



**ECONOMIST CLUB LUXEMBOURG / ALRIM CONFERENCE**  
***GOVERNANCE AND RISK MANAGEMENT IN THE FINANCIAL SECTOR:***  
***A RESPONSE TO THE CRISIS?***

**CLAUDE MARX & MARCO ZWICK, CSSF**  
**CHAMBER OF COMMERCE, 22 JANUARY 2020**

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- **2 POST-CRISIS INSTITUTIONAL SETUP**
- **3 BANKS**
- **4 INVESTMENT FUNDS**
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## EX ANTE

- ACCESS TO MARKET

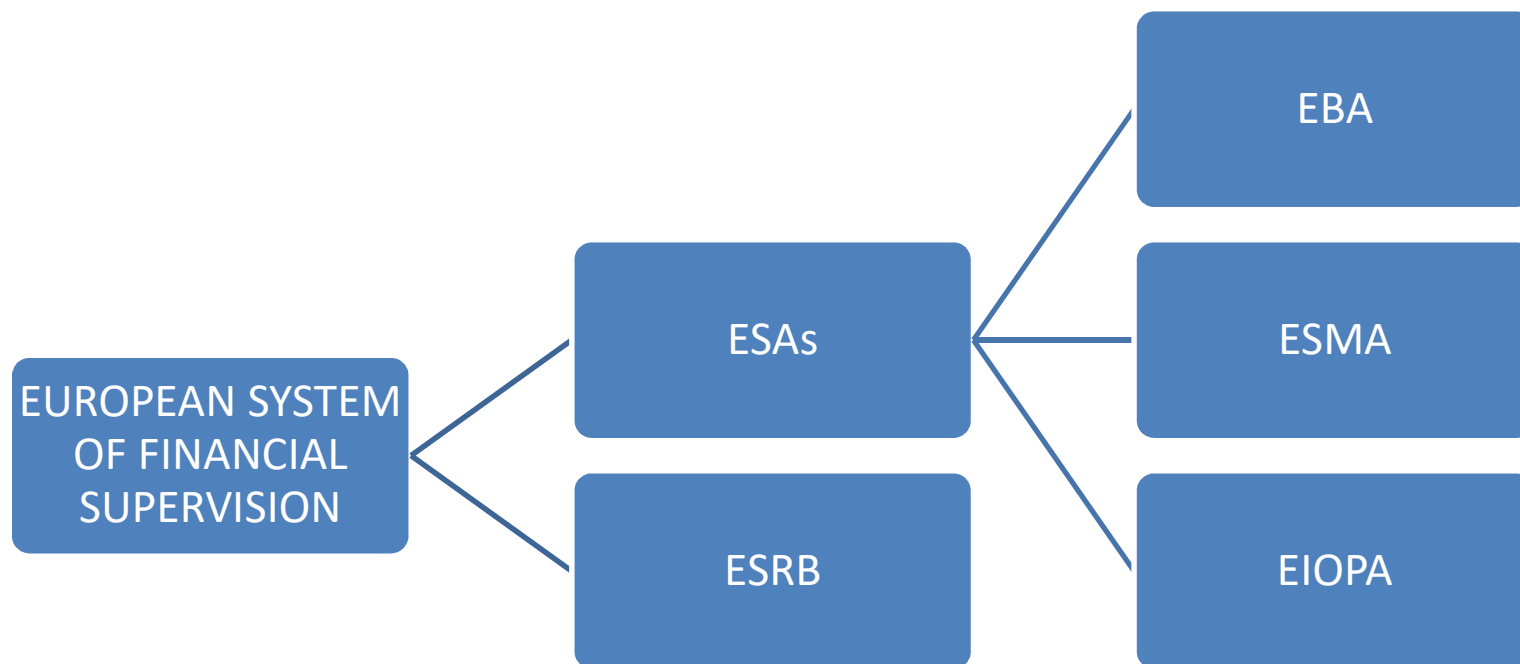
## EX ANTE

- CONDUCT RULES
- INFORMATION REQUIREMENTS
- PRUDENTIAL REGULATION
- GOVERNANCE, INCL. RISK MGT

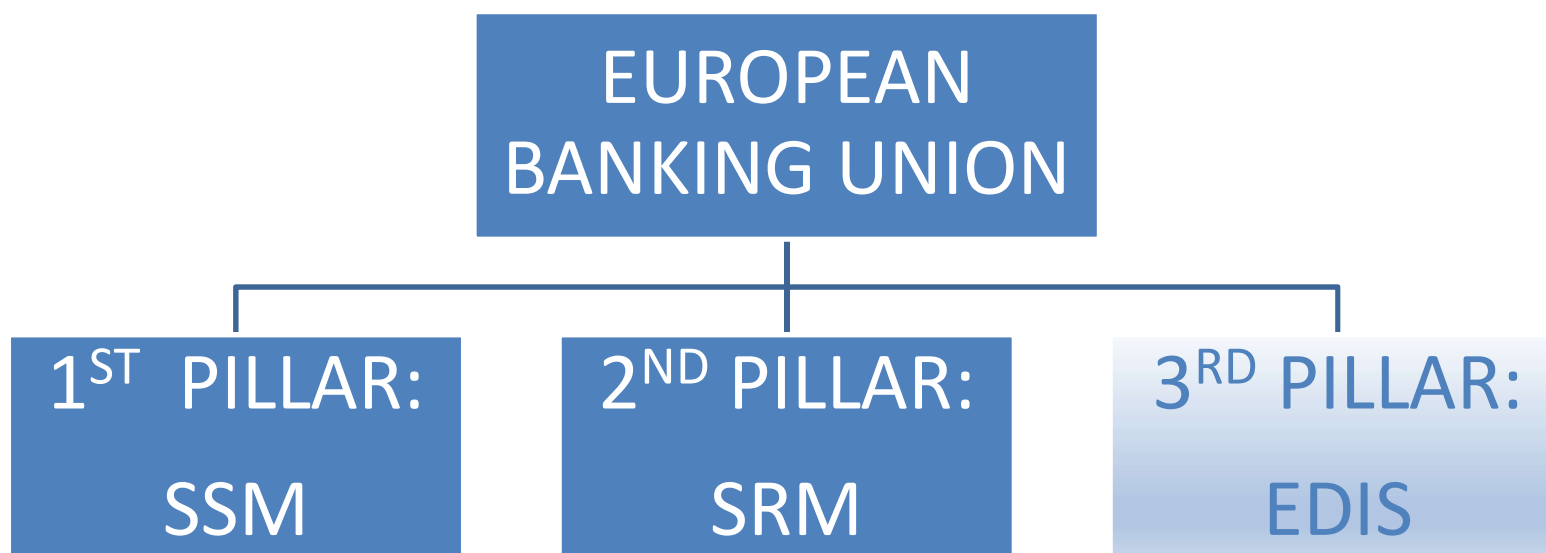
## EX POST

- INSURANCE
- RESOLUTION

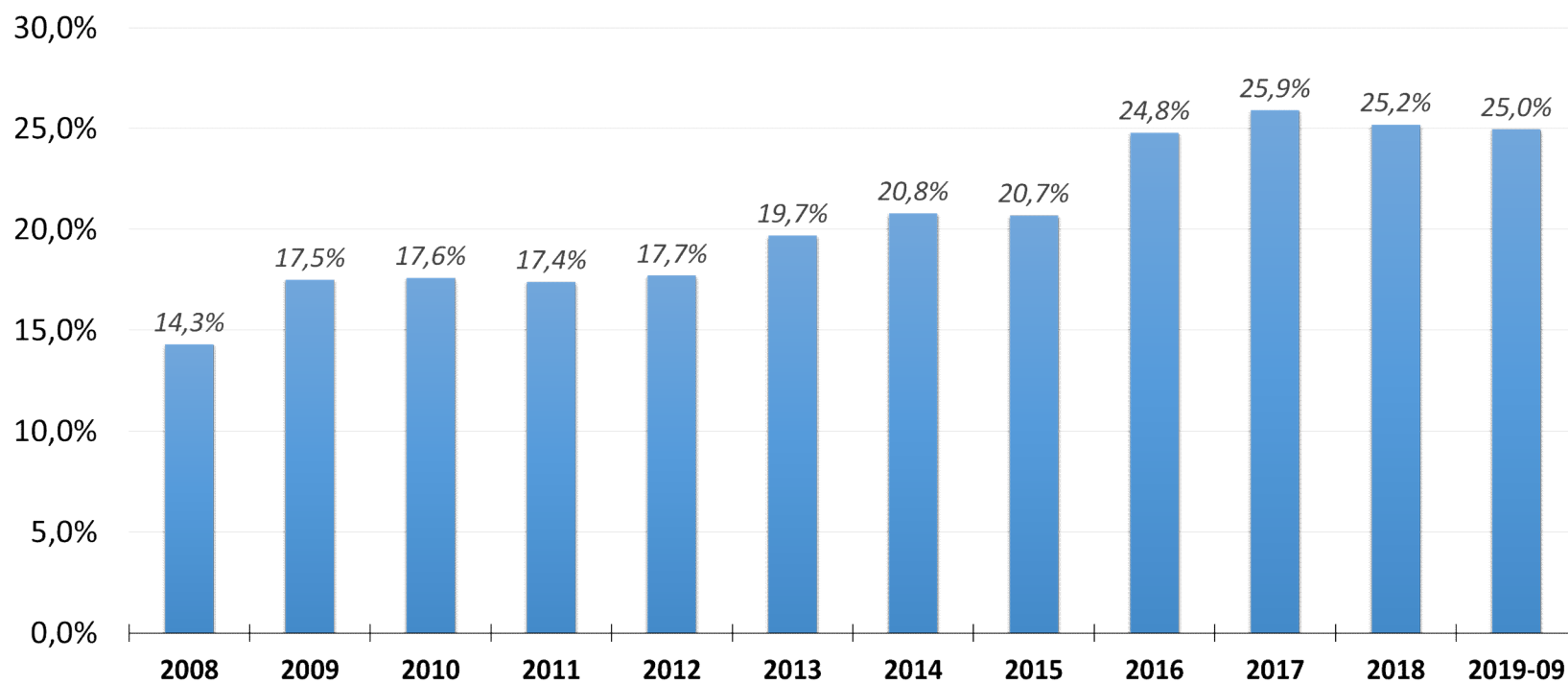
# NEW INSTITUTIONAL SETUP IN THE EU POST-CRISIS: EUROPEAN SYSTEM OF FINANCIAL SUPERVISION



