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Family Office: soon to be regulated in Luxembourg

A bill framing the profession is expected to be adopted shortly

By Clémentine Delzanno, featuring Diana Kneip-Diels, President of LFFO

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Prompted by the Luxembourg marketplace, a bill regulating the family-office profession should be adopted shortly. While the activity remains little known in France, the same cannot be said of Luxembourg: the Grand Duchy, and more particularly its Parliament, is currently examining a bill relating to this activity and gathering the opinions of the marketplace's economic actors.

In addition to being defined, the title of "family office" would be protected: under Article 2 of the bill, only the following could lay claim to it: lawyers, notaries, investment advisers, credit institutions, wealth managers, chartered accountants, financial-sector professionals approved as family offices or as corporate-domiciliation agents or as professionals providing company-formation or company-management services, and company auditors (both ordinary and approved). The bill also provides that persons carrying on the family-office activity would be subject to anti-money-laundering and counter-terrorist-financing obligations, as well as to professional secrecy and to transparency of remuneration.

Regulated for the first time

Luxembourg would be the first European country to adopt such legislation. The United States, the birthplace of the family-office concept, regulated it in 2010 with the Dodd-Frank Act. The Grand Duchy, with barely more than 500,000 inhabitants (43% of whom do not hold a Luxembourg passport), concentrates a very high percentage of foreign clients from neighbouring countries, Switzerland, the Middle East and Asia. "For very wealthy individuals, borders are not a limit. Moreover, Luxembourg is quite frequently chosen by large accounts, in complete transparency," notes Wilfried Meynet, a lawyer at the Marseille and Luxembourg bars with Delsol. For Pascal Rapallino, partner in the Tax department of Deloitte Luxembourg and head of the Private Wealth Management service, "Luxembourg has every advantage to be a high-quality onshore wealth-management centre: it is a European country, subject to European Union rules, safe in fiscal and economic terms, and equipped with the full range of high-value-added services at the fiscal, legal and operational level." Wilfried Meynet takes a similar view: "it is a small country, but its financial centre manages substantial funds. And its strength is to be a small marketplace whose legislation does not change every six months." Furthermore, "it is very important for the Luxembourg financial sector to regulate the family-officer profession, because it can be practised by anyone and it touches on a great many matters," observes Diana Kneip-Diels, president of the association Luxembourg for Family Office. Another advantage of the bill, according to Meynet, is that "since the lawyer is bound by professional secrecy, it is better for him to be dealing with a regulated professional."

Hoped-for advances

"The great families no longer entrust the whole management of their wealth to the banks, because they have lost confidence in them and are seeking durability with the family office," considers Diana Kneip-Diels. Moreover, "the family-office activity has developed considerably in recent years and, with the internationalisation of the markets, the economic crisis and sometimes a certain loss of confidence in the sector's historic players, demand is rising," notes Ruth Bültmann, partner in the Advisory & Consulting department and head of the German Business Community at Deloitte Luxembourg, a firm then preparing a study of the family-office market, to be unveiled on 7 May. Pascal Rapallino, for his part, predicts "a strong development of the profession in the coming months," as well as "a change in the relationships between wealthy families, banks and family offices." In anticipation, Deloitte Luxembourg created at the end of 2011 a cross-functional service dedicated to family officers, drawing on the multidisciplinary skills of its multilingual staff.

Textual shortcomings

The bill may delight Luxembourg's players, but it would not be entirely perfect. For Diana Kneip-Diels, "the definition of the family is not broad enough, and it limits it to ten generations. Yet in France, for example, some families are on their fourteenth generation." She also regrets that there are "only financial-sector actors. It is a pity that there are no natural persons and that it is not required to be an independent structure." But the bill is only in its early stages.

— Clémentine Delzanno, Droit & Patrimoine, No. 213, April 2012.

Luxembourg would be the first European country to give the family-office profession a legal framework.