

CT: About the Middle East. The Gulf is a very important region for our industry. We regularly visit these countries, promoting our industry and products. To talk figures, in Bahrain, for example, the market share of Luxembourg funds is 77%. ALFI, together with Luxembourg for Finance, is promoting our country in that region and has participated in various economic and financial missions led by the government. At the level of our association, we have set up working groups which deal with the numerous aspects of Islamic finance. We have a lot to offer to the investors in that region. It's not just investment funds, but also other investment vehicles and our expertise in structuring their investments.

MF: Of course I appreciate we are concentrating our discussions today primarily on investment funds. However, when we speak about the Middle East we need to think about the bigger picture of Islamic finance and what Luxembourg may have to offer in this wider area.

SB: We've been so successful in markets like Hong Kong, Singapore and Taiwan, yet significant opportunities remain. Just refer to the memorandum of understanding signed last year in March between the CSSF and the Chinese financial regulator that gives us direct access to the financial industry in China. It may take us some time to really cover this market, but meanwhile we have to gear up to be able to service those markets and help educate clients in those new markets and make sure that we present future opportunities and possibilities to our existing clients.

HVE: I think Europe has still a lot to offer Luxembourg. We haven't touched upon pensions for instance, where there is still a lot of development to be done and where mutual funds and Luxembourg funds can play a fantastic role. There are many prospects and it's just a matter of working through them when the opportunity comes along. **fe**