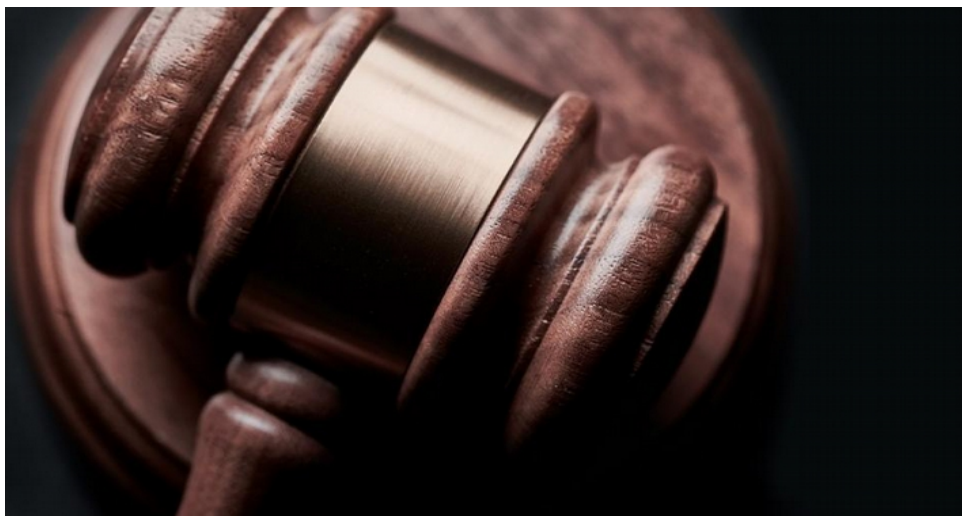


‘CSSF fails to enforce fund regulation’

Investment Officer - 19 April 2020



The CSSF is facilitating the defrauding of investors by failing to timely enforce regulation on funds, says David Mapley, director of the LFP 1 Equity Power Fund.

Mapley runs several Luxembourg-domiciled funds, known as LFP I, that were defrauded for millions of euros by their former investment directors between 2013 and 2019. Mapley says the CSSF could have prevented ‘a large part’ of the fraud if it had acted timely on the concerns about the LFP 1 Funds it voiced to its then-directors four year ago.

‘The CSSF sent a letter on 1 March 2016 [seen by Investment Officer] to notify the fund it was in violation of a circular about diversification that said a fund was not to invest more than 30% in one single investment instrument’, says Mapley. At the time, 80% of the fund’s assets had been invested in two 5-year loans. ‘The CSSF wrote correctly to LFP 1 and it’s then-directors that they were in breach of the circular, but they allowed the fund to carry on regardless. My question is why the CSSF did not take any further action?’

Liquidity mismatch

Mapley added the fund had a ‘liquidity mismatch’ as it promised monthly liquidity to its investors though it was invested in illiquid 5-year loans. ‘Investors should have had a lock-up period of 5 years. Regulators shouldn’t allow monthly liquidity for funds that have a large majority of investments in long-term loans.’

Mapley told Investment Officer earlier he believes the CSSF’s hesitation to take brisk action against funds flouting the rules is based on its concern for Luxembourg’s reputation as an investment centre.

It indeed took the CSSF three years to take concrete action, the regulator admitted in a press release last month. ‘On 3rd of July, 2019, the CSSF had to take the decision, in the public interest, to withdraw the [LFP 1] Fund from the official list of specialised investment funds as the Fund did no longer comply with applicable legal requirements,’ it said, adding it has now asked the Luxembourg State Prosecutor to liquidate the fund.

Mapley claims investors in the fund lost ‘millions of euros’ between 2016 and 2019, which could have been prevented if the CSSF had followed through on its concerns at the time. The CSSF declined to answer questions from Investment Officer about the delay in taking action against the LFP 1 Fund, citing ‘ongoing judicial proceedings’ as the reason.