Dear Clients and Friends,

Welcome to the 2018 edition of our publication *Luxembourg: the gateway for the Middle East and Islamic finance*. This brochure highlights the business opportunities offered by the Grand-Duchy of Luxembourg while taking into consideration the Middle East investors’ perspective and provides an overview of Luxembourg as one of the European Islamic finance hubs.

The swift turn of events in the Middle East makes it hard to predict the future of the region: tensions and armed conflicts continue to pose a threat to the Region's stability as the battle for regional leadership between Saudi Arabia and Iran has reached new heights with the blockade against Qatar decided by Saudi crown prince Mohamed Ben Salman. As the new Kingdom’s strong man, “MBS” is also sending a sign of “liberalism” to the Western world while affirming his power internally through a spectacular anti-corruption campaign.

Despite this growing instability, the Middle East economy is slowly on the rise to recovery due to higher than expected oil prices and an increase in infrastructure investment, while the implementation of VAT in Saudi Arabia and the UAE should help to reduce public deficit. The stabilization of oil prices at around US$70 per barrel is indeed relieving the pressure on governments in the Region to drastically reduce their public spending. However, this good news should not be an excuse to defer the implementation of their long term strategies based on diversification away from the oil sector to increase overall economic growth.

Does this mean that the appetite of Middle East investors and in particular from GCC countries, for outbound investments is drying up? Market research shows that the level of investment activity remains high and is expanding beyond the traditional circle of the sovereign wealth funds and high profile wealthy families, and is increasingly focusing on European real estate. A trend which could only benefit to Luxembourg, the leading European regulated real estate center per INREV\(^1\) research.

How can Luxembourg position itself in this changing landscape? Luxembourg is globally renowned as a preferred choice for the domiciliation of investment funds and the structuring of cross border acquisitions as well as its early positioning on Islamic Finance, which makes it today, the fourth largest Islamic fund center and first outside the Muslim world, ranked by the number of Islamic funds established in the market.

The purpose of this brochure is to inspire and inform the business strategies of interested parties through specific and actionable insights from a Luxembourg perspective. We hope that this brochure will serve as a useful guide for the future.

Kind regards,

Jean-Michel Pacaud
Partner
Middle East and Islamic Finance Leader

---

\(^1\) The European Association for Investors in Non-Listed Real Estate Vehicles
Luxembourg is the leading non-Muslim domicile for Sharia-compliant investment funds and globally the fourth Islamic fund center, ranked by the number of Islamic funds established in the market. The Grand-Duchy of Luxembourg is a popular location for listing Sukuk on the primary market and the domicile of choice for the international investment structures of a number of sovereign wealth funds.

As a diversified financial center offering a full range of products, Luxembourg is the leading cross-border hub for investment funds and the largest wealth management center in the Eurozone (Schengen Area).

Luxembourg’s international financial center is perfectly equipped to address the needs of both conventional and Sharia-compliant investment funds and investment structures and is already recognized as a leading European center for Middle Eastern investments and Islamic finance.
Contents

Luxembourg: the gateway for the Middle East and Islamic finance 2
   Growing interest in Islamic finance 2
   Luxembourg - international financial center at the heart of Europe 3
   Achieving Sharia compliance in Luxembourg 4
   Framework for Islamic finance 4

Luxembourg - a global hub for Islamic finance 6

Luxembourg investment vehicles and Sharia implementation 8
   Luxembourg - the world’s cross-border investment fund distribution hub 10
   UCITS – the traditional retail investment fund product 11
   Alternative investment funds (AIFs): a complete range of products and solutions 11
   The RAIF: an innovative solution to fund initiators 12
   SIF 13
   SICARs 13
   Securitization vehicles 13
   SOPARFs – the financial holding vehicle 15
   Luxembourg’s Special Limited Partnership regime – S.C.Sp. 15

Luxembourg solutions for wealth management 16
   Family Offices 16
   The private wealth management vehicle 17

Luxembourg solutions for Sukuk issuers 18

How EY can help 20

Credentials 22
   EY Luxembourg 22
   EY: a global market leader in Islamic finance 22

Glossary 24

Your contacts 27
Luxembourg: the gateway for the Middle East and Islamic finance

Growing interest in Islamic finance

Islamic finance is one of the fastest growing areas of the global financial services industry. The spread of Islamic finance into western markets demonstrates that it is now being viewed by investors, financial institutions and regulators as a viable alternative to conventional products.

The principle differentiators between Islamic finance and conventional finance include the following:
- Risk and profit must be shared equally between parties to a transaction
- Speculation and uncertainty in transactions are strictly prohibited
- Making money from money (i.e., interest) is prohibited
- Certain activities are prohibited
- Transactions must be asset-based or asset-backed

Islamic financial products are available to the general public and not only to Muslims. Overall, Islamic financial products are regarded as an alternative to conventional financial products, and are increasingly considered to be a form of socially responsible and/or ethical investing.

Luxembourg is the first European country being member of the International Islamic Liquidity Management (IILM) and Luxembourg’s Central Bank (BCL) is the first European central bank to be a member of the Islamic Financial Services Board (IFSB).

The Grand-Duchy of Luxembourg is the leading non-Muslim domicile for Sharia-compliant investment funds and globally the fourth Islamic Fund Center, ranked by the number of Islamic funds established in the market. Luxembourg is also the first Eurozone country to issue a sovereign Sukuk.

Within the European Union (EU), Luxembourg serves as a hub for financial institutions seeking to expand their operations in the Eurozone. Luxembourg has long been known by institutional investors as an ideal center to manage an investment platform both within Europe and beyond. Today it is estimated that approximately 80% of all global private equity transactions are structured through using Luxembourg investment vehicles.

In recent years, financial institutions from emerging countries have been using Luxembourg as a hub to help their expansion in Europe. Chinese financial institution firms serve as a case in point; in recent times, six of the largest Chinese banks have established their de facto continental European headquarters in Luxembourg. In October 2016, two further Chinese banks announced plans to start operations in Luxembourg as a result of negotiations during a recent economic mission. In 2017, it was announced that China’s leading online payment firm Alipay and Agricultural Bank of China, China’s third-largest lender by assets, will set up branches in Luxembourg.

Such a strategy affords firms the freedom of establishment provided by the European directives. The directives allow firms to set up branches in selected EU Member States where they need a business presence.

A similar approach could certainly benefit premium Islamic financial institutions (i.e., banks and insurance companies) which would have as a strategy to tackle the hugely lucrative yet untapped market of Muslim residents in Western European countries. Luxembourg would be well-positioned to welcome the first full-fledged Islamic bank aimed at offering Sharia-compliant retail, corporate and private banking services in the Eurozone.
Luxembourg - international financial center at the heart of Europe

Luxembourg has an excellent reputation as an EU on-shore financial center, characterized by a strong culture of investor protection and rigorous conduct of business rules.

Luxembourg offers a stable business environment, backed by its social and political stability. The country has one of the world’s lowest debt-to-gross domestic product (GDP) ratios.

Luxembourg offers a full range of financial services provided by financial institutions including banks, investment firms, insurance undertakings and other financial sector professionals, supported by highly experienced and competent locally-based lawyers, accountants and tax advisors.

Because of the success of Luxembourg in attracting foreign business and personnel, the financial center stands out for its multilingual and multicultural workforce, with extensive experience in the needs of an international clientele. English is the most commonly used language in the financial services sector in Luxembourg.

Situated at the heart of Europe, the Grand-Duchy of Luxembourg offers easy access to other financial centers, including regular air and rail links to Europe’s major cities such as London, Frankfurt, Paris, Brussels, Geneva and Zurich.

