



Exchange Traded Funds (ETFs)

Key Developments for
Luxembourg's ETF market



Luxembourg

Luxembourg is Europe's largest fund domicile and the leader in global cross-border fund distribution, with Luxembourg-domiciled funds reaching over 80 countries. The country offers a diverse range of investment vehicles, supported by a robust ecosystem of asset servicers, the Luxembourg Stock Exchange, and specialist advisers.



ETFs

ETFs are growing in popularity as an investment instrument, appealing to both institutional and retail investors for their flexibility, liquidity, and cost efficiency. Listed on stock exchanges, ETF shares or units can be traded like any other listed security. They offer lower costs, a broad diversification, combined with real-time prices and trading.

Initially designed as passive investments that track an index representing a specific stock market or sector, ETFs have evolved. In recent years, actively managed ETFs aiming to outperform benchmarks using research and strategies have gained traction.

Luxembourg is the second-largest centre for ETFs in Europe with some EUR 358 billion AuM*.

*Source: CSSF/EFAMA, Q2 2024



ETF advantages

Diversification

By buying an ETF, an investor can access a large variety of markets, sectors, regions, asset classes and investment styles.

Liquidity

ETFs trade on exchanges like securities, allowing investors to buy and sell them throughout the trading day, which ensures liquidity and flexibility.

Transparency

Through their listing on stock exchanges and the continuous tradability, ETFs offer an efficient and transparent pricing and an easy monitoring of their daily performance.

Lower costs

ETFs that track indices typically have low total expense ratios.



Luxembourg's unmatched expertise in cross-border fund distribution has made it a leading destination for internationally distributed ETFs.

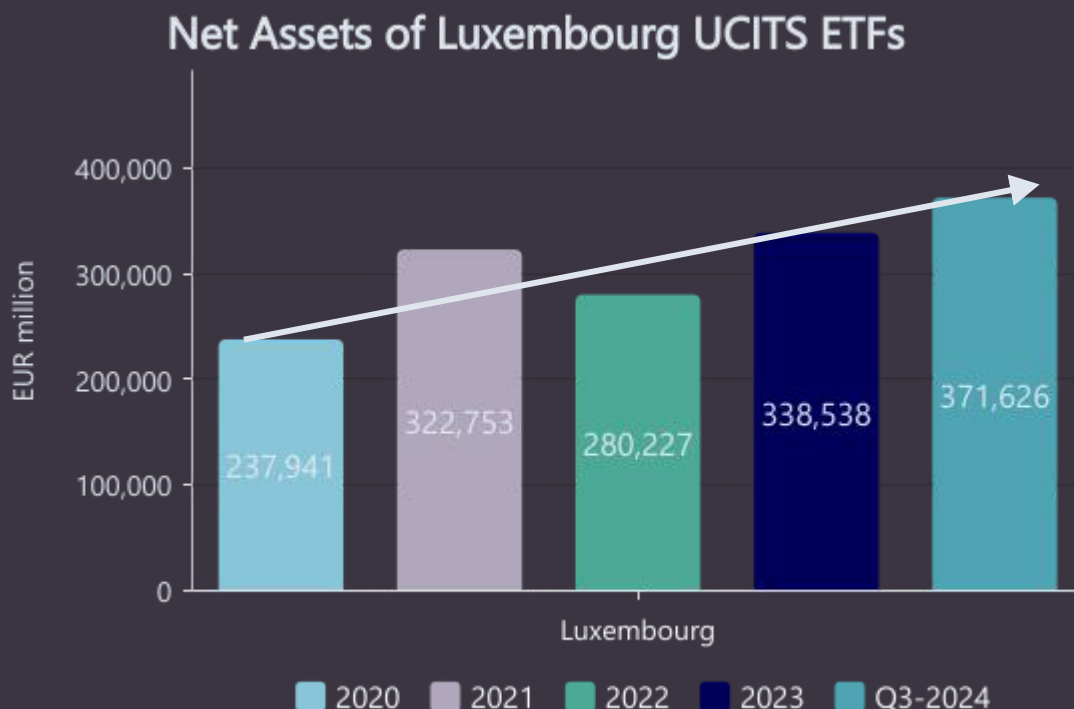


ETF Market

In Europe, most ETFs are established as UCITS, benefiting from a robust regulatory framework. Over the past five years, the ETF market has grown significantly, with net assets rising from nearly EUR 970 billion in 2020 to EUR 1.45 trillion by the end of 2023. ETFs also expanded their share of long-term UCITS net assets, increasing from 9.5% in 2020 to 13.7% by the end of 2023.

Assets in active ETFs have increased in recent years, climbing from just EUR 179 billion globally at the end of 2020 to an impressive EUR 511 billion by the end of 2023*.

*Source: [JP Morgan Asset Management](#)



Active ETFs

Unlocking opportunities

In today's dynamic financial landscape, investors are increasingly turning to innovative tools to achieve their objectives. This growing interest in ETFs has fueled a wave of innovation, driving the development of new products and strategies to meet evolving investor demand.

One such innovation is the rise of active ETFs and the introduction of active ETF share classes. These dynamic vehicles combine the best of two worlds: the agility and expertise of active management with the efficiency and flexibility of the ETF structure, empowering investors to pursue alpha, mitigate risks, and navigate market fluctuations.

Portfolio managers strategically manage active ETFs to outperform a benchmark or achieve specific objectives.

