KPMG

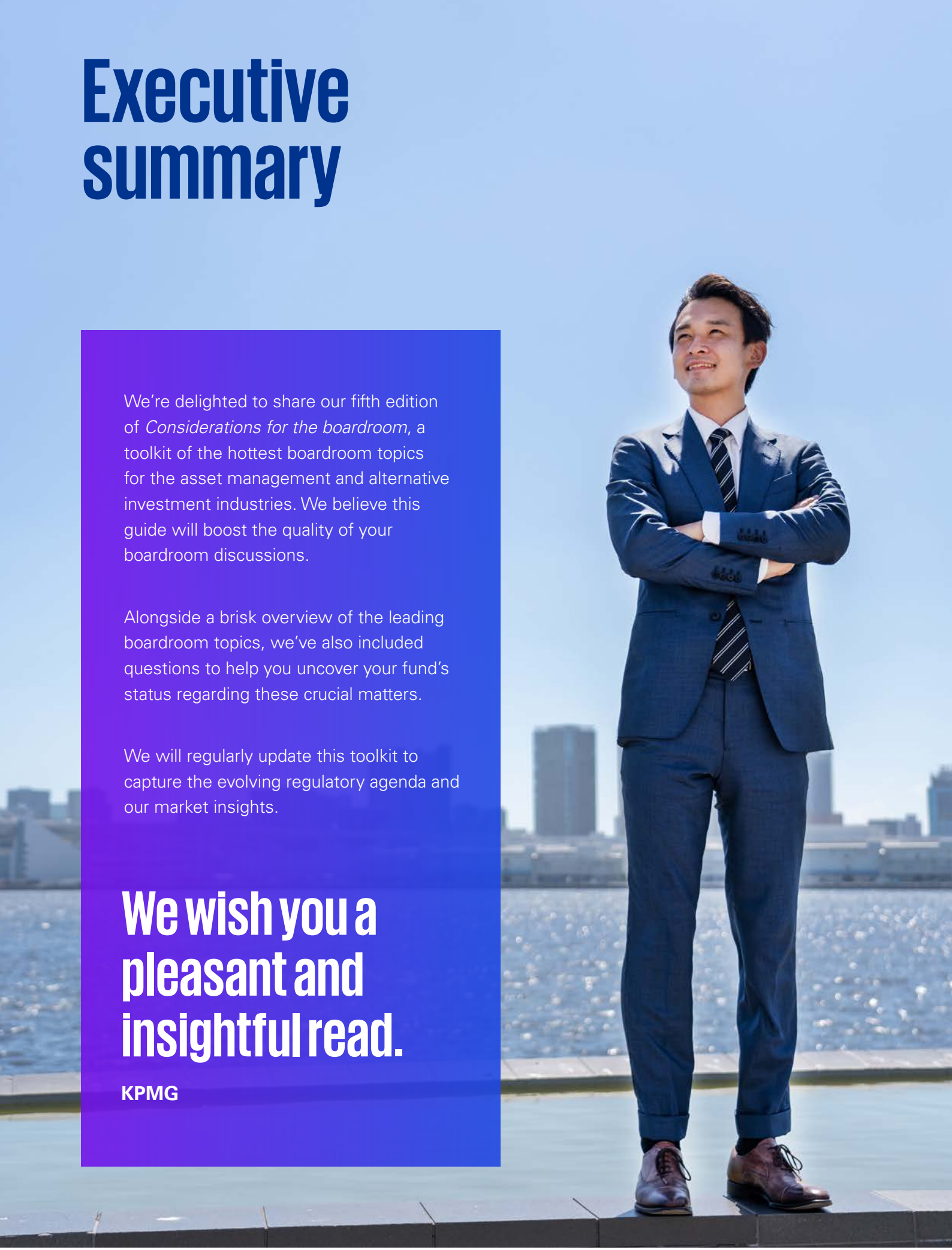
Considerations for the boardroom

Fifth edition

November 2025

Content

Executive summary



We're delighted to share our fifth edition of *Considerations for the boardroom*, a toolkit of the hottest boardroom topics for the asset management and alternative investment industries. We believe this guide will boost the quality of your boardroom discussions.

Alongside a brisk overview of the leading boardroom topics, we've also included questions to help you uncover your fund's status regarding these crucial matters.

We will regularly update this toolkit to capture the evolving regulatory agenda and our market insights.

We wish you a pleasant and insightful read.

KPMG

Management Company control framework

In today's rapidly evolving financial landscape, effective risk management, robust governance, and sound valuation practices are paramount for the success of any organization. These three pillars not only safeguard the integrity of the business but also facilitate growth and adaptability in a competitive environment.

Risk management:

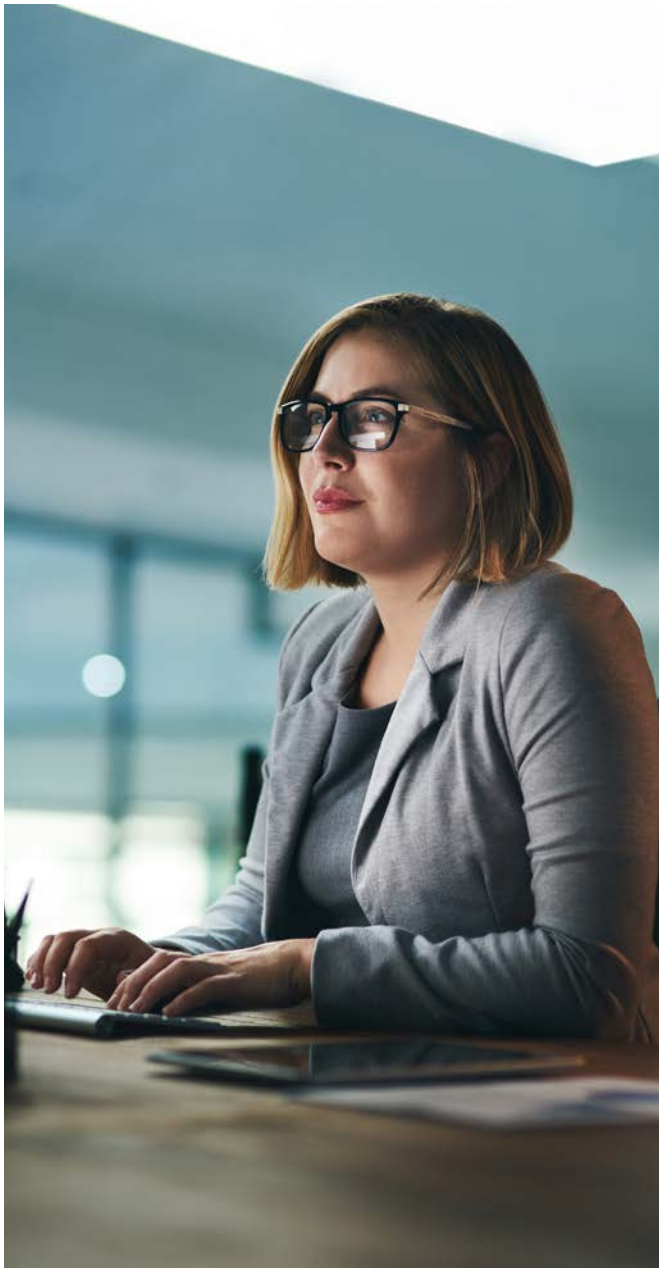
The upcoming revamp of CSSF circular 11/512 will formalize explicit operational risk management considerations that have already become regulatory expectations.

The expected areas of coverage will include:

- Framing of operational risk management expectations
- Further disclosure on the support received by the permanent risk management function of the ManCo
- Integration of the IOSCO Liquidity management guidelines
- Concept of independent model validation and reiteration of the need for oversight over any delegates/external support
- Valuation risk management.

Governance

Governance arrangements are there not only to protect the integrity of the Luxembourg ManCo but also to facilitate business.
Efficient governance is key to ensure that management decisions are taken with a view to managing risks, ensuring time to market and supporting the growth of the book of business.
Key governance concepts that help unlock scalability and efficiency include strong management information systems, clear allocation of responsibilities amongst Conducting officers, and effective governance committees that interact with the various decision organs inside and outside the ManCo.



Valuation

Valuation for AIFs is under high scrutiny, thanks in particular to the advent of open-ended AIFs. This increases the importance of a robust and independent valuation control framework.

The valuation function has recently been subject to a Common Supervisory Action from ESMA and remains a trending topic for regulatory onsite inspections.

Questions that may be raised

Question 1

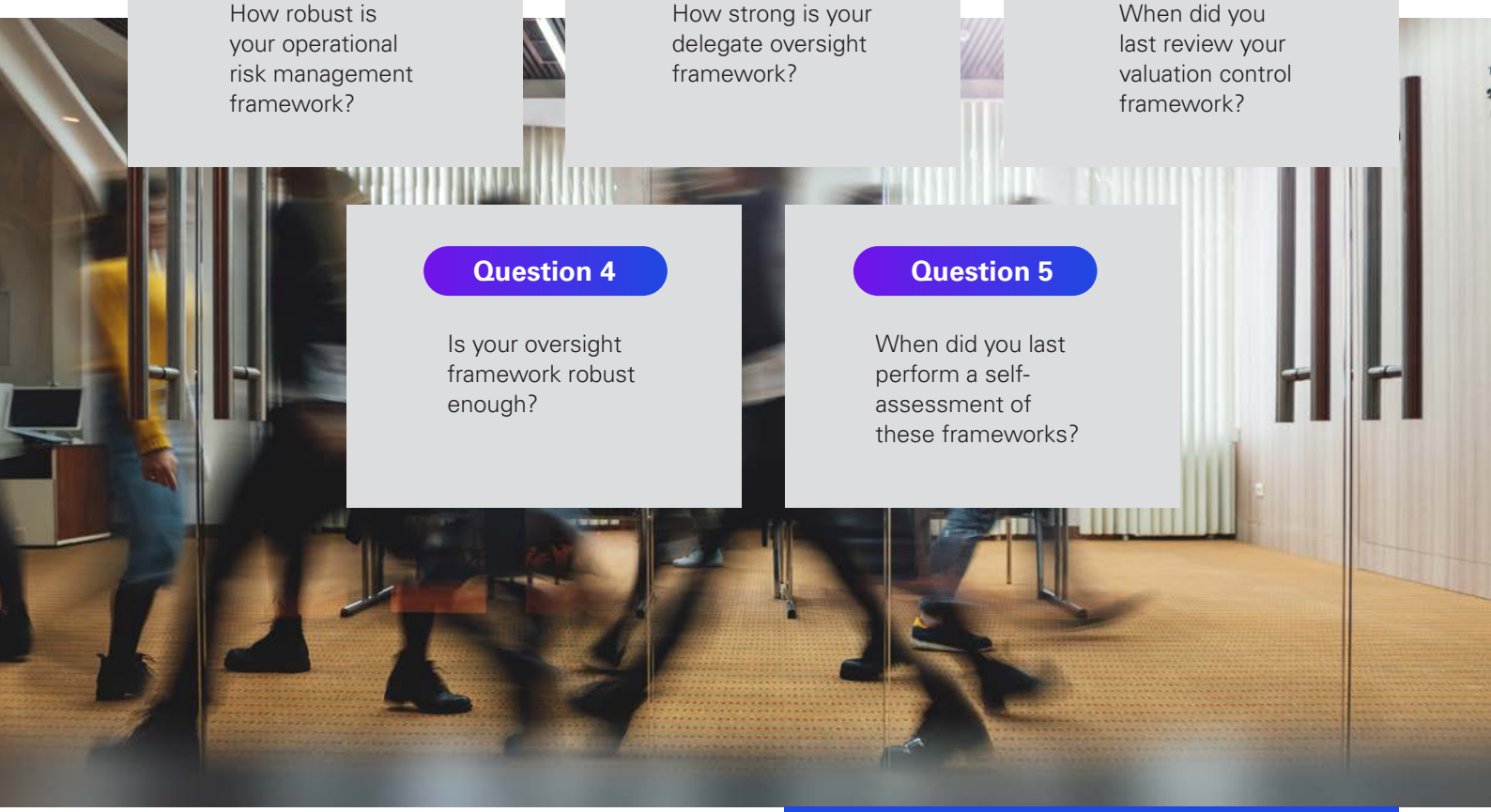
How robust is your operational risk management framework?

Question 2

How strong is your delegate oversight framework?

Question 3

When did you last review your valuation control framework?



Question 4

Is your oversight framework robust enough?

Question 5

When did you last perform a self-assessment of these frameworks?

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AI adoption in Asset Management

AI is driving operational transformation for IFMs. We explore the trends, highlighting emerging use cases, examining the evolving risk landscape, and outlining regulatory developments such as the EU AI Act.

Artificial intelligence in asset management: Trend to transformation

Artificial intelligence has moved beyond the hype and is now a genuine driver of change in asset management. For AIFMs, AI is not just a future promise: it is actively reshaping how investment strategies are developed, portfolios managed, and risks assessed.

The arrival of generative and agentic AI models has made advanced technology more accessible and affordable, lowering barriers across the industry. As a result, fund managers are increasingly turning to public GenAI tools (such as ChatGPT and Mistral), rather than starting with internal or private setups. This marks a clear shift from previous digital trends which typically involved large-scale and expensive technology implementations combined with long innovation cycles. Today's public GenAI tools, by contrast, support fast, decentralized adoption at the business-unit level, enabling rapid implementation of use cases with generative AI as an operational driver.

Efficiency and cost optimization have become the main reasons for adopting AI, overtaking pure innovation goals. Agentic AI's ability to deliver cost savings and streamline processes is widely recognized, and these benefits are driving further investment and adoption. Notably, the focus of investment is shifting from group-level innovation initiatives to local deployment, a trend particularly relevant for IFMs that are part of international groups and seeking to tailor AI solutions to their specific local operational needs.

This momentum is reflected in the numbers:

- According to a CSSF survey[1], 50% of asset managers are now using or deploying AI solutions. It is clear that AI is becoming central to enhance both front-office performance and operational efficiency.
- A 2025 KPMG global study on Trust, attitudes and use of artificial intelligence[2] highlights that 60% of employees use AI at work on a regular basis, reporting increased work efficiency, higher quality of work and improved decision-making.

1. Second thematic review on the use of Artificial Intelligence in the Luxembourg financial sector – CSSF
2. KPMG – 2025 – Trust, attitudes and use of AI global report

Unlocking value: AI in daily operations

AI is already making a difference in daily operations, with several practical use cases emerging:

Thematic investment research assistants: GenAI-powered tools scan news, research, and market reports. Portfolio managers can ask natural-language questions and receive concise, referenced research summaries, including sentiment analysis and key data.

Personalized investor communications: GenAI models generate tailored updates and market outlooks for each investor, based on their holdings and preferences, with content reviewed by relationship managers.

Autonomous trade ideas generation and execution: Agentic AI agents monitor markets and portfolio constraints, propose trades, validate compliance, and, after manager approval, execute orders and monitor performance.

The move beyond traditional automation towards AI agents that can act autonomously and accelerate value creation is steadily gathering momentum. Unlike narrow, task-based automation, these agents can decide and execute actions based on defined goals, bringing new agility to operations.

However, as more firms use similar public AI tools, the competitive edge is less about the technology itself and more about how use cases are strategically designed, sequenced, and integrated. Firms that excel at aligning AI applications with business objectives, regulatory requirements, and operational realities will be best positioned to unlock AI's full potential.

AI ethics and trustworthiness

As the rapid adoption of AI continues to transform workplaces and society, the ethical implications and trustworthiness of these technologies have become paramount. There are three key risk areas:

Complacent use of AI:

The risk of AI usage contravening internal policies is real. It is not uncommon for employees to upload sensitive information to public platforms such ChatGPT or rely on AI outputs without proper evaluation. According to KPMG's global survey, these risks represent a quality issue too, as more than half of employees admit to making mistakes due to AI reliance[3]. There is also a risk of unintended discrimination, because the results could be influenced by hidden or unconscious biases.

Bridging the AI literacy gap:

Improving AI literacy and reducing knowledge gaps is essential in order to prevent poor employee usage and attendant risks like automation bias. By fostering ethical training, organizations can empower employees to engage critically with AI, ensuring its benefits are realized while mitigating potential harms. For instance, training can provide essential basic knowledge relating to AI lifecycles, specific AI risks (lack of explainability, biases, model drift, etc.), AI security measures and best practices. In addition, AIFMs can counterbalance the potential negative effects of AI overreliance by ensuring there are 'human in the loop' controls for AI decisions deemed critical – having the latter checked, for example, by the 2nd line of defence.

Building trust:

Despite a high rate of AI adoption, trust in these systems remains a challenge, with many individuals expressing skepticism about their safety and ethical implications. Building trust requires robust governance mechanisms, including monitoring, human oversight, and adherence to international standards. An effective trust framework should embed policies and procedures for acceptable AI usage, covering authorized areas of deployment as well as prohibited practices, along with governance elements. This could include the establishment of an AI Ethics Committee to assess compliance with the organization's values and a risk management policy that clearly defines how often AI systems should be evaluated.

3. KPMG – 2025 – Trust, attitudes and use of AI global report

Navigating AI risks

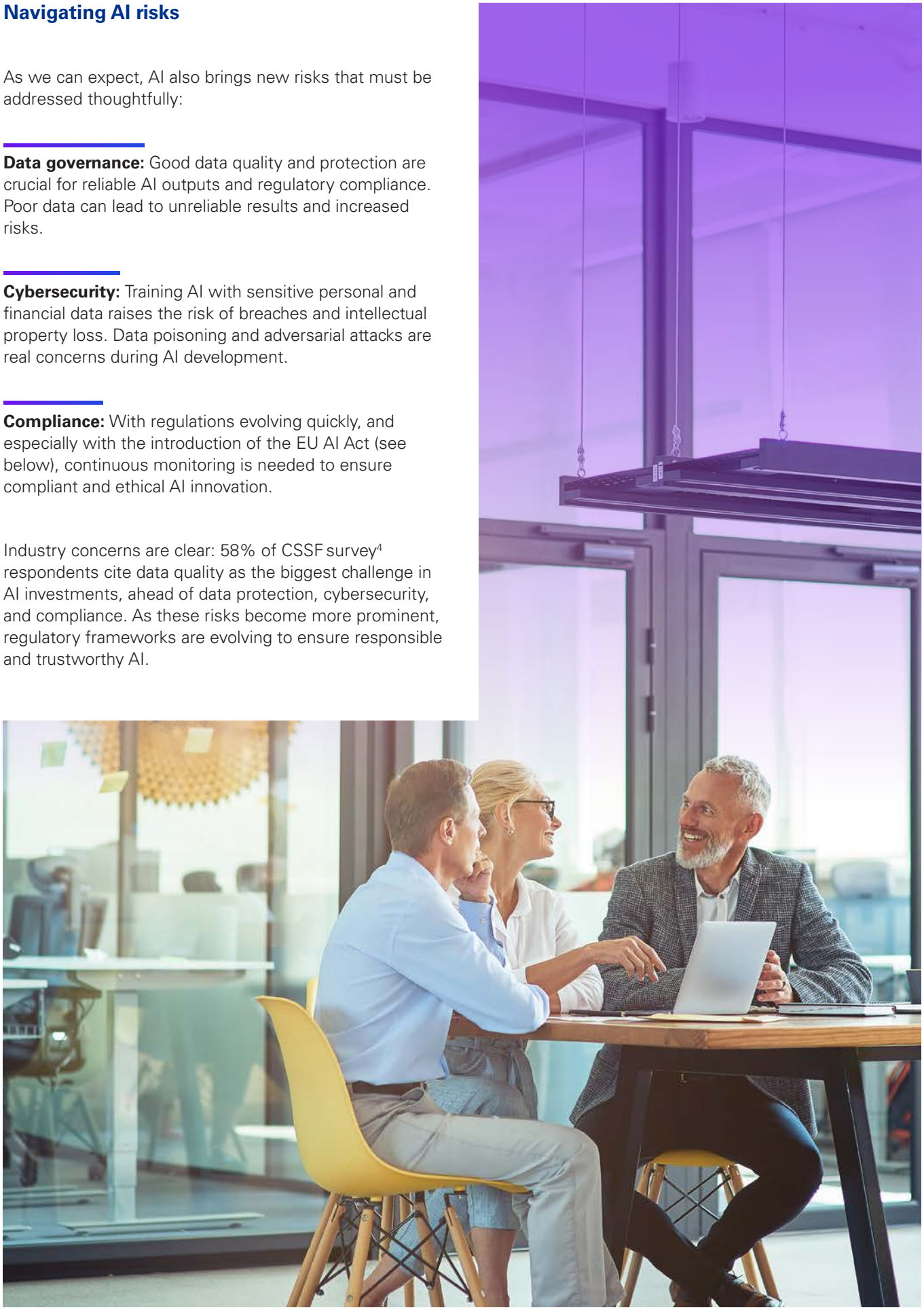
As we can expect, AI also brings new risks that must be addressed thoughtfully:

Data governance: Good data quality and protection are crucial for reliable AI outputs and regulatory compliance. Poor data can lead to unreliable results and increased risks.