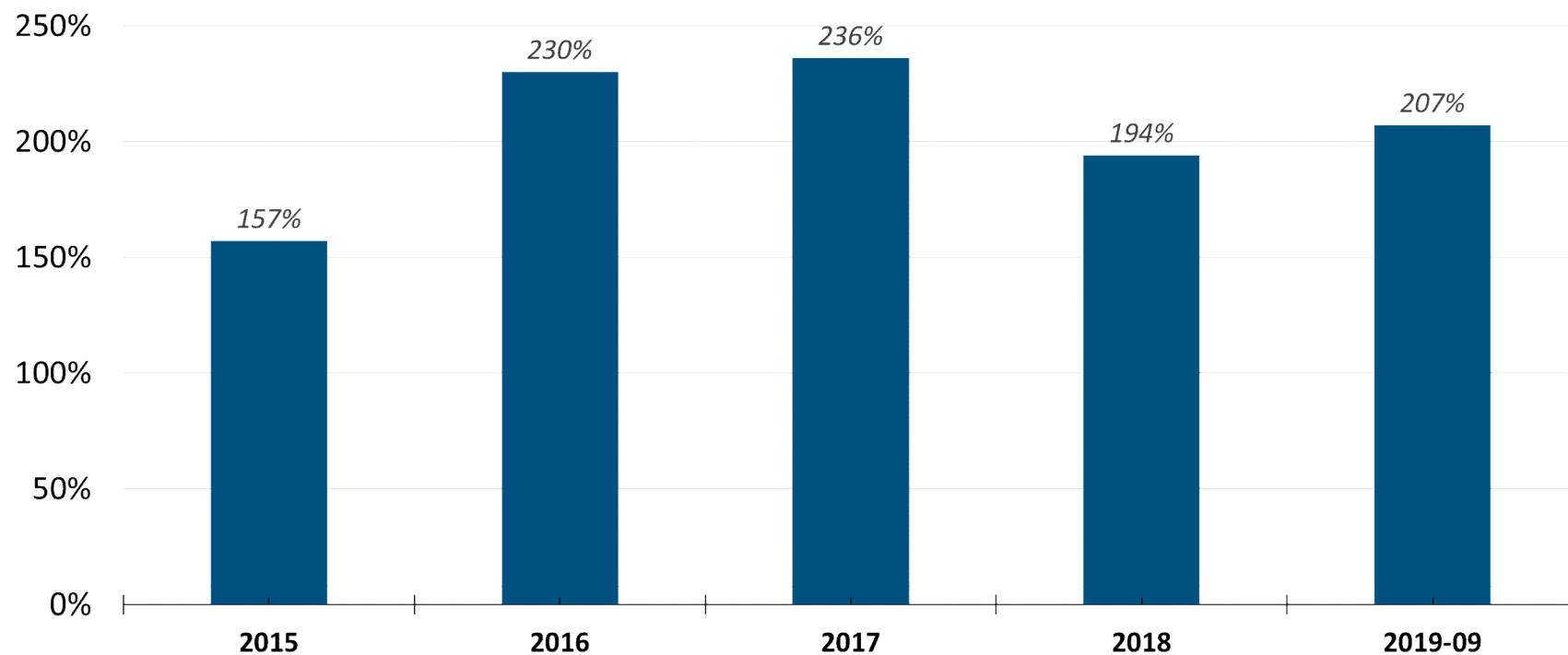
# NEW INSTITUTIONAL SETUP IN THE EU POST-CRISIS: BANKING UNION (EU19)



