Luxembourg Funds Trends and Opportunities for the Nordics

Breakout session 1:
ESG: challenges and opportunities

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Speakers

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Agenda

- Legal update: ESG in Luxembourg, trends and ongoing discussions
- Opportunity for UCIs: reduced subscription tax
- Global perspective: the challenge of data

Reduced subscription tax

Rules and practical considerations

Since 1 January 2021, article 174, paragraph 3 of the UCI Law states that, where the proportion of net assets of a UCI (or an individual compartment of a UCI with multiple compartments) invested in sustainable economic activities represents at least 5% of its aggregated net assets, this rate amounts to 0.04% for the proportion of net assets.

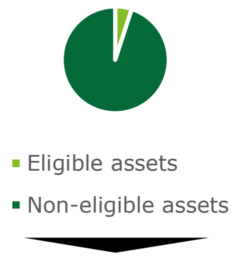
These sustainable economic activities are defined in Article 3 of Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment ("Taxonomy Regulation"), and amending Regulation (EU) 2019/2088 ("SFDR").

If the proportion of net assets represents at least 20% of the aggregated net assets, the rate amounts to 0.03% for the qualifying proportion of net assets. The other thresholds are 35% and 50%, above which the tax rate is reduced to 0.02% or 0.01% respectively.

In principle, the annual basic subscription tax rate amounts to 0.05% of net assets under management. Sustainable investments will benefit from a 0.04% rate when the fund invests at least 5% of its total net assets in sustainable investments. The rate applicable to sustainable investments will be reduced to 0.03%, 0.02%, or 0.01% when sustainable investments exceed, respectively, 20%, 35%, or 50% of the total assets of the fund.

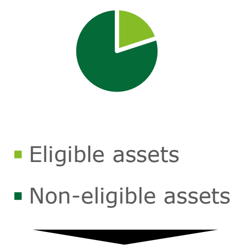
<u>Practical considerations</u>

- Eligible assets are those that comply with the criteria set forth in the EU "Taxonomy" Regulation 2020/852 art. 3;
- The reduced subscription tax rate is fixed at financial year-end based on the % of eligible assets at that date;
- The reduced subscription tax rate is applicable for the next 4 quarters after communication to Tax Authority;
- The reduced rate has to be applied to the % of eligible assets calculated at the end of the quarter;
- The % of eligible assets have to be disclosed in the annual accounts or in a specific report;
- Réviseur d'entreprises agréé have to provide at least reasonable assurance on the % of eligible assets and issue a certificate to the Luxembourg tax authorities including the % of eligible assets.



Subscription tax: 0.04%

Saving: 100k€ every 1bn€ invested in eligible assets

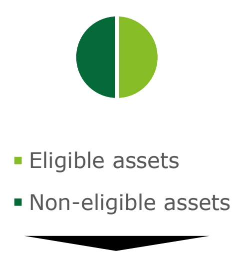


Subscription tax: 0.03%

Saving: 200k€ every 1bn€ invested in eligible assets

Subscription tax: 0.02%

Saving: 300k€ every 1bn€ invested in eligible assets



Subscription tax: 0.01%

Saving: 400k€ every 1bn€ invested in eligible assets

How the EU taxonomy defines environmentally sustainable activities

The EU Taxonomy is an EU-wide classification system or ‘framework’ to identify to what extent economic activities can be considered environmentally sustainable. Art.3 provides 4 requirements that need to be fulfilled.

1. Contribute substantially to at least one of the six environmental objectives as defined by the regulation

1. **Climate change mitigation**
2. **Climate change adaptation**
3. Sustainable use and protection of water and marine resources
4. Transition to a circular economy, waste prevention and recycling
5. Pollution prevention control
6. Protection of healthy ecosystem

2. Comply with quantitative or qualitative Technical Screening Criteria

The technical screening criteria are not available yet and they will be adopted in two phases:

The technical screening criteria for activities that substantially contribute to climate change mitigation or adaptation will be adopted by the end of June 2021 and enter into application by the end of 2021.

The criteria to determine contribution to the other four environmental objectives will be developed by the Platform on Sustainable Finance and adopted by the European Commission by end 2021 and enter into application by end 2022.

3. Do not significantly harm (so called DNSH) any of the other environmental objectives

An economic activity should not be qualified as environmentally sustainable if it causes adverse environmental impact on the other environmental objectives.

4. Comply with a number of minimum social and governance safeguards

The company should meet international social and governance standards such as:

- The OECD Guidelines for Multinational Enterprises
- The UN Guiding Principles on Business and Human Rights
- The International Labor Organization (ILO) declaration on fundamental Rights and Principles at work

Example of calculation of taxonomy-aligned assets calculation: the expectation is that only part of companies' activities will qualify and this will need to be considered in the calculation at fund level.

Company A	Company B	Company C
Screening company activities aligned with the taxonomy	Screening company activities aligned with the taxonomy	Screening company activities aligned with the taxonomy
12%	8%	15%
30% weight	**50% weight**	**20% weight**

Fund taxonomy-aligned assets 10,6%

Q&A

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