Cybersecurity: Training AI with sensitive personal and financial data raises the risk of breaches and intellectual property loss. Data poisoning and adversarial attacks are real concerns during AI development.

Compliance: With regulations evolving quickly, and especially with the introduction of the EU AI Act (see below), continuous monitoring is needed to ensure compliant and ethical AI innovation.

Industry concerns are clear: 58% of CSSF survey[4] respondents cite data quality as the biggest challenge in AI investments, ahead of data protection, cybersecurity, and compliance. As these risks become more prominent, regulatory frameworks are evolving to ensure responsible and trustworthy AI.



4. Second thematic review on the use of Artificial Intelligence in the Luxembourg financial sector – CSSF

The EU adopted the world's first comprehensive legal instrument regulating artificial intelligence as a whole—the **EU AI Act**[5]. The regulation was published in the Official Journal on 12 July 2024 and entered into force on 1 August 2024. Its provisions are being applied in a phased manner, starting with certain prohibitions and literacy requirements from 2 February 2025, and culminating in full applicability by 2 August 2026.

Luxembourg has taken proactive steps to align its national legal framework with the EU AI Act. On 23 December 2024, the government submitted Draft Law No. 8476, which designates national competent authorities for enforcement and oversight, including the CNPD as the central authority[6]. The law also outlines procedural and organizational measures to ensure readiness for the phased application of the EU AI Act starting from February 2025.

The EU AI Act introduces a **risk-based approach:**

Unacceptable Risk: AI systems that threaten safety or rights (e.g., social scoring, manipulation) are **prohibited.**

High Risk: AI used in sensitive areas (e.g., healthcare, law enforcement) must meet **strict** requirements for safety, oversight, and transparency.

Limited risk: AI with moderate impact (e.g., chatbots, deepfakes) must comply with **transparency obligations**—users must be informed.

Minimal Risk: AI with negligible impact (e.g., spam filters) is **unregulated** under the AI Act but must follow general EU laws.

The CSSF survey indicates that only 5% of AI use cases are classified as high risk, while 16% are classified as limited risk, 50% as no risk while the remaining 29% were not yet classified. In this context, "use cases" refer to specific applications of AI implemented by financial institutions to solve concrete problems or to improve processes. According to the thematic review, 402 use cases were reported across the Luxembourg financial sector, with the majority being internal rather than client-facing.

Examples of such use cases include:

- Search and summarization of information – AI tools to analyse large volumes of regulatory, financial, or legal documents.
- Process automation - automating back-office or compliance workflows through AI.
- Chatbot and virtual assistants – enhancing client interactions and support services.
- Text generation – drafting reports, contracts, or correspondence
- Translation services – supporting multilingual communication in cross-border operations
- Risk and compliance-related applications – such as AML/fraud detection, KYC and credit scoring.

For IFMs, this means that most AI systems will fall into the limited or no risk categories and will not be subject to the most stringent regulatory requirements. As a result, resources can be directed to areas where they are most needed, supporting compliance while still enabling innovation.

5. Regulation - EU - 2024/1689 - EN - EUR-Lex
6. Luxembourg AI Act transposition Law

Key actions for IFMs

Given this landscape, IFMs can take several steps to maximize AI's benefits while staying compliant:

AI inventory and classification: Systematically document and assess all AI use cases, prioritizing those that are scalable, modular, and aligned with business goals. Regularly update this inventory to reflect changing needs, technology, and regulations, and monitor each system's risk profile.

Governance and risk management: Establish robust risk management for AI systems, document and monitor interactions, and ensure human oversight (e.g. manual review before final decisions, alert systems for anomalous behaviour requiring human intervention, training staff to understand and supervise AI systems). Cooperation with regulators in case of incidents is essential.

Outsourcing and compliance: When outsourcing, ensure external providers comply with the AI Act, regardless of their location, as the rules apply once AI-generated results are used in the EU.

The real challenge is not just identifying AI use cases, but building them in a scalable, modular way; moving from isolated applications to systems where AI agents can interact and build on each other's outputs, enabling sustainable, enterprise-wide transformation.

AI risk assessment: Design and implement robust frameworks that embed Trusted AI principles across the organization. These frameworks should proactively identify, manage, and mitigate AI-related risks while fostering responsible innovation.

Regulation and compliance: Ensure AI systems remain aligned with evolving regulatory standards and legal requirements, maintaining compliance across jurisdictions and use cases.

AI risk transformation: Drive responsible and trusted AI integration throughout the entire model lifecycle. Emphasize accountability, transparency, and resilience in AI-driven decision-making to support sustainable adoption.

The real challenge is not just identifying AI use cases, but building them in a scalable, modular way; moving from isolated applications to systems where AI agents can interact and build on each other's outputs, enabling sustainable, enterprise-wide transformation.

In addition, IFMs can be supported in their journey towards the following certifications, ensuring compliance with legislative requirements and adherence to market best practices:

- **ISO/IEC 42001: the first certification for AI management systems:** This is a globally recognized standard that provides guidelines for the governance and management of AI systems. It offers a systematic approach to address the challenges associated with AI implementation, covering areas such as ethics, accountability, transparency, and data privacy.

  The standard promotes an integrated approach to managing AI projects, from risk assessment to effective management of those risks. It encourages the adoption of best practices that enhance the reliability and security of AI systems, fostering trust among stakeholders and regulators and facilitating the responsible use of AI.

- **ISO/IEC TR 24027:** This provides guidelines for identifying and mitigating bias in AI systems, particularly in the context of decision-making. This standard is essential for organizations working with potentially biased data or training systems that significantly impact users.

- **ISO/IEC TR 24028:** This offers guidelines for the ethical and societal considerations in the development and use of AI systems. This standard emphasizes the importance of aligning AI practices with ethical principles and societal values to ensure responsible and beneficial AI deployment.

- **ISO/IEC TR 24029 – 1:** This provides guidance for assessing the robustness of neural networks, addressing their susceptibility to minor changes in configuration and usage conditions. This standard is particularly relevant for systems that rely on neural networks in contexts where robustness is a critical property of the machine learning model.

Harnessing AI: Practical examples of implementation

Enhancing customer satisfaction: KPMG supported a European financial institution in unlocking deeper insights from customer satisfaction surveys. Leveraging its proprietary AI platform, KPMG performed advanced sentiment analysis to interpret customer perceptions more effectively. This approach accelerated feedback response times – from months to mere weeks – and cut data analysis efforts by 75%. The result: more responsive product and service improvements, driving higher customer satisfaction and loyalty.

Transforming regulatory compliance: KPMG partnered with a leading global banking group to address the complexity of managing 17 distinct regulations encompassing over 2,000 individual requirements. To streamline this challenge, KPMG developed a tailored generative AI-powered chatbot capable of visualizing regulatory changes and simplifying policy document reviews. This innovation significantly reduced the time and effort required for compliance assessments. Rigorous testing confirmed the chatbot's effectiveness, marking a pivotal step toward smarter regulatory compliance and long-term cost efficiency.

Questions that may be raised

Question 1

Have we identified and mapped all current and planned AI use cases across our operations?

Question 2

What governance and risk management frameworks have we implemented to oversee the deployment and ongoing use of AI?

Question 3

Are our current processes and controls adequate to detect, respond to, and report AI-related incidents?

Question 4

Have we performed an AI readiness or maturity assessment to identify gaps in our compliance, strategy, and organizational capabilities?

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Financial Crime Compliance

In the ever-evolving landscape of financial regulation, compliance with Anti-Money Laundering (AML) and Counter-Terrorist Financing (CTF) measures remains a top priority for institutions across Europe and in Luxembourg. This article delves into three significant developments that are shaping the regulatory environment. First, we will explore the European Banking Authority's (EBA) consultation on the first four proposed Regulatory Technical Standards (RTS). Next, we will examine the new AML obligations imposed on unregulated Alternative Investment Funds (AIFs) that do not qualify as Reserved Alternative Investment Funds (RAIFs). Finally, we will discuss the clarification issued by the CSSF in December 2024 regarding the Know-Your-Assets (KYA) requirements.

EBA's consultation on four proposed Regulatory Technical Standards (RTS)

In March 2025 EBA launched a consultation process for the first four RTS which complement the sixth Anti-Money Laundering Directive (AMLD 6), the EU Single Rulebook Regulation (AMLR) and the Anti-Money Laundering Authority Regulation (AMLAR). The RTS's cover the following topics:

- the assessment of the inherent and residual risk profile of obliged entities;
- the methodology by which credit institutions, financial institutions, and groups of credit and financial institutions will be assessed for the purpose of selection for direct supervision by the Anti-Money Laundering Authority (AMLA);
- information and requirements necessary for the performance of customer due diligence; and
- indicators to classify the level of gravity of breaches, criteria to be taken into account when setting the level of pecuniary sanctions or applying administrative measures, and the methodology for the imposition of periodic penalty payments.

Comments had to be sent by 6 June 2025. EBA expects to send its feedback to the EU Commission by 31 October 2025.

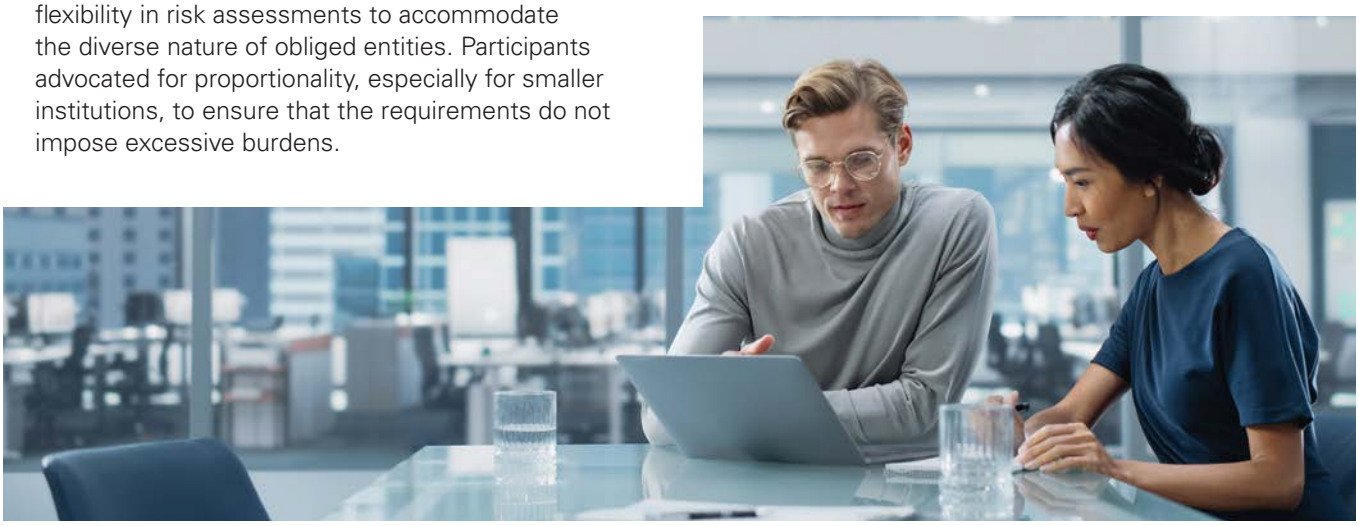
The consultation in Luxembourg yielded several important outcomes across the four proposed RTS areas:

Assessment of inherent and residual risk profile of obliged entities:

- Stakeholders emphasized the need for a comprehensive framework to assess both inherent and residual risks effectively. Many participants requested clearer guidance on how to differentiate between these two types of risks and suggested that the RTS should provide a more structured approach for entities to follow.
- There was a consensus on the importance of allowing flexibility in risk assessments to accommodate the diverse nature of obliged entities. Participants advocated for proportionality, especially for smaller institutions, to ensure that the requirements do not impose excessive burdens.

Information and requirements for customer due diligence (CDD):

The consultation highlighted a demand for practical guidance on the types of information and requirements necessary for performing effective CDD. Stakeholders sought specific examples and best practices to facilitate compliance and improve understanding of expectations.



Assessment methodology for selection for direct supervision by AMLA:

- Stakeholders called for more clarity regarding the assessment methodology used by AMLA for selecting institutions for direct supervision. They requested specific criteria that would guide the selection process, aiming to enhance transparency and predictability.
- Participants supported a risk-based approach to selection, emphasizing that institutions with higher risk profiles should be prioritized for supervision. However, there were concerns about the potential for subjective interpretations of risk, which could lead to inconsistencies in supervision.

Indicators for classifying breaches and sanction methodology:

Stakeholders expressed the need for clear indicators to classify the severity of breaches. This feedback aimed to ensure that institutions understand the criteria that would lead to different levels of sanctions.

Participants highlighted the importance of consistency in applying pecuniary sanctions and administrative measures. They advocated for a transparent methodology that considers various factors, such as the nature of the breach and the entity's risk profile, to ensure fairness in the imposition of penalties.

Overall, the outcomes of the consultation demonstrated a strong desire among stakeholders for clarity, flexibility, and practicality in the proposed RTS's. The EBA is expected to consider this feedback as it finalizes the standards, with the goal of enhancing the effectiveness of AML and CTF measures while ensuring that compliance remains manageable for institutions of all sizes.

Extension of reporting obligations to AIFs

On 25 February 2025, the Administration de l'Enregistrement, des Domaines et de la TVA (AED) expanded reporting obligations to all funds under its supervision (i.e. previously only reserved alternative investment funds (RAIF) were in scope) and published a set of guidelines for the content of the 2024 RC Report on AML/CTF applicable to Luxembourg non-regulated alternative investment funds (AIFs) not qualifying as RAIFs.

On 9 April 2025, the AED published an FAQ clarifying when a fund qualifies as an AIF and must hence file AML/CFT reports. The FAQ restates the AIFMD definition and lists practical criteria for promoters to assess whether their vehicle is an AIF. Unregulated funds not qualifying as an AIF (and not RAIFs) fall outside AED oversight.

CSSF issues new FAQ on AML/CFT asset due diligence obligations

On 13 December 2024, the Commission de Surveillance du Secteur Financier (CSSF) released a new Frequently Asked Questions (FAQ) document addressing AM/CFT asset due diligence obligations.

The primary aim of the CSSF FAQ is to offer enhanced guidance and clarifications for professionals under CSSF supervision, including Luxembourg investment fund managers and investment funds subject to AML/CFT regulations. The document outlines the scope and frequency of Money Laundering (ML) and Terrorist Financing (TF) risk assessments, as well as the associated due diligence measures that need to be conducted based on the types of assets invested. Notably, it emphasizes the approach to assets deemed less susceptible to ML/TF risks, ensuring that professionals are well-informed on their obligations in this area.

Questions that may be raised

Question 1

How are we currently ensuring compliance with the new EBA Regulatory Technical Standards (RTS) on AML/CFT measures, and what steps are we taking to prepare for the implementation of them?

Question 2

How will the extension of reporting obligations to all non-regulated AIFs affect our operations, and what steps are we taking to comply with the newly published guidelines?

Question 3

How are we integrating the new CSSF FAQ on AML/CFT asset due diligence obligations into our compliance framework?

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Repositioning tax compliance in a modern data-driven environment: from operational task to governance pillar

Tax compliance used to be straightforward: file your returns on time, pay what you owe, and wait for further feedback. But today's landscape has changed drastically.

Tax authorities could be using sophisticated data analytics to spot inconsistencies and patterns. Meanwhile, boards and senior executives have to upgrade to this new reality.

This isn't alarmism. It's about recognizing that tax compliance has quietly become one of the most visible measures of how well an organization governs itself. The question isn't whether this shift will continue – it's whether your organization will adapt proactively or scramble to catch up later.

From support desk to strategic hub: how tax compliance has evolved

Remember when tax compliance lived in the back office, handled by a small team that emerged only during filing season? That model no longer fits the reality of modern business. Today's compliance function needs to operate more like air traffic control: constantly monitoring, coordinating with multiple systems, and ensuring everything lands safely.

The change goes deeper than increased regulatory and tax scrutiny. Modern businesses generate tax-relevant data continuously, across multiple jurisdictions and business lines. VAT calculations, transfer pricing documentation, regulatory filings – these aren't isolated tasks anymore. They're interconnected processes powered by shared data ecosystems. When one piece fails, the ripple effects can be significant.

This interconnectedness means that tax compliance teams can no longer work in isolation. They need to understand how their work connects to financial reporting, regulatory compliance, and risk management.

Just as importantly, they need to communicate these connections clearly to leadership teams who often haven't viewed tax as a strategic lever.

A strategic case for governance?

Here's where things get interesting for boards and senior management.

Regulators aren't just asking whether you're paying the right amount of tax – they want to understand how you're making those determinations. They're looking for evidence of robust processes, clear decision-making frameworks, and appropriate oversight in certain instances.

This shift creates both challenges and opportunities. The challenge is that many organizations still treat tax compliance as a technical exercise rather than a governance responsibility. The opportunity is that getting this right can actually strengthen your overall risk management capabilities.

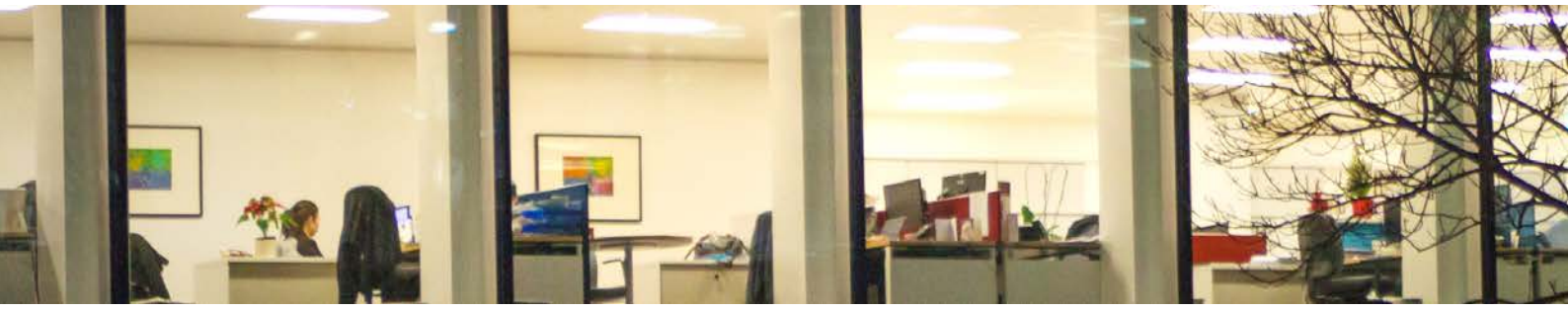
Consider the outsourcing trend that's reshaping the compliance landscape. More organizations are partnering with external providers to handle routine compliance tasks, often offshore. Done well, this can improve efficiency and access to specialized expertise. Done poorly, it creates new risks and potential blind spots.

The key insight is that outsourcing execution doesn't mean outsourcing responsibility. Boards still need to understand what's being done on their behalf, how quality is being maintained, and what could go wrong. More importantly, they also have to exercise effective oversight of their service providers for tax compliance.

The technology factor

Technology is changing the way tax compliance operates, but not in the way many expect. Tools such as data orchestration platforms or AI-driven analytics can improve the traceability of tax positions, help organizations respond to regulatory requirements like DAC6 or upcoming e-reporting initiatives, and create real-time visibility across jurisdictions. Yet these tools do not replace governance; they rely on it. Without structured processes and reliable data, automation can amplify weaknesses instead of mitigating them. What we see at KPMG is that the most successful organizations are those that combine technology with strong oversight frameworks: they use digital solutions to standardize routine tasks, while keeping strategic decisions and risk assessments firmly anchored in human judgment. When this balance works, tax compliance stops being a necessary burden and becomes a competitive advantage. The function can finally demonstrate its strategic value to the board while meeting regulators' growing expectations for transparency and oversight.

