



Securitisation in Luxembourg

PwC Market Survey 2024

(in cooperation with LuxCMA)

pwc.lu



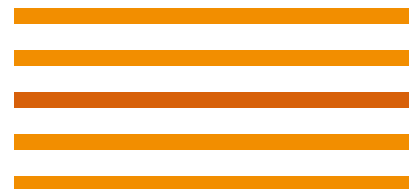
Dear Reader,

2024 is the year of birthdays in Luxembourg securitisation: the Luxembourg Securitisation Law celebrates its 20th anniversary, LuxCMA is now 5 years old and our PwC Market Survey is also published for the 5th time. Let's celebrate this together and have a look at how the Luxembourg market participants have assessed the Luxembourg securitisation market and what they project for its future.

We would like to thank once again those of you who have participated in the survey and shared with us their view of the Luxembourg securitisation market. We would also like to thank LuxCMA, in collaboration with whom we conducted the survey again.

As in prior years, we have contacted and received feedback from the main Luxembourg market participants, like corporate servicers, law firms, banks, originators and arrangers. Besides questions around the characteristics, asset types, the mean of finance and the investor base of the different securitisation vehicles, we were also keen to get the market's view on the major opportunities and challenges of the securitisation market.

We want to emphasise that this survey should neither be treated as a statistical report, nor should it be read as representative study on the Luxembourg securitisation market. It is meant to reflect the views and perceptions collected from the key Luxembourg market players with no guarantee to completeness or representativeness.

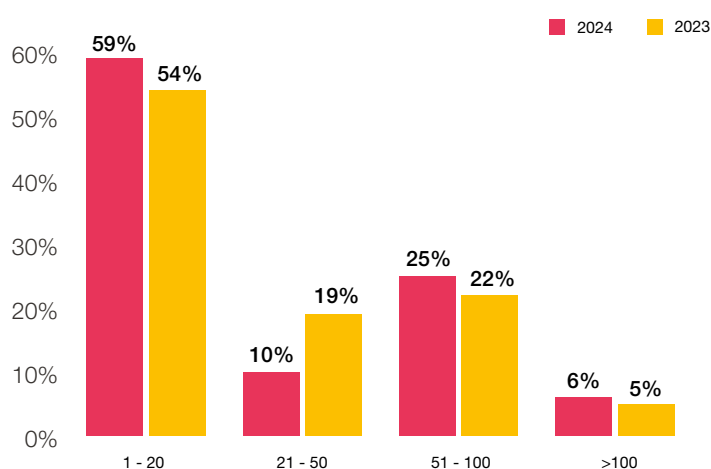


Securitisation vehicle characteristics

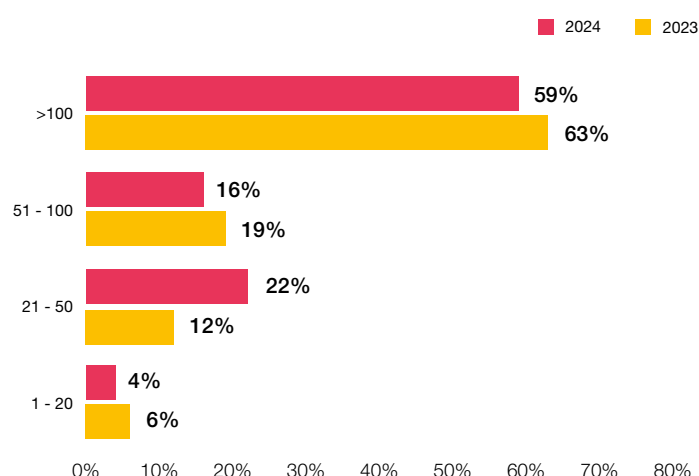
Our survey shows that, on the one hand, servicing or consulting securitisation vehicles is a job for specialists. Around one third of the respondents service or consult more than 50 vehicles. On the other hand, around 50% stated that they only have 1 to 20 vehicles in their client portfolios. Most likely, they observe securitisation vehicles in the context of other (fund) structures and securitisation completing the Luxembourg toolbox in their portfolios.

Almost 60% of the respondents state that the average transaction volume they observe is more than EUR 100 million. Transaction volumes of less than EUR 20 million are far less observed (4%), demonstrating that a minimum volume is required to make the use of a securitisation vehicle (cost) efficient.

How many securitisation vehicles (companies and funds) do you service per year?

