

« Intelligence without ambition is a bird without wings.»

Salvador Dalí (1904 - 1989), Catalan painter, sculptor, engraver, screenwriter and writer of Spanish nationality.

► Geopolitics and financial markets: each has its own logic!

Charles BOK

Chief Executive Officer

Dear clients, friends and readers,

Swamped as we are with information at such dark and distressing times, it is very hard not to be aware of geopolitical events when they unfold around the world.

The closer such events are to us, the more we tend to feel concerned by them. This is nothing new.

It would be fair to say that the more acute the geopolitical risks, the more heightened the financial market jitters, and the resulting market doldrums.

In reality, the effects of geopolitical shocks on financial markets tend to be limited in magnitude and duration.

Whether in the case of the Afghanistan or Iraq war, the September 11 attacks or more recently the war in Gaza following the cruel attacks in Israel on 7 October 2023, the main stock markets had barely fallen before recovering within a few days.

Statistically, over a studied period of 60 years, the S&P 500 index (500 of the largest companies listed on stock exchanges in the United States) fell by an average of 6% in 14 days before rebounding by 7.4% in 23 days during geopolitical shocks.

The invasion of Ukraine on 24 February 2022, for its part, contributed to the sharp market corrections seen that year.

It was not the actual conflict itself that pushed the stock markets down, but rather the deterioration in economic parameters.

As one of Europe's top agricultural producers, Ukraine's grain prices soared. The limits placed on Russian oil and gas exports drove prices up

sharply. All of this led to much higher-than-expected inflation, forcing Western central banks to raise interest rates sharply, and sparking fears of an economic recession. All of the ingredients were in place for a market correction.

In 2023, the losses incurred the previous year were partially, if not fully, recovered, depending on the sector, thanks to a resilient economy.

Does this suggest that financial market participants are insensitive to the world's woes? Of course not!

One can be affected or even shocked by tragic events while also being able to weigh other parameters. Not out of cynicism, but rather a sense of realism. A misfortune affecting a certain group of people does not necessarily have an impact on the economy. Share valuations can be estimated, remember, based on the present value of future income. So, if corporate profits are not threatened, it makes sense that stock prices will not be fundamentally influenced by such geopolitical shocks, however sad they may be.

In conclusion, a longer-term perspective and taking care not to panic when such, more often than not transitory, tensions arise, however intense, is a wise and effective approach.

Deep down, you already know this!

In this edition:

Economy - Markets -

Strategy: trends | 2

Asset allocation | 2

The lawyer's corner | 3



Economy - Markets - Strategy: trends

Fabien PLANCQ

Senior Wealth Manager

Charles BOK

Chief Executive Officer

At the beginning of the year, expectations were high that central banks would cut interest rates in 2024. However, February saw investors begin to revise down their interest rate expectations after various interventions by central bank governors in Europe and the US to temper market optimism.

Despite disappointment at this deferral – rate cuts were initially expected to start in the first quarter of 2024 – and a still tense geopolitical environment, stock markets maintained the momentum seen in the last quarter of 2023. This was helped in particular by the publication of generally good and reassuring corporate earnings on both sides of the Atlantic.

The most impressive share price gains were among companies that are best positioned to benefit from the development of artificial intelligence.

The past quarter, therefore, saw the two main central banks flout investor hopes by deciding not to cut rates. In Europe, the European Central Bank (ECB) deposit facility rate remained unchanged at 4%, its highest level since the creation of the euro. Although inflation fell further (2.6% in February), it is still too high in relation to the ECB's target rate of 2%, partly due to strong wage growth. Nonetheless, ECB President Christine Lagarde suggested in March that inflation does not necessarily have to fall back to 2% for rates to be lowered.

In the US, Federal Reserve (Fed) Chairman Jerome Powell said in March that the Fed still plans to cut rates by three-quarters of a percentage point this year despite more modest expectations of a fall in inflation. The overnight bank funding rate therefore remained unchanged at 5.5% (a 23-year high).

Many analysts expect rate cuts to start in June, but nothing is certain. The European economy shows a marked slowdown, which is expected to slow inflation. The US economy, for its part, remains robust. Inflation levels will undoubtedly continue to be closely monitored by the decision-makers of the main central banks. Logically, the ECB should be the first to act given the weak state of the European economy.

In commodities, gold reached an all-time high during the first quarter of 2024 (+8,1% since 1 January). There are several reasons for this renewed interest in gold: anticipation of a fall in bond yields (a fall in yields would benefit gold, which does not earn interest), fears of a market correction after the strong rally in recent months, geopolitical tensions (safe-haven effect) and central bank purchases of bullion in record quantities. Oil rebounded sharply during the last quarter (+16,1%). On the currency side, the dollar rose by 2,3%.