The shift from compliance to governance is particularly visible in the alternative investment industry. As explored in our article on tax governance and substance, Luxembourg regulators (through initiatives such as CSSF Circular 20/744) and EU frameworks (DAC6, Pillar 2, SAFE) are demanding evidence of robust oversight and documented decision-making. This convergence between compliance and governance shows that what started as a technical requirement has become a central pillar of regulatory resilience and investor confidence.



Questions that may be raised

As you consider your organization's approach to tax compliance, here are the critical questions worth discussing:

Question 1

Are we treating tax compliance as a cost center to be minimized, or as a capability that supports our broader business objectives?

Question 2

How well does our tax function communicate and coordinate with other parts of the organization, particularly finance, legal, and operations?

Question 3

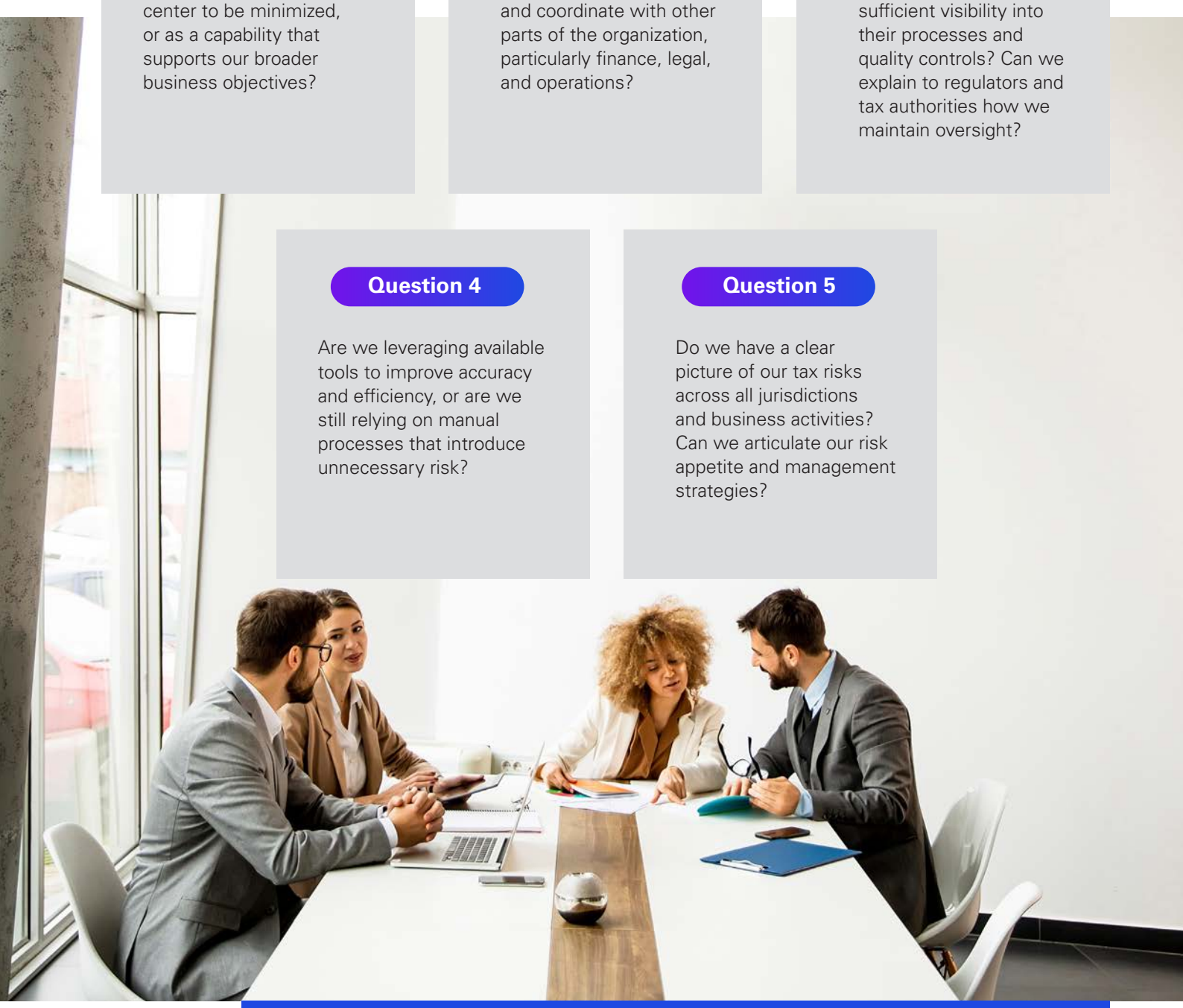
If we're using external providers, do we have sufficient visibility into their processes and quality controls? Can we explain to regulators and tax authorities how we maintain oversight?

Question 4

Are we leveraging available tools to improve accuracy and efficiency, or are we still relying on manual processes that introduce unnecessary risk?

Question 5

Do we have a clear picture of our tax risks across all jurisdictions and business activities? Can we articulate our risk appetite and management strategies?



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US tax compliance

When Luxembourg-based funds or investment vehicles allocate capital into US assets, they may inadvertently trigger US tax compliance obligations. These rules apply regardless of whether the investor itself is domiciled in the United States. The purpose of this article is to provide an overview of the key considerations for Luxembourg opaque entities (e.g. S.A., SICAVs) and transparent entities (e.g. SCSps, FCPs), and to highlight situations where US tax filings may be required.

Background

Luxembourg has long served as a gateway for global investment into the United States, with both fund structures and holding companies actively participating in US debt, equity, and real estate markets. While investors often focus on commercial and regulatory aspects in Luxembourg, it is essential to recognize that US tax rules may impose direct compliance obligations on foreign investors – even if they have no physical presence in the US

Failure to anticipate and meet these obligations can result in significant penalties, increased withholding tax exposure, and administrative burdens.

Overview

US tax compliance obligations generally arise where a non-US investor is treated as earning US source income or as being engaged in a US trade or business. The classification of the Luxembourg vehicle (opaque vs. transparent) and the nature of the US investment both play a decisive role.

Opaque structures (e.g. companies, SICAVs)
These are typically treated as corporations for US tax purposes.

US source interest and dividends are often subject to withholding tax, potentially reduced under the Luxembourg–US tax treaty.

However, certain investments (e.g. in US partnerships or foreign funds treated as partnerships) may result in US filing obligations such as requirement to file a Form 1120-F (US Income Tax Return of a Foreign Corporation).

Transparent structures (e.g. partnerships, FCPs)
These are often treated as fiscally transparent in the US, meaning the ultimate investors are deemed to hold the US underlying assets directly.

This may trigger individual filing obligations for each investor, depending on their classification (corporate, institutional, or individual).

In particular, investments into US publicly traded partnerships (PTPs) or private funds conducting business in the US generally result in effectively connected income (ECI) in the US Foreign corporations or persons receiving ECI are required to file a US tax return and pay U.S tax on such ECI.

Funds-of-funds and indirect exposures
Even where a Luxembourg entity invests into a non-US fund which holds underlying US investments, there may still be cascading obligations for the Luxembourg entity.

Questions that may be raised

Question 1

Has the US classification of the Luxembourg vehicle (as a transparent partnership or an opaque company) investing in the US been determined, as it may result in related US filing obligations?

Question 2

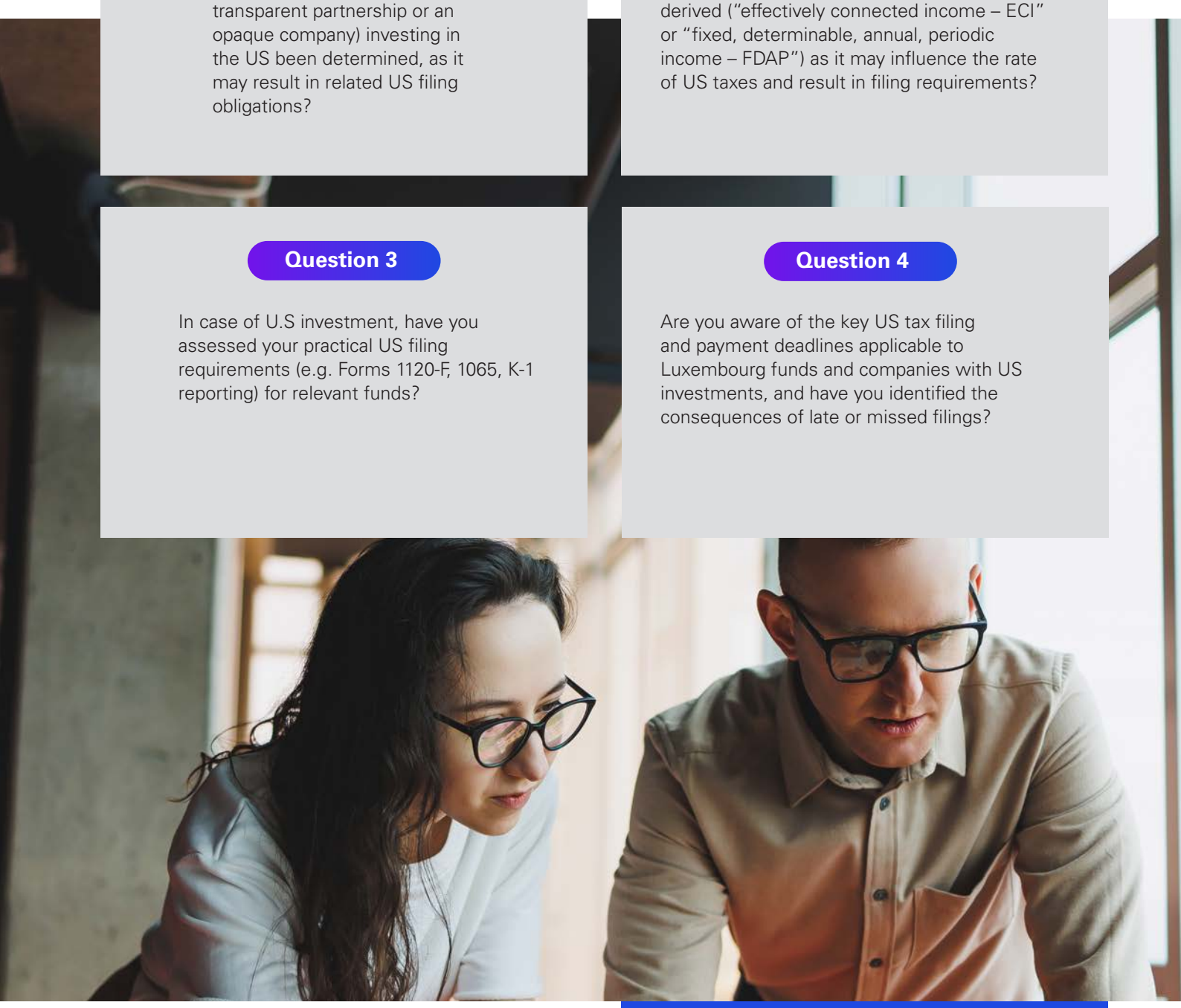
Do you derive any income from the US? If yes, have you carried out an analysis of the income derived ("effectively connected income – ECI" or "fixed, determinable, annual, periodic income – FDAP") as it may influence the rate of US taxes and result in filing requirements?

Question 3

In case of U.S investment, have you assessed your practical US filing requirements (e.g. Forms 1120-F, 1065, K-1 reporting) for relevant funds?

Question 4

Are you aware of the key US tax filing and payment deadlines applicable to Luxembourg funds and companies with US investments, and have you identified the consequences of late or missed filings?



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CSSF thematic inspection approach

The CSSF's regulatory inspections have grown more sophisticated and meticulous over the past year.

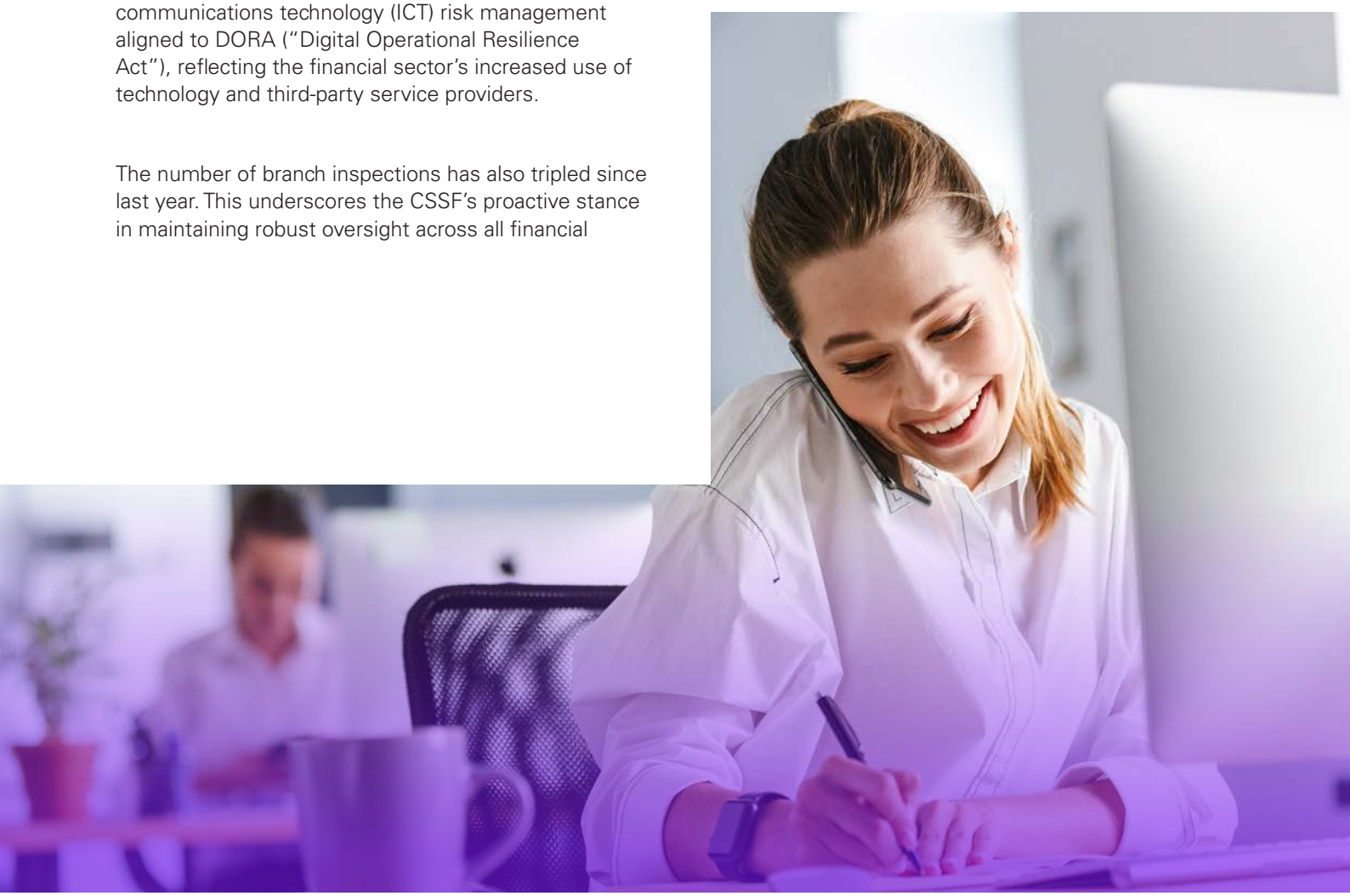
Historically, the CSSF's inspections have mainly focused on broad, holistic topics like governance arrangements and AML practices. However, the regulator has recently been delving into more detailed and specialized areas during its thematic reviews.

For example, the CSSF has significantly ramped up its scrutiny of environmental, social and governance (ESG) reporting and control frameworks.

Another upcoming focal point is information and communications technology (ICT) risk management aligned to DORA ("Digital Operational Resilience Act"), reflecting the financial sector's increased use of technology and third-party service providers.

The number of branch inspections has also tripled since last year. This underscores the CSSF's proactive stance in maintaining robust oversight across all financial institutions' operational units, as well as Management Companies (ManCos) expanding their European footprint through new branches. Costs and charges are also under the spotlight to ensure that financial institutions' fee structures stay transparent and fair.

The CSSF's efforts go beyond ensuring compliance with existing regulations. The regulator also tests how financial institutions have implemented regulatory principles, including a thorough examination of policies and procedures as well as sample testing.



Questions that may be raised

Question 1

Are we adequately prepared for an upcoming CSSF inspection?

Question 2

Are there any blind spots in our operations that a thematic CSSF inspection may expose?

Question 3

Can we evidence a systematic oversight control framework for our branches' activities?

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EMIR Refit and EMIR 3.0

On 29 April 2024, the EMIR Refit entered into force, a large-scale update to enhance the reporting quality of over-the-counter derivatives (OTCs) and exchange-traded derivatives (ETDs). Moreover, since the introduction of EMIR 3.0 in December 2024, additional amendments are progressively becoming applicable with regards to clearing and reporting.

EU entities involved in derivative trading must report every transaction execution, modification, early termination, and valuation (including collateral) to an authorized trade repository (TR) no later than the next business day.

While most market participants have digested the new EMIR Refit rules, more changes are on the horizon due to the "EMIR 3.0" update. These relate to how entities ensure reporting data quality.

EMIR Refit

01 Reporting under new validation rules

EMIR Refit adopts new end-to-end, XML-based reporting common to all trade repositories, containing new fields, format changes and modifications to the reported values.

02 Mandatory delegation reporting

As the "Entity Responsible forReporting", any IFM is responsible for reporting the details of the transactions entered by their funds.

When a financial counterparty (FC) deals with a non-financial counterparty (NFC), the FC is responsible and legally liable for reporting on the NFC's behalf.

03 Notification to the regulator of significant reporting issues

The IFM must proactively notify the regulator of any significant misreporting and reporting errors, or any obstacles that may prevent reporting within the deadline.

04 TR controls and feedback messages

TRs provide feedback reports concerning rejections, reconciliations and data quality, which the IFM is expected to monitor even in cases of delegation.

EMIR 3.0

01 Clearing through an active account

The requirement to have an active account with an EU CCP (Central Clearing Counterparty) and to clear a representative number of derivatives through it applies to entities dealing above a EUR 3 billion threshold in certain interest rate derivatives, effectively excluding most Luxembourgish funds from it.

02 New requirements on data quality monitoring

All entities engaging in derivative trading must put in place appropriate procedures and arrangements to ensure the quality of the data they report.

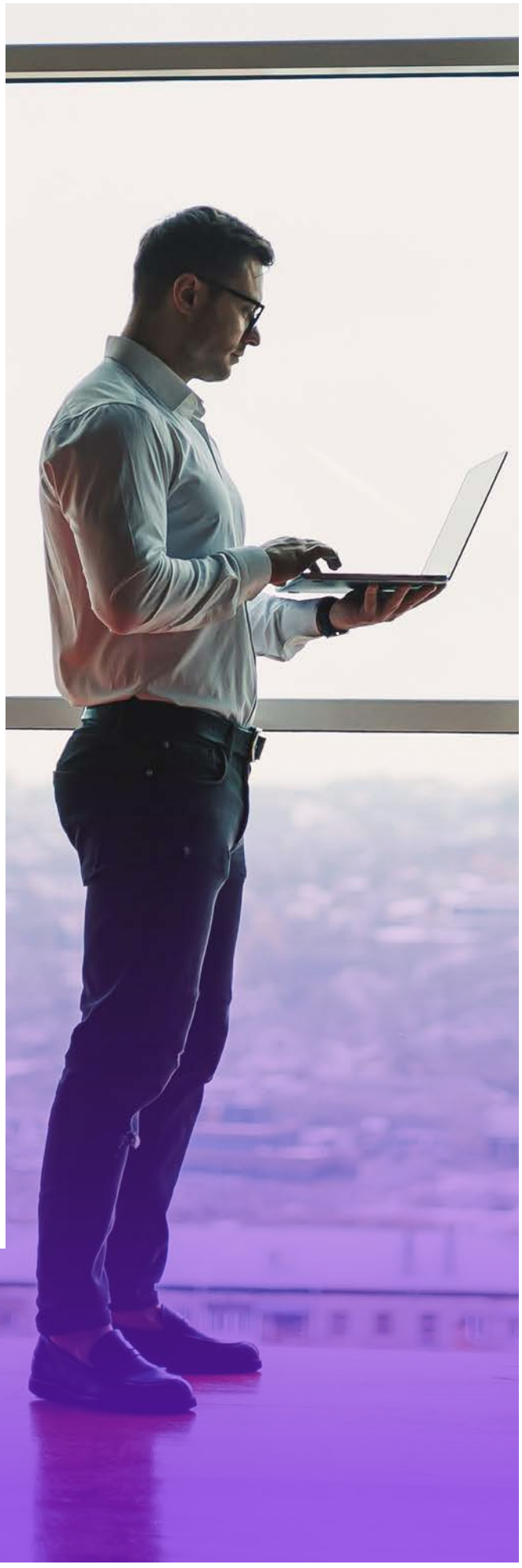
Data quality monitoring

The change to reporting rules is accompanied by increased supervision on the side of the regulator, making data quality monitoring essential. The CSSF's new targeted, results-based data quality approach is based on 19 data quality indicators and an unlimited number of annual data quality exercises. Each entity's EMIR reporting quality will be considered as a sign of its regulatory health.