Luxembourg’s financial services industry, regulators and supervisory authorities have adopted an international proactive approach, as illustrated for example, by:

- Promotional activities: Luxembourg organizations, including LuxembourgForFinance (LFF) the agency for the development of the financial center and the Association of the Luxembourg Fund Industry (ALFI), regularly organize international roadshows to promote the Luxembourg financial center, its products and services, as well as to update industry professionals on relevant industry developments (e.g., in the Middle East and Asia)

- Supervisory cooperation: Luxembourg’s financial sector supervisory authority, the Commission de Surveillance du Secteur Financier (CSSF), cooperates with European supervisory authorities and international organizations, such as the International Organization of Securities Commissions (IOSCO)

- The CSSF has signed memoranda of understanding (MoU) with the supervisory authorities in many countries, a number of which are active in the context of Islamic finance, e.g., Bahrain, Egypt, Kazakhstan, Malaysia, Morocco, Oman, Qatar, Singapore, Turkey, and the United Arab Emirates, including Abu Dhabi and Dubai. Further to the European Securities and Markets Authority’s (ESMA) approval of cooperation agreements between EU securities regulators and their global counterparts, the CSSF signed MoU with supervisory authorities of third countries meeting the requirements of the Alternative Investment Fund Managers Directive (AIFMD) for cooperation agreements, including supervisory authorities of Egypt, Malaysia including the federal territory Labuan, Morocco, Pakistan, Singapore, Turkey, and United Arab Emirates, including Dubai.

- Double taxation treaties (DTTs): Luxembourg has signed DTTs with more than 81 countries, including Bahrain, Brunei, Indonesia, Kazakhstan, Kingdom of Saudi Arabia, Malaysia, Morocco, Qatar, Tunisia, Turkey, the United Arab Emirates and Uzbekistan. The new DTT with Brunei entered into force on 1 January 2018. Further treaties are under negotiation, including treaties with Egypt, Kuwait, Lebanon, Oman, and Pakistan

Luxembourg is a founding member of the EU and the Eurozone. The Grand-Duchy is the third EU capital along with Brussels and Strasbourg. A number of major European institutions are headquartered in Luxembourg, i.e., the European Court of Justice, the European Court of Auditors, the European Financial Stability Facility (EFSF), the European Investment Bank, and the European Investment Fund. The Grand-Duchy of Luxembourg is also a member of many international bodies including the United Nations (UN).

[Map showing DTT status]
Achieving Sharia compliance in Luxembourg

Luxembourg’s position as the leading center for internationally distributed investment funds, combined with the financial center’s expertise in Islamic finance, make the country an ideal location for the creation and administration of Sharia-compliant investment vehicles and cross-border distribution of investment products.

Luxembourg offers a wide range of investment vehicles that can be Sharia-compliant, responding to the specific needs of both investors and initiators. Luxembourg law and regulation is perfectly compatible with Sharia Law; Sharia-compliance is generally achieved through appropriate structuring of the vehicle combined with contractual arrangements, governance structure and appropriate offering documents.

Luxembourg investment vehicles range from highly regulated to unregulated. For example, financial transactions may be structured as securitization vehicles (SVs), which may be regulated or not depending on how often they raise capital from the public.

From a regulatory perspective, the CSSF will seek to ensure that all applicable Luxembourg legal and regulatory requirements are complied with for regulated and/or listed entities. The CSSF will, for example, expect that:

- The members of the governing body and the management are of sufficient repute, and have sufficient knowledge and expertise
- The offering documents provide appropriate information about the essential characteristics of the investment, so that investors are reasonably able to understand the nature and the risks of the investment product that is being offered to them and, consequently, to take investment decisions on an informed basis

As long as investments of a regulated fund comply with the applicable laws and regulations, the CSSF does not place any condition on a fund with regard to the compatibility of its investments with Sharia.

Framework for Islamic finance

Luxembourg offers a wide range of investment vehicles (regulated or not) either fully subject to taxation but benefitting from tax exemptions or deductions in line with European legislation (e.g., Luxembourg holding company (SOPARFI), Venture Capital company (SICAR), SVs or tax exempt and liable to annual subscription tax levied on the net asset value (NAV) (e.g., Specialized Investment Fund (SIF) and Reserved Alternative Investment Fund (RAIF)).

Traditionally, the Grand-Duchy provides a platform for cross-border investments made by large corporates, sovereign wealth funds and private equity and real estate funds. Luxembourg’s tax regime is one of Europe’s most favorable for business in line with the standards of the Organisation for Economic Co-operation Development (OECD). An important factor in this respect is its extensive network of DTTS, including DTTS signed with a number of countries active in the area of Islamic finance.

The tax authorities provided clear guidelines on the tax treatment of certain Islamic finance products.

The Luxembourg standard value added tax (VAT) rate of 17% is the lowest rate in the EU.

Luxembourg tax law is based on the economic approach and substance over form principles, which enable Luxembourg to easily accommodate Islamic investments. Therefore, many Islamic finance techniques may be implemented using Luxembourg’s well-known investment structures. In addition, other well-known concepts such as fiduciary contracts (a concept similar to trust under the Common Law) allow the distinction between legal and economic ownership ensuring the compliance with the principles of Islamic finance.

The Luxembourg tax authorities issued in January 2010 a circular providing guidance on the tax treatment of certain Islamic finance instruments. As regards Murabaha, the circular accords, upon condition, amortization treatment of the capital gain realized by the contributor of the capital over the life of the Murabaha contract i.e., comparable to the interest in conventional financing. The circular also clarifies that Sukuk are treated as a conventional debt instrument for Luxembourg tax purposes which results in an assimilation of Sukuk revenue to interest (i.e., tax deductible at the level of the Sukuk issuer and, in principle, not subject to withholding tax (WHT) in Luxembourg).

The Luxembourg indirect tax authorities released in June 2010 a circular clarifying the VAT regime applicable to Murabaha and Ijara agreements in relation to real estate, and registration duties (real estate transfer taxes).

2 Selected DTTS are listed in Luxembourg - international financial center at the heart of Europe in this section.
Luxembourg indirect tax authorities confirmed that special purpose vehicles (SPV) set up within the scope of Murabaha and Ijara structures are considered as performing activities within the scope of VAT, hence qualify as taxable persons for VAT purposes.

Thus, provisions relating to the VAT exemption of the supply of a building or parts thereof as well as of the leasing or letting of immovable property and the option for the taxation of those real estate transactions of the Luxembourg VAT Law apply to such Sharia compliant real estate transactions.

In respect of registration duties, the transfer of shares in partnerships or economic interest groups which hold buildings or parts thereof in their assets triggers a six percent transfer tax. However, if the SPV discloses in the purchase deed its intention to resell the building, and if the resale deed is registered at the same time, only 1.2% of transfer tax is due on the purchase.

Under certain conditions, the mark-up resulting from the difference between the price due from the investor in the SPV and the one paid by the SPV for the acquisition of the building, is assimilated to interest and consequently not subject to transfer tax.

Adhering to tax transparency while protecting personal data

Over the last few years, Luxembourg has adapted to a tax environment where key considerations are transparency and exchange of information, as well as the alignment of taxation with economic substance and value creation. The Global Forum on Transparency and Exchange of Information for Tax Purposes rated Luxembourg as largely compliant since the standard of transparency and exchange of information were fully implemented. Luxembourg also adopted numerous measures to implement tax transparency in line with international standards e.g.:

- United States Foreign Account Tax Compliance Act (FATCA)
- Full support to OECD action plan for Base Erosion and Profit Shifting (BEPS)
- Introduction of Common Reporting Standard (CRS) and implementation of automatic exchange of information in the field of taxation (DAC 2)
- Introduction of mandatory automatic exchange of information on cross-border rulings and advance pricing agreements (DAC 3)
- Introduction of country-by-country reporting (CbCR) for multinational enterprises

Simultaneously, the protection of personal data is being reinforced by the application, from 25 May 2018, of the EU General Data Protection Regulation (GDPR).
Luxembourg - a global hub for Islamic finance

Luxembourg is the leading non-Muslim domicile for Sharia-compliant investment structures and issuance of Sukuk. Among others, Luxembourg has achieved the following key milestones in the growing sector of Islamic finance:

• Luxembourg is the largest Islamic investment fund domicile in non-Muslim countries with over € 11b of assets under management. Currently, 49 Sharia-compliant funds are domiciled in Luxembourg and more than 20 Sukuk are listed on the Luxembourg Stock Exchange (LuxSE)
• First European country to be a member of IILM
• First European central bank to be a member of IFSB
• First Eurozone country to have issued sovereign Sukuk

<table>
<thead>
<tr>
<th>Year</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>1978</td>
<td>Luxembourg became the first non-Muslim country to host an Islamic finance institution</td>
</tr>
<tr>
<td>1982</td>
<td>Luxembourg became the first country in Europe to host an Islamic finance institution</td>
</tr>
<tr>
<td>2002</td>
<td>LuxSE became the first stock exchange in Europe to list a Sukuk</td>
</tr>
<tr>
<td>2008</td>
<td>The Luxembourg Central Bank is the first European central bank to be accepted as an associate member of the IFSB</td>
</tr>
<tr>
<td>2009</td>
<td>The Luxembourg Central Bank is the first European central bank to be accepted as an associate member of the IFSB</td>
</tr>
<tr>
<td>2010</td>
<td>The Luxembourg financial regulator clarified certain prospectus requirements for Sukuk</td>
</tr>
<tr>
<td>2011</td>
<td>In May 2011, Luxembourg hosted the 8th IFSB seminar</td>
</tr>
<tr>
<td>2012</td>
<td>In September 2014, the Luxembourg Government issues the first Eurozone sovereign Sukuk, and a major US financial institution and the Republic of South Africa issued their debut Islamic bonds. These Sukuk are listed on the Luxembourg Stock Exchange</td>
</tr>
<tr>
<td>2014</td>
<td>Luxembourg became the first country in Europe to list a Sukuk</td>
</tr>
<tr>
<td>2015</td>
<td>In October 2015, Luxembourg’s supervisory authority of the financial sector, the CSSF, signed a mutual agreement of understanding (MoU) with Qatar Financial Markets Authority on mutual assistance and the exchange of information relating to the supervision of securities markets</td>
</tr>
<tr>
<td>2017</td>
<td>In February 2017, the CSSF and the Financial Services Regulatory Authority of the Abu Dhabi Global Market signed a MoU</td>
</tr>
</tbody>
</table>

Luxembourg is the 3rd largest Islamic fund center in the world after Saudi Arabia and Malaysia.
Luxembourg: the gateway for the Middle East and Islamic finance

Luxembourg - a global hub for Islamic finance
Luxembourg investment vehicles and Sharia implementation
Luxembourg solutions for wealth management
Luxembourg solutions for Sukuk issuers

How EY can help
## Luxembourg investment vehicles and Sharia implementation

Comparison of Luxembourg investment vehicles from a Sharia perspective:

<table>
<thead>
<tr>
<th>Traditional investment funds</th>
<th>Alternative investment funds</th>
<th>Other investment vehicles</th>
<th>Securitization vehicles</th>
</tr>
</thead>
<tbody>
<tr>
<td>UCITS</td>
<td>UCII</td>
<td>SIF</td>
<td>SICAR</td>
</tr>
<tr>
<td>Eligible investors</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>All - retail, professional or institutional</td>
<td>Informed</td>
<td>Professional or institutional or (other) well-informed investors</td>
<td>All</td>
</tr>
<tr>
<td>Distribution in EU</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Retail investors: EU</td>
<td>Retail investors: national requirements apply</td>
<td></td>
<td>National requirements apply</td>
</tr>
<tr>
<td>Professional investors: EU passport</td>
<td>Professional investors: EU passport if manager is an authorized AIFM, else national private placement regimes apply</td>
<td>No supervision</td>
<td>No supervision</td>
</tr>
<tr>
<td>Supervision by CSSF</td>
<td>Yes, supervision of UCITS product and of management company</td>
<td>Yes, light supervision of product and supervision of AIFM (if applicable)</td>
<td>No authorization and no supervision of product; supervision of AIFM</td>
</tr>
<tr>
<td>Eligible investments</td>
<td>Transferable securities such as equities, bonds, money market instruments and certain derivatives. UCITS may employ techniques and instruments related to transferable securities. Detailed restrictions apply</td>
<td>Flexible</td>
<td>Any - unrestricted</td>
</tr>
<tr>
<td>Diversification</td>
<td>Detailed requirements</td>
<td>General requirements</td>
<td>No requirements</td>
</tr>
<tr>
<td>Risk management</td>
<td>Detailed requirements</td>
<td>General requirements</td>
<td>General requirements</td>
</tr>
</tbody>
</table>

1. Abbreviations and specialist terms are covered in the Glossary.

4. Investor to confirm the well-informed investor status in written and invests a minimum of €125,000, or has been subject to an assessment made by a credit institution, investment firm or management company certifying the investor’s expertise, experience and knowledge in adequately appraising an investment in the RAIF.

5. See Alternative investment funds: a complete range of products and solutions in the section entitled Luxembourg – the world’s cross-border investment fund distribution hub.

6. The RAIF must be managed by an authorized AIFM which will be supervised by the competent authority of its country of domicile. A RAIF will not however be directly supervised by the CSSF.
<table>
<thead>
<tr>
<th>Traditional investment funds</th>
<th>Alternative investment funds</th>
<th>Other investment vehicles</th>
<th>Securitization vehicles</th>
</tr>
</thead>
<tbody>
<tr>
<td>UCITS</td>
<td>UCI</td>
<td>SIF</td>
<td>SICAR</td>
</tr>
<tr>
<td>Can be set up in tax transparent or nontransparent (opaque) form</td>
<td>Can be set up in tax transparent or nontransparent (opaque) form</td>
<td>Can adopt one of the three following legal structures: • SICAV• SICAF• FCP</td>
<td>Can be set up in tax transparent or nontransparent (opaque) form</td>
</tr>
<tr>
<td>No tax, except for annual subscription tax of 0.05% on the NAV unless a reduced rate or exemption applies</td>
<td>No tax, except for annual subscription tax of 0.01% on the NAV, unless an exemption applies</td>
<td>No tax, except for annual subscription tax of 0.01% on the NAV, unless an exemption applies</td>
<td>No tax, except for annual subscription tax of 0.01% on the NAV, unless an exemption applies</td>
</tr>
<tr>
<td>No dividend withholding tax</td>
<td>Dividend WHT of 15%, but reductions or exemptions are available under EU law and DTTs</td>
<td>No dividend withholding tax</td>
<td>For opaque entities, income tax at 26.01%, but dividend and capital gains exceptions under conditions; subject to net wealth tax including the minimum tax net wealth regime</td>
</tr>
</tbody>
</table>

| Benefit from DTTs | Yes, a number of Luxembourg DTTs are applicable, but in most cases only if in the form of an investment company | Yes | Yes |

| Implementation of Islamic finance arrangements | Mudaraba, Murabaha, Musharaka | Mudaraba, Murabaha, Musharaka, Ijara, Sukuk | Mudaraba, Murabaha, Musharaka, Ijara, Sukuk | Murabaha, Ijara, Sukuk | Mudaraba, Murabaha, Musharaka, Ijara, Sukuk |