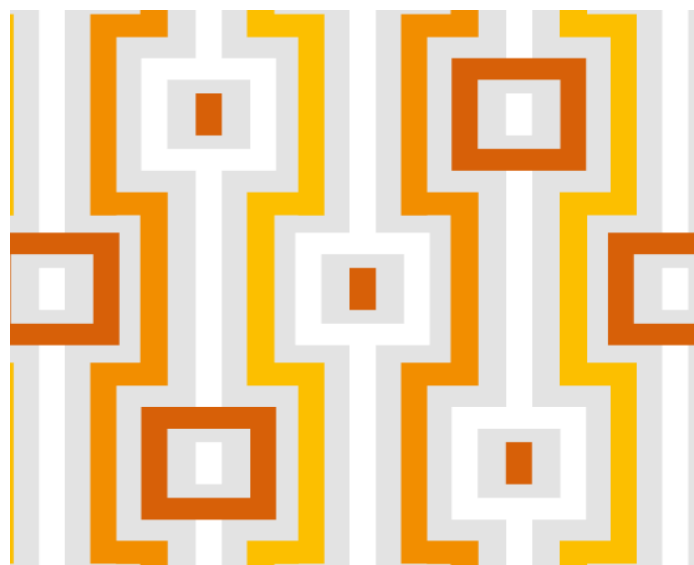
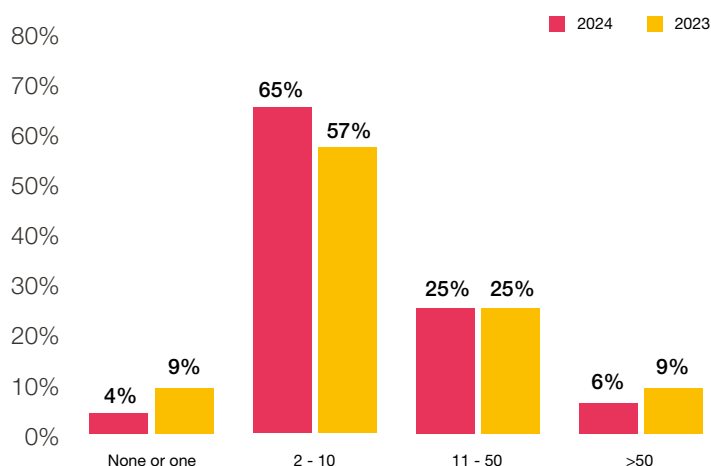


What is the average of total assets of "your" securitisation vehicles (in million EUR, sum of all compartments) ?



The survey once again confirmed that the possibility to create multiple compartments is widely used and assumingly the most outstanding feature of the Luxembourg Securitisation Law. Almost all vehicles have several compartments, with a vast majority of 2-10 compartments. And there are no limits: some vehicles even have more than 1,000 active compartments. Less than 5% have no (or one) compartment.

How many compartments do "your" vehicles have in average (estimation)?



Asset types and means of financing

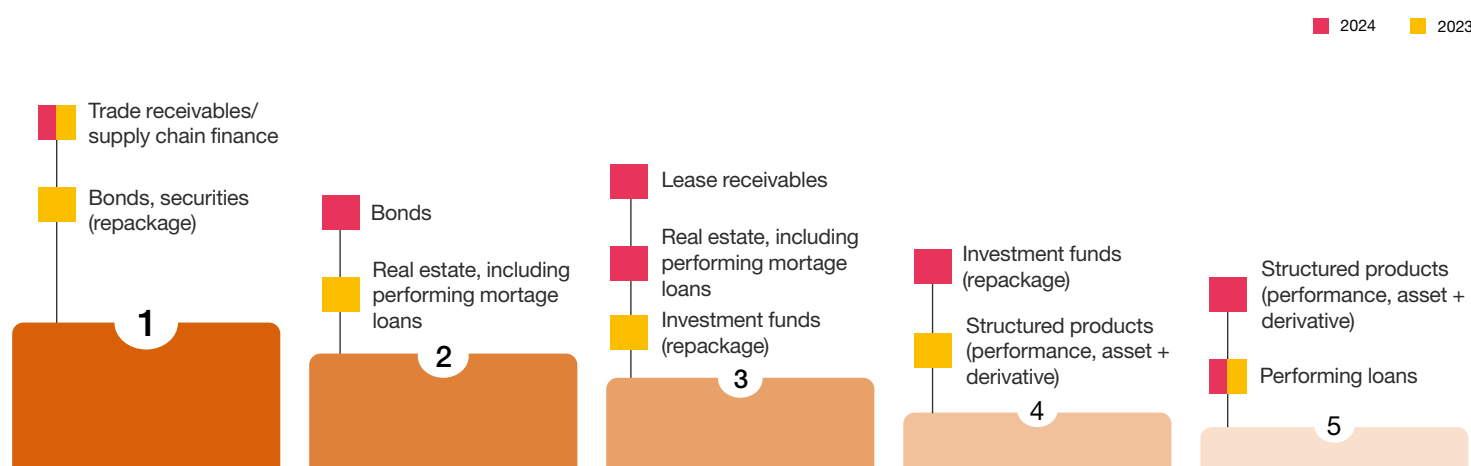
There were no surprises in relation to the asset classes which have been observed by our participants over the last twelve months and the answers remain stable compared to prior year. Trade receivables remain the most cited assets class, followed by bond and fund repacks as well as securitisation real estate products (incl. mortgage loans) mortgage loans and fund repacks. At around the same level, lease receivables securitisations were mentioned.