Recommended asset allocation for a MEDIUM risk investor in EUR

Asset allocation		Currency exposure	
Total individual equities and equity funds (including real estate)	46%	EUR	85%
European equities	22%	USD	12%
US equities	21%	Other	3%
Emerging market and Japanese equities	3%		
Bonds and bond funds	40%		
AIFs	4%		
Miscellaneous (gold and other commodities)	4%		
Cash and money market funds	6%		
	100 %		100 %

Guidelines for our in-house policy. For many reasons, differences, sometimes substantial, may exist between different portfolios.
Drafting closed on 02/04/2024



What is the impact of the expiry of the fourth version of the “Déclaration Libératoire Unique” (“DLU quater”) since 1 January 2024?

Gérard van den Berg and Francois Malherbe

Lawyers

van den Berg & Partners

1. Situation until 31 December 2023

A law that came into force on 21 July 2016⁽¹⁾ governed an adjustment system known as the “DLU quater” applicable from that date through the tax adjustment contact service (“Point de contact-régularisations”) of the Finance Ministry’s Advance Tax Rulings Department (Service des Décisions Anticipées en Matière Fiscale).

Like previous tax adjustment laws, this one made it possible to declare various income sources (moveable or immovable assets, professional income sources, etc.) that had previously not been declared, subject to the payment of a fine in the form of an increase in the applicable tax rate.

What was new about this law, however, was the introduction of a flat-rate levy of 40% on “capital taxable within a defined period”, defined by law as capital “in respect of which the tax authorities can no longer take action in respect of a declaration-adjustment of collection introduced after expiry of the limitation periods⁽²⁾. Despite the limitation period, the SDA was required to demand payment of a 40% levy if the declaring party could not demonstrate the lawful origin of their funds by means of written evidence. As this proof is very difficult to obtain, particularly for very old capital that can go back several generations, many cases were subject to this significant levy.

The main change brought about by the DLU quater therefore was to introduce a real presumption of illegality of the declaring party’s capital, for which the latter had to prove that they had not established or obtained it in the context of tax fraud, even going back a long time. Failing this, a 40% levy was required in order to benefit from criminal immunity for (presumed) offences for tax purposes.

2. Since 31 December 2023

As had been planned from the outset, the DLU quater definitively expired on 31 December 2023. Only cases submitted before this date continue to be processed at the

SDA. While there have been rumours of the introduction of a new permanent administrative procedure within the tax administration itself, or of an increased role for the Special Tax Inspectorate, nothing has been officially confirmed to date.

There is little doubt, however, that there are many taxpayers who are and will have to continue putting their affairs in order under the tax and criminal laws of our country.

In the first case, some taxpayers may not have properly declared certain income in recent years. For example, income from movable or immovable assets received in a foreign account. What should they do? At the moment, the most feasible thing would be to start by writing to their local tax controller and communicating their undeclared income. In principle, the administration should respond by taxing the reported income and adding a tax increase, more than likely of 50%⁽³⁾. However, it is possible that certain tax controllers will not respond out of a view that it is not their responsibility to allow taxpayers automatically resolve their tax issues. Only taxpayers who undergo a standard control would be able to resolve their tax issues through this route.

Then there is the criminal aspect, which may also affect many taxpayers who have been correctly declaring all their income for many years but who are unable to demonstrate the lawful origin of their wealth. This is undoubtedly a more complex issue and requires real case-by-case analysis. Indeed, under criminal laws, the general principle of the presumption of innocence prevails. The offence of money laundering may still apply to a person whose assets are very old, for technical reasons that we will not enter into here. However, it would still be necessary to figure out in practice how any prosecution would be structured from the perspective of fundamental principles such as the presumption of innocence or the presumption of legal certainty. In other words, it is not really conceivable in a State of law to consider prosecuting all those who are unable to demonstrate that no tax evasion has ever taken place at their initiative (or that of their ancestors). That would, in

1- Law aimed at establishing a permanent tax and social security adjustment system, published on 29 July 2016 and entered into force on 1 August 2016.

2- The previous adjustment law, known as the DLU “ter”, had already introduced the idea of a tax on capital taxable within a defined period. However, it was widely perceived as optional because it only targeted serious fraud, to which most of the cases submitted did not correspond. To the extent that the Advance Tax Rulings Department did not require this payment if the declaring party did not request it, it was disregarded in many cases, particularly in the French-speaking part of the country.

