association of the luxembourg fund industry

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FATCA COULD FUNDAMENTALLY CHANGE THE WAY FUNDS ARE DISTRIBUTED, ACCORDING TO ALFI

"FATCA could fundamentally change the way funds are distributed," says Charles Muller, Deputy Director General of ALFI, the Association of Luxembourg Funds Industry. "Implementation will be a long and costly process and it will be the European investor who pays the price as US investors are very rarely invested in European funds."

The Foreign Account Tax Compliance Act, or FATCA, was enacted in March 2010 by the US government to combat tax evasion by US taxpayers.

Key facts on FATCA:

- FATCA is due to be implemented on 1 January 2013;
- It affects funds invested in the U.S. market including, but not limited to, funds of funds, exchange-traded funds, hedge funds, private equity and venture capital funds, other managed funds, commodity pools, and other investment vehicles;
- Foreign Financial Institutions (including investment funds, fund management companies and banks) will have to report investors who are taxable in the US to the US tax authorities or suffer a 30% withholding tax on interest, dividends and even gross proceeds;
- Complying with FATCA might potentially mean reorganizing the distribution system, creating a new flow of information that, some say, will cost up to $40 per investor;
- Implementing FATCA could potentially mean that hundreds of thousands of Foreign Financial Institutions will have to sign agreements with the IRS.

ALFI and EFAMA have been looking at this issue since it was announced and have recently met with Treasury to try and make the timeline of events more realistic. ALFI firmly believes that FATCA will be a huge project for both sides – for fund managers outside the US, and the US officials themselves - to undertake, and more time is needed to prepare for this.

Charles Muller, Deputy Director General at ALFI states: "Our aim is not to stop FATCA - in any case, the law has been voted in - but to find ways to accommodate the law, to help the US achieve their goal of catching tax evaders, while at the same time finding ways to lighten the administrative burden that is put on us, and the subsequent cost burden that will be put on investors."

Charles Muller concludes: "Whatever happens evading FATCA is not an option for the European fund industry – or elsewhere in the world - firstly because the law has been passed, and secondly because the net has been cast so wide that it is hard to escape. Unless you never want to invest in the US again."

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Notes to editors:

The Association of the Luxembourg Fund Industry (ALFI) is the representative body of the Luxembourg investment fund community. Created in 1988, the Association today represents over one thousand Luxembourg domiciled investment funds, asset management companies and a wide range of service providers such as depositary banks, fund administrators, transfer agents, distributors, legal firms, consultants, tax experts, auditors and accountants, specialist IT providers and communication companies. The Luxembourg Fund industry is the largest fund domicile in Europe and a worldwide leader in cross-border distribution of funds. Luxembourg-domiciled investment structures are distributed on a global basis in more than 50 countries with a particular focus on Europe, Asia, Latin America and the Middle East. For further information, do not hesitate to consult our website at www.alfi.lu