



# EU REGISTERED FUND: TO BE OR NOT TO BE...? THAT CANNOT BE A QUESTION!

*Newsletter 21st of March 2017*



## *Summary*

*Non-EU based asset managers, especially the soon to be UK-based ones, should consider registering and domiciliating their funds within an EU Member State and in particular in Luxembourg. Doing so would not only secure the future of their business within the EU, it could also be a springboard for strengthening it...*

## EU Registered Fund: to be or not be...? That cannot be a question!

*Luxembourg, 21 March 2017*

On the 23<sup>rd</sup> of June 2016 Britons voted in favour of exiting the European Union (EU). Since then, the British government developed quite a radical approach by demanding a deal to its EU partners on a cherry-picking basis to its own advantage. On the 13<sup>th</sup> of March 2017, the votes by the House of Commons on the Brexit bill, revoking the amendments made by the House of Lords, allow the British government to start the exiting process while not guaranteeing the rights of EU citizens already living in the UK. The MPs also allowed the British government to offer them only a “take it or leave it” vote on the results of the Brexit talks with the EU, assuming the consequences of the potential case in which the UK would leave the EU with no deal at all...

If for the UK and EU people the freedom of movement is at the heart of their preoccupations, the banking and financial world focuses on either the UK shall retain or not the so-called EU passport and the rights attached to it. Considering the words and actions of all the parties involved into the Brexit talks, the chances that the UK shall be entitled to benefit from its EU passport while leaving the bloc are very unlikely to happen. This would mean a UK with no EU passport and the impossibility for UK based banks, asset managers and other financial and banking operators to fully operate from their UK-based offices.

Already, many major banks, financial institutions and even fintech companies have come to the conclusion that relocating all or part of their businesses on Continental Europe, in an EU Member State, was the best (if not the only) option to ensure the continuation of their activities within the EU. If those entities encounter no difficulties (or minor ones they can quite easily undertake), many players do not have such possibility and face the uncertainties of the Brexit outcome, which may endanger their business model if not their own existence...

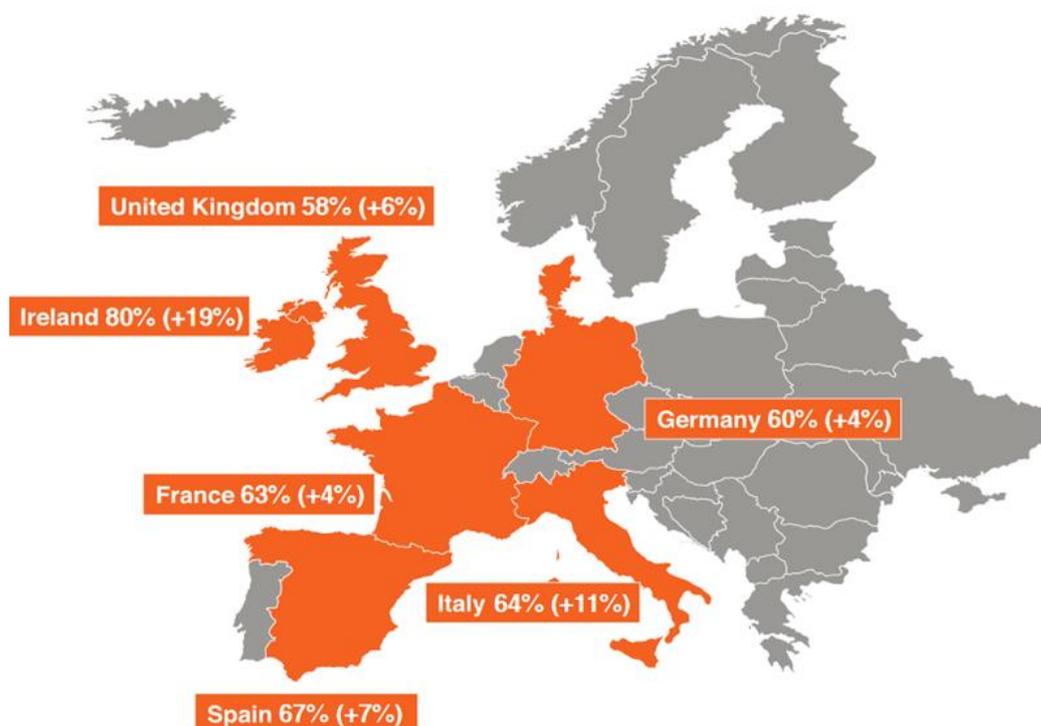
*But is relocation the only option? In the Investment Funds world, it seems the answer shall be “absolutely no”!*

Indeed, many EU third-party management companies (for the purposes of this letter they are to be understood as management companies and/or AIFM) offer the possibility to asset managers to relocate only the assets in devoted investment

vehicles, while retaining the investment management function. Hence, while the assets are being managed by an EU management company for regulatory purposes, the “real” managers of the funds remain the same. To the extent that the EU management company shall only “host” the funds for another management company (or AIFM), that allows the latter to further its business within the EU while minimising, to its absolute minimum, changes in its business model and corporate organisation. The EU passport if lost by the UK would not be in that case such a disaster as remedies exist.

And even more than just not being a disaster, registering their funds within an EU based management company, and especially in Luxembourg, would be an extraordinary chance for UK asset managers if they were to take this direction! Whilst other possibilities, like migrating to Ireland, could appear as the best solution (it would certainly be the easiest but not necessarily the golden one), doing so in Luxembourg should be the favourite option though... Indeed, as of today, Luxembourg remains the second biggest place in the World after New-York for funds domiciliation. But Luxembourg also offers the most sold range of vehicles in the EU and the best option for cross-selling a fund within the EU.

Cross border registrations of Luxembourg funds\*:



% Registrations of Luxembourg cross border funds as a percentage of total cross border fund registrations in each market  
 (%) Percentage change in the number of Luxembourg cross border fund registrations between 2013 and 2014  
 \*Source: Lipper LIM and PwC Luxembourg analysis, 31 December 2014

Domiciliation and registration in Luxembourg to remedy the Brexit aftermath may, at the very end, not only offer a solution to make up for the consequences of the loss by the UK of its EU passport, but could also result in a strong enhancement of the UK-based asset managers' businesses as it would facilitate the distribution and the placement of their funds.

UK-based asset managers should not wait until the results of the Brexit talks end but should prepare their business model for the future and start immediately the process of registration and domiciliation within an EU based third-part asset manager in Luxembourg...

By doing so, they would prepare themselves to what could otherwise become an inextricable nightmare, they would ensure the stability of their core business and strengthen the distribution or placement of their funds...

Welcome aboard!

Gilles Corlier  
*Fund Structurer*

A handwritten signature in black ink, appearing to read 'G Corlier', written over a horizontal line.

Guillaume Raby  
*Relationship Manager*

A handwritten signature in black ink, appearing to read 'Guillaume Raby', written over a horizontal line.

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MC Square also offers services for the fundraising, distribution and placement of funds in and outside the EU. As an independent Management Company and AIFM, we undertake a tailor-made and creative approach when helping our clients so as to offer them the most adapted solutions.

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