3- If the taxpayer can demonstrate a complete absence of bad faith, it may be possible to limit the increase to 10%.





fact, represent an unacceptable reversal of the burden of proof in criminal matters, in flagrant contradiction with the presumption of innocence to which all litigants are entitled.

From a practical perspective, it should be made clear that taxpayers who have funds abroad and wish to repatriate them to a Belgian bank must be prepared to answer many questions. Since 2016, it has been common for these questions to lead the taxpayer concerned swiftly to the SDA and the introduction of a DLU quater process. This was the safest way for the bank to be certain of avoiding possible prosecution for complicity in money laundering. As this route no longer exists, the Belgian bank will naturally no longer be able to refer to it. But there is no reason to believe this will make the acceptance of funds any easier. Even if it were the case, there is the matter that Belgian banks will continue to communicate ever more information to the Financial Information Processing Unit ("CTIF"). At the slightest suspicion of tax fraud, however old, the bank will communicate information it deems relevant to the CTIF, while potentially accepting the funds in certain cases. The CTIF, which acts like a filter, has been flooded with this type of information for several years and only sends a tiny part of it to the Public Prosecutor's Office. Of the information that reaches the Public Prosecutor, an even smaller proportion goes to judicial investigation stage and then on to real criminal investigation. For various reasons, including a lack of resources and the general state of the Belgian justice system, there is currently no indication that such proceedings on the basis of vague suspicions communicated by Belgian banks, often based on very old facts, will increase.

It remains to be seen, finally, what spontaneous action people can take when they believe they may be outside the law. It is of course legal, as with any offence, to confess their situation to the police. With a good lawyer, it is also possible to obtain an appointment directly with a prosecutor. The idea in this case would be to negotiate a criminal settlement to prevent potential prosecution in exchange for the payment of a sum of money. However, it should be borne

in mind that there is no framework as clear as that which prevailed under the DLU quater procedure. A prosecutor is under no obligation to propose a criminal settlement to the perpetrator of a tax offence or an act of money laundering. He or she may decide to prosecute the tax payer or to close the case entirely without further action⁽⁴⁾. Even if this is probably not the most likely outcome, insofar as criminal settlement is a means of bringing quick money into the state coffers⁽⁵⁾, a prosecutor can perfectly decide to make life hard for an alleged (financial) offender for years, even if they presented themselves spontaneously, or he or she can deem the case not of interest to them and close the door on it. Neither case will help the person who hoped to be able to quickly and officially settle their situation, and to allay their own fears and those of relevant third parties, starting of course with the banks.

3. Conclusion

Do we now live in a world where people who own assets must be able, at first request, to demonstrate their lawful origin, especially if they are wholly or partly located abroad? If so, how will this happen in practice, since there is no longer any administrative framework governing the collection of this evidence?

What remains certain, whether in an administrative or judicial context, is that we live in a State of law. Therefore, particularly in the case of criminal acts, litigants have fundamental guarantees aimed at protecting their rights. The challenge over the coming years will undoubtedly be to find a new balance between the fight against tax fraud (current and past) and respect for the fundamental principles that make Belgium a State of law.

4- It should be noted that a closure without further action is in no way an obstacle to future proceedings if the prosecutor concerned or another prosecutor decides one day to reopen the case.
5- When queried on the subject, the Minister of Finance forthrightly indicated in July 2023 that criminal settlement would be the preferred route when the DLU quater no longer exists.

Creterra Finance is an independent management company approved and monitored by the Luxembourg and Belgian authorities (Commission de Surveillance du Secteur Financier - Banque Nationale de Belgique). Do not hesitate to consult our website www.createrra-finance.com or to contact our staff for detailed information (portfolio management, choice of custodian bank, asset planning and structuring). If you have a request concerning the processing of your personal data, you will find the available forms on our website www.createrra-finance.com, tab « Data protection ».

Responsible publisher: Creterra Finance S.A. - Production: Drukkerij van Hoeilaart - No part of this publication may be copied and/or published without the express permission of the publisher. The information provided has been obtained from reliable sources and is based on thorough analysis. This information is provided without guarantee or obligation on the part of the publisher.

LUXEMBOURG
Rue d'Arlon 6 - 8399 Windhof
Telephone +352 45 16 36 1
www.createrra-finance.com

BELGIQUE
Rue du Tabellion 66 - 1050 Bruxelles
Telephone +32 2 346 26 76

For more information
creterra@creterra-finance.com



CREATERRA
FINANCE

A global vision of wealth management

Member of
IRIS Finance International Group