## LU banking sector – aggregated capital ratio



## LU banking sector – average weighted LCR



# BANKING: KEY GOVERNANCE INSTRUMENTS

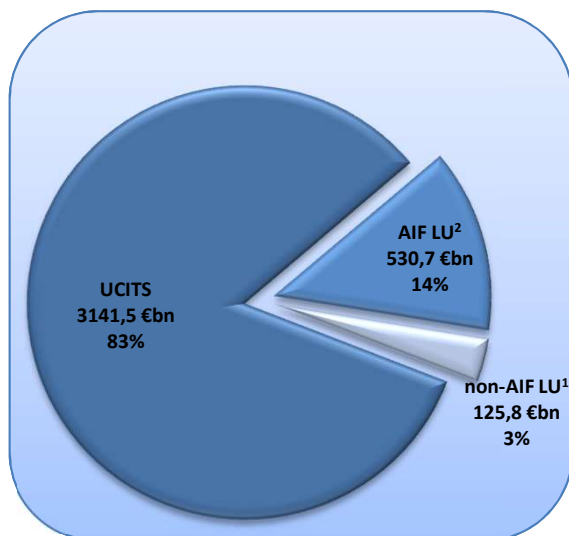
## POST CRISIS

- **09/2011:** EBA GUIDELINES ON INTERNAL GOVERNANCE
- **11/2012:** EBA GUIDELINES ON THE ASSESSMENT OF THE SUITABILITY OF MEMBERS OF THE MANAGEMENT BODY AND KEY FUNCTION HOLDERS
- **12/2012:** **CSSF CIRCULAR 12/552**
- **09/2017:** JOINT ESMA AND EBA GUIDELINES ON THE ASSESSMENT OF THE SUITABILITY OF MEMBERS OF THE MANAGEMENT BODY AND KEY FUNCTION HOLDERS
- **09/2017:** EBA GUIDELINES ON INTERNAL GOVERNANCE UNDER DIRECTIVE 2013/36/EU

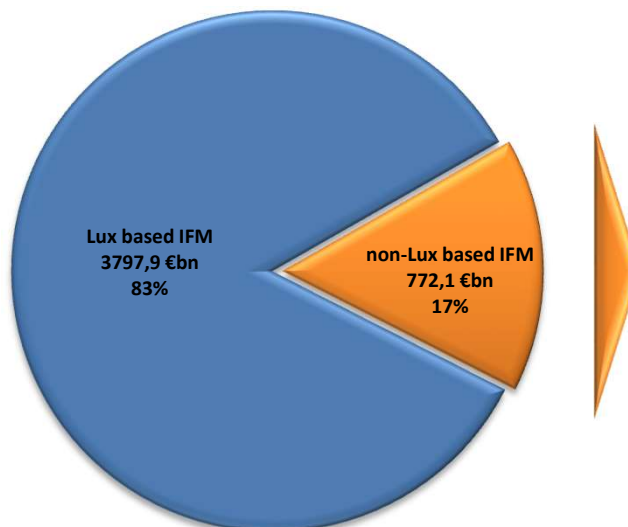
# LUXEMBOURG FUND INDUSTRY

## INVESTMENT FUND MANAGERS ("IFM")

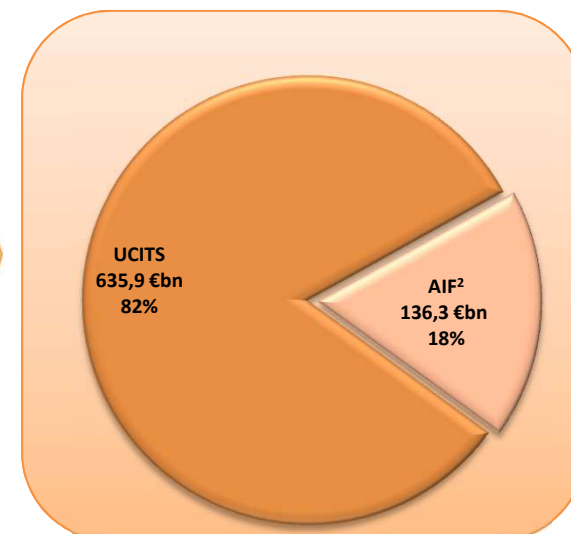
Overview by Lux based IFM's TNA



UCI breakdown by IFM



Overview by Non Lux based IFM's TNA



Source: CSSF, data as of 30.09.2019.

### Widely diversified sector

#### Top 5

- around 21% of total AuM
- almost 9% of all fund compartments

#### Top 10

- around 33% of total AuM
- around 15% of all fund compartments

#### Top 50

- held 74% of total AuM
- around 52% of all fund compartments



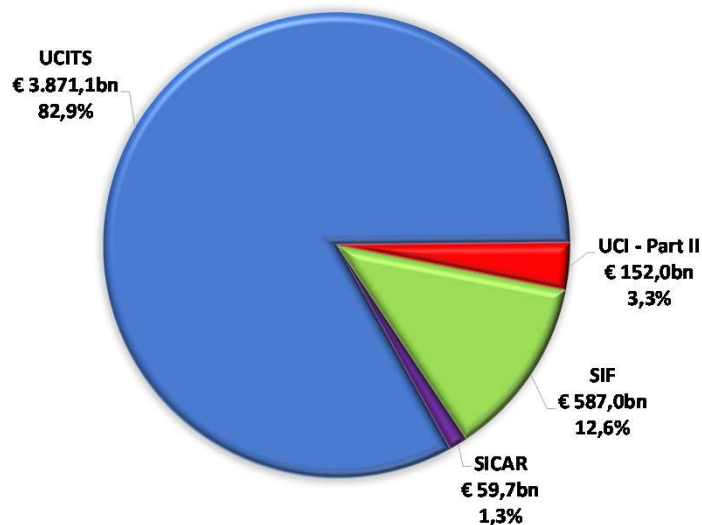
<sup>1</sup> € 83,3 bn corresponding to non-AIF Lux-SIF not managed by IFM;