The rise of active ETF share classes

By adding active ETF share classes into tested active strategies, asset managers can diversify their distribution channels and expand their global market reach, while investors benefit from access to the same strategies with the added flexibility and cost-efficiency of the ETF wrapper.

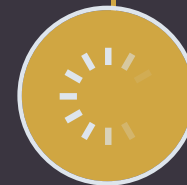
What is new



Subscription tax exemption



Less frequent portfolio transparency



Shorter approval process

**Active ETFs:
a natural fit for
Luxembourg's
expertise**

With its forward-thinking regulatory framework and a robust financial ecosystem, Luxembourg offers an ideal setting for launching and managing active ETFs, including active ETF share classes within existing fund structures.

Luxembourg, your international ETF hub

Competitive edge

Market leader

Luxembourg stands as Europe's leading investment fund centre and the global leader in cross-border fund distribution. It is also the second-largest European domicile for ETFs, with assets under management growing more than 50% since 2020. Luxembourg maintains an AAA credit rating with a stable outlook, underscoring its robust economic fundamentals and financial stability.

Luxembourg UCITS and AIFs, a global brand

Over the past 30 years, Luxembourg has developed unmatched expertise in establishing, administering, and distributing UCITS funds. Following the implementation of AIFMD 2.0 and ELTIF 2.0, the country has also accelerated the growth of its alternative investment fund sector.

As a pioneer in ETFs, Luxembourg has been a key hub since the launch of its first ETF in 2001, boasting over 23 years of experience in managing and supporting these investment vehicles. Luxembourg is one of the first countries to launch active ETF share classes.



Luxembourg, your international ETF hub

Competitive edge

Expertise built on a robust ecosystem

ETF managers can tap into the expertise of a unique concentration of investment fund professionals specialising in all aspects of product development, administration, custody, reporting, and distribution. ETF managers can achieve economies of scale by outsourcing non-core activities to expert service providers, all authorised and supervised by the regulatory authorities.

Tailor-made legal framework

Luxembourg's modern legal and regulatory framework allows for the creation of all types of traditional and alternative funds, including all types of ETFs (passively/actively managed, physical/synthetic replication). The country has proven expertise in the launch of active ETF share classes in existing UCITS funds.



Luxembourg, your international ETF hub

Competitive edge

Two decades of ETF listings

Today, the Luxembourg Stock Exchange (LuxSE) embraces the diverse spectrum of ETFs, accommodating among others, thematic, active and passive, ESG, fixed income and smart beta strategies. Beyond its historical significance in ETF listings, the LuxSE excels in facilitating dual listings with major global financial centres. An added advantage lies in its role as a gateway for ETF distribution, extending beyond the European Union into the wider world. The LuxSE provides a stable regulatory environment, attracting issuers seeking international collaboration and expanded market presence.

Distribution and diversification

Luxembourg-based ETFs are the most diversified in terms of their investment range. Geographically, their key focus areas include Europe, the US, Germany, global markets, and emerging markets, with a notable share of assets directed toward the industrial and real estate sectors.



Luxembourg, distinctive strengths

Investment vehicles

- **Coexistence of ETF and non-ETF share classes in a UCITS compartment**

Luxembourg's regulatory framework enables the creation of an ETF share class within an existing UCITS compartment. This allows fund promoters to leverage an additional distribution channel within their existing fund structures, fostering efficient synergies across their product range.



Tax

- **Subscription tax**

On 11 December 2024, Luxembourg announced the removal of the subscription tax on active ETFs, effective from 2025. This change ensures that all ETFs—both active and passive—will benefit from a full subscription tax exemption.

- **Efficient tax regime**

ETFs which take the form of a SICAV are eligible for a large number of double taxation treaties entered into by Luxembourg and may thus benefit from reduced treaty rates. More than 55 Luxembourg double tax treaties currently apply to SICAVs.



Luxembourg, your international ETF hub

Distinctive strengths

Disclosures

- **Portfolio disclosure**

Portfolio managers can disclose their portfolio composition for active ETFs with a time lag. The information is required to be published at least monthly, with a maximum time lag of one month, subject to specific safeguards.

The new transparency regime represents a safe harbour for actively managed ETFs.

Efficient prospectus approval process

- **Efficient prospectus approval process**

A responsive regulator allows the submission of supplements.

The usage of a standard prospectus template simplifies the approval process

- **Fast approval process for new share classes**

An efficient process is in place to add new share classes already foreseen in the prospectus.



Luxembourg, your international ETF hub

Distinctive strengths

Investment cut-offs

It is possible to build on the established practice of applying different cut-off times for non-ETF and ETF share classes.



The Luxembourg ecosystem

- **Efficient supervision team**

Luxembourg's CSSF proposes an organisation based on a team of agents permanently assigned to a given asset manager, which simplifies the exchanges.

- **Pragmatic fund administration delegation rules**

A flexible regime allows UCI administrators to sub-delegate when relevant.

- **Market infrastructures**

Luxembourg is home to one of the largest ETF settlement infrastructures. Luxembourg-domiciled investment funds benefit from well established, safe and efficient links between the local administrators and the domestic and international Central Securities Depository (CSD and ICSD).



Conclusion

Luxembourg has a strong tradition of leadership in the investment fund industry. With the emergence of active ETFs and active ETF share classes, it continues to drive innovation, offering solutions that meet investor needs and regulatory demands.

For both investors and fund managers, Luxembourg is the ideal hub to unlock the potential of active ETFs. The future of investing is here—and Luxembourg is leading the way.

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