
Looking forward

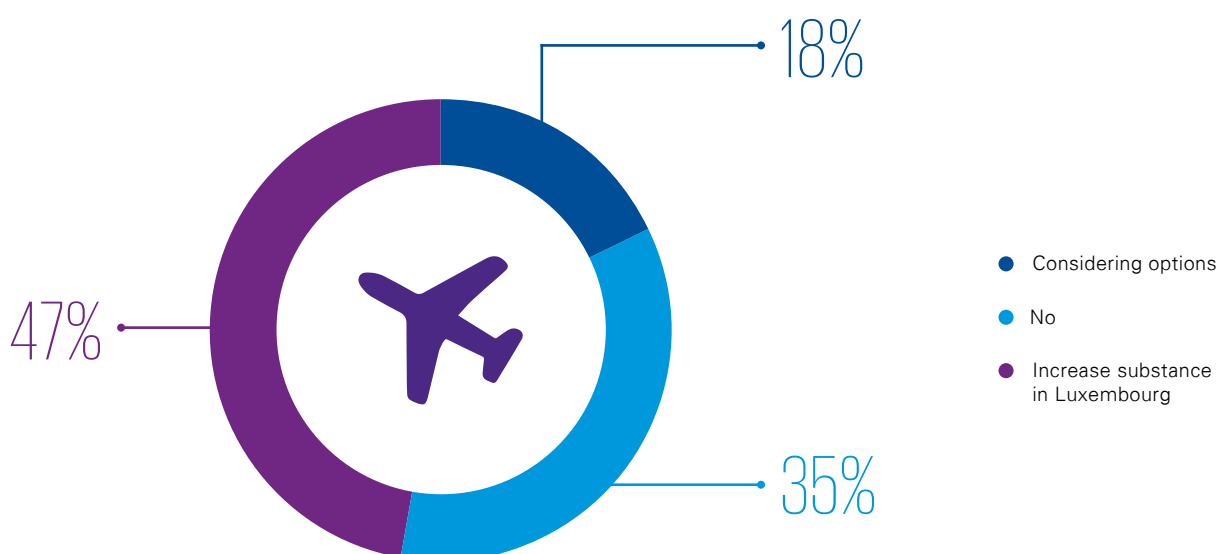
Luxembourg is a very popular location for structuring international investments. The reasons are many, among which are the flexibility of Luxembourg's legal, tax, and regulatory environment, and the availability of diversified investment vehicles. Over 70% of the top 30 loan fund managers worldwide are present in Luxembourg², and the Grand Duchy offers a large portfolio of investment fund vehicles, either regulated or unregulated, as mentioned earlier.

Furthermore, international tax law is evolving rapidly under the OECD Base Erosion and Profit Shifting project (BEPS), triggering new tax complexities and opportunities. In particular, the concept of substance has reached another level with the principal purpose test (PPT) introduced in Action 6 of the BEPS reports. The PPT is an anti-treaty abuse clause that 'allow[s] contracting states to deny the application of treaty provisions when transactions or arrangements (such as the setting

up of a Special Purposes Vehicle in Luxembourg) (SPV) are entered into in order to obtain the benefits of these provisions in inappropriate circumstances'.

We have therefore asked some of the main alternative investments actors for their opinions on the changes in the international tax environment. As a whole, although managers are concerned, they do not intend to leave Luxembourg but would rather stay and reinforce their presence (see Figure 5 below).

Figure 5: Do loan fund managers contemplate to leave Luxembourg?



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Source: KPMG/ALFI loan fund survey

2. Association of the Luxembourg Fund Industry (ALFI), Debt Funds - An Alternative Source of Financing for the European Economy, June 2015, <http://www.alfi.lu/node/2980>

One of the reasons why promoters and investors continue to use Luxembourg vehicles is Luxembourg's stability. Luxembourg's fund management industry is also seen as a draw and a valid reason to establish a loan fund structure in Luxembourg, even if deal people remain in other countries.

Finally, all types of debt strategies are accommodated in, and have been successfully operating out of, Luxembourg

for a number of years. This includes origination, secondaries, mezzanine, distressed, various debt instruments, and others.

In conclusion, Luxembourg's loan fund industry has the tools and skills, as well as the appropriate legal, regulatory, and tax environments, to continue its development.