---

7 A SIF can be organized in both a fiscally opaque corporate entity form (i.e., public limited partnership (S.A.), private limited liability company (S.à r.l.) or partnership limited by shares (S.C.A.)) or in the tax transparent form of a common limited partnership (S.C.S.) or special limited partnership (S.C.Sp.) or common fund (FCP).
8 A SICAR can be organized in a fiscally opaque corporate entity form (i.e., S.A., S.à r.l. or S.C.A.), but other legal forms, inter alia, the tax transparent forms of a S.C.S. or S.C.Sp. may also be chosen. A SICAR cannot be organized as a common fund (FCP).
9 SICAV and SICAFs may opt for the various legal forms i.e., S.A., S.à r.l., limited partnership, S.C.Sp. and S.C.A.)
10 Idem.
11 A SOPARFI will most typically be organized in a fiscally opaque corporate entity form (i.e., S.A., S.à r.l. or S.C.A.), but other legal forms, inter alia, the tax transparent forms of a S.C.S. or S.C.Sp. may also be chosen. A SOPARFI cannot be organized as a FCP.
12 The minimum corporate tax regime was replaced by a minimum NWT regime as of 1 January 2016. SICARs and securitization vehicles are subject only to the minimum NWT.
13 The minimum corporate tax regime was abolished as from 2016 and compensated by the introduction of a differential rate of net wealth tax depending on the amount of taxable net wealth (i.e., the unitary value (UV)) and of a new minimum net wealth tax regime as of 1 January 2016. Net wealth tax continues to be levied annually at a rate of 0.5% on an amount of UV up to and including €500m. For an UV exceeding €500m, NWT of the sum of €2.5m plus 0.05% of the portion of the NWT base above €500m.
14 The minimum corporate tax regime was replaced by a minimum NWT regime as of 1 January 2016. SICARs and securitization vehicles are subject only to the minimum NWT.
15 SOPARFIs in the form of S.C.S. and S.C.Sp. are not eligible to DTT benefits.
Luxembourg – the world’s cross-border investment fund distribution hub

With more than €4t assets under management, Luxembourg is the largest investment fund domicile in Europe and the world’s leading cross-border distribution hub for investment funds.

In addition to retail investment funds, Luxembourg is also a vibrant market for alternative investment funds (AIFs), including private equity (over €400b of private equity/venture capital fund assets administered), real estate (over €50b of real estate investment fund assets regulated), hedge funds, as well as structured products.

The success of Luxembourg in attracting investment funds, and becoming a major financial center, may be attributed to a number of factors such as:

- Reputation of the Luxembourg brand in the investment fund industry
- Attractive range of investment fund solutions
- Regulatory environment including accessibility, knowledge and responsiveness of the regulator
- Stability:
  - Political, economic and social environment
  - Legal environment and taxation regime
- Ability to achieve tax neutrality for products by considering direct and indirect taxation implications at fund and investor levels
- Operational factors such as relocation costs, local infrastructure, and the qualifications and knowledge of the multicultural, multilingual international workforce
- Service provider considerations such as their expertise and ability to meet specific local distribution market requirements from Luxembourg
- Central location at the heart of Europe with easy access to other financial centers

€4.2t
assets under management in Luxembourg

4,044
funds with more than 14,728 sub-funds distributed in more than 70 countries worldwide

Evolution of Luxembourg investment funds

There are two basic types of investment funds in Luxembourg:

- A common fund (FCP) is a co-proprietorship with no legal personality; it must be managed by a management company (and/or AIFM). It is tax transparent (with limited exceptions)
- An investment company (generally SICAVs) which can be set up in a number of corporate forms: a private limited liability company, a public limited company or, in the case of a non-UCITS, a partnership. It must either appoint a management company (and/or AIFM) or designate itself as self-managed. It is not tax transparent (opaque) (with limited exceptions)

Luxembourg investment funds may be set up in an umbrella structure with various sub-funds which are created to operate as distinct entities. Accordingly, an investment fund may have several compartments (sub-funds), each of which may pursue different investment policies and attract different investors. The rights of investors and of creditors concerning a compartment, or which have arisen in connection with the creation, operation or liquidation of a compartment, are limited to the assets of that compartment (i.e., segregation of assets and liabilities on a compartment by compartment basis, also known as the protected cell concept), unless a clause included in the constitutional document provides otherwise.

Multiple share or unit classes may be created within an investment fund or, in the case of a multiple compartment investment fund, within a compartment. Share or unit classes permit the implementation of features, generally customized to one or more specific needs or preferences, such as a specific fee structure, currency of denomination, dividend policy, investor type or country of distribution.

Schematic of a possible multiple compartment, multiple share or unit class structure.
### UCITS - the traditional retail investment fund product

The Luxembourg UCITS is the leading globally distributed investment fund product. Most UCITS are traditional investment funds such as equity, bond, money market and mixed funds. Undertakings for collective investments in transferable securities (UCITS) are harmonized EU investment fund products which are often used to create Sharia-compliant investment products. UCITS are designed to offer a high level of investor protection and can be distributed to all types of investors such as retail, professional and institutional investors. UCITS are open-ended funds investing in transferable securities such as shares, bonds, money market instruments and certain derivatives. This UCITS regime regulates the organization, management and oversight of such funds, and lays down rules on diversification, liquidity and use of leverage. The regime is designed to offer high levels of investor protection appropriate for retail investors. UCITS can be distributed to all types of investors in most key distribution markets, and are relatively easy to distribute, compared with other UCIs. The Luxembourg UCITS is the leading product for pan-EU fund distribution and also globally; a continuously increasing number of Luxembourg UCITS are registered for sale both in EU Member States and outside the EU, for example in Africa, Asia and the Middle East. Presently, 67% of assets under management in UCITS distributed internationally are Luxembourg domiciled UCITS. Investors recognize and demand UCITS brand products. UCITS benefit from a passport permitting them to be freely marketed throughout the EU. Many international investors are also attracted to UCITS, for example, to benefit from well-recognized EU regulation.

67% of UCITS funds distributed internationally are based in Luxembourg

### Alternative investment funds (AIFs): a complete range of products and solutions

While UCITS are savings vehicles targeting retail investors and designed to offer the highest possible protection to investors, other asset classes such as real estate, private equity and venture capital as well as hedge funds fall outside the scope of UCITS. In 2013, the AIFMD was implemented across the EU, regulating the managers of AIFs - i.e., investment funds that do not classify as UCITS, *inter alia*, with a view to increasing levels of investor protection. All Alternative Investment Fund Managers (AIFM) are subject to the AIFMD, except if they benefit from an exemption (e.g., smaller managers). Authorized AIFM benefit from a passport to market the AIF they manage to professional investors throughout the EU, similar to the passport for the marketing of UCITS to retail investors. This new passport regime will replace local private placement regimes, which vary from one European country to another, in 2018 at the latest. Luxembourg was one of the first European countries that has fully implemented the AIFMD into a national law and replicates the Luxembourg UCITS success story for the distribution of alternative funds, benefiting from its reputation and expertise as a hub for UCITS products. Besides the implementation of the AIFMD, the law transposing the AIFMD into Luxembourg domestic law introduces a new type of partnership, the special limited partnership (SLP or S.C.Sp.), allowing greater legal flexibility and enhanced tax transparency. The VAT exemption applicable to investment fund management services was broadened and a specific tax regime for carried interest was introduced.

See Luxembourg’s Special Limited Partnership regime - S.C.Sp. hereafter.
The RAIF: an innovative solution for fund initiators

In 2016, Luxembourg introduced a new type of alternative investment fund: the reserved alternative investment fund (RAIF – or fonds d’investissement alternative réservé, FIAR). The ultimate purpose of the RAIF regime is to create a category of Luxembourg AIFs with all the advantageous features of a Luxembourg regulated investment fund while avoiding duplication of supervision by relying on the supervision of the AIFM and relieving the AIF of direct supervision.

Taking the above into consideration, the RAIF regime is another testimony to the ongoing commitment of the Luxembourg Grand Duchy to offer innovative solutions to fund initiators. This new form of vehicle strongly capitalizes on the supervision performed by the AIFM regulator, which addresses the current needs of the initiators who are calling for a quicker set-up of investment fund platforms while benefiting from investors’ appreciation of the AIFMD label, irrespective of where in the EU the manager is regulated. The combination of the RAIF’s exemption from direct prior regulatory authorization and the benefit of the RAIF’s AIFM’s EU passporting rights has significantly accelerated the time to market. This new vehicle does not need to compete with other fund regimes but completes the Luxembourg tool box available to AIFMD-compliant initiators who intend to market fund products to investors needing less protection than retail investors.