Structured products maintain their relative importance in the Luxembourg securitisation market while usually not qualifying as securitisation under the EU Securitisation Regulation 2017/2402.

A few years ago, the securitisation of crypto assets seemed to be the new hype. Now, they are almost not present in the Luxembourg market (or at least not in our respondents' portfolios).

CDO/CLO structures remain rare in Luxembourg, although the modernised Securitisation Law allows for active management of debt instrument portfolios. However, even though the major CDO/CLO market and corresponding infrastructure may currently not be in Luxembourg, the modernised law and the skillset of the market players show that Luxembourg is ready to host more CDOs/CLOs and only waiting for more CDO/CLO managers deciding to move their infrastructure to Luxembourg.

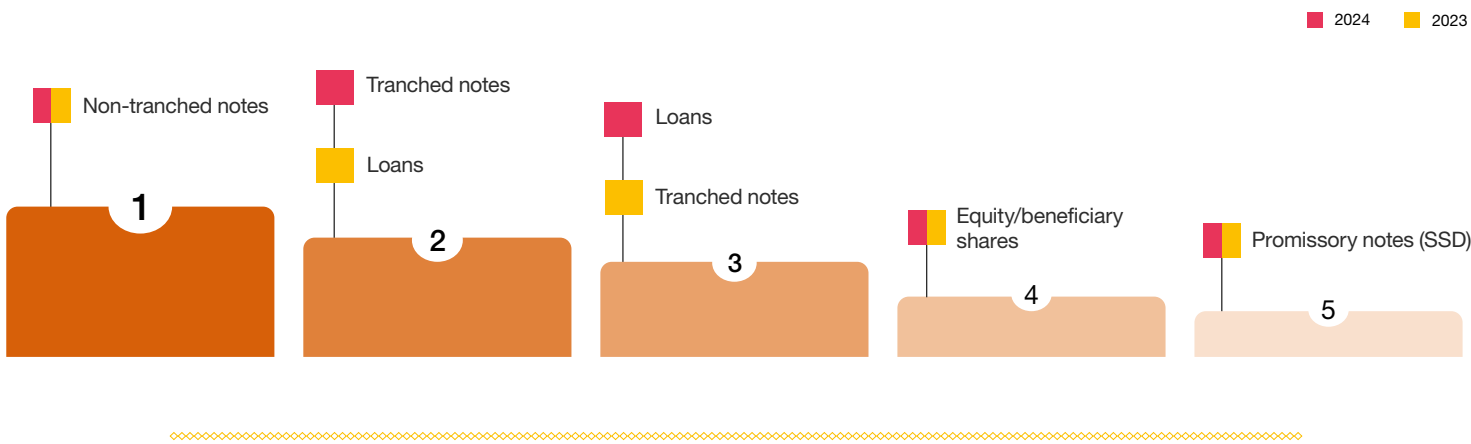
What are the Top 5 asset classes you observed in the last 12 months?