Therefore, IFMs must adequately oversee this reporting, even in cases of delegation, through independent access to the data and controls on the reporting's accuracy, completeness and timeliness.

The level of ongoing monitoring must be adapted to the IFM's resources, capabilities, and risk appetite. However, in December 2025 new Regulatory Technical Standards are expected, detailing the appropriate and proportional due diligence processes and arrangements that entities must put in place to ensure the quality of the data they report, and introducing publicly disclosed penalties on counterparties who repeatedly manifest errors in the data they report.

Delegation contracts, initial and ongoing due diligence, and EMIR procedures must be adapted to reflect the EMIR Refit's changes.



Current challenges

- The question for IFMs is how to ensure adequate oversight of the derivatives their managed funds are trading and of any reporting they've delegated, without cannibalizing the efficiency gains of delegation.
- Other major challenges include access to data, resource constraints, attribution of costs, and regulatory uncertainty about how these rules will apply to IFMs.

Questions that may be raised

Question 1

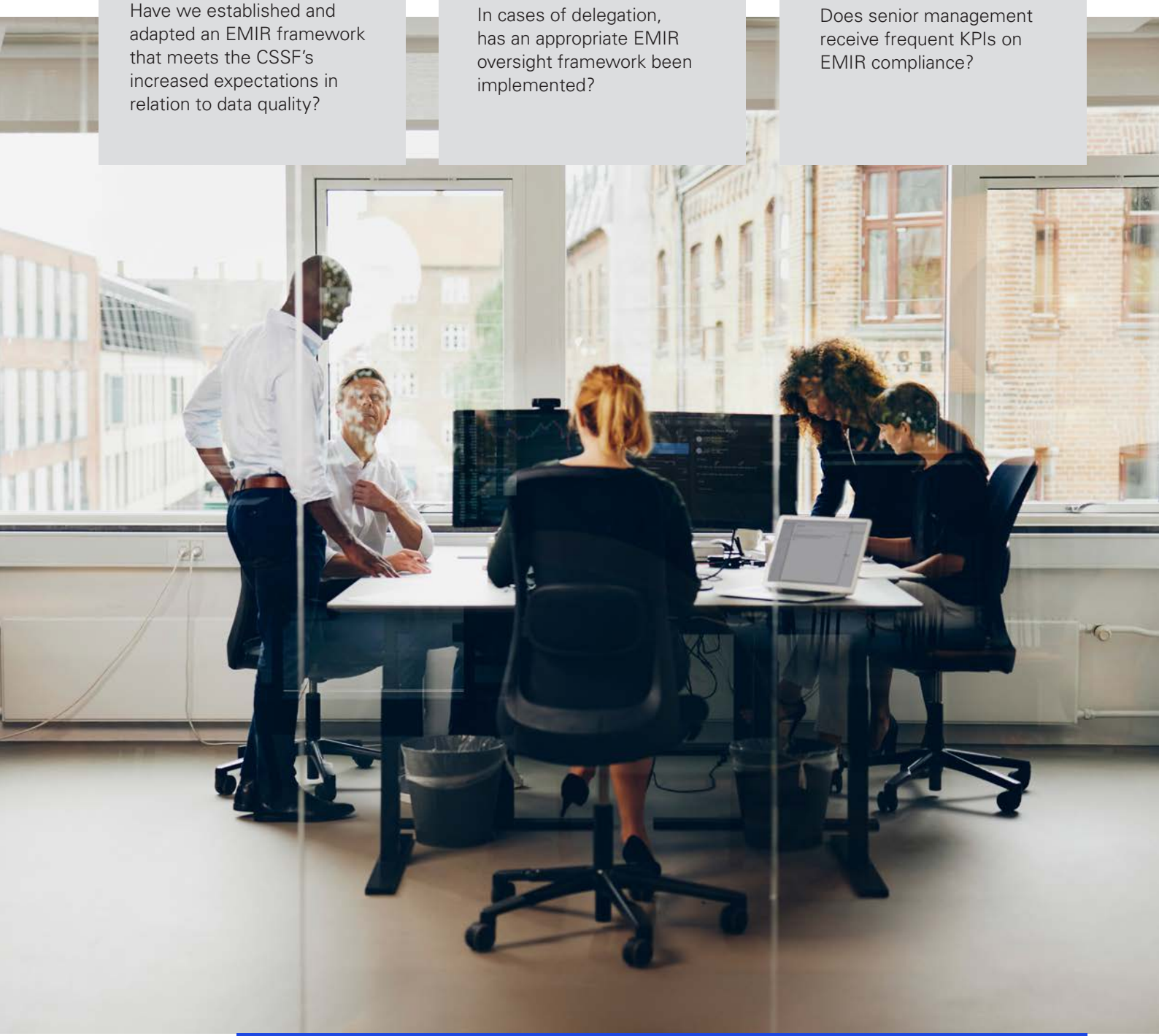
Have we established and adapted an EMIR framework that meets the CSSF's increased expectations in relation to data quality?

Question 2

In cases of delegation, has an appropriate EMIR oversight framework been implemented?

Question 3

Does senior management receive frequent KPIs on EMIR compliance?



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Pillar 2 and alternative investment funds

The Pillar 2 Directive aims to ensure large multinational and domestic groups pay a minimum level of tax on the income generated in each jurisdiction where they operate. Alternative investment structures may also be impacted despite the available carve-out.

What's Pillar 2 about?

Pillar 2 is part of the Organisation for Economic Co-operation and Development's (OECD) Base Erosion and Profit Shifting (BEPS) initiative.

The Pillar 2 Directive was adopted at the EU level on 14 December 2022 and transposed in Luxembourg on 22 December 2023 (as amended).

It introduces a 15% global minimum tax on certain groups with consolidated revenue of €750 million or more (in at least two out of the four preceding years).

If a jurisdiction's effective tax rate falls below 15%, the Pillar 2 provisions determine the amount of top-up tax to be paid by this jurisdiction in order to reach the 15% required minimum. To levy the top-up tax, two interlocking rules have been introduced: the Income Inclusion Rule (IIR) and the Undertaxed Profits Rule (UTPR), which can increase the group's tax burden. The Pillar 2 rules also provide jurisdictions the option to implement a domestic minimum top-up tax which would impose the top-up tax domestically if the ETR in the jurisdiction is below 15%.

When does it apply?

The Pillar 2 Directive applies for fiscal years starting on or after 31 December 2023.

A recent G7 statement outlines a shared understanding of a "side-by-side" solution to address recent US concerns on Pillar 2. This statement is currently being discussed and developed by the OECD Inclusive Framework and might result in changes to the Pillar 2 rules.

What's at stake for the alternative investments industry?

While initially targeting multinational corporations, alternative investment funds and their underlying SPV structures may also fall within the Pillar 2 Directive's scope if, for example:

- A given investor consolidates an entity or fund vehicle provided the €750 million revenue threshold is met; or
- A fund or fund's entity is required to consolidate its underlying investment(s) from an accounting perspective provided the €750 million revenue threshold is met.

The Pillar 2 Directive also foresees certain exclusions for investment funds and real estate investment vehicles that are in scope of the Pillar 2 Directive but meet specific conditions. These exclusions may also extend to SPVs owned by these excluded entities.

However, the conditions may not be necessarily met in all situations. In this case, these entities will be considered in scope and potential impacts would need to be identified.

What do we generally recommend?

Fund managers should have already completed an initial perimeter assessment to determine whether Pillar 2 rules apply to their entities and documented the outcome for tax governance purposes.

As a reminder, this assessment, also covering foreign entities, should have at least addressed the following:

1. Is the entity consolidated by its investor?
2. Is the entity required to consolidate from an accounting perspective, or does a local consolidation exemption apply?
3. In the case of a local accounting consolidation, is the entity an excluded entity that benefits from a carve-out? Or if a local accounting consolidation exemption applies, could the entity be brought back into Pillar 2's scope through the so-called deemed consolidation rules?
4. Has the €750 million threshold been reached?

The priority now is to:

- Confirm that the initial scope remains valid in light of the latest developments
- Ensure that any in-scope entities are fully registered with the relevant authority by the required deadline
- Plan for accurate data collection and calculation of any potential top-up tax
- Assign clear internal ownership for preparing and filing the Pillar 2 return.

In Luxembourg, for companies with a financial year starting 1 January 2024, registration and filing of the first Pillar 2 returns will be due by 30 June 2026, making it essential to prepare well in advance

What about merger and acquisition (M&A) activities?

Potential Pillar 2 impacts should be constantly monitored throughout the fund's life cycle.

Typical M&A activities in a fund structure may trigger various concerns, such as where:

- Funds acquire or dispose of assets, which impacts the consolidated revenue threshold in a given year
- There are different accounting consolidation rules applying to a buyer/seller, leading to different Pillar 2 outcomes
- A given transaction triggers pricing deviations for the same target when modeling Pillar 2 for buyers/sellers with different Pillar 2 profiles.

M&A transactions may also require discussions regarding the relevant information that a buyer should obtain from the seller to fully onboard the target into Pillar 2's scope. Similarly, a specific contractual protection should be negotiated in the share purchase agreement (SPA) regarding the Pillar 2 tax risk.

These considerations should not be underestimated and must be closely monitored.

And finally, what about data?

With Pillar 2 now in force, fund managers should already have identified the data they need from all jurisdictions where they operate and set up processes to collect it.

The priority in 2025 is to test these processes, ensure data quality, and make any adjustments well before the first filing deadline.

Digital tools can help streamline reporting.

Questions that may be raised

Question 1

Do we have Pillar 2 oversight in-house, and are we considering potential (local) Pillar 2 positions at the level of the underlying portfolio entities?

Question 2

Does our fund structure or any of its underlying SPVs or portfolio entities fall within the Pillar 2 Directive's scope?

Question 3

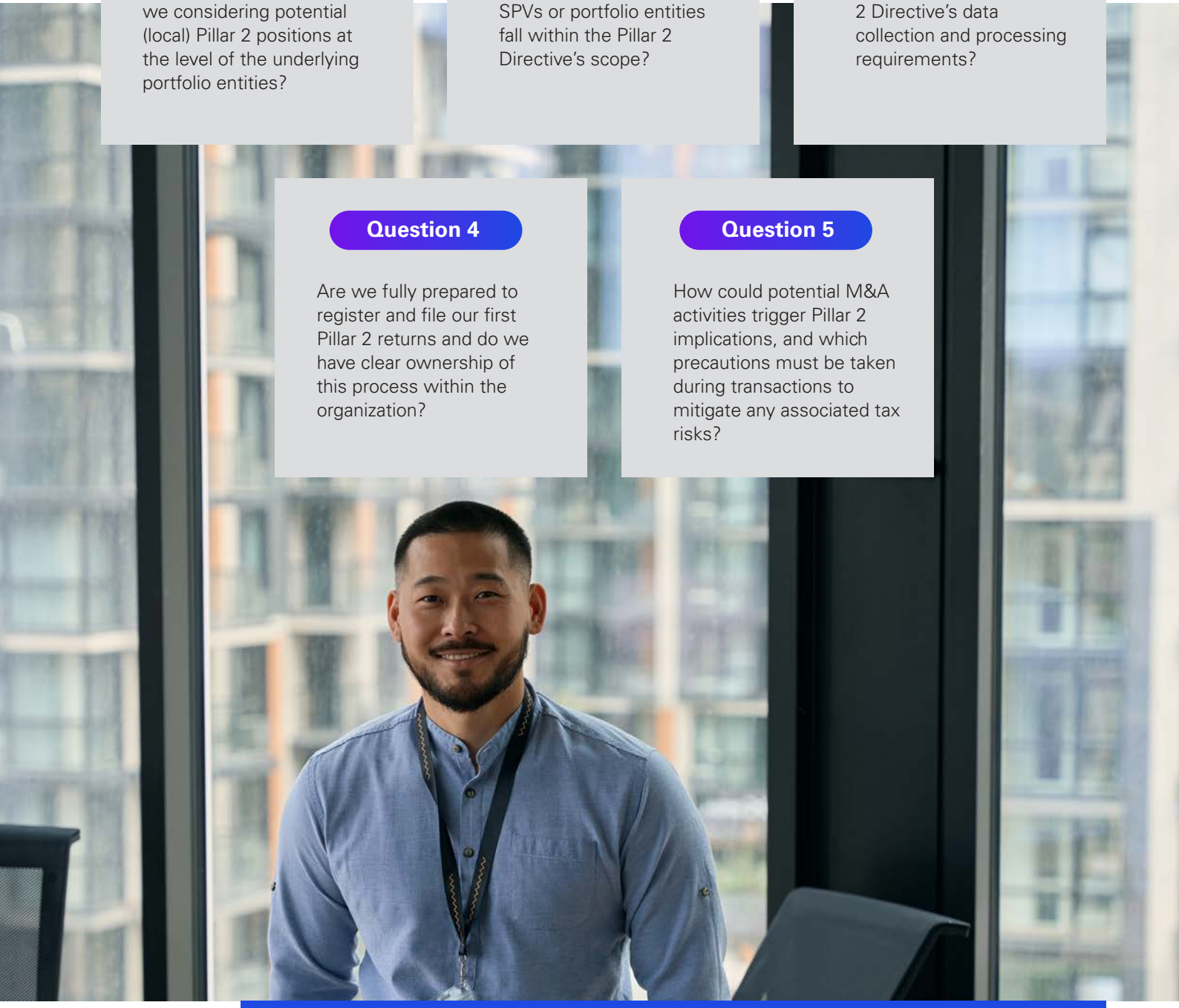
Can we effectively manage the Pillar 2 Directive's data collection and processing requirements?

Question 4

Are we fully prepared to register and file our first Pillar 2 returns and do we have clear ownership of this process within the organization?

Question 5

How could potential M&A activities trigger Pillar 2 implications, and which precautions must be taken during transactions to mitigate any associated tax risks?



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Sustainable finance — Evolving regulatory framework and disclosures

The sustainable finance journey goes beyond regulatory requirements

Here are the main ESG and sustainability challenges that market players are still facing, and the questions to tackle them:

Put my ESG strategy into motion

How can I define an ESG strategy and put it into practice?

Adapt my operating model to address ESG opportunities

How should I update my operating model to comply with the integrated ESG regulatory framework and create value?

Reporting according to final Regulatory Technical Standards (RTS)

How should I address the reporting requirements of the final RTS?

Additional ESG focus:

How can I avoid greenwashing risks and use the correct terms in fund names?

How can I enhance my reporting and risk management in the face of increased ESG scrutiny?

Developing an ESG strategy

ESG is a long-term trend that's here to stay. It requires a fund-level, future-proof product strategy that:

Ensures a better long-term risk management approach, including sustainability risk

Offers a diversified portfolio with environmental and social contributions

Meets a new generation of investor expectations

To develop a successful ESG strategy, market players must define their ambitions, assess their current capabilities, and set out an action plan.

Defining your ESG data model for SFDR readiness

Since 1 January 2023, the Sustainable Finance Disclosure Regulation (SFDR) has required financial market participants to report additional information in their pre-contractual documents, websites and periodic reports.

To meet these reporting obligations, financial market participants must:

- Assess the impact on ESG data along their operation's value chain
- Identify the ESG data needs based on their assets under management
- Qualify ESG data from investment decisions to reporting requirements
- Train and educate employees to address these ESG data needs
- Adapt IT systems to integrate the ESG data model
- Assess current ESG due diligence processes and integrate SFDR obligations
- Update risk management processes, compliance checks and internal audits to ensure data accuracy and reliability
- Convert RTS templates into business requirements
- Adapt their technology or seek external parties to provide support with producing reports.

EU's integrated sustainable finance framework

To channel capital towards sustainable economic activities, the sustainable finance regulatory framework aims to enhance transparency, accountability, and the integration of ESG criteria in investment practices.

Asset managers must navigate the complexities of this evolving framework and ensure compliance while maintaining transparent and comprehensive reporting.

Reporting according to final RTS requirements

Both the SFDR and the EU Taxonomy Regulation mandate that market players disclose ESG information through their prospectuses, annual reports and websites. The SFDR's final RTS elaborated on the required information and its prescribed format through mandatory templates, which entered into force on 1 January 2023.

On 4 December 2023, the European Supervisory Authorities (ESAs) released their Final Report on the SFDR's draft RTS concerning the principal adverse impact (PAI) and financial product disclosures. This report recommended stricter requirements for the PAI disclosure framework, suggested improvements to financial product templates, and mandated the disclosure of financial products' decarbonization targets.

This presents significant challenges for asset managers, who must now adapt to stricter disclosure standards and incorporate decarbonization targets into their reporting processes. To address these challenges, the ESAs developed practical application responses to SFDR questions and coordinated competent authorities' supervision of SFDR disclosures as of 25 July 2024.

Naming ESG funds according to ESMA guidelines
On 14 May 2024, the European Securities and Markets Authority (ESMA) issued its final guidelines on naming funds that use ESG or sustainability-related terms. To protect investors from greenwashing, these guidelines set minimum standards and thresholds for funds marketed in the EU with ESG-specific names, enhancing the transparency and reliability of investment product labels and disclosures.

These new rules pose challenges and opportunities for asset managers, who need to grasp the implications and adjust their investment strategies accordingly.

SFDR 2.0 consultation
Following the European Commission (EC) public consultations on SFDR and related topics, several advisory bodies have published responses containing opinions, guidelines, and recommendations to improve SFDR. In addition to the above-mentioned guidelines, on 18 June 2024, the ESAs released a joint opinion on the assessment of SFDR, simplifying product categories, introducing sustainability indicators, and clarifying the definition of "sustainable investment". Subsequently, on 17 December 2024, the Platform on Sustainable Finance published a proposal of the categorization of products under SFDR.
The EC is expected to publish a proposal for the revision of the SFDR in Q4 2025.

The CSRD
The Corporate Sustainability Reporting Directive (CSRD) extends the SFDR's disclosure requirements from the product and entity levels to the corporate level, aiming to enhance transparency in sustainability reporting.

The CSRD and ESRS (European Sustainability Reporting Standards) are currently under review following the publication of the Omnibus Directive with the proposal to postpone the application date (previously announced for 2025) in order to review the application threshold and simplify the reporting obligations.

Starting from fiscal year 2027, large companies that meet at least two of the following criteria will need to report in accordance with ESRS:
1. Over 1000 employees
2. €450 million in net turnover
3. €25 million in assets.

However, subsidiaries can be exempted from the CSRD if their parent companies include them in consolidated reports.

For asset managers, the CSRD's requirements can be expected to result in more reliable ESG data from investee companies, supporting SFDR compliance and promoting more sustainable investment practices.

ESG — Don't forget the disclosure requirement!

Who is impacted and when?

- Articles 8, 9, 10 and 11 of the SFDR impose disclosure requirements for financial market participants – including management companies and AIFMs, whether authorized or registered – that offer financial products referred to in Article 8(1) or Article 9(1), (2) or (3). These obligations apply to any fund, whether self-managed or managed by a chapter 15 ManCo or AIFM.
- As these requirements applied from 1 January 2022, it's implied that periodic reports published since then should already contain the relevant disclosures. In addition, from 1 January 2023, prospectuses, websites and periodic reports needed to comply with further reporting obligations and dedicated templates.