The RAIF regime is largely based on the Luxembourg SIF and SICAR regimes, the main difference being that the RAIF is not subject to the CSSF’s authorization and supervision. As the RAIF must qualify as an AIF under the AIFMD, it does however imply that the RAIF has to comply with the products’ rules defined in the AIFMD, such as the appointment of a depository and an independent auditor, disclosures to investors, the requirement to produce an annual report and compliance with some specific rules such as those related to leverage. The RAIF is open to qualified investors only. Due to its flexibility, the RAIF regime allows for all types of single and multiple draw-down structures, e.g.:

- Variability of capital: capital calls and return of capital can be achieved without cumbersome formalities or restrictions
- No significant formalities or restrictions for dividend distributions
- The minimum capital of €1.25m must be reached within one year of establishment
- The general tax regime applicable for RAIFs:
  - RAIFs are exempt from Luxembourg wealth and income taxes (except for withholding tax, where applicable, on income received). RAIFs, with some exceptions, are subject to an annual subscription tax (taxe d’abonnement) charged at an annual rate of 0.01% based on the NAV, valued at the end of each calendar quarter. Exemptions from subscription tax apply, for instance, to assets invested in other Luxembourg based UCIs, SIFs and RAIFs subject to subscription tax and to certain institutional cash funds, microfinance funds, and pension pooling funds. Individual compartments and classes which are reserved to pension schemes may also benefit from the subscription tax exemption.
  - Optional alternative tax regime for RAIFs:
    - However, if the RAIF invests in a portfolio of risk capital, opts to be a SICAR-RAIF and complies with conditions similar to those applicable to SICARs, it is subject to the same taxation regime as a SICAR, i.e., it is a fully taxable company but may benefit from certain exemptions.
    - RAIFs can be set up as tax transparent vehicles or as taxable entities that may access treaty benefits under certain Luxembourg DTTs, where available to investment companies.

As they must first qualify as AIFs, RAIFs should benefit from the VAT exemption on AIF management services under the same conditions and restrictions as those applicable to AIFs.
SIF
The Specialized Investment Fund (SIF) is Luxembourg's leading AIF product.

SIFs are less regulated and enjoy more flexibility than UCITS, especially in terms of eligible investments and structuring. This allows both conventional and Islamic fund managers to set up investment strategy which combines various types of investments.

SIFs may be offered to a wide range of eligible, well informed investors. The SIF can be structured as a Common Fund (FCP) or Investment Company with fixed or variable capital.

SICARs
Investment companies in risk capital (SICARs) are investment vehicles that are specifically dedicated to private equity and venture capital investments whereby the investments must qualify as risk capital assets. The SICAR can be structured as an Investment Company with fixed or variable capital. The SICAR also offers the possibility to make investments in compliance with Islamic principles.

Securitization vehicles
Securitization vehicles (SV) are vehicles which can acquire a wide range of assets or bear risks associated with commitments taken or activities carried out by third parties and, in exchange, issue securities whose return is directly linked to the risks associated with underlying assets.

Luxembourg's Securitization Law offers investors a very flexible regime for SVs, a high level of protection and legal certainty as well as a tax-neutral treatment in Luxembourg.

Under the Securitization Law, any tangible or intangible asset or activity with a reasonable ascertainable value or predictable future stream of revenue can be securitized. Securitization structures can range from traditional to the most innovative (e.g., such as simple repackaging, term transactions and commercial paper conduits).

---

17 SIFs can only raise capital from informed investors who are able to understand and assess the risks associated with investment in such a fund. Informed investors are:
- Institutional investors or professional investors
- Other types of investor who have declared in writing that they are informed investors, and either of the following:
  - Invest a minimum of €125,000; the CSSF has clarified that in the case of co-investment, each investor must invest the minimum amount
  - Have an appraisal from a bank, an investment firm or a management company (all of these with a European passport) certifying that they have the appropriate expertise, experience and knowledge to adequately understand the investment made in the fund

Directors, and other persons who intervene in the management of the SIF are exempt from these requirements.

18 Main corporate forms of investment companies are public limited company (S.A.), private limited liability company (S.à r.l.), partnership limited by shares (S.C.A.), special limited partnership (G.C.Sp.), and common limited partnership (S.C.S.).

19 Idem.
Luxembourg SVs may be regulated by the CSSF, or unregulated where the SVs do not make more than three issuances of securities to the public during the year.

SVs can either be set up as corporate entities, or funds with no legal personality managed by a management company. These can be set up as single or multi-compartment vehicles; each compartment can issue several tranches of securities. The assets of each compartment can be segregated (the protected cell concept).

A single securitization vehicle can be established to carry out an entire securitization transaction, or separate SVs can be established, the first one acquiring the assets or bearing the risks, the second one issuing securities to the investors. Multiple layer securitization structures with two or more acquisition or issuing vehicles can be created to optimize the risk spreading.

A reference to the Securitization Law in the constitutional documents should be sufficient in order to enable the entity to benefit from the provisions of Luxembourg’s securitization regime.

Luxembourg SVs have access to beneficial taxation regimes, which can be briefly summarized as follows:

- **Securitization companies:**
  - Are fully taxable companies subject to corporate income tax and municipal business tax; however, commitments (interest or dividend) towards investors and creditors qualify as tax deductible interest expenses even if they have not been actually paid out in a given year. Therefore, in practice, as most of its income is immediately repaid or committed to investors, the taxable basis of securitization companies is often close to zero
  - Benefit from net wealth tax exemption except for being liable to the minimum net worth tax (NWT)
  - Are not subject to specific thin capitalization rules
  - May have access to existing DTTs on a case-by-case basis
  - Are subject to VAT
- **Securitization funds are tax transparent entities which are exempt from any direct taxation in Luxembourg, including the annual subscription tax**
- **Management services provided to SVs are VAT exempt in practice**
- **Repatriation of proceeds to investors are free from Luxembourg withholding tax (WHT)**

Due to the flexible and tax efficient securitization regime, a wide range of assets can be securitized and Luxembourg securitization vehicles can be used in several kinds of Sharia-compliant financial arrangements and contracts.
SOPARFIs – the financial holding vehicle

The most important of the unregulated structures is the Luxembourg SOPARFI. SOPARFI is the name usually given to Luxembourg companies which, as their main corporate purpose, hold participations in other companies. The SOPARFI is not a specific vehicle or regime; like other Luxembourg companies, it is subject to the Law of 10 August 1915, as amended (the so called Companies Law).

SOPARFIs play a central role in structuring of cross-border transactions.

SOPARFIs are fast and inexpensive to incorporate. They can be set up in any Luxembourg corporate form; the most common are the public limited company (S.A.) and the private limited liability company (S.à r.l.). They are not subject to risk spreading requirements nor are they restricted to any specific type of investments. Generally, there are no restrictions on the types of investors in SOPARFIs, so it can be used for both retail and institutional investors. However, SOPARFIs may also be organized in the form of a partnership (e.g., S.C.Sp.) in order to set up a fiscal transparent and non-regulated special purpose vehicle.

The SOPARFI will in principle always be a fiscally opaque corporate entity which is subject to ordinary income tax. It has access to Luxembourg's DTT network with more than 81 DTTs and benefit from the provisions of EU directives.

- SOPARFIs are fully taxable Luxembourg companies, subject to corporate income tax, municipal business tax and NWT, including the minimum NWT.

WHT may be levied on dividends distributed and, in certain cases, on interest paid by a SOPARFI, on profit participating bonds and similar securities.

Provided certain conditions are met, SOPARFIs may have access to beneficial taxation regimes, briefly summarized as follows:

- Dividends paid by and capital gains realized from direct subsidiaries of the SOPARFI may be exempt from corporate income tax and municipal business tax (i.e., participation exemption regime may apply). The exemption provided under the EU Parent-Subsidiary Directive, as amended, is denied for non-genuine arrangements that have been put in place in order to obtain tax advantages without reflecting economic reality. The tax exemption on inbound dividends will not be granted to the extent such profits are deductible by the subsidiary of the parent company.
- Interest expenses may be tax deductible, if the arm's length principle is respected and provided they are not linked to the financing of a tax exempt asset.
- Dividends paid by SOPARFIs may be exempt from WHT (in the context of SIFs, this may apply if the SIF is tax transparent).
- Qualifying subsidiaries of the SOPARFI may be exempt from the SOPARFI's taxable basis for net worth tax purposes.