<sup>2</sup> AIF figures provided only considering regulated vehicles; € 3,7 bn corresponding to AIF Lux-SIF not managed by IFM

# LUXEMBOURG FUND INDUSTRY

## BREAKDOWN BY REGULATED FUND CATEGORIES

Split by fund category\* (by net assets in bn. EUR and %)



**01**  
Insight

➤ 3 779 UCIs - 14 827 sub-funds - € 4 670 bn

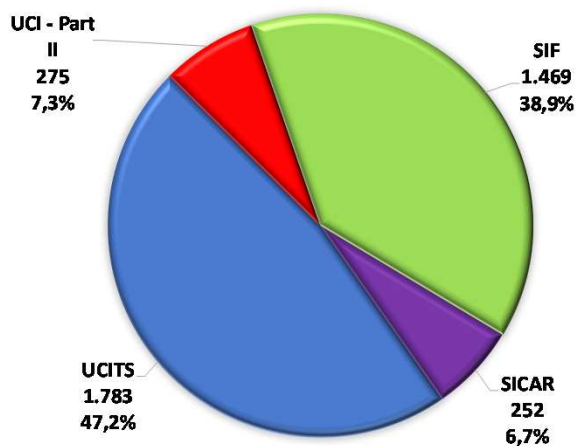
**02**  
Insight

➤ UCITS - most important UCI category (i.e. 83% of total Lux net assets)

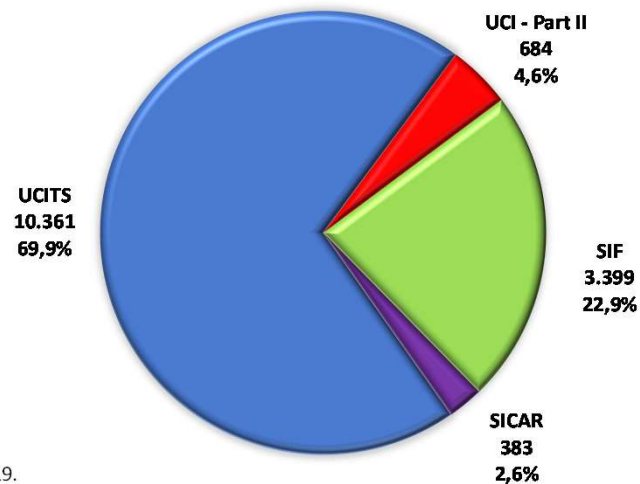
**03**  
Insight

➤ Remaining part: AIFs and non-AIFs (SIFs or UCI-Part II, SICARs)

Split by fund category\* (by number of UCIs and %)



Split by fund category\* (by number of units and %)