Asset types and means of financing

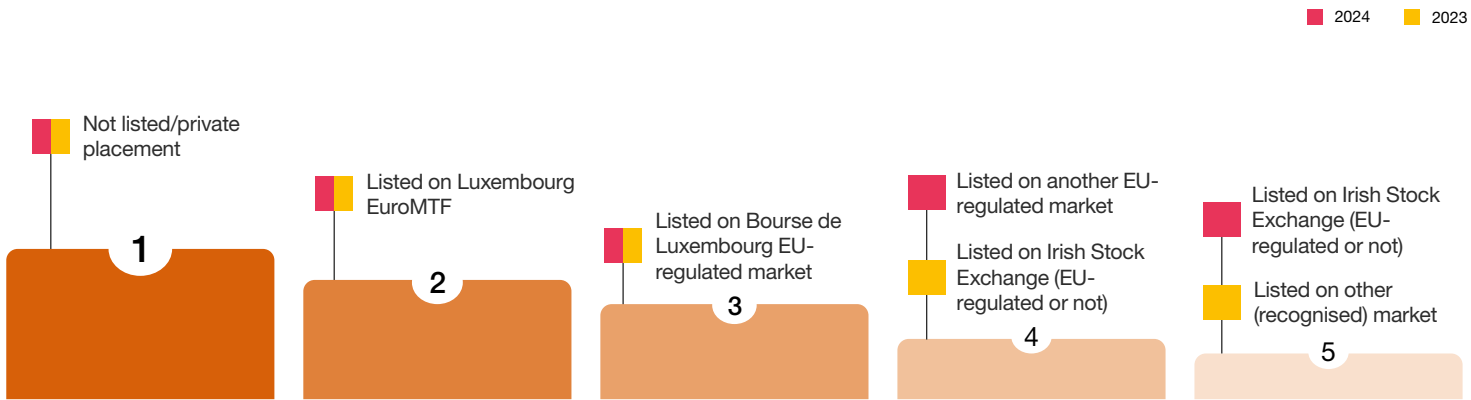
While the term “securitisation” is linked to credit risk and tranching in a European and global context, the Luxembourg securitisation definition and vehicles in the market also cater for non-tranched structured finance products. As in the past, most of the vehicles observed in Luxembourg are refinanced via the issuance of non-tranched notes, followed by tranched notes. Refinancing via loans, now more extensively possible under the Securitisation Law, is the third most named refinancing method, making the legal documentation less extensive and as such less expensive. Furthermore, the financing through equity securities remains a possibility and is used from time to time (as per ECB statistics in less than 5% of the Luxembourg securitisation transactions). The tokenisation of the securities issued is observed from time to time.

What are the Top 5 refinancing instruments you observe?



Most Luxembourg securitisations are private transactions, with no listing on a stock exchange. Those that are listed prefer to home market, using one of the markets of the Luxembourg Stock Exchange (BdL or EuroMTF). Other listing venues (EU-regulated or not) are mainly based in the EU or UK.

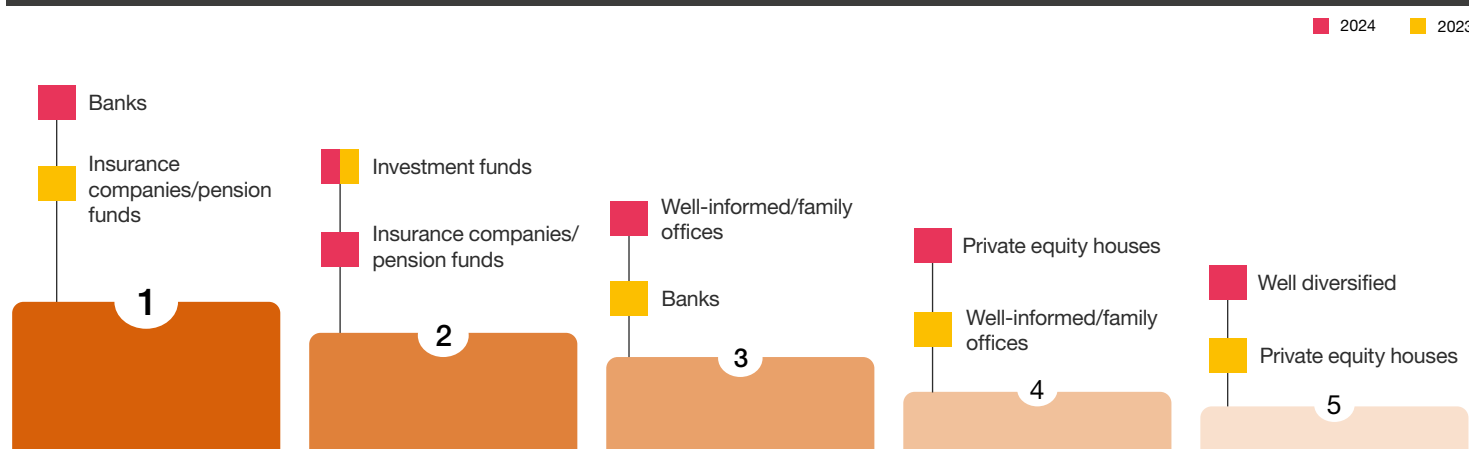
Are the securities issued listed, and where (Top 5)?