What needs to be disclosed?

The disclosure requirements are contained in Articles 8, 9, 10 and 11 of SFDR and have been subsequently complemented by the EU Taxonomy's provisions in its Articles 5, 6 and 7. A Level 2 delegated regulation shares further details on the disclosures and templates to ensure consistency amongst market players.

The content and extent of the disclosures depend on:

- The fund's classification (under Articles 6, 8 and 9)
- The characteristics it promotes (social and environmental) for Article 8 funds
- Its sustainable objective (social and environmental) for Article 9 funds.

	SFDR product periodic disclosure	SFDR entity's PAI disclosure
Content	• Fund's ESG performance • Alignment with EU Taxonomy Regulation	• Entity's ESG impact
Process	• Recurring report to be included in the annual report • Ongoing monitoring is optional	• Recurring report to be disclosed on the client's website (annually) • Quarterly monitoring is required
Scope	• SFDR Article 8 funds • SFDR Article 9 funds	• All direct and indirect investments at the entity level
Deadline	• Any annual report published after 1 July 2022 must comply with SFDR Level 1 requirements • SFDR Level 2 (RTS) entered into force on 1 January 2023	• 30 June 2023 for the 2022 reference period (1 January 2022 to 31 December 2022)

What main challenges have we identified in the market?

IFMs have faced several challenges when preparing their SFDR disclosures.

- The classification of the fund is not always clearly available from the prospectus.
- It can be difficult to assess the level of detail and the related data breakdown that's required in the disclosures.
- It may be unclear where the information should be collected from, or who is responsible for drafting the disclosures' content.
- The description of the fund's objectives may not be sufficiently detailed in the prospectus, making it difficult to meet the disclosure requirements.

The CSSF's supervisory priorities in sustainable finance and ESMA CSA

To ensure AIFMs and ManCos' compliance with the SFDR, the SFDR RTS and EU Taxonomy, the CSSF will continue to monitor their organizational arrangements, pre-contractual and periodic disclosures, fund documentation consistency, website disclosures, and portfolio analysis.

The CSSF will also inspect entities to ensure their risk management functions are adequately monitoring their sustainability risk, ESG investment strategies, and the binding characteristics communicated in the pre-contractual disclosure.

Additionally, regulators will leverage ESMA's guidelines on fund names related to ESG and sustainability to ensure portfolio holdings align with the fund's name, investment objectives, strategy, and characteristics as communicated to investors.

On 6 September 2023, the CSSF announced the launch of a two-stage ESMA Common Supervisory Action (CSA) on sustainability risks and disclosures in the investment fund sector. The CSA's first stage focused on greenwashing risks and has already been completed. The second stage, launched in March 2024, is currently addressing organizational arrangements and disclosure transparency at the IFM and product levels. It follows ESMA guidelines and incorporates recent updates, including the Thematic Review report of August 2023 and the CSA on greenwashing and sustainability risks of July 2023.

Questions that may be raised

Question 1

As board members, what is our collective level of understanding of sustainable finance to engage in credible discussions?

Question 2

Have we received any investor or regulator feedback on the information published on our website, and in our prospectuses and periodic reports? If yes, what action was taken?

Question 3

Have we identified our ESG ambitions? Should existing products be adapted, and are there opportunities for new products?

Question 4

What are the fund's main sustainability risks? Is the fund's sustainability risk monitoring robust enough to keep tabs on these risks?

Question 5

Have we identified the disclosure information that was required as of January 2023? Are there any difficulties foreseen? Were we able to produce all related information?

Question 6

How are we addressing any additional information requests from the CSSF? Are we prepared for any potential ESG site inspections?

Question 7

Have we identified the information required for disclosures published from January 2023 onwards? Are there any expected difficulties?

Question 8

Have discussions been held with the investment manager to ensure that they will provide the necessary information and data to prepare disclosures, or will they prepare the disclosures themselves?

Question 9

Are the responsibilities for preparing and validating the disclosures clearly set out?

Question 10

Is there a project plan to ensure the various steps are in place, from collecting the information to preparing the reports?

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Navigating transfer pricing in the world of asset management

Background

- Historically, transfer pricing for asset management has largely been limited to analyzing and pricing transactions between the fund's ManCo and its overseas subsidiaries/affiliates that provide services to the ManCo, like distribution, portfolio management, or investment management.
- While intercompany arrangements regarding ManCos are still a key concern, there are three evolving trends:

01

The rising number of audits and controversy risk on:

- Related-party financing transactions, especially at the fund level, where shareholder loans/financing can arise due to the structuring of asset acquisitions (debt quantum, interest rate, interbank offered rate [IBOR] transition, etc.).
- The debt capacity of a related party borrower, with the importance of assessing whether a comparable independent entity could have secured similar debt and reasonably serviced it, taking into account factors such as market conditions, capital structure, and projected cash flows.
- Substance, especially when high-value functions are split over different locations and/or in branches.
- Transfer pricing documentation, which is a key element in transfer pricing audits to defend the ManCo's filing position.

02

The importance of governance and changing business models with a direct impact on transfer pricing:

- New value chains where technology plays a larger role, along with the growing digitalization of capital raising and distribution.
- Innovative investment management
- Tools that enhance the investor experience
- Reimagined back and middle offices (changing cost base and allocation keys).

03

The regulatory intersection:

- AIFMD reform discussions have suggested that transfer pricing is a good indicator of regulatory "substance" in the EU.
- For US groups, the Securities and Exchange Commission (SEC) has long focused on cost and fee allocations, especially in the alternative investment space. Examples include management and monitoring fees, and charges to portfolio companies. Similarly, the EU's MiFID II seeks to identify and attribute fees to specific functions. Investors have also taken notice.
- Asset management regulations are concerned with the seniority and expertise of key personnel that is dedicated and present in key jurisdictions.
- One of the nine tax indicators in the CSSF's Circular 20/744 refers to tax base erosion derived from cross-border transfers of financial flows (e.g. management fees, service fees, marketing commissions, etc.) and (intangible) assets. This triggers questions regarding compliance with Luxembourg transfer pricing rules.

What are the risks?

If transfer prices applied on intercompany transactions don't reflect arm's length prices or haven't evolved in line with the group's business model and the latest transfer pricing trends, Luxembourg or foreign tax authorities are highly likely to impose transfer pricing adjustments and even penalties. These adjustments usually lead to double taxation that can reach very material amounts.

Questions that may be raised

Question 1

Does the group have a transfer pricing policy that our ManCo effectively applies?

Question 2

Are all intercompany transactions supported by legal arrangements?

Question 3

Are intercompany prices regularly benchmarked in transfer pricing documentation according to Luxembourg regulations and OECD Guidelines?

Question 4

What transfer pricing methods have we used (commonly cost plus or fee/profit split), and have we recently reviewed whether they are aligned with the group entity's current business model and functional profile?

Question 5

Do we have supporting documentation for headquarters allocations and, more globally, cost allocations within the group?

Question 6

Have we considered technology's role in the value chain and its transfer pricing consequences (allocation of costs, royalties, profit share, etc.)?

Question 7

Have we revisited any related party financing considering the 2020 OECD Guidelines on financial transactions and/or the IBOR transition?

Question 8

Do we have branches where profit allocations are not documented?

Question 9

Have we ensured our transfer pricing model aligns with the regulatory framework?

Discover more trends in our survey
Transfer Pricing Asset Management Survey

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FATCA and CRS

Background

All Luxembourg financial institutions (including investment funds and ManCos) must comply with the Foreign Account Tax Compliance Act (FATCA) and the Common Reporting Standard (CRS).

The FATCA and CRS law of 18 June 2020 hasn't just heightened the already heavy burden of compliance — it has also reinforced the Luxembourg tax authorities' powers to carry out audits within a 10-year time limit.

Given the increased risk of falling under the tax authorities' spotlight, now more than ever, financial institutions must make sure that appropriate policies, controls, procedures and IT systems are in place to meet their reporting and due diligence obligations.

Luxembourg reporting financial institutions (FIs) should also maintain a so-called "Register of Actions", which describes the FI's actions to comply with FATCA and CRS and the roles and responsibilities within the organization.

If a Luxembourg CRS or FATCA audit uncovers non-compliance with due diligence procedures, a maximum penalty of EUR250,000 may apply. And, if the audit finds reportable accounts that are unreported or under-reported, an additional maximum penalty of 0.5% of the non-reported amount could apply.

What will these audits look like?

- Jurisdictions like Luxembourg have several options available when designing and implementing a compliance review procedure. One logical starting point is to review the financial institution's internal control framework regarding its compliance with CRS and FATCA. The Luxembourg tax authorities have already started conducting these audits.
- Another approach is to review a sample of accounts, or combine both methodologies in a multi-phase compliance review using a risk-based approach.

Questions that may be raised

Question 1

Have the FATCA and CRS entity classification of the investment funds under management been reviewed?

Question 2

Are there adequate FATCA and CRS procedures in place at the fund or ManCo level?

Question 3

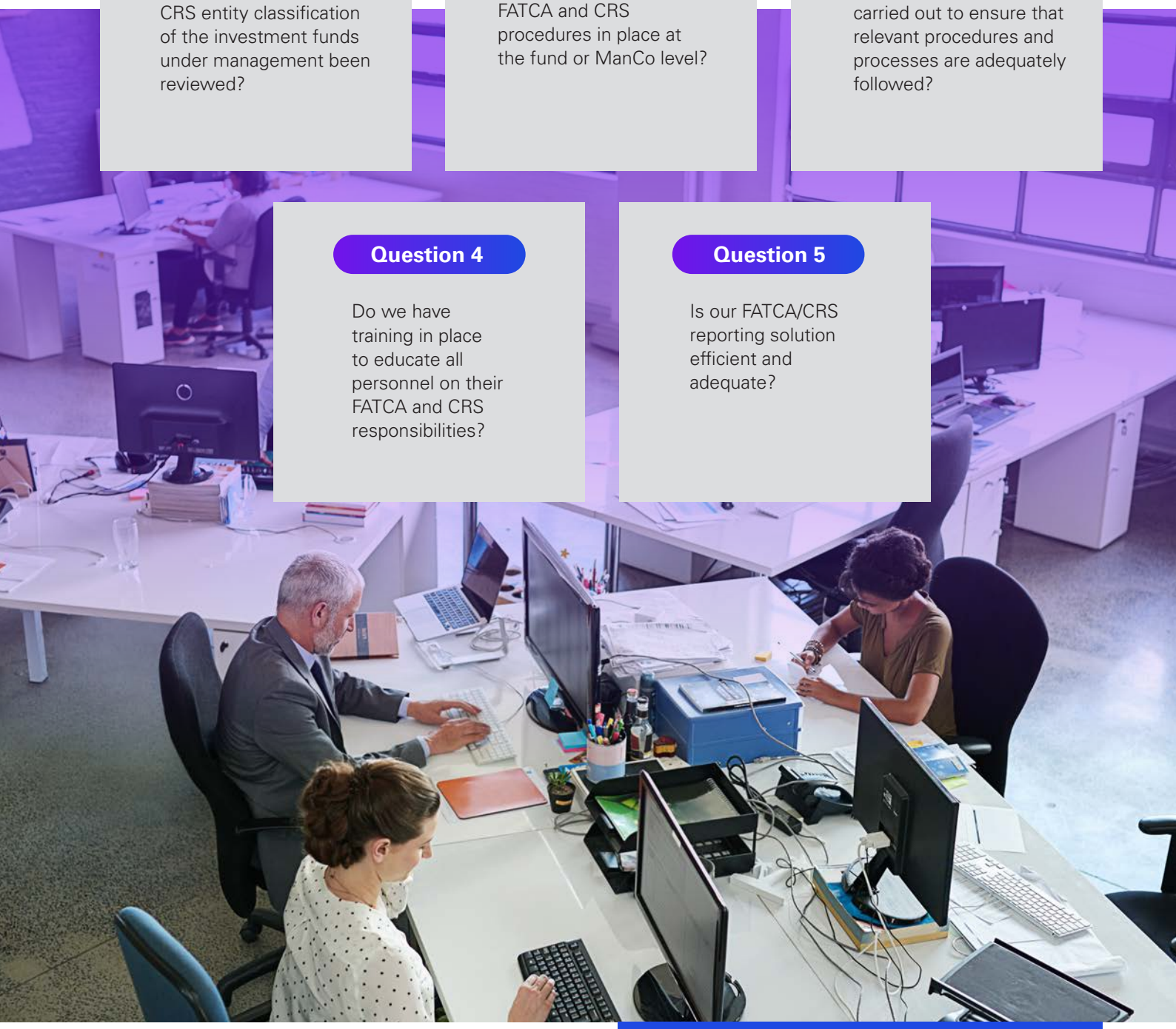
Have internal audits been carried out to ensure that relevant procedures and processes are adequately followed?

Question 4

Do we have training in place to educate all personnel on their FATCA and CRS responsibilities?

Question 5

Is our FATCA/CRS reporting solution efficient and adequate?



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From anti-money laundering to anti-tax crime laundering: Can you manage your tax risk?

When the scope of AML widens to tax crime, compliance officers need to hit the tax books. And when the financial regulator also comes into play, the topic is a must for the boardroom.

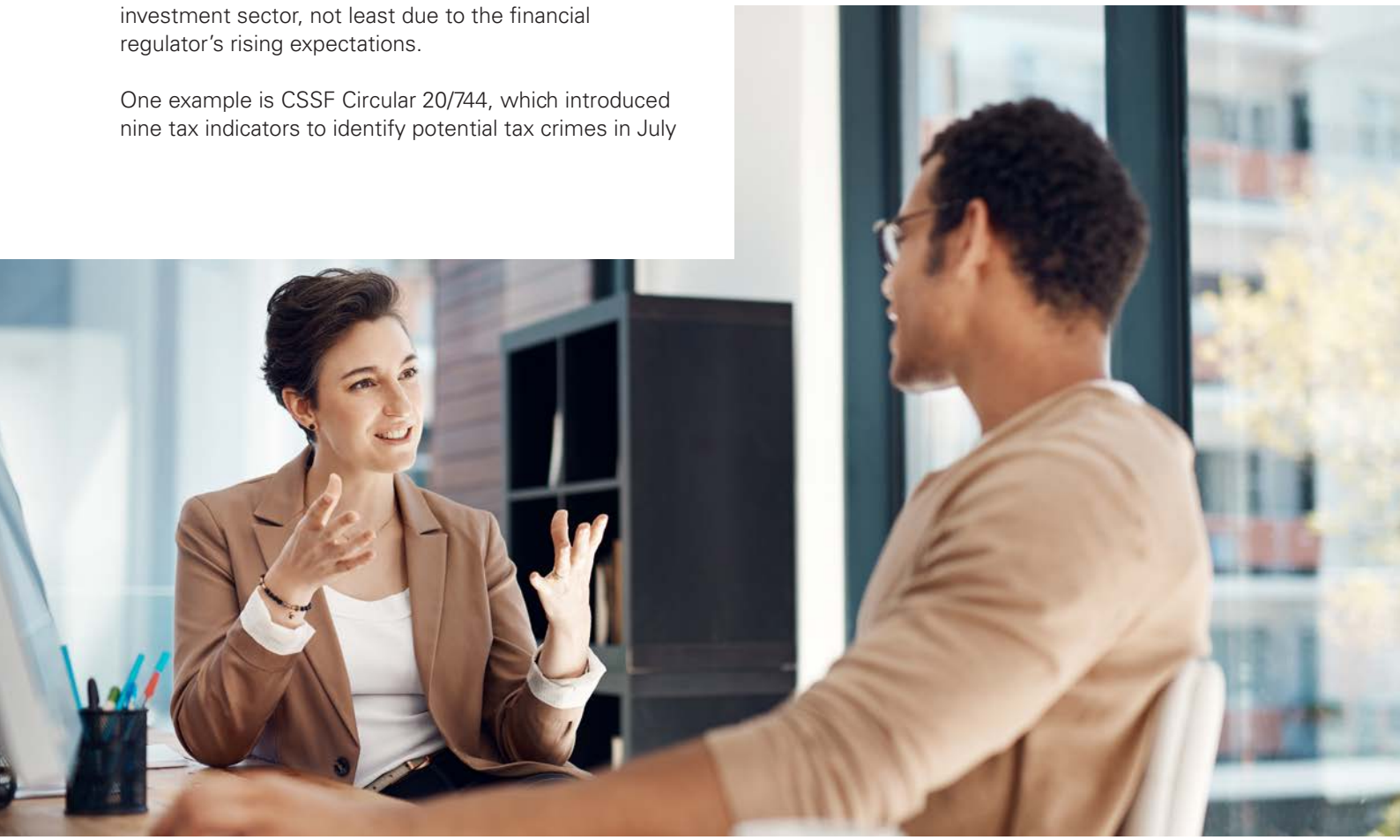
Today's tax landscape is driven by heightening tax obligations, with a shift towards increasing tax transparency and enhancing tax conformity for financial services and professionals supervised by the CSSF. As a result, Luxembourg underwent a significant tax reform in 2017, which created — amongst others — new tax-related criminal offenses.

As such, the fight against tax crime is imperative for both the traditional financial industry and the alternative investment sector, not least due to the financial regulator's rising expectations.

One example is CSSF Circular 20/744, which introduced nine tax indicators to identify potential tax crimes in July 2020, on top of the 21 tax indicators already presented in Circular 17/650.

In its thematic review, the CSSF emphasized that these nine tax indicators must be implemented by all professionals from the asset management sector directly supervised by the CSSF.

To mitigate their exposure to these potential tax risks, professionals must adapt their tax compliance policies and AML frameworks by integrating these indicators into their risk assessment processes.



The nine indicators: At a glance

01 **Complex investment structuring**

02 **Tax base erosion**

03 **Investment transactions**
Lack of AEOI/CRS/FATCA procedures

04 **Investment transactions**
Lack of economic rationale

05 **Investment transactions**
Frequent transactions resulting in losses

06 **Efficient portfolio management techniques**

07 **SICAR**

08 **Subscription tax**

09 **Investor tax reporting**

CSSF audits

After Circular 20/744 was published, the CSSF included these new indicators in the scope of its 2021 audits and began sending specific observations in December 2021.

Going forward, the circulars and their implementation will be a key consideration of the CSSF.

What are the risks of non-compliance?

- If you don't include the Circular's nine tax indicators in your internal procedures, you could be considered non-compliant with your AML obligations.
- In case of a breach, the CSSF could impose (public) administrative sanctions, ranging from a warning or an administrative fine up to withdrawing or suspending your registration or authorization.
- In a worst-case scenario, you could be considered a money laundering accomplice, resulting in criminal fines and up to five years' imprisonment.