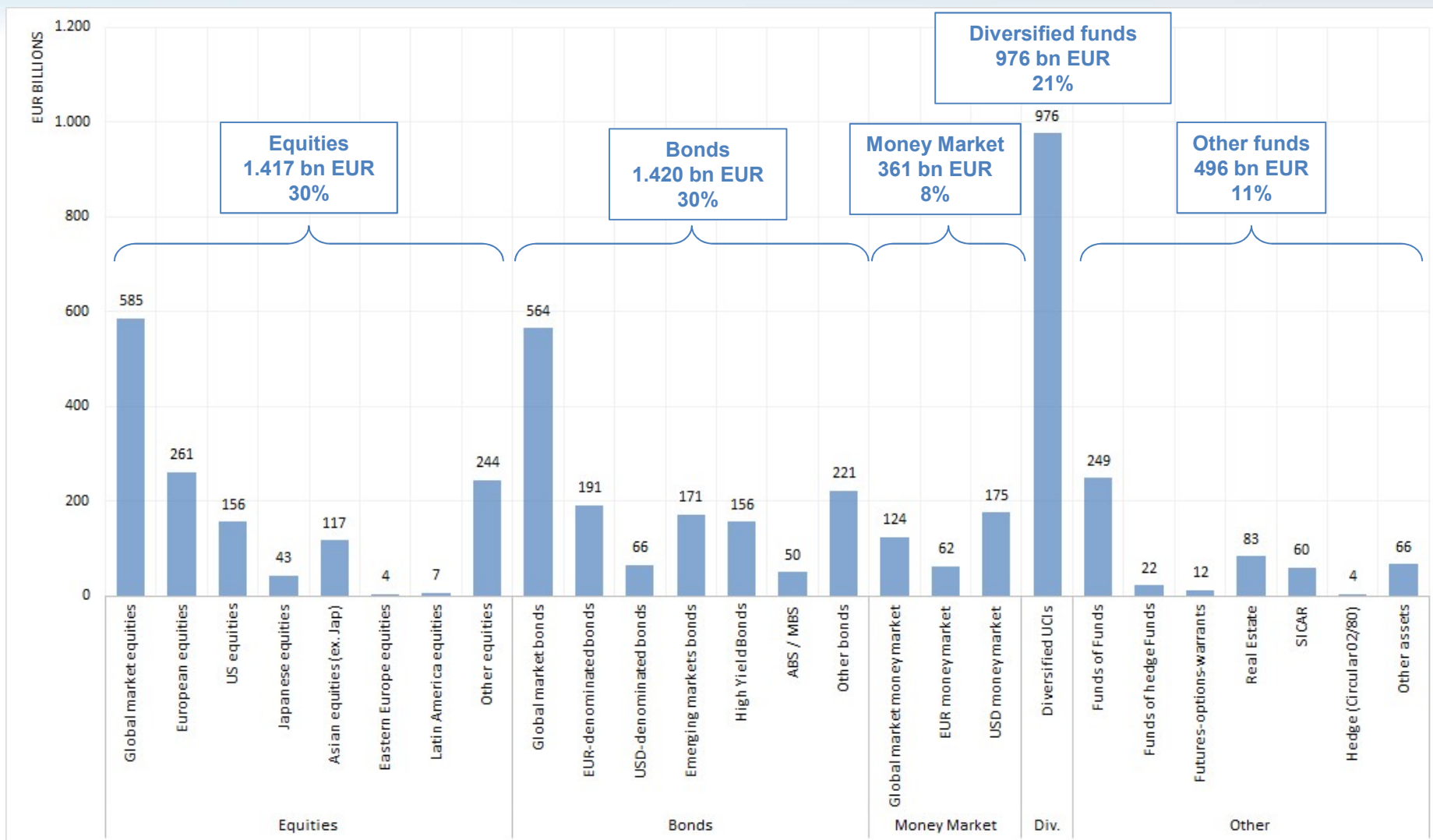


\* only LU regulated funds

Source: CSSF, data as at 30.11.2019.

# LUXEMBOURG FUND INDUSTRY

## BREAKDOWN BY INVESTMENT POLICY - REGULATED FUNDS



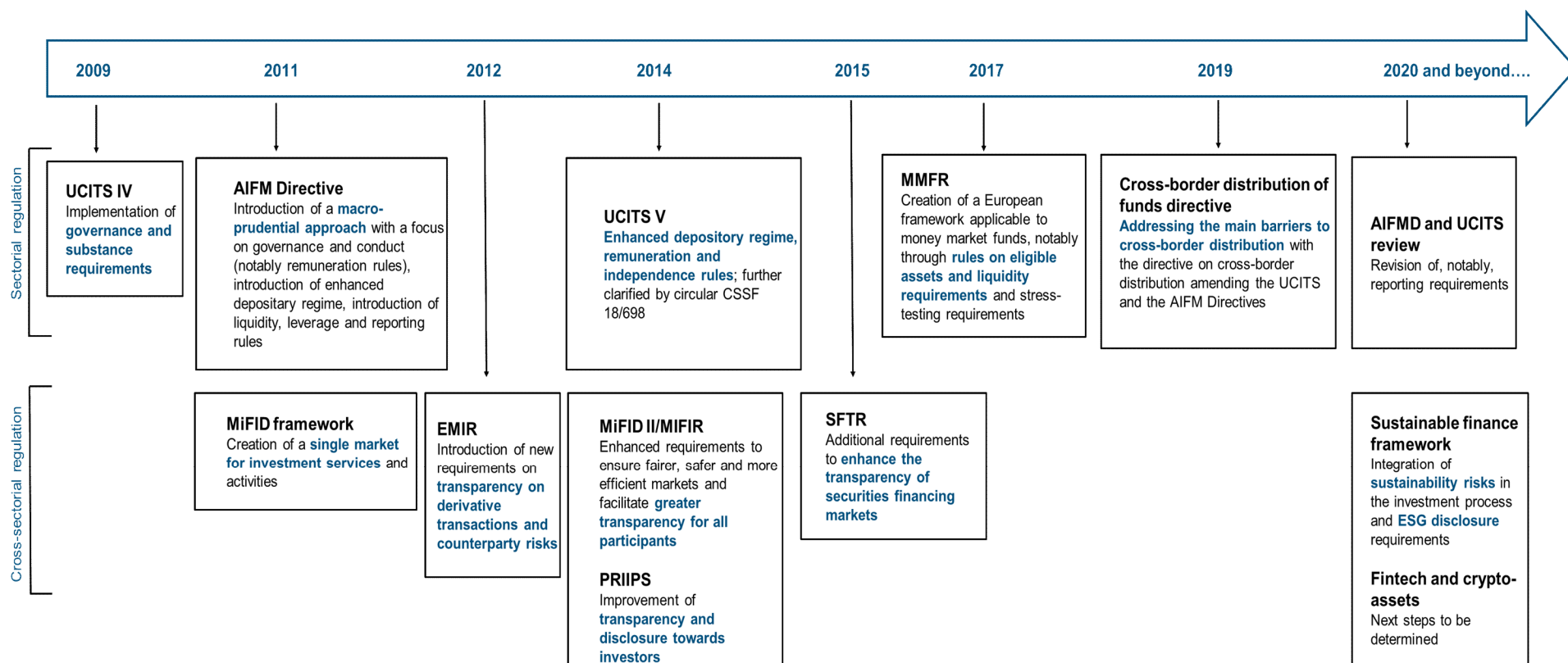
\*only LU regulated funds (UCITS, UCI Part II, SIF, SICAR)

\*\* since 12/2016 SICARs included

Source: CSSF, data as at 30.11.2019.