Investor base

It is often difficult to identify the investors in securitisation vehicles since they often enter through cleared bearer bonds. Based on the view of our market participants, banks, insurance companies/pension funds and investment funds remain the major investors. This is not a surprise as securitisation is a product for well informed and institutional investors. As such, family offices and PE houses are also using securitisation products as investment or structuring tool, yet not at the same level as the ones mentioned before. Contrary to the EU Securitisation Regulation, the Luxembourg Securitisation Law allows the subscription by retail investors. If more than three issuances per year to retail investors, this would entail supervision by the CSSF. In any case, only few vehicles with retail investors were observed.

What are the most common investor types you observe (Top 5)?



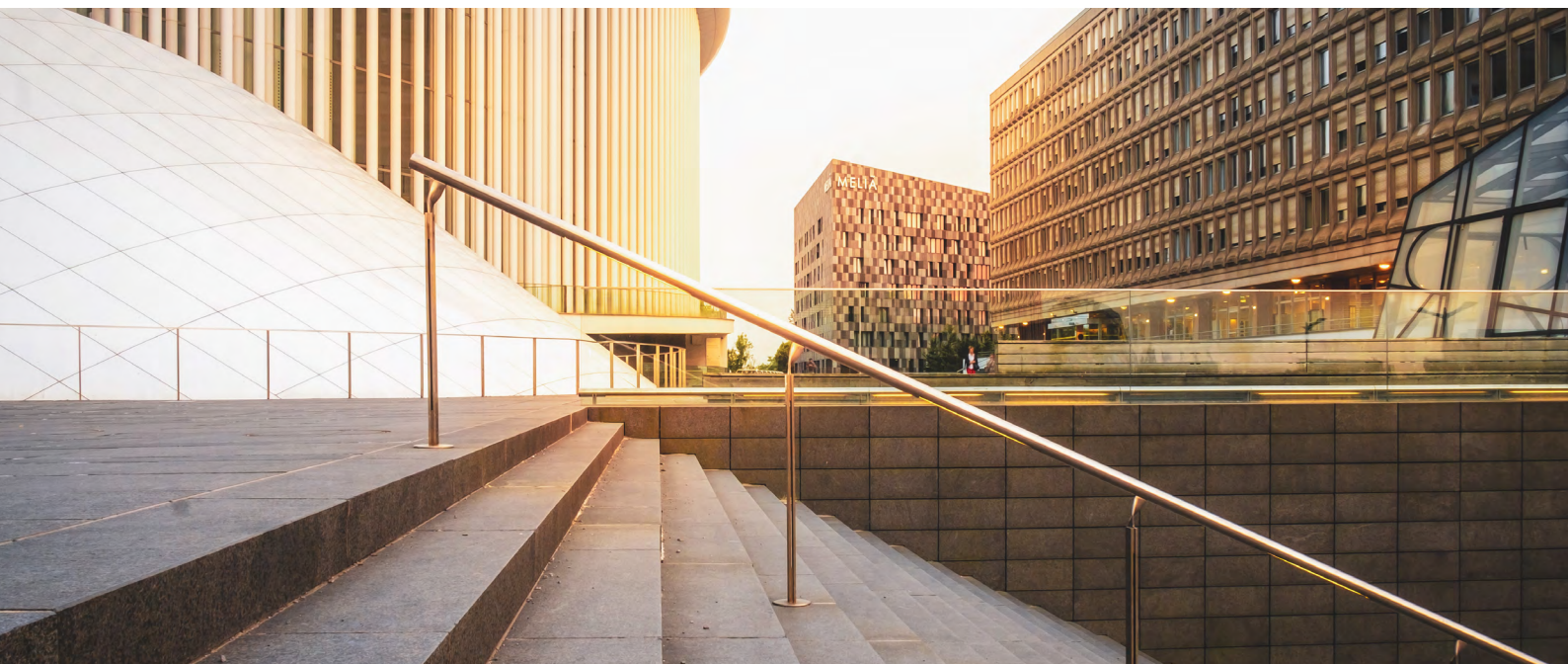