Questions that may be raised

Question 1

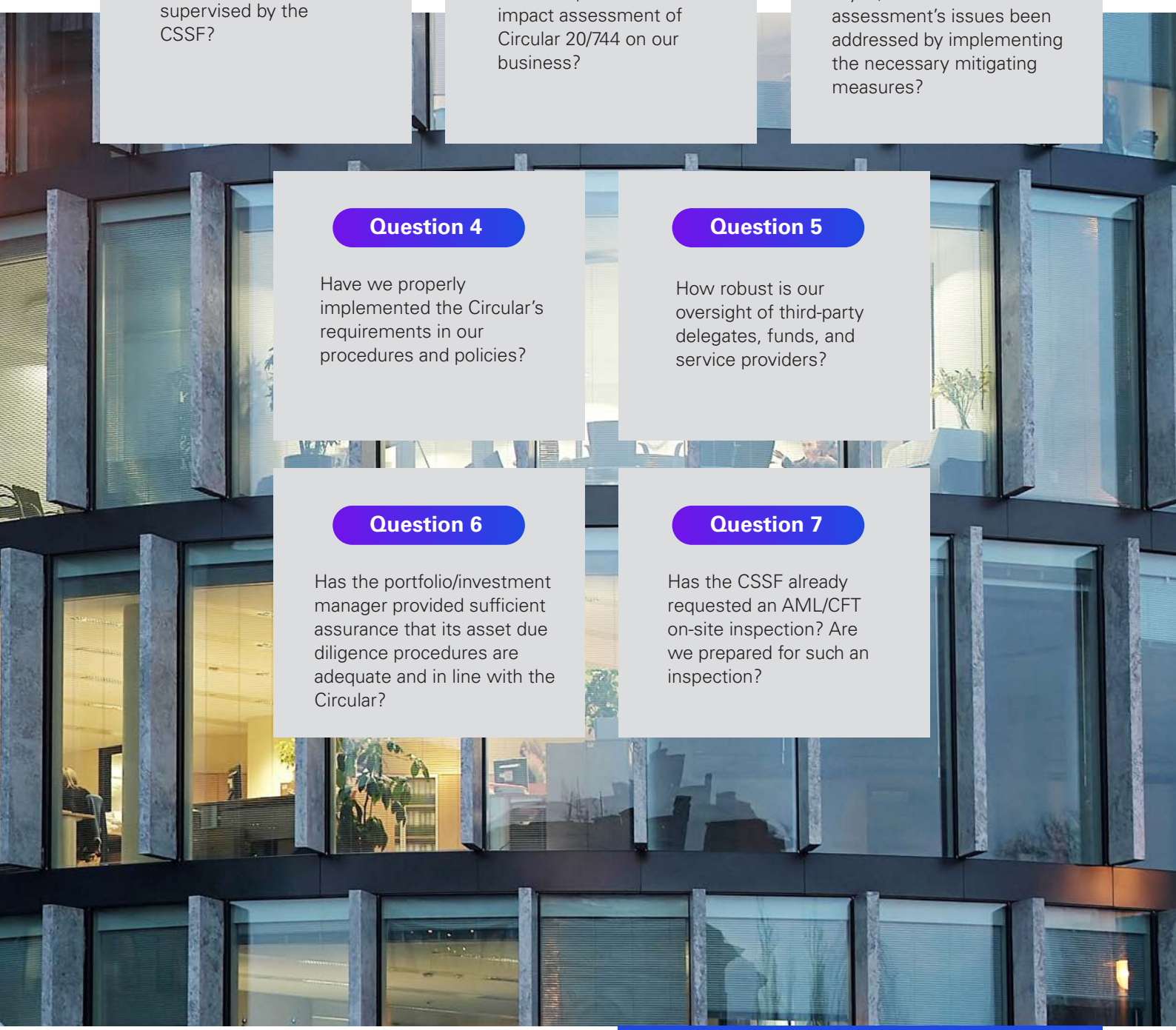
Are we directly supervised by the CSSF?

Question 2

Have we performed an impact assessment of Circular 20/744 on our business?

Question 3

If yes, have all the assessment's issues been addressed by implementing the necessary mitigating measures?



Question 4

Have we properly implemented the Circular's requirements in our procedures and policies?

Question 5

How robust is our oversight of third-party delegates, funds, and service providers?

Question 6

Has the portfolio/investment manager provided sufficient assurance that its asset due diligence procedures are adequate and in line with the Circular?

Question 7

Has the CSSF already requested an AML/CFT on-site inspection? Are we prepared for such an inspection?

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AIFMD 2.0

On 26 March 2024, the final text of the second Alternative Investment Fund Managers Directive (AIFMD 2.0) was published in the Official Journal of the European Union. Member States must transpose the directive into national law before it takes effect on 16 April 2026.

The AIFMD 2.0's aim is to harmonize:

Regulatory standards between the AIFMD and the UCITS Directive, especially regarding regulatory reporting requirements.

Regulatory initiatives by national supervisory authorities (e.g. CSSF Circular 18/698) to ensure a level playing field across Europe.

Overview of key amendments:

Loan-originating funds

Amended texts

- Loan-originating AIFs can enjoy EU AIFMs' passporting rights on lending.
- They must respect:
  - 20% of aggregate concentration limits
  - 175% of leverage limits for open-ended AIFs and 300% for closed-ended AIFs
  - 5% of retention of each loan's notional value.

Key impact

AIFMs and AIFs, whose investment strategy is mainly to **originate loans**

Authorization of AIFM and depositary appointment

Amended texts

- Further clarification on permissible activities by AIFMs, as well as information to be provided for AIFM authorization requests, notably regarding detailed explanations and evidence for **conflicts of interest** and for the substance of the AIFM.
- AIFMs can appoint a **depositary** established in a different Member State or a third country.

Key impact

New AIFM applicants and existing AIFMs that wish to extend their activity scope

Liquidity management tools

Amended texts

Open-ended and semi-open-ended AIFs must:

- Select at least two liquidity management tools (LMTs) and assess their suitability
- Implement **procedures and policies** for LMT activation and deactivation
- Follow specific requirements for redemption in kind and temporary suspensions.

Key impact

Open-ended and semi-open-ended / evergreen AIFs

Disclosure to investors

Amended texts

- AIFMs must perform:
  - Periodic disclosures of the originated **loan portfolio's** composition
  - Annual disclosures of the **fees and charges** directly or indirectly borne by investors
  - Pre-contractual disclosures of their **LMT framework** to investors.

Key impact

All AIFMs. Main impact regarding **fee and charges disclosures**

Delegation

Amended texts

The directive imposes new requirements for qualifying delegates and enhanced responsibilities on delegate supervision.

No fundamental changes compared to CSSF Circular 18/698.

Key impact

All AIFMs

Supervisory reporting

Amended texts

AIFMs' reporting will expand to cover all the markets, instruments and exposures of each AIF they manage. They will need to regularly **report data on liquidity management, risk profile and stress test results.**

Key impact

All AIFMs

Questions that may be raised

Question 1

Have we performed a gap and impact analysis of the AIFMD 2.0's updated rules and requirements?

Question 2

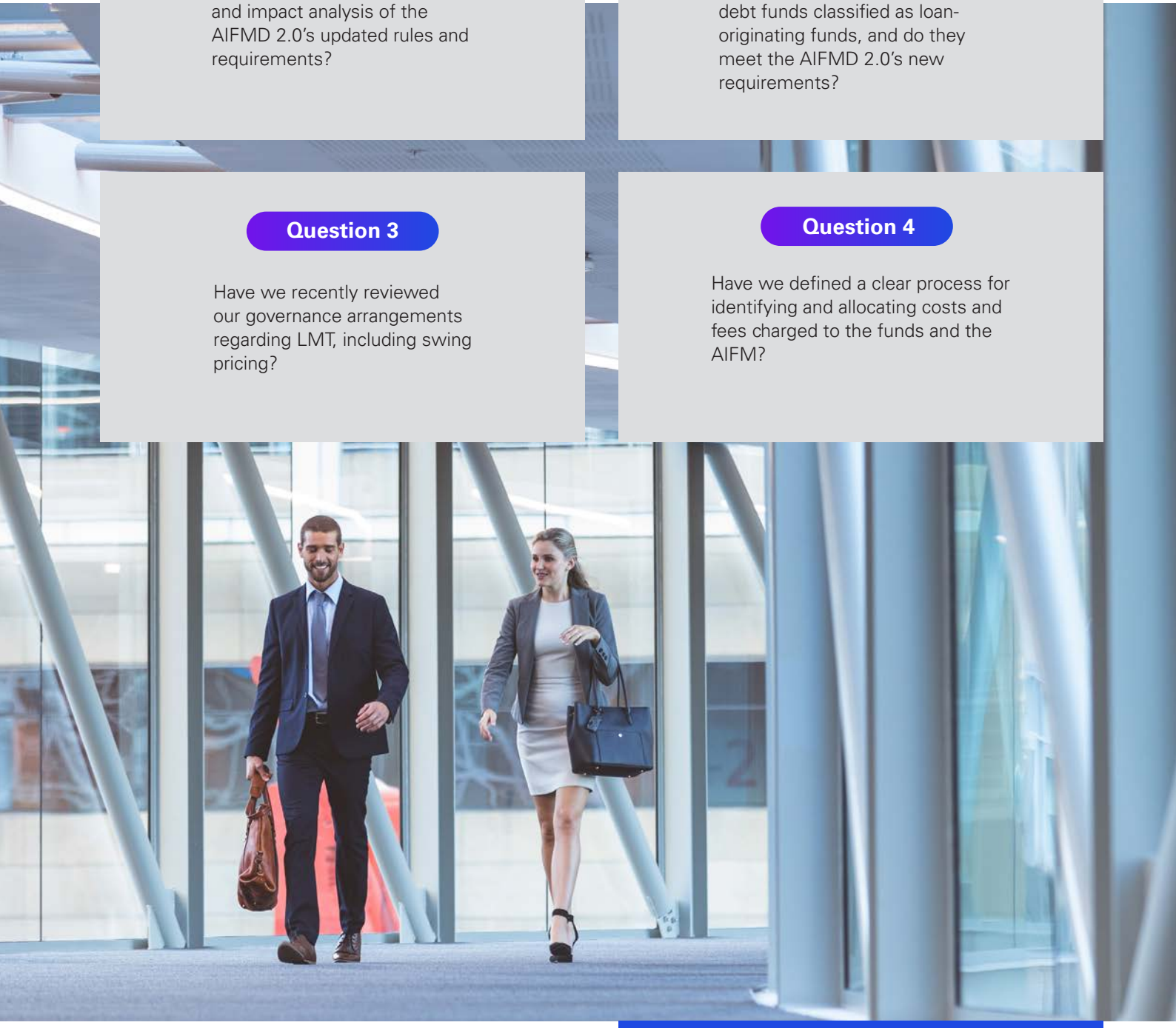
Do we currently manage private debt funds classified as loan-originating funds, and do they meet the AIFMD 2.0's new requirements?

Question 3

Have we recently reviewed our governance arrangements regarding LMT, including swing pricing?

Question 4

Have we defined a clear process for identifying and allocating costs and fees charged to the funds and the AIFM?



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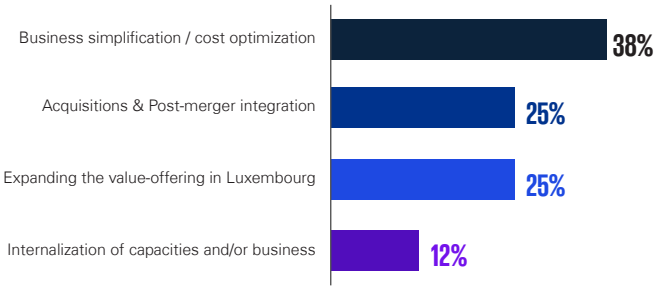
Insights from the KPMG Large-Scale ManCo & AIFM Survey 2025

The 2025 KPMG Large-Scale ManCo & AIFM Survey has provided valuable insights into the evolving landscape of Management Companies (ManCos) and Alternative Investment Fund Managers (AIFMs). With more than 30 ManCos and AIFMs survey participants, this year's survey highlights key trends and strategic shifts within the industry.

Our survey discussions revealed the following:

Continuous evolution of ManCo operating model

The survey reveals that 87% of ManCos and AIFMs consider their operating model to be in a state of evolution or transformation. The primary driver to challenge existing operations for 38% of participants is the quest to simplify business processes and optimize costs. Additionally, many firms are focusing on acquisition and post-merger integration strategies to enhance their operational capabilities and expand their market presence. A quarter (25%) of ManCos are also considering efforts to broaden their value offering in Luxembourg, positioning themselves as comprehensive service providers that can meet diverse client needs.



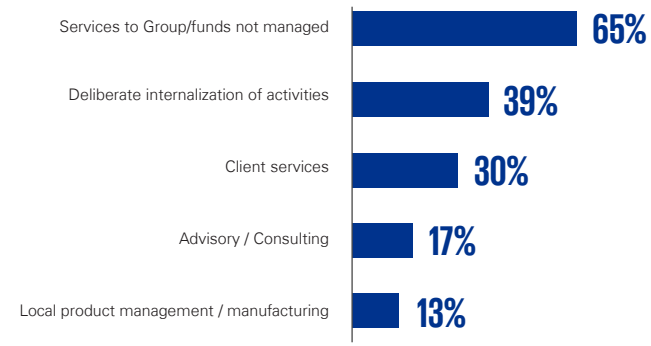
Efficient governance setup for regulatory compliance

ManCos are searching for an efficient governance setup to demonstrate substance to the regulator. A mixture of local vs. group committee setups can be observed across ManCo functions, raising questions about optimal structures .

Re-think and elevate the core

A significant focus of the survey is on how core versus non-core reviews is driving strategic operating model and cost decisions. Fifty-seven percent of participants have conducted a dedicated assessment of core versus non-core activities. This evaluation is crucial as it helps ManCos identify and prioritize functions essential to their value proposition while streamlining other activities. The strategic shift towards a core versus non-core approach is increasingly seen as vital for protecting core value and ensuring scalability.

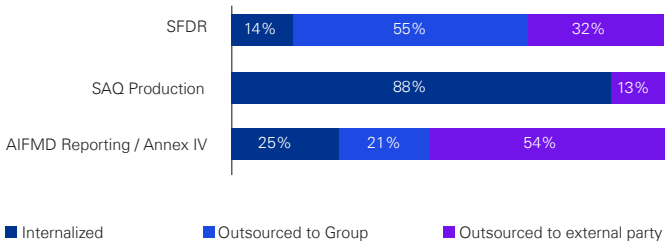
Value-add services provided by ManCos beyond the regulatory minimum



Delegation model fine-tuning

In line with the emphasis on operational efficiency, ManCos are fine-tuning their delegation models to offload non-core business activities. Many ManCos are looking to streamline their reporting processes by outsourcing oversight, compliance, and regulatory reporting activities. This strategic adjustment allows them to concentrate on their core competencies while ensuring compliance with regulatory requirements. As a result, a significant number of ManCos are exploring managed service solutions for volume-driven reporting, aiming to enhance efficiency and reduce operational burdens associated with these tasks. At the same time, a third of ManCos are considering tactically insourcing additional activities.

Operating Model for Regulatory Reporting



To discover the full insights of our survey, please visit:
KPMG Large-scale ManCo & AIFM Survey 2025

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T+1 in Europe: navigating uncharted waters

After the US market transitioned to T+1 settlement in May 2024, it is now Europe's turn to undertake this transformative shift in securities processing by October 2027. As preparations get underway, it is becoming evident that the old continent is not only more diverse but may also reveal some unforeseen challenges for the asset management sector.

T+1: Europe's transformative shift in securities settlement

Following the lead of the US and other financial markets, the European Securities and Markets Authority (ESMA) has proposed moving from the current T+2 to a **T+1 settlement cycle, with 11 October 2027 set as the target implementation date in the European Union.** This initiative is being coordinated with both the UK and Switzerland, which plan to adopt the new regime on the same day, marking a significant step forward in enhancing market efficiency across the continent.

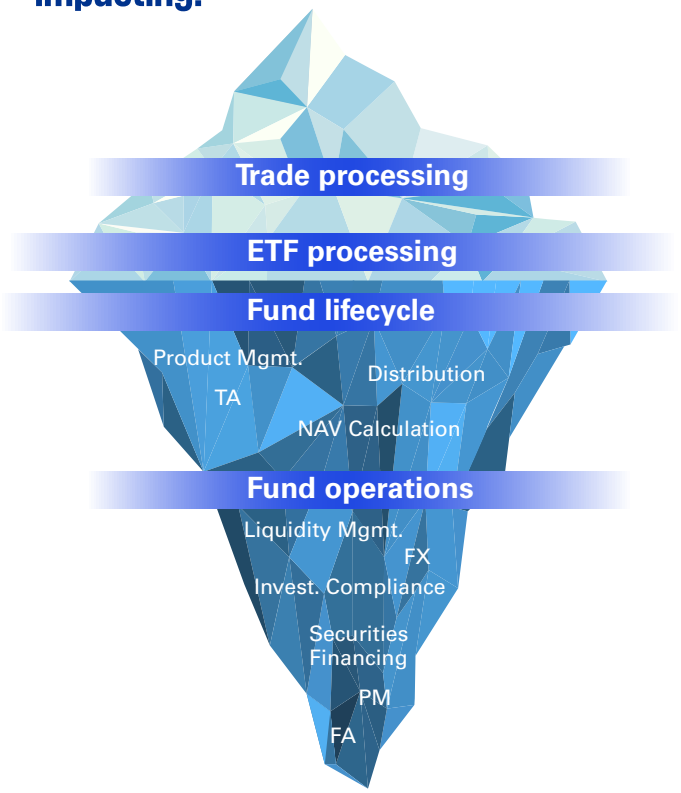
The regulatory framework for this transition will be established through an **update to the Central Securities Depositories Regulation (CSDR).** It is important to note that while almost all publicly traded securities will fall within the scope of T+1, **traditional investment funds are currently excluded,** as – apart from Exchange Traded Funds (ETFs) – they are generally not listed on official trading venues.

Navigating Europe's complexities

While the advantages of T+1 settlement are evident, the transition also presents significant challenges. Despite substantial harmonization efforts in recent years, **Europe's financial landscape remains a patchwork** of fragmented regulatory frameworks, diverse national market practices, and distinct infrastructural characteristics. In contrast to the relatively uniform securities market in the US, Europe comprises multiple trading venues, central counterparties (CCPs), payment systems, and central securities depositories (CSDs), each with its own unique features.

Furthermore, the **presence of nine different currencies** (including the UK and Switzerland, but excluding Bulgaria) adds complexity, creating an immediate need to enhance foreign exchange (FX) processing capabilities well beyond the current recommendations of the EU T+1 Industry Committee.

T+1 is a typical iceberg challenge, impacting:



The tip of the iceberg: trade processing

Given the complexity of the transition, much of the **market's attention is currently** focused on how T+1 will affect the **securities lifecycle:**

Phase	Description	Impact
Trading	• Most trading in Europe already takes place on electronic platforms, leaving only a limited need for further optimization in this area. • Updates will be required to end-of-day processes, trading rulebooks, and specific scenarios such as securities financing or cash bond trades.	**Low**
Matching / Confirmation	• Automated trade matching rates in Europe remain significantly lower than in the US. • Unlike the US, which benefits from a central trade matching (CTM) platform via DTCC, Europe lacks a unified solution and has only a few alternatives (e.g. MarketAxess, Broadridge). • Necessary upgrades include the widespread adoption of electronic messaging, ensuring allocations and confirmations are sent by 23:00 on trade date, the inclusion of the Place of Settlement (PSET) field, and the standardization of Settlement Instructions (SSIs).	**High**
Clearing	• With high levels of electronic communication already directly linked to trading activities, further updates mainly focus on optimising and compressing processing times.	**Low**
Settlement	• The absence of a leading CTM platform contributes to greater fragmentation in the European trade lifecycle and highlights deficiencies in stakeholder integration. • Comprehensive upgrades to settlement capabilities are needed, as emphasised by the EU T+1 Industry Committee, particularly in the areas of: - Instruction management - Securities Settlement Systems (SSS) timings - Tools and functionalities	**High**

Just surfacing: ETF processing

In line with other exchange-traded securities in Europe, **ETFs will be included in the scope of the T+1** settlement transition. Beyond the secondary market, it is essential to ensure that the **underlying creation and redemption process** between the authorized participant (broker) and the transfer agent (fund company) **is also aligned** with the new settlement cycle.

A point often overlooked is that, in the US, **the DTCC has introduced a T+0 create/redeem facility for ETFs** as part of the broader T+1 securities settlement regime. This was primarily driven by the widespread use of ETFs in stock loan operations.

While ETF lending is less prevalent in Europe, local asset managers face similar challenges. For **global funds with significant exposure to Asian markets, creations and redemptions are already settled on a T+1 basis** to account for time zone differences. **Shortening the processing cycle by an additional day will require T+0** settlement capabilities for ETFs in the primary market.

Phase	Description	Impact
Product Management	• Amendments to fund documentation (e.g. prospectus), related investor communications, and internal policies and procedures. • Revisions to stakeholder contracts, including those with authorized participants, transfer agents, and other key partners.	**Medium**
Primary Market (transfer agent)	• Development of a new operating model for T+1 subscriptions and redemptions with authorized participants. • Potential transition to T+0 settlement, with downstream impacts on NAV calculation and cash management.	**High**
Secondary Market (exchange)	• Largely consistent with the broader move to T+1 settlement for securities and responsibility of authorized participants/brokers. • Establishment of mechanisms to address settlement mismatches for underlying basket trades, whether in-kind or cash.	**Low**

Under the radar: challenges for asset managers

Although **investment funds are generally not subject to mandatory T+1** settlement, they are indirectly impacted in several ways. The EU T+1 Industry Committee and sector-specific associations such as ALFI in Luxembourg have provided initial guidance on what to expect. Nevertheless, the **repercussions of T+1 will reverberate throughout the entire end-to-end asset management value chain.**

On the liability side, which involves **interactions with investors,** the **entire fund lifecycle** – from product management and distribution operations to transfer agency and NAV calculation – will be impacted. Beyond addressing potential liquidity mismatches within the investment portfolio, strong client demand for fund processing to remain aligned with other securities will likely drive the (optional) shortening of fund unit settlement cycles by one day.