# INVESTMENT FUNDS: KEY REGULATORY MILESTONES

## POST FINANCIAL CRISIS



# CIRCULARS 12/552, 18/698 (CURRENT)

	Banks	Investment Firms	Payment/Electronic Money Institutions	Management Companies (Chapter 15 ; AIFM ; IFMs)
Central administration in Luxembourg	✓ (CSSF 12/552)	✓ (CSSF 12/552)	✓ (IML 95/120)	✓ (CSSF 18/698)
Sound administrative and accounting organisation	✓ (CSSF 12/552)	✓ (CSSF 12/552)	✓ (IML 96/126)	✓ (CSSF 18/698)
Management Function (MF) and Supervisory Function (SF)	✓ (CSSF 12/552; Prudential appointment procedure of key function holders in credit institutions) ✗ Specific requirements for large significant institutions (i.e. limitation of mandates, independent board member, Risk and Audit committee...)	✓ (CSSF 12/552; Prudential appointment procedure of key function holders in credit institutions)	✓ (IML 95/120)	✓ (CSSF 18/698)
Internal Governance	✓ (CSSF 12/552)	✓ (CSSF 12/552)	✓ (IML 98/143)	✓ (CSSF 18/698)
Internal Control Functions	✓ (CSSF 12/552; Prudential appointment procedure of key function holders in credit institutions)	✓ (CSSF 12/552; Prudential appointment procedure of key function holders in credit institutions)	✓ (IML 98/143 and 04/155) ✗ Independent Risk Function not required (but recommended)	✓ (CSSF 18/698)
Outsourcing	✓ (CSSF 12/552)	✓ (CSSF 12/552)	✓	✓ (CSSF 18/698)
IT Outsourcing	✓ (CSSF 12/552)	✓ (CSSF 12/552)	✓ (CSSF 17/656)	✓ (CSSF 18/698)
IT Outsourcing relying on cloud computing infrastructure	✓ (CSSF 17/654)	✓ (CSSF 17/654)	✓ (CSSF 17/654)	✓ (CSSF 17/654)
Remuneration	✓ (CSSF 17/658)	✓ (CSSF 17/658)	✓ (CSSF 10/437)	✓ (CSSF 10/437) & (CSSF 18/698)

# CIRCULARS 12/552, 18/698 (FUTURE)

	Banks	Investment Firms	Payment/Electronic Money Institutions	Management Companies (Chapter 15 ; AIFM ; IFMs)
Central administration in Luxembourg	✓ (CSSF 12/552)	✓ (CSSF 12/552)	✓ (IML 95/120)	✓ (CSSF 18/698)
Sound administrative and accounting organisation	✓ (CSSF 12/552)	✓ (CSSF 12/552)	<b>New governance circular(s)</b>  (aligned with circular 12/552 requirements, as appropriate & PSD2 requirements)	✓ (CSSF 18/698)
Management Function (MF) and Supervisory Function (SF)	✓ (CSSF 12/552) appointment procedure for key function holders in credit institutions) ✗ Specific requirements for significant institutions limitation of management functions of independent bodies Risk and Audit	✓ (CSSF 12/552) appointment procedure for key function holders in credit institutions)		✓ (CSSF 18/698)
Internal Governance	✓ (CSSF 12/552)	✓ (CSSF 12/552)		✓ (CSSF 18/698)
Internal Control Functions	✓ (CSSF 12/552) appointment procedure for key function holders in credit institutions)	✓ (CSSF 12/552) appointment procedure for key function holders in credit institutions)		✓ (CSSF 18/698)
Outsourcing	✓ (CSSF 12/552)	✓ (CSSF 12/552)	✓	✓ (CSSF 18/698)
IT Outsourcing	<b>Dedicated outsourcing circular (cf. EBA/GL/2019/02)</b>			✓ (CSSF 18/698)
IT Outsourcing relying on cloud computing infrastructure	✓ (CSSF 17/654)	✓ (CSSF 17/654)	✓ (CSSF 17/654)	✓ (CSSF 17/654)
Remuneration	<b>Updated remuneration circular(s)</b>			

# MAIN RISKS FOR THE LUXEMBOURG FINANCE INDUSTRY, AS OF TODAY

- **PROFITABILITY, BUSINESS MODELS**
- **CYBER RISK**
- **CONDUCT RISK (FINANCIAL CRIME)**
- **BREXIT**
- **CREDIT RISK: RESIDENTIAL REAL ESTATE**

