Q&A

DEBEVOISE & PLIMPTON

Debevoise & Plimpton Luxembourg partner Christopher Dortschy, discusses the fund domicile's regulatory landscape, its sustainability initiatives and how it has benefitted from Brexit.

By *Talya Misiri*

Luxembourg has built a strong reputation as a European fund domicile and service centre. What is keeping this going?
A standout aspect is that we have many different types of investment structures. These can be fairly complex in make-up, but we are always working to make these simpler and offer a multitude of options to sponsors.

We also have a very business friendly environment. Being welcoming to business, and making it easy for funds to work here, always were and remain important characteristics of our economy.

Our multiculturalism is also a benefit. Most of our people are multilingual; it's pretty normal that you speak three, four, sometimes more, languages, which is obviously useful for firms from across the world looking to do business in the country. You can communicate with the regulator in French, English, German or Luxembourgish. There are also many people fluent in Italian, Portuguese and many other European and non-European languages.

Another key strength is that Luxembourg has been politically and legally stable for many years. In addition to providing access to European legislation, we have the European Court of Justice and other European institutions like the EIB, here too. These all assist with creating a really strong foundation for a strong fund industry in the country. Luxembourg has also benefitted from the issues experienced in other fund domiciles.

For example, issues including anti-money laundering and counter terrorist financing in the Cayman Islands and Mauritius are having an impact on funds that would previously have chosen to administer there. I think that that has led to significant growth for us on the private equity side.

Investors sometimes complain about the fact that we are strict on onboarding investors and ask them a lot of questions about the sources of their wealth. The reason for that is because we do everything to stay aligned with Know-Your-Customer

regulations. That's why the regulator is sometimes even stricter than our direct neighbours on these elements to ensure that we are first in class.

The CSSF works closely with the funds industry in Luxembourg. What are the benefits of this and what are the regulatory benefits that make Luxembourg an attractive fund domicile?
While previously most interactions with the regulator happened during the launch, or during the lifetime of a regulated fund, nowadays, our relationship with the CSSF is more sophisticated. This is because most of our PE funds do not require prior approval any longer as they are managed by a manager that is authorized by the CSSF or by another regulator within the EU or operate within certain regulatory exemptions.

So, the role of the CSSF in relation to funds investing in PE and other alternative asset classes has shifted a little bit in the sense that they provide guidance and regulations that indirectly impact those funds. In any case they are still listening to what's going on in that market, though they are not directly supervising most alternative products.

The CSSF has a lot of discussions with the people here on the ground, but also on an international level. This gives us a level of comfort around the fact that they won't surprise us with regulation that could turn our industry upside down.

Luxembourg ranks as the second greenest financial centre in the world after Amsterdam. What has led to its success in green and responsible investment?
The funds sector in Luxembourg was one of the early movers in this space, initially through the Luxembourg Finance Labelling Agency (LuxFLAG) which was put in place in 2006, well before regulations like SFDR had been introduced. It's not as all encompassing as SFDR, of course, but has served some of the same purposes; specifically, creating a trusted accreditation for funds in terms of sustainability and responsible investment. It's helped give investors reassurance over the years, and is open to funds domiciled outside Luxembourg as well.

We also have the Luxembourg Sustainable Finance Initiative, which went live in early 2020, and is doing great work in promoting sustainable finance in Luxembourg.

On top of that, there are a number of other smaller, local groups and non-profit organisations that are working to put sustainable investment on the radar.

How is the funds industry in Luxembourg evolving and what aspects make it ahead of other European domiciles?
Our ability to be nimble has helped foster a lot of innovation in terms of structuring funds and finding new solutions that work for managers and investors. That nimbleness is made possible in large part by the stable political situation and the recognition of the importance of the financial sector to the country's economy. It has led to an ability to innovate and to see opportunities when they arise.

Has Brexit impacted the volume of funds choosing to domicile in Luxembourg?
Brexit has significantly impacted activity in Luxembourg. We have seen managers shifting over to the country, not only in the alternatives space, but also UK houses, many of whom started here with just a handful of people and are now, in some cases, approaching triple digits in terms of headcount.

Of course, we all thought we'd see managers relocate from Mayfair to here. That didn't happen en masse, but we have seen a definite shift.

Covid and the rise of remote working slowed this down a little bit. It meant regulators seem to have been more generous to sponsors, allowing them a little bit longer to implement their Brexit plans. But, in terms of the fund structures, I think they would have probably come to Luxembourg to domicile their funds anyway; Brexit has just accelerated this.