On the asset side, relating to **investments,** the **trade processing** challenges described above will affect all financial market participants, including buy-side firms. Asset managers and their service providers face **unique hurdles in fund operations,** influencing portfolio liquidity, foreign exchange processing, investment compliance, securities financing, and fund accounting.

Phase	Description	Impact
Fund Lifecycle		
Product Management	• With over 70 distribution countries, diverse client groups worldwide, and a wide range of product types and asset classes, T+1 requires a comprehensive review of the entire fund offering to define a clear implementation strategy. • Product owners must identify gaps in the current setup based on established objectives, agree on mitigating solutions with all stakeholders, initiate corrective actions, and oversee execution to ensure a successful transition.	**High**
Distribution Operations	• UCITS are predominantly distributed through complex chains involving multiple parallel settlements, especially in overseas markets, necessitating careful coordination. • Fund subscriptions and redemptions take various forms (e.g. single transactions, savings plans, unit-linked insurance or pension products, fund of funds, feeder structures, direct debits) and are processed through different channels (e.g. neo-brokers, fund platforms, banks) – all of which must adapt to shorter settlement cycles.	**High**
Transfer Agency	• Fund issuance in Europe is governed by national requirements, generally falling into depositary/CSD markets or transfer agency/register models. Both variants have unique settlement processes that must be analyzed and reformed. • Unlike RVP/DVP for securities, fund units are issued only after receipt of payment and redeemed with subsequent money transfer, creating additional challenges for T+1 settlement. • Emerging technologies such as blockchain and DLT may serve as true enablers, though implementation timelines could make meeting the T+1 deadline challenging.	**High**
NAV Calculation	• Reducing fund unit settlement times will require faster NAV calculations and improvements in the dissemination of fund prices. • Beyond technology upgrades, process changes and organizational optimizations – such as around-the-clock operations – will be needed. Innovations like multi-NAV, true-ups, or real-time NAV could be embarked upon, potentially accompanied by updates to the regulatory framework.	**High**

Phase	Description	Impact
	Fund Operations	
Liquidity Management	• Enhanced cash management capabilities will be needed to address liquidity mismatches with subs/reds as well as between securities. • Applications must be upgraded (e.g. forecasting), as well as adding new counterparties and introducing short-term instruments (e.g. cash sweeps, repos).	**High**
Portfolio Management	• There will be the risk of higher tracking error due to funding gaps with subs/reds. • Integrated checks will be needed for cash settlement differences in portfolio construction/rebalancing.	**Medium**
Investment Compliance	• Extended monitoring of cash/overdraft limits will be needed to prevent breaches; these may be active if e.g. excess funds have been foreseeable. • Enhanced settlement controls will be required to avoid CSDR fail penalties. • A review of liquidity management tools will be necessary if costs are to be passed on to investors.	**Medium**
Foreign Exchange (FX)	• Existing netting and FX management processes (e.g. on T+1) may be insufficient (e.g. for late trades) and need to be improved. • There will be an impact on FX hedging to mitigate timing issues. • Engagement with service providers for new solutions at reasonable cost will be required.	**High**
Securities Financing	• SFTs are in principle exempt from T+1, but are disproportionately impacted; post US T+1 a reduction in volumes was observed. • Trade matching and settlement instructions will need to be upgraded. • New recall process with tighter notification and return deadlines will be required. • There will be a need for revised intraday repo settlement and collateral release practices.	**High**
Fund Administration	• T+1 will heighten the demand for both speed and quality across all operations. A thorough review of the NAV cycle is essential, even if fund unit settlement times should remain largely unchanged. • Key operational processes – including those mentioned above, as well as others such as corporate actions – will require adjustments. Systems must be upgraded, and new technologies implemented to meet these evolving requirements.	**Medium**

Navigating uncharted waters: a call to action

The transition to **T+1 settlement marks a pivotal moment for Europe's financial markets.** As the continent stands on the brink of this transformative shift, the imperative is clear: preparation and coordination are key. **Market participants must act now,** reviewing processes, investing in technology, and ensuring compliance with the new settlement cycle. With concerted efforts across the EU, UK, and Switzerland, the transition to T+1 can be seamless and impactful, ushering in a new era of financial efficiency and security.

Our **call to action** therefore is:

- **Asset managers** – Get ahead of the curve by thoroughly assessing how T+1 settlement will impact your organization. Re-evaluate your product and distribution strategies, embrace innovation, and set ambitious yet pragmatic goals. Design a tailored target operating model supported by a realistic implementation roadmap.
- **Asset servicers** – Don't wait for your clients to ask – anticipate their T+1 requirements. Prepare solutions in advance and ensure all necessary groundwork is completed on time. Provide guidance and be guided by jointly collaborating in industry-wide standards. Invest in operational resilience now to support your clients effectively.
- Although T+1 may not increase trading volumes per se, it will intensify internal workflows, heighten the need for exception management, and introduce systemic changes, such as new notification processes. **Market participants must prepare for these changes and not underestimate their complexity.**

Questions that may be raised

Question 1

Where do you stand with your T+1 preparations?

Question 2

Where do your business partners stand with their T+1 preparations?

Question 3

What is your product and distribution strategy to deal with T+1?

Question 4

Which are your biggest functional, technical and operational gaps to deliver your strategy?

Question 5

Have you defined your prioritized mitigating actions and put the right governance in place?

Question 6

What is your implementation roadmap to get ready for October 2027?

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Beyond ELTIF: embracing semi-liquid alternatives in Luxembourg's private asset market

The private capital landscape is undergoing a significant transformation. Our recent focus group discussions – supported by industry surveys – confirm a rising demand for flexible, retail-friendly private capital solutions. As investor preferences evolve, so too must the industry's operational readiness and strategic approach.

Market momentum and strategic shifts

Client appetite for retail-style private capital vehicles continues to grow, with many industry leaders increasingly favoring UCI Part II structures over ELTIFs for their flexibility and practicality – a preference clearly reflected in recent RfPs from managers. Notably, from January 2024 to April 2025, UCI Part II fund units investing in alternatives grew by 28%, underscoring this robust demand. This shift is part of a broader trend towards open-ended, evergreen, and hybrid fund models that offer investors enhanced liquidity and adaptability.

Operational readiness, distribution, and growth potential

While the growth potential for these innovative fund types is widely acknowledged, operational maturity varies across the sector. Some firms are already equipped to handle the complex demands of hybrid structures, while others are still building the necessary capabilities. From an operational point of view, current challenging capabilities revolve around the processing of lock-up periods and transfers, which impacts the client's seamless on- and offboarding journey. Another important angle to consider is the evolving role of distribution: the integration of asset servicers with distribution platforms is becoming increasingly important to ensure smoother investor access and an enhanced client experience. However, profitability remains a key concern – elevated operating costs may limit wider adoption and prompt questions about the long-term sustainability of these products. For many firms, the main motivation for offering such solutions lies in enhancing client retention and engagement, rather than a strong belief that they will become the market's leading products. The central challenge – and opportunity – lies in scaling at pace, underpinned by ongoing investments in technology, talent, and processes.

Key trends shaping the future

Flexible fund structures:

Hybrid and evergreen models are gaining traction as investors seek more accessible private capital strategies.

Valuation and liquidity:

Managing frequent NAVs and redemptions for less liquid assets requires robust governance and liquidity management systems.

Integration and client experience:

Attracting UCITS-style clients to hybrid products demands seamless platform integration and proactive investor education.

Customization vs. standardization:

Asset servicers must balance efficiency through standardization with the flexibility of bespoke solutions, supporting both UCITS and alternative models.

Cost, technology, and regulation:

Persistent cost pressures and regulatory demands are driving investment in talent, IT, and compliance. AI and outsourcing offer support, but enhancing AML/KYC processes remains a top priority.

Emerging technologies:

Distributed Ledger Technology (DLT) could revolutionize onboarding and distribution, but widespread adoption will depend on industry standards and collaboration.

Looking ahead

We are at a pivotal juncture. The momentum behind hybrid and semi-liquid private capital funds is unmistakable and accelerating. To capture this opportunity, the industry must remain focused – fostering collaboration, investing in technology, talent, and infrastructure, and ensuring the integration of distribution platforms with operational excellence. Addressing profitability and scaling challenges will be key to delivering next-generation solutions for tomorrow's investors.

Questions that may be raised

Question 1

How ready is our firm to support retail or hybrid funds from an operating model and technology point of view?

Question 2

What steps have we taken so far to evaluate our operational readiness to deliver hybrid and evergreen private capital fund solutions at scale?

Question 3

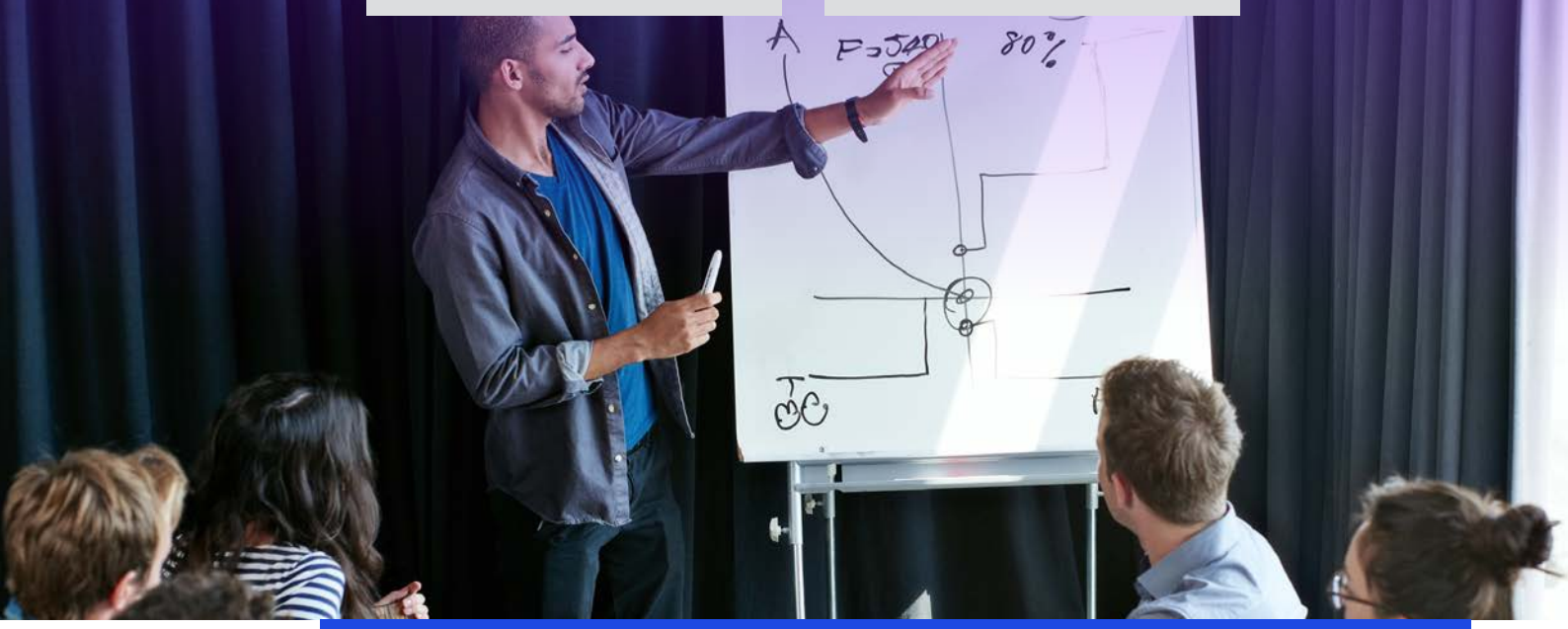
Have we explored the option of connecting asset servicing functions to distribution platforms to support seamless access for retail investors?

Question 4

Are our valuation processes and governance frameworks robust enough to meet regulatory expectations for open-ended and hybrid private capital funds?

Question 5

Do we have effective liquidity risk management and the right tools in place to support semi-liquid fund structures?



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Tax governance and substance for alternative players

The AIF tax environment is becoming increasingly complex. This escalation requires robust tax governance to ensure operating models can meet the challenges of both today and tomorrow.

Substance and tax governance has become critical for asset managers operating AIF structures in Luxembourg.

What have we observed?

Historically, the best practice for investment funds has been to implement some sort of sound decision-making process in Luxembourg.

Generally, this has meant rationalizing the board of directors of the Luxembourg SPV structure below the fund (i.e. board composition, type of board members, level of authority and decisions) and recruiting a number of full-time employees to perform certain tasks on the ground.

Over the last couple of years, our annual substance surveys have uncovered an evolution in this operating model due to a combination of different factors:

- Local authorities' increasing scrutiny of substance and beneficial ownership requirements
- An avalanche of EU, domestic and international tax reforms
- Changes in funds' regulatory landscape.

The main trends we have identified are the following:

- Multiple alternative players have finally implemented governance manuals to:

  (i) create a tax substance framework consistent with most EU jurisdictions' requirements; and

  (ii) ensure that Luxembourg has been systematically included in the wider governance of asset managers[1]
- A tax role has been appointed in Luxembourg
- More and more functions (including AIFM functions) are being moved to Luxembourg, thus increasing the weight of Luxembourg compared to the wider organization
- Tax substance is directly leveraging regulatory substance.

Finally, tax and regulatory are now one single topic. As an example, Luxembourg players operating under AIFMs but also any regulated management company must comply with CSSF Circular 20/744 of 3 July 20204, which requires a risk assessment exercise with nine specific tax indicators and Circular 20/744 on the fight against predicate offences of laundering of aggravated tax fraud and tax evasion.

Overall, we are transitioning from a focus on tax substance to a broader emphasis on tax governance. In fact, Luxembourg regulators and tax authorities are becoming more assertive: the CSSF has ramped up its on-site inspections, while the Luxembourg tax administration has enhanced its technical capabilities and enforcement strategies. The CSSF's 2022 thematic review served as a wake-up call – institutions must not only comply but also manage their tax risks by documenting, monitoring, and ensuring oversight of all tax-related activities, particularly when functions are outsourced.

Going forward

The significance of tax governance will only continue to grow given the rising complexity of tax rules, including but not limited to DAC6 (mandatory disclosure rules), FATCA/CRS (automatic exchange of information), QI (Qualified Intermediary rules), Pillar 2 and the "Securing the Activity Framework of Enablers" (SAFE) initiative, as well as the increase in local tax challenges.

Tax is no longer just a compliance function – it is a strategic pillar of corporate governance. Robust tax governance will enable financial institutions to build

1. We have observed different solutions being implemented in practice, such as the necessary participation of certain key Luxembourg staff in the investment committee, the implementation of certain guidelines with regards to the level or type of information to be shared with the SPV's board, do's and don'ts when deciding on or signing a document, etc.

investor trust, satisfy regulators, and strengthen internal controls by efficiently managing tax risks. Organizations will need to monitor these developments closely, as a successful challenge by a local tax authority may significantly impact the internal rate of return (IRR) of investment structures. They must implement robust controls and regularly review tax governance and substance points.

We believe technology (including AI) should play a major role when implementing and monitoring tax governance in fund structures, whether to handle tax rules' growing complexity or manage costs.

Tax governance is no longer a box-ticking exercise – it's a cornerstone of investor confidence and regulatory resilience. With growing scrutiny on internal tax procedures and delegation oversight, management companies must ensure their frameworks are not only compliant but also transparent and future-proof.

How we can help: from health check to remediation

At KPMG, we help organizations take a proactive and structured approach to tax governance. Our services are designed to both meet regulatory expectations and support long-term business efficiency:

Health Check:

A thorough as-is analysis of your current tax governance setup. We assess roles, responsibilities, and compliance processes to identify any deficiencies or inefficiencies, ensuring you have a clear understanding of your tax risk landscape.

Tax Governance Report:

Following the Health Check, we compile our findings into a comprehensive document, including a principle-based allocation matrix that outlines roles and responsibilities tailored to your specific tax obligations.

Remediation:

We focus on implementing our recommendations to enhance your tax governance. We assist in drafting compliance checklists and procedures that streamline your processes, ensuring that your organization is well-equipped to meet its tax obligations effectively and efficiently.

KPMG's Tax Governance Dashboard:

Our innovative Tax Governance Dashboard is a user-friendly tool designed for regular compliance reviews. It allows you to monitor your tax obligations, document compliance activities, and generate reports, providing you with the insights needed to maintain robust tax governance and make informed decisions.

Tax Governance Mock Exercise:

A simulated regulatory review replicating CSSF and tax authority conditions. This exercise helps asset managers identify gaps, test control frameworks, and enhance readiness for real inspections.

Questions that may be raised

Question 1

Is there someone responsible for tax matters within my organization?

Question 2

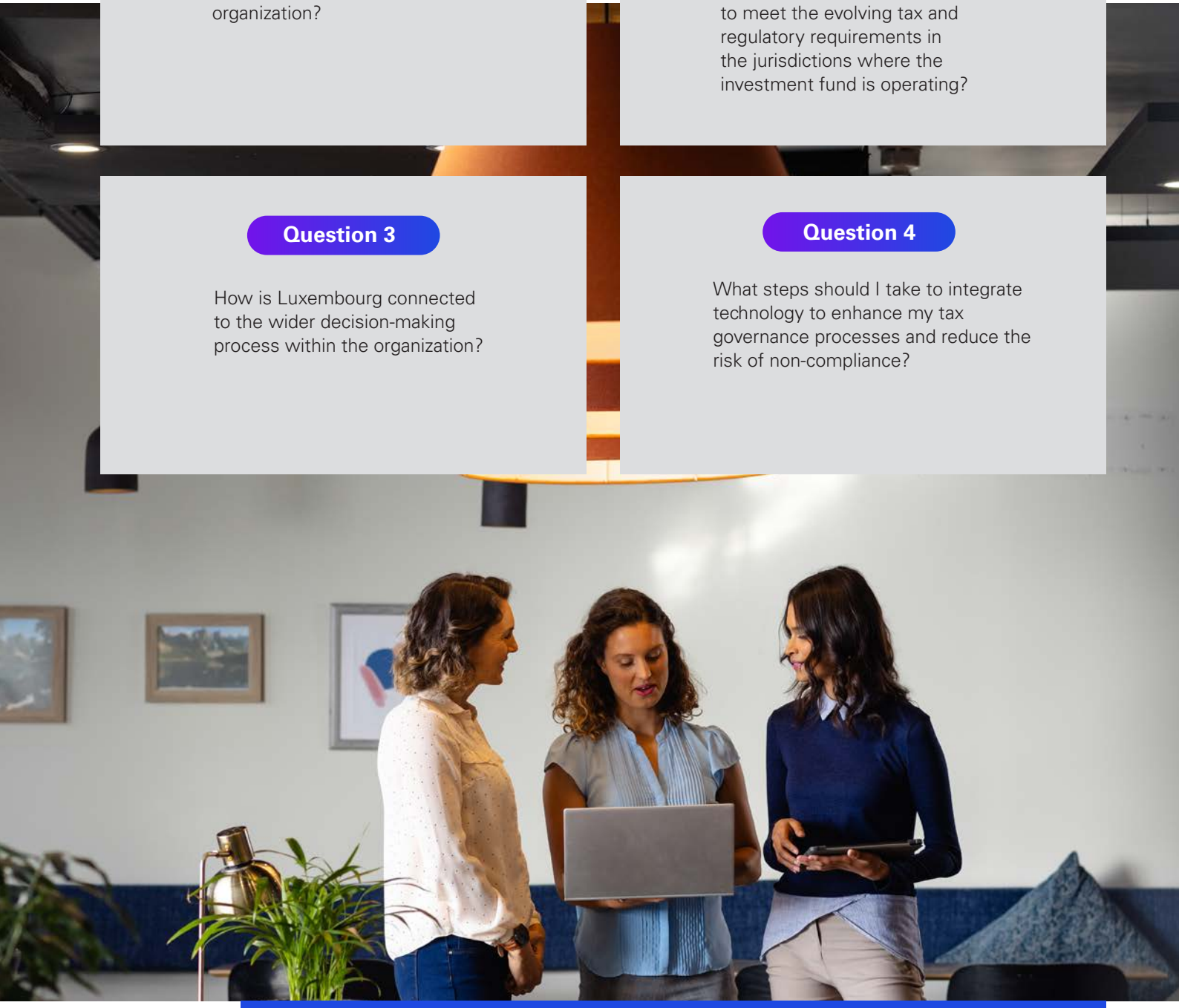
Is my current tax governance framework robust enough to meet the evolving tax and regulatory requirements in the jurisdictions where the investment fund is operating?