The Luxembourg AIFM Law provides a special type of limited partnership, the special limited partnership (S.C.Sp., also known as SLP), thereby enhancing Luxembourg's legal toolbox for structuring international alternative investments, and private equity and venture capital, via Luxembourg.

Leveraging upon the well-established English limited partnership regime, the Luxembourg S.C.Sp includes the following key provisions:

- The special limited partnership does not have legal personality.
- It is governed by the limited partnership agreement, which may be drafted in a flexible manner in terms of interests, governance, distribution, etc.
- It may be managed by the general partner, but this is not a requirement.
- It is available to regulated entities (e.g., SIF, SICAR), as well as non-regulated entities (e.g., SOPARFI), independently of whether they qualify as an AIF.
- Information to be published in the trade register does not include information on limited partners.
- It is tax efficient. The special limited partnership will be subject to a transparent tax regime, aligned to the regime applicable to limited partnerships (exemption from corporate income tax and net wealth tax). It is also exempt from municipal business tax provided certain conditions are met.

The AIFM Law also modernized the legal framework applicable to common limited partnerships (S.C.S), as well as making some technical adjustments to the well-established partnership limited by shares (S.C.A.) regime.

---

21 Société de participations financières.
22 See footnote No.12.
Luxembourg solutions for wealth management

Luxembourg is the largest wealth management center in the Eurozone. Luxembourg offers a highly attractive environment for private wealth management, combined with solutions for managing and structuring the wealth of high net worth individuals (HNWI) and families.

A number of Luxembourg banks have an established track record in offering Sharia-compliant financial services and setting up tailor-made Sharia-compliant investment structures for private clients.

Luxembourg wealth managers have the advantage of being multicultural, multilingual and familiar with international business, tax and regulatory environments. They also have access to complementary financial services in Luxembourg, including asset management, insurance and reinsurance.

Luxembourg provides a legal framework for family offices, and their activities. The regime for family offices complements Luxembourg's solutions for structuring the private wealth of HNWI and families, such as the private wealth management vehicle (the SPF23), the specialized investment fund (SIF24), and financial holding companies (SOPARFI25).

Family Offices

A family office is an entity which provides, on a professional basis, advice or estate services. These services are:

- Advice on the organization of an estate and estate planning
- Administrative and financial monitoring of an estate
- Management of the service providers to the estate, and the evaluation of their performance

Such advice or estate services must be provided to:

- Physical persons
- Families
- Estate entities (which belong to physical persons or families, or of which they are founders or beneficiaries)

Family office advice or estate services can be provided by Luxembourg banks, investment advisers, private portfolio managers, corporate domiciliation agents, professionals providing company formation and management services, lawyers, notaries, auditors and accountants.

However, the Law also creates a specific new category of professionals of the financial sector (PSF): Family Offices. Family offices are legal entities authorized to provide family office services even though they do not fall into one of the aforementioned categories of professionals or institutions entities.

23 See The private wealth management vehicle hereafter.
24 See Luxembourg investment vehicles and Sharia implementation.
25 Idem.
The private wealth management vehicle

The Luxembourg private wealth management vehicle (SPF) is intended for the private wealth and asset management of individuals. The SPF benefits from a specific tax regime.

No regulatory constraints for individual patrimony

The SPF is not subject to regulatory supervision and restrictions. The SPF may acquire, hold, manage and realize financial assets (e.g., shares and other securities, bonds and other debt instruments, derivative instruments, structured products, commodities) but is excluded from undertaking any commercial activity. The SPF can hold participations (even majority shareholdings) under the condition that it does not interfere in the management of its participations.

Investors may be individuals or patrimonial entities, acting exclusively within the framework of the management of the private wealth of individuals or intermediaries acting on behalf of such individuals or patrimonial entities (e.g., via fiduciary agreements).

Effective tax regime

The SPF is exempt from both Luxembourg corporate income tax and municipal business tax as well as from net worth tax. The SPF is, however, subject to a subscription tax at an annual rate of 0.25%, from a minimum annual amount of €100 up to a maximum of €125,000. The subscription tax basis is the sum of the paid up capital, the share premium and the amount of the debt exceeding eight times the sum of the paid-up capital and share premium at 1 January.

Dividend distributions from an SPF to its shareholders are exempt from Luxembourg withholding tax. However, dividend or interest income arising from financial assets may be subject to withholding tax in the country of source, in accordance with domestic tax law of that country. Capital gains realized by non-resident shareholders upon the sale or liquidation of an SPF are not taxable in Luxembourg. There is also no WHT upon distribution of liquidation proceeds.

Until 31 December 2011, the favorable tax status for SPFs was lost for any year in which the vehicle received five percent or more of its dividend income from participations in unlisted and nonresident companies that were not subject to a tax similar to Luxembourg corporate income tax. Under the amended law, effective from 1 January 2012, this restriction is removed.

SPFs may not benefit from Luxembourg DTTs or the EU Parent-Subsidiary Directive.
Luxembourg solutions for Sukuk issuers

Luxembourg’s legal framework is recognized as highly attractive to the issuers of Sukuk. Sukuk are generally regarded as the Sharia-compliant of participation (like Musharaka, Mudaraba, etc.). Luxembourg offers a variety of investment vehicles that may be considered suitable for the issuance of Sukuk. The Securitization Law has proved to be particularly beneficial for the creation of innovative Sukuk structures due to the nature of these instruments/contracts. The legal framework has proven its flexibility in Sharia-compliant transactions allowing in particular for the establishment of innovative Sukuk structures.

The Luxembourg Securitization Law also enables the establishment of Sukuk issuance platforms, with multiple market participants, both Islamic and conventional, becoming originators and issuing Islamic and traditional products.

In July 2014, the Luxembourg Parliament adopted a law on a sale and buy-back transaction of real estate assets necessary to issue a first sovereign Eurozone Islamic finance bond (Sukuk). The Law authorized the Luxembourg State to create an entity which should issue a Sukuk. The Sukuk issue should finance the transfer of buildings from the State to the newly created entity; the rental income from the buildings will constitute the profit paid to the Sukuk investors. The Sukuk are listed and admitted to trading on the European Multilateral Trading Facility (Euro MTF) market of the LuxSE.

In September 2014, the LuxSE listed and admitted to trading a Sukuk al-wakala structure, issued by a major US financial institution, which invests in Sharia-compliant commodities and comprises US$ 500m of trust certificates. Also in September 2014, a US$ 500m Sukuk was issued from the Republic of South Africa at the LuxSE.

Today, the LuxSE is one of the most important in Europe for Sukuk listing. Sukuk issuers have a choice between two markets: a regulated market, designated as the “Bourse de Luxembourg,” and the “Euro MTF”. Securities may not be simultaneously admitted to the Bourse de Luxembourg and the Euro MTF.

The regulated market offers issuers a European passport. Issuers on the regulated market must comply with the requirements of the Prospectus Directive26 and Transparency Directive27, or benefit from an exemption. The CSSF is responsible for approving prospectuses under the Prospectus Directive. In January 2011, the CSSF issued a statement specifying certain rules applicable to Sukuk under the Prospectus Regulation28. As far as disclosure requirements are concerned, Sukuk may be treated as one of the following:

• Asset backed securities
• Guaranteed debt securities (if the payment of principal and the periodic distributions are independent from the performance of the underlying asset)

The Euro MTF market, on the other hand, was set up to meet the needs of issuers not requiring a European passport and does not meet the requirements of a regulated market. It is therefore outside the scope of the Prospectus and Transparency Directives.