# CURRENT FUND-SPECIFIC RISKS

## ▪ MARKET & CREDIT RISKS

- High equity / bond price valuations (search for yield) in a context of economic risks
- Compressed corporate bond spreads and deteriorating credit quality of outstanding corporate debt  
→ risk of repricing of risk premia in global financial markets with subsequent liquidity risk materialization

## ▪ LIQUIDITY RISKS

- Pockets of vulnerabilities exposed during 2019 (e.g. Woodford, H2O)
- Low-for-long interest rate environment
  - Increased maturity and liquidity transformation within investment funds
  - Search for yield behaviour raising liquidity risks in investment funds

## ▪ OPERATIONAL RISKS

- Contingency planning of investment funds for stressed market conditions (e.g. liquidity)
- Digital and cyber risks
- Brexit – still uncertainties around Brexit related processes and business continuity

## ▪ COMPLIANCE RISKS

- Specific focus on AML/CFT

# MARKET RISKS IN INVESTMENT FUNDS

## ▪ **MACRO-ECONOMIC ENVIRONMENT MORE CHALLENGING IN 2019/2020**

- Slowing economic growth globally, especially in China and also in the EU
- Trade tensions and Brexit-related effects set to continue in 2020
- Low interest-rates for longer (ECB decision in autumn)
- Risk of a sudden “repricing of risk” (on the basis of high equity and fixed income valuations)

## ▪ **MICRO-ECONOMIC ENVIRONMENT**

- Companies correcting earnings expectations (mostly in Europe)
- Investors/ capital markets, though, seem to have adapted to the “new normal”

## ▪ **POLITICAL ENVIRONMENT**

- Global political risks more pronounced (rise of unilateralism/ populism and reduced international cooperation via international institutions)
- Specific challenges in the EU (diverging country interests, Brexit, etc.)
- Civil unrest in various jurisdictions (South America, HK, Middle East)

# THE GLOBAL RISKS 2020 (WEF)

Top 5 Global Risks in Terms of Likelihood

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
1st	Infrastructure breakdown	Blow up in asset prices	Asset price collapse	Asset price collapse	Storms and cyclones	Income disparity	Income disparity	Income disparity	Interstate conflict	Involuntary migration	Extreme weather	Extreme weather	Extreme weather	Extreme weather
2nd	Chronic diseases	Middle East instability	China economic slowdown	China economic slowdown	Flooding	Fiscal imbalances	Fiscal imbalances	Extreme weather	Extreme weather	Extreme weather	Involuntary migration	Natural disasters	Climate action failure	Climate action failure
3rd	Oil price shock	Failed and failing states	Chronic diseases	Chronic disease	Corruption	Greenhouse gas emissions	Greenhouse gas emissions	Unemployment	Failure of national governance	Climate action failure	Natural disasters	Cyberattacks	Natural disasters	Natural disasters
4th	China hard landing	Oil price shock	Global governance gaps	Fiscal crises	Biodiversity loss	Cyberattacks	Water crises	Climate action failure	State collapse or crisis	Interstate conflict	Terrorist attacks	Data fraud or theft	Data fraud or theft	Biodiversity loss
5th	Blow up in asset prices	Chronic diseases	Deglobalization (emerging)	Global governance gaps	Climate change	Water crises	Population ageing	Cyberattacks	Unemployment	Natural catastrophes	Data fraud or theft	Climate action failure	Cyberattacks	Human-made environmental disasters

Top 5 Global Risks in Terms of Impact

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
1st	Blow up in asset prices	Blow up in asset prices	Asset price collapse	Asset price collapse	Fiscal crises	Financial failure	Financial failure	Fiscal crises	Water crises	Climate action failure	Weapons of mass destruction	Weapons of mass destruction	Weapons of mass destruction	Climate action failure
2nd	Deglobalization	Deglobalization (developed)	Deglobalization (developed)	Deglobalization (developed)	Climate change	Water crises	Water crises	Climate action failure	Infectious diseases	Weapons of mass destruction	Extreme weather	Extreme weather	Climate action failure	Weapons of mass destruction
3rd	Interstate and civil wars	China hard landing	Oil and gas price spike	Oil price spikes	Geopolitical conflict	Food crises	Fiscal imbalances	Water crises	Weapons of mass destruction	Water crises	Water crises	Natural disasters	Extreme weather	Biodiversity loss
4th	Pandemics	Oil price shock	Chronic diseases	Chronic disease	Asset price collapse	Fiscal imbalances	Weapons of mass destruction	Unemployment	Interstate conflict	Involuntary migration	Natural disasters	Climate action failure	Water crises	Extreme weather
5th	Oil price shock	Pandemics	Fiscal crises	Fiscal crises	Energy price volatility	Energy price volatility	Climate action failure	Infrastructure breakdown	Climate action failure	Energy price shock	Climate action failure	Water crises	Natural disasters	Water crises

■ Economic
 ■ Environmental
 ■ Geopolitical
 ■ Societal
 ■ Technological