Question 3

How is Luxembourg connected to the wider decision-making process within the organization?

Question 4

What steps should I take to integrate technology to enhance my tax governance processes and reduce the risk of non-compliance?



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Operating model evolution: core versus non-core and the rationalization of fund administration

Many AIFMs are reevaluating their operating models to streamline their value chain and operations. A key focus is identifying non-core activities for outsourcing, such as reporting and controls execution.

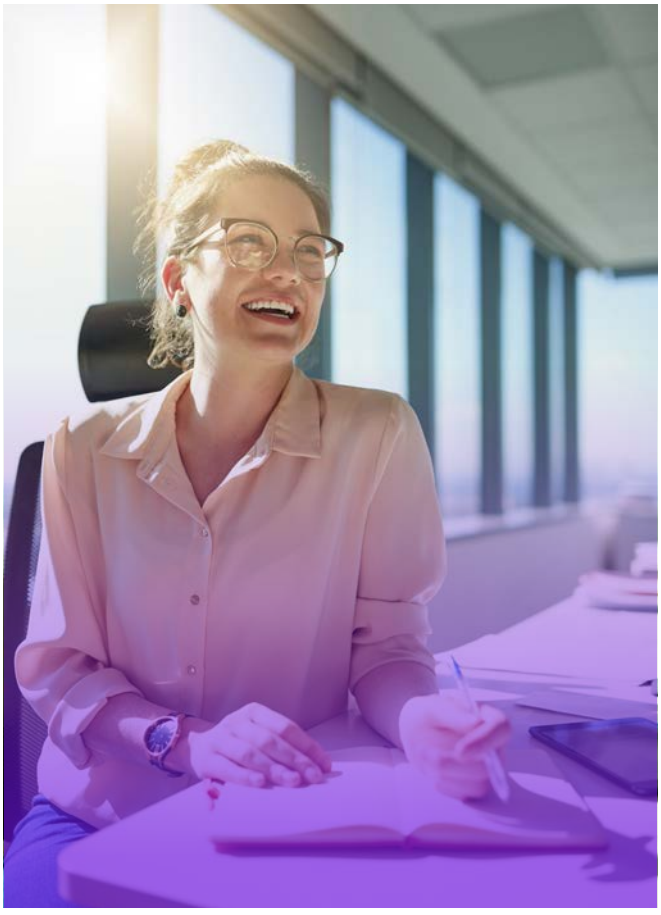
Finding the right balance between outsourced and insourced functions is a challenge for ManCos and AIFMs. While so-called non-core functions are already heavily outsourced, such as transfer agency, fund administration, and portfolio management, so-called core functions must be performed either fully or partially in-house, such as oversight, risk management, AML, and internal audit. Examining which functions to keep in-house or outsource requires players to analyze costs, their existing staff's skills, technology, and strategic considerations.

Particularly regarding the outsourced function of fund administration, the traditional best-of-breed approach has led many players to work with multiple service providers, often tailored to specific strategies or legacy systems. This fragmentation has increased oversight burdens and hindered standardization. However, the evolution and repositioning of Luxembourg ManCos is prompting a reassessment of these arrangements to achieve leaner and more efficient operating models.

Today, some fund administrators are expanding their capabilities to offer services across multiple strategies – for example, combining liquid AIFs and real estate within the same house. According to KPMG's 2024 Large-scale ManCo Survey, 43% of market players with at least four fund administrators are actively seeking to rationalize this number to unlock operational efficiencies. Several alternative players connected to US groups are even leveraging internal capabilities to perform fund accounting tasks.

This rationalization trend is driving a shift toward more streamlined operations, reducing oversight burdens, enhancing standardization, and ultimately improving service quality while lowering costs.

As the number of outsourced functions increases, so do operational risks and the need for robust oversight – often under the scrutiny of supervisory authorities. Recently, asset managers in Luxembourg have been facing rising costs and a shortage of talent for some core functions, adding further complexity to their operating model decisions.



Questions that may be raised

Question 1

Are we focusing on our core activities?

Question 2

In the areas where we're challenged regarding skills and costs, can we partially or fully outsource with sufficient oversight?

Question 3

Is our current fund administration setup efficient and scalable?

Question 4

Are there variations in service quality across our different fund administrators?

Question 5

Does our current outsourcing setup require our oversight team to be more involved than necessary in certain situations (i.e. exception-based involvement versus systematic involvement)?

Question 6

Do our delegates effectively help us execute our required ManCo oversight controls?

Question 7

Is our control framework standardized across our various delegates?

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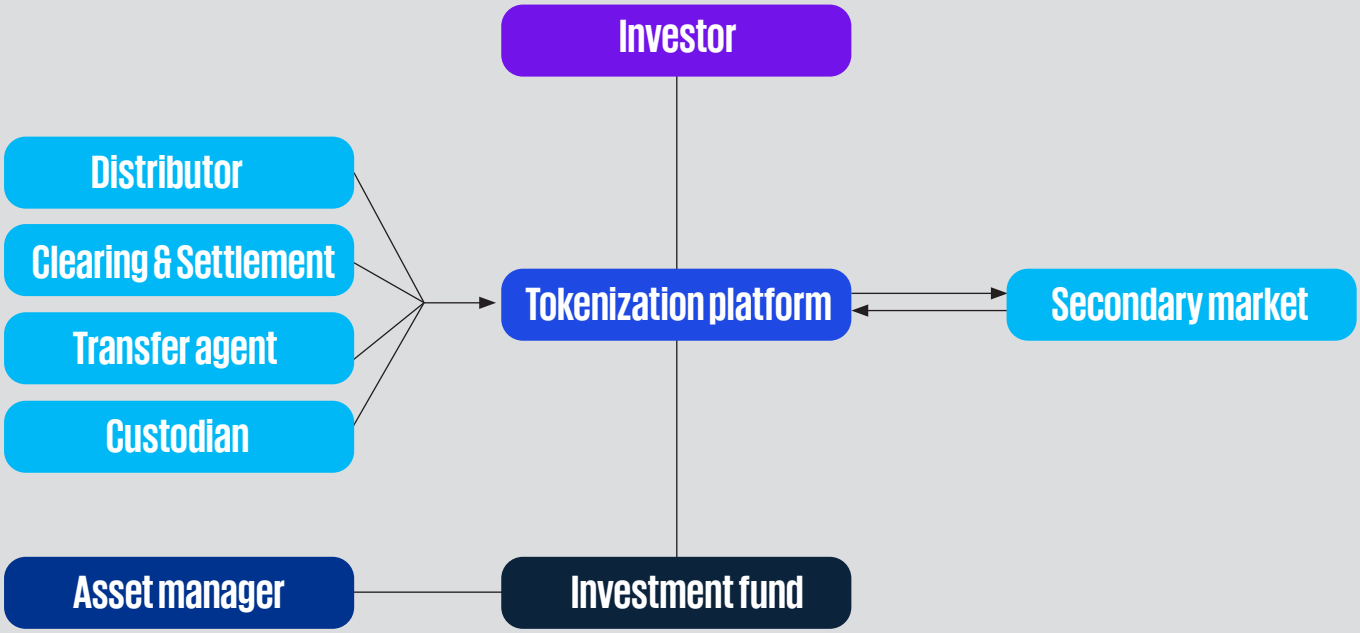
Tokenization as a value chain disruptor

The use of tokenized assets like securities and the technology behind them have the potential to create more efficient markets by optimizing the way assets and services are exchanged. The blockchain can revolutionize asset managers' entire value chain, with processes made leaner or even completely disappearing thanks to the automation of activities. This disruptive nature means asset managers must fundamentally rethink the value chain and the associated processes and business models. Recent developments confirm this trend, with Franklin Templeton pioneering the tokenization of UCITS fund in Luxembourg and BlackRock launching tokenized money market funds, illustrating how leading asset managers are already adopting blockchain-based solutions in practice.

While traditional investments involve multiple intermediaries, high costs, and poor liquidity, tokenization tackles these challenges by:

- Allowing economies of scale with disintermediation by performing the distribution, clearing and settlement, transfer agent and custody functions
- Increasing liquidity from an asset management and fund distribution standpoint by creating secondary markets, facilitating exit and entry strategies as a result
- Allowing the management of larger investor pools through automation powered by smart contracts.



Questions that may be raised

Question 1

How might blockchain technology impact my industry?

Question 2

To what extent could tokenization benefit the organization and transform the business model?

Question 3

What level of transformation is required for our infrastructure, and what are the costs?

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New investment tax credit

On 19 December 2023, the Luxembourg Parliament approved Bill n° 8276, substantially modifying the investment tax credit (ITC) regime that taxpayers could claim against their corporate income tax. This new regime, which took effect on 1 January 2024, increases the tax incentive for eligible projects in digital transformation or ecological and energy transition.

Background

Under the old regime, companies could benefit from two types of investment tax credit under Article 152bis of the Luxembourg Income Tax Law (LITL):

- A tax credit for **"global investment"** in specified property of **8%** of the qualifying assets' total acquisition price up to the first €150,000 and **2%** for the portion exceeding €150,000.
- A tax credit for **"additional investment"** in certain tangible property of **13%** of the additional investment in a given year.

On 13 July 2023, Bill n° 8276 was introduced to reshape the previous ITC regime for companies. Alongside increasing the existing global ITC rate from 8% to 12%, the new regime creates a new ITC incentive covering Luxembourg businesses' investments and expenses in their digital transformation, as well as ecological and energy transition.

The new regime defines digital transformation and ecological and energy transition as follows:

Digital transformation

Achieving a process or organizational innovation by implementing and using digital technologies, such as:

- Redefining production processes to increase productivity or resource efficiency
- Implementing an innovative business model to create new value for stakeholders
- Significantly redefining the delivery of services to create new value for stakeholders
- Modernizing the company's organization to create new value for stakeholders
- Improving digital security.

Ecological and energy transition

Defined as "any change that reduces the environmental impact of the production or consumption of energy or the use of resources", such as:

- Improving a production process' energy efficiency, and/or material efficiency and/or significantly reducing its carbon emissions
- Enabling the self-consumption of produced energy or the storing of energy from renewable, non-fossil sources
- Reducing air pollution from production sites
- Promoting the extension of products through re-use.

Overview of the new regime

The new ITC regime can be summarized as follows:

New ITC of 18% for investments

- In digital transformation or ecological and energy transition projects
- Taking into account not only investments but also operating expenses (e.g. personal expenses and third-party costs)

18%

New tax relief for investments in digital transformation or ecological and energy transition

12% for global investment

- Increases the global investment tax relief rate from 8% to 12%
- Abolishes the previous EUR150,000 investment tranche

Increase to

12%

for global ITC

14% for investments qualifying for Article 32bis LITL

- For tangible depreciable assets with special amortization
- For example, investments in assets to reduce water use, eliminate or reduce water, air or noise pollution, and reduce waste

14%

for investments qualifying for article 32bis LITL energy transition

6% for investments in tangible depreciable assets and software

- 6% considering that these assets are expected to benefit from the 12% tax credit for global investment
- Otherwise, the tax relief is 18%

6% / 18%

for investments in tangible depreciable assets and software transition

To benefit from the 18% ITC, a specific procedure must be followed: new attestation and certification process

1. Eligibility attestation

The company files an eligibility application with the Ministry of Economy, which includes the following information about the project, amongst others:

- Name, location and description of the project
- Objective and a description justifying how the project may achieve its goals
- Start and end dates of the project.

Only investments and operating expenses made or incurred after the application is submitted can be covered by the certificate. The Ministry of Economy will grant or refuse the application within three months of receipt.

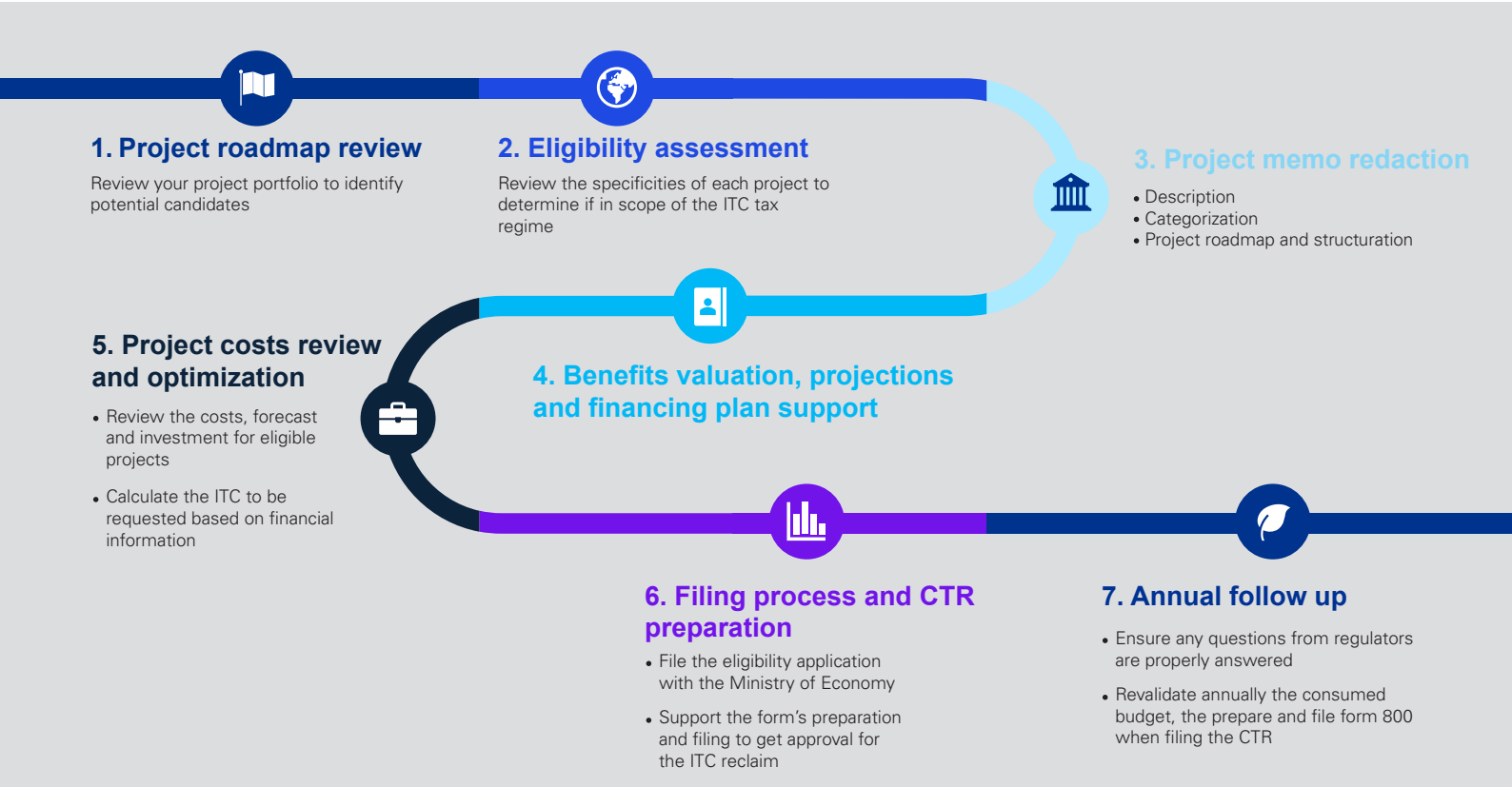
2. Annual certificate

The company includes an annual certificate issued by the Ministry of Economy when filing its corporate tax return (CTR) with form 800. Companies must request this annual certificate two months after the year-end that the new ITC was claimed, and the Ministry of Economy will issue the certificate within nine months of that year-end.

The certificate will only cover investments and operating expenses made or incurred after the eligibility application was submitted.

KPMG can help you identify whether your new projects can benefit from this 18% tax incentive.

Our approach:



Questions that may be raised

Question 1

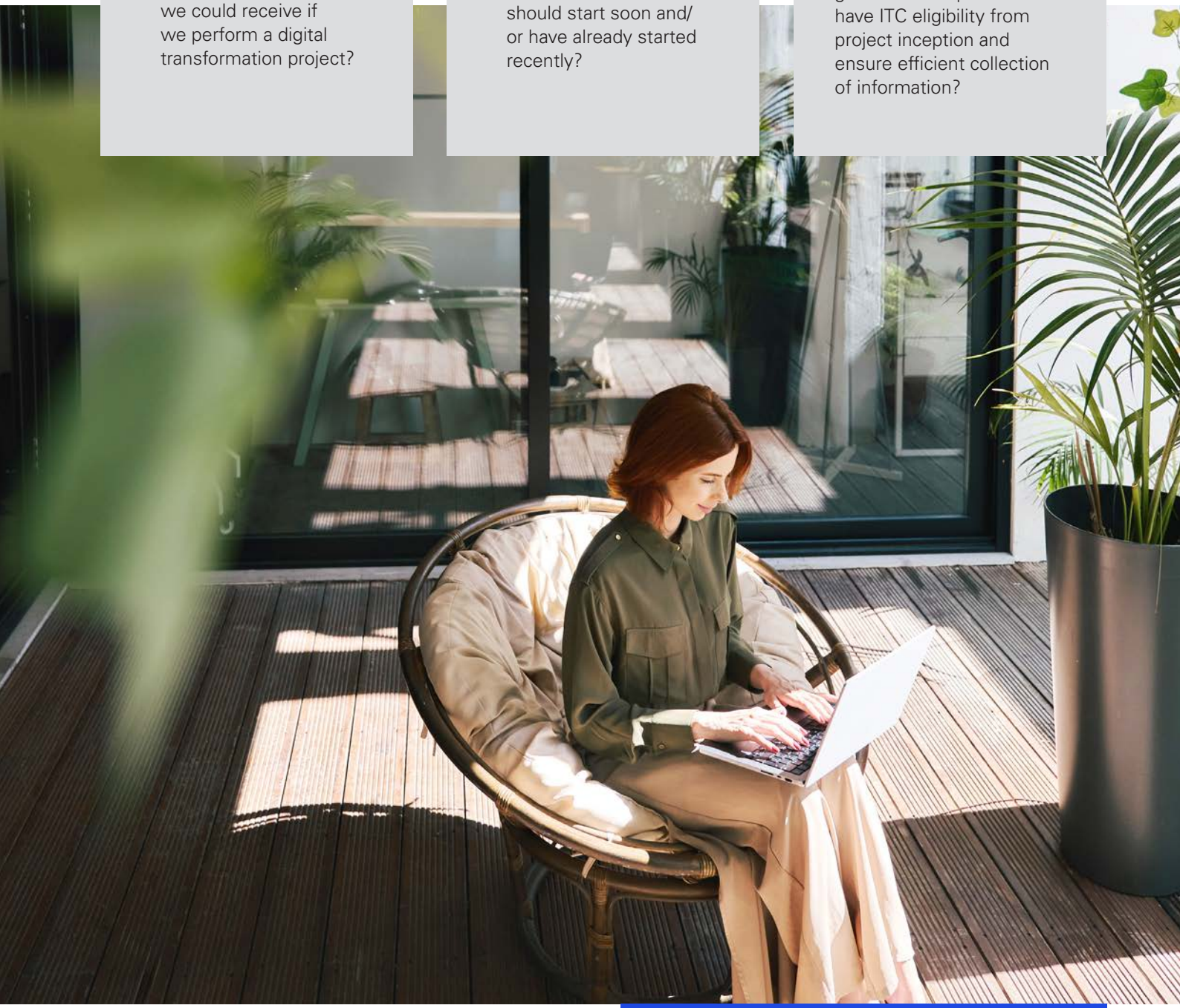
Have we considered the tax incentive that we could receive if we perform a digital transformation project?

Question 2

Do we have existing digital projects which should start soon and/or have already started recently?

Question 3

Do we have project governance in place to have ITC eligibility from project inception and ensure efficient collection of information?



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