The stock exchange is itself in charge of approving prospectuses for admission to the Euro MTF.

Regarding the tax treatment of Sukuk, a circular issued by the Luxembourg tax authorities in 2010 indicates that the tax authorities treat periodic payments made under the Sukuk in a manner similar to payments made under conventional bonds, i.e., as interest payments for Luxembourg tax purposes. As a result, payments on Sukuk are tax deductible at the level of the Sukuk issuer and in principle not subject to WHT in Luxembourg.

Sukuk listed at LuxSE since 2002 with an aggregated value of € 11b

How EY can help

Services

In response to the tremendous growth in the Middle East and Islamic finance, EY Luxembourg has created a dedicated group of professionals to cater for the specific needs of both Islamic and Middle Eastern clients.

Leveraging our deep involvement in the Middle East, EY offers leading solutions for our European clients who want to expand into the Middle East, as well as clients from the Middle East looking for expansion into Europe.

Our Middle East and Islamic finance service offering encompasses audit, accounting, tax and advisory services covering the whole spectrum of financial services (i.e., asset management, real estate, private equity, wealth management and insurance).

Our services are tailored to the lifecycle of a fund or an investment structure:

Key issues How can EY help? Key issues How can EY help? Key issues How can EY help? Key issues How can EY help?

- Are the right staff in place to manage and administer the fund?
  - Audit and tax compliance
  - Perform due diligence
  - Profit distribution
  - Fund closure/liquidation

- How can I obtain ongoing tax and accounting advice?
  - Is there demand for this type of fund?
  - What is the appropriate structure?
  - What are my tax considerations?

- How should profits be distributed and how often?
  - Into what type of assets should the fund invest?
  - What are the policies, procedures and guidelines in place and documented?

- Once the fund has closed what is the procedure to terminate or liquidate the fund?
  - What is the appropriate structure?
  - What are the fund’s investors who they say they are?

- Who should the fund appoint as administrators, custodians, etc.?
  - Perform due diligence
  - Pre-check existing anti-money laundering – investor documentation

- Is the fund compliant with Sharia rules and regulations?
  - Tax and accounting advice

- How can the fund extend its reach to all investors?
  - Select and finalize domicile

- Are the policies, procedures and guidelines in place and documented?
  - Applying leading practices

- Which IT system should be used?
  - Applying leading practices

Establishment and Investment

Management and Exit

Concept

Structuring and documentation

2

3

4

Fund lifecycle
Luxembourg: the gateway for the Middle East and Islamic finance

Luxembourg - a global hub for Islamic finance

Luxembourg investment vehicles and Sharia implementation

Luxembourg solutions for wealth management

Luxembourg solutions for Sukuk issuers

How EY can help
Credentials

EY Luxembourg plays a leading role in the development of Islamic finance in the Grand-Duchy of Luxembourg. Our professionals are in close and regular contact with major market players, as well as regulatory authorities and associations, contributing to the development of Luxembourg as a hub for Sharia-compliant products and structures and investment.

EY Luxembourg’s Middle East and Islamic finance group works closely together with the EY Global Islamic finance network including the Islamic financial services group.

Acting as subject matter professionals in the Middle East region, EY Luxembourg’s Islamic financial services group has gained recognition, trust and confidence within the Islamic and Middle East business network.

EY Luxembourg

In Luxembourg, with over 1,300 professionals, we combine our European and global capability with our local knowledge to deliver a full range of services to meet our clients’ business needs.

EY’s unique structure enables our financial services practice to work effectively on a cross-border basis:

• Moving swiftly to bring together the best teams to serve our clients, working together on key issues, and leveraging our strengths, capabilities and knowledge irrespective of geographies
• Providing seamless, consistent, high-quality services to our financial services clients globally
• Responding quickly and effectively to market developments that impact our clients
• Providing our clients access to our European perspective on current and emerging

EY plays an active role in all of the most important Luxembourg industry bodies some of which consult with the CSSF on a regular basis.

For example, the EY Luxembourg Wealth and Asset Management Leader is the Vice-Chairman of the ALFI executive Committee and Chairman of the promotion steering committee. The EY Luxembourg Private Equity Leader is Vice-Chairman of LEPA more over the EY Luxembourg Real Estate Leader is a Member of the INREV Management Board and Co-Chairman of the ALFI Real Estate and the Investment Fund Committees as well as the Co-Chairman of ILA’s Investment fund Task force working group.

Moreover, the EY Luxembourg Real Estate and Private Equity Leaders chair the relevant alternative investment fund working groups. EY is the market leader in AIFs in Luxembourg.

EY: a global market leader in Islamic finance

Since the foundation of the award-winning Islamic financial services group in the Kingdom of Bahrain, EY has played an active role in shaping the Islamic financial markets, creating a difference for our clients and the regulatory bodies. The Islamic financial services group is EY’s group of experts who specialize in rendering Islamic financial services to participants of Islamic and conventional financial organizations. EY’s Islamic financial services group, includes more than 100 professionals working in countries in the Middle East and Asia, Great Britain, Luxembourg and the Commonwealth of Independent States.

1,300+
professionals at EY Luxembourg
EY’s perspectives on Islamic finance shape the industry at a global level. Our publications include:

The EY GCC Wealth and Asset Management Report 2017
The third annual edition of the GCC wealth report talks about “rapid change on all fronts.” This recognizes four major changes that have emanated in the last year from within the MENA region.

Insurance opportunities in the middle-east
Insurance markets in the Middle East remain resilient despite economic headwinds and lower oil prices. This report explores insurance opportunities and investment potential in seven countries in the Middle East.

Banking in emerging markets
GCC FinTech play 2017
The purpose of this report is to inspire and inform the business strategies of financial entities through specific and actionable insights.

EY has consistently been recognized by our peers as a leader in Islamic finance advisory services, receiving awards such as:
- 2018 Leader in Global Magic Quadrant for Data & Analytics Providers, Worldwide by Gartner, Inc.
- Telecoms, Media & Technology M&A Financial Advisor of the Year 2018, Mergermarket Middle East
- MENA M&A Financial Advisor of the Year 2017, Mergermarket Middle East
- Middle East Regional M&A Financial Advisor of the Year 2017, Mergermarket M&A Awards 2017
- Middle East Pharma, Medical & Biotech M&A, Financial Advisor of the Year, Mergermarket M&A Awards 2017
- Best Global Tax Services Provider 2017, Markets Arabian Business Excellence Awards
- Best Tax Advisory Firm 2016, MEA Business Awards 2016, Egypt
- Best Management Consulting Firm 2016, MEA Business Awards 2016, UAE
- Best Tax Advisory Firm 2016, MEA Business Awards 2016, Egypt
- #1 for delivering business transformation in the GCC region - Global Research survey
- Best Sharia Advisory Services Firm Award, Islamic Business & Finance 2015 Awards, CPI Financial 2015
- #1 accounting advice provider on transactions, Financial Times & Mergermarket European M&A Awards 2014
- Winners of the International Best Advisory Award - International Takaful Awards 2014
- Best Islamic advisory firm, 2014: Euromoney Islamic Banking Award
- Best Islamic advisory firm, 2014: 8th International Takaful summit 2014
## Glossary

<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010 Law on UCIs</td>
<td>Law of 17 December 2010 on undertakings for collective investment, as amended</td>
</tr>
<tr>
<td>€</td>
<td>EURO</td>
</tr>
<tr>
<td>AEOI</td>
<td>Automatic Exchange of Information</td>
</tr>
<tr>
<td>AIF</td>
<td>Alternative Investment Fund</td>
</tr>
<tr>
<td>AIFM Law</td>
<td>Law of 12 July 2013 on alternative investment fund managers, as amended</td>
</tr>
<tr>
<td>AIFM</td>
<td>Alternative Investment Fund Manager</td>
</tr>
<tr>
<td>AIFMD</td>
<td>Alternative Investment Fund Managers Directive</td>
</tr>
<tr>
<td>ALFI</td>
<td>Association of the Luxembourg Fund Industry</td>
</tr>
<tr>
<td>b</td>
<td>Billion</td>
</tr>
<tr>
<td>BCL</td>
<td>Luxembourg Central Bank (Banque Central du Luxembourg)</td>
</tr>
<tr>
<td>BEPS</td>
<td>Base erosion and profit shifting</td>
</tr>
<tr>
<td>CbCR</td>
<td>Country by Country Reporting</td>
</tr>
<tr>
<td>Commercial Company Law</td>
<td>Law of 10 August 1915 on commercial companies, as amended (the Companies Law)</td>
</tr>
<tr>
<td>CRS</td>
<td>OECD standard for automatic exchange of financial account information (also known as common reporting standard)</td>
</tr>
<tr>
<td>CSSF</td>
<td>Luxembourg’s commission for the supervision of the financial sector (Commission de Surveillance du Secteur Financier)</td>
</tr>
<tr>
<td>DTT</td>
<td>Double taxation treaty</td>
</tr>
<tr>
<td>EFSF</td>
<td>European Financial Stability Facility</td>
</tr>
<tr>
<td>ESMA</td>
<td>European Securities and Markets Authority</td>
</tr>
<tr>
<td>EU</td>
<td>European Union</td>
</tr>
<tr>
<td>FATCA</td>
<td>Foreign Account Tax Compliance Act</td>
</tr>
<tr>
<td>FCP</td>
<td>Common fund (Fonds commun de placement)</td>
</tr>
<tr>
<td>FIAR</td>
<td>Fond d’investissement alternative reserve (Reserved alternative investment fund – RAIF)</td>
</tr>
<tr>
<td>GCC</td>
<td>Gulf Cooperation Council</td>
</tr>
<tr>
<td>GDP</td>
<td>Gross domestic product</td>
</tr>
<tr>
<td>GDPR</td>
<td>General Data Protection Regulation</td>
</tr>
<tr>
<td>HNWI</td>
<td>High net worth individuals</td>
</tr>
<tr>
<td>IFSB</td>
<td>Islamic Financial Service Board</td>
</tr>
<tr>
<td>IILM</td>
<td>International Islamic Liquidity Management Corporation</td>
</tr>
<tr>
<td>Ijara</td>
<td>Islamic lease</td>
</tr>
<tr>
<td>INREV</td>
<td>The European Association for Investors in Non-Listed Real Estate Vehicles</td>
</tr>
<tr>
<td>IOSCO</td>
<td>International Organization of Securities Commissions</td>
</tr>
<tr>
<td>LFF</td>
<td>LuxembourgForFinance, the agency for the development of the financial center</td>
</tr>
<tr>
<td>LuxSE</td>
<td>Luxembourg Stock Exchange (Bourse de Luxembourg)</td>
</tr>
<tr>
<td>m</td>
<td>Million</td>
</tr>
<tr>
<td>ManCo</td>
<td>Management company</td>
</tr>
<tr>
<td>MoU</td>
<td>Memoranda of understanding</td>
</tr>
<tr>
<td>MTF</td>
<td>Multilateral trading facility</td>
</tr>
<tr>
<td>Mudaraba</td>
<td>Islamic profit-sharing contract between General Partner/fund manager and limited partners/investors</td>
</tr>
<tr>
<td>Murabaha</td>
<td>A form of credit sale under Sharia – i.e., cost plus profit financing contract</td>
</tr>
<tr>
<td>Musharaka</td>
<td>Islamic partnership financing contract</td>
</tr>
<tr>
<td>Term</td>
<td>Definition</td>
</tr>
<tr>
<td>--------------</td>
<td>---------------------------------------------------------------------------</td>
</tr>
<tr>
<td>NAV</td>
<td>Net asset value</td>
</tr>
<tr>
<td>NWT</td>
<td>Net worth tax</td>
</tr>
<tr>
<td>OECD</td>
<td>Organization for Economic Co-operation and Development</td>
</tr>
<tr>
<td>Parent-Subsidiary Directive</td>
<td>Directive 2003/123/EC on the common system of taxation applicable in the case of parent companies and subsidiaries of different Member States</td>
</tr>
<tr>
<td>PSF</td>
<td>Professionals of the financial sector</td>
</tr>
<tr>
<td>RAIF</td>
<td>Reserved alternative investment fund (Fond d'investissement alternative reserve - FIAR)</td>
</tr>
<tr>
<td>S. à r.l.</td>
<td>Private limited liability company (Société à responsabilité limitée)</td>
</tr>
<tr>
<td>S.A.</td>
<td>Public limited company (Société anonyme)</td>
</tr>
<tr>
<td>S.C.A.</td>
<td>Partnership limited by shares (Société en commandite par actions)</td>
</tr>
<tr>
<td>S.C.S.</td>
<td>Limited partnership (Société en commandite simple)</td>
</tr>
<tr>
<td>S.C.Sp.</td>
<td>Special limited partnership (Société en commandite spécial) - also known as SLP</td>
</tr>
<tr>
<td>Securitization Law</td>
<td>The Law of 22 March 2004 on securitization, as amended</td>
</tr>
<tr>
<td>Sharia</td>
<td>Islamic law governed by the Holy Quran (Text of God), Sunnah (words and acts of the Prophet), Ijtihad (Interpretation) and Ijma' (Consensus)</td>
</tr>
<tr>
<td>SICAR</td>
<td>Investment company in risk capital (Société d'investissement en capital à risque)</td>
</tr>
<tr>
<td>SICAR Law</td>
<td>The Law of 15 June 2004 on the investment company in risk capital, as amended</td>
</tr>
<tr>
<td>SICAF</td>
<td>Investment company with fixed capital (Société d'investissement à capital)</td>
</tr>
<tr>
<td>SICAV</td>
<td>Investment company with variable capital (Société d'investissement à capital variable)</td>
</tr>
<tr>
<td>SIF</td>
<td>Specialized investment fund</td>
</tr>
<tr>
<td>SIF Law</td>
<td>The Law of 13 February 2007 on specialized investment funds, as amended</td>
</tr>
<tr>
<td>SLP</td>
<td>Special limited partnership (Société en commandite spécial) - also known as S.C.Sp.</td>
</tr>
<tr>
<td>SOPARFI</td>
<td>Financial holding company (Société de participations financiers)</td>
</tr>
<tr>
<td>SPF</td>
<td>Family wealth management company (Société de gestion de patrimoine familial)</td>
</tr>
<tr>
<td>SPF Law</td>
<td>Law The Law of 11 May 2007 on the family wealth management company, as amended</td>
</tr>
<tr>
<td>SPV</td>
<td>Special purpose vehicles</td>
</tr>
<tr>
<td>Sukuk</td>
<td>Islamic financial certificate, similar to a bond in which risk and reward are linked to the underlying assets</td>
</tr>
<tr>
<td>SV</td>
<td>Securitization vehicle</td>
</tr>
<tr>
<td>t</td>
<td>Trillion</td>
</tr>
<tr>
<td>Takaful</td>
<td>Islamic insurance</td>
</tr>
<tr>
<td>UCI</td>
<td>Undertaking for collective investment</td>
</tr>
<tr>
<td>UCITS</td>
<td>Undertaking for collective investment in transferable securities</td>
</tr>
<tr>
<td>UN</td>
<td>United Nations</td>
</tr>
<tr>
<td>US$</td>
<td>United States Dollar</td>
</tr>
<tr>
<td>UV</td>
<td>Unitary value</td>
</tr>
<tr>
<td>VAT</td>
<td>Value added tax</td>
</tr>
<tr>
<td>WHT</td>
<td>Withholding tax</td>
</tr>
</tbody>
</table>
Luxembourg: the gateway for the Middle East and Islamic finance
About EY
EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

© 2018 Ernst & Young S.A.
All Rights Reserved.

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax, or other professional advice. Please refer to your advisors for specific advice.

ey.com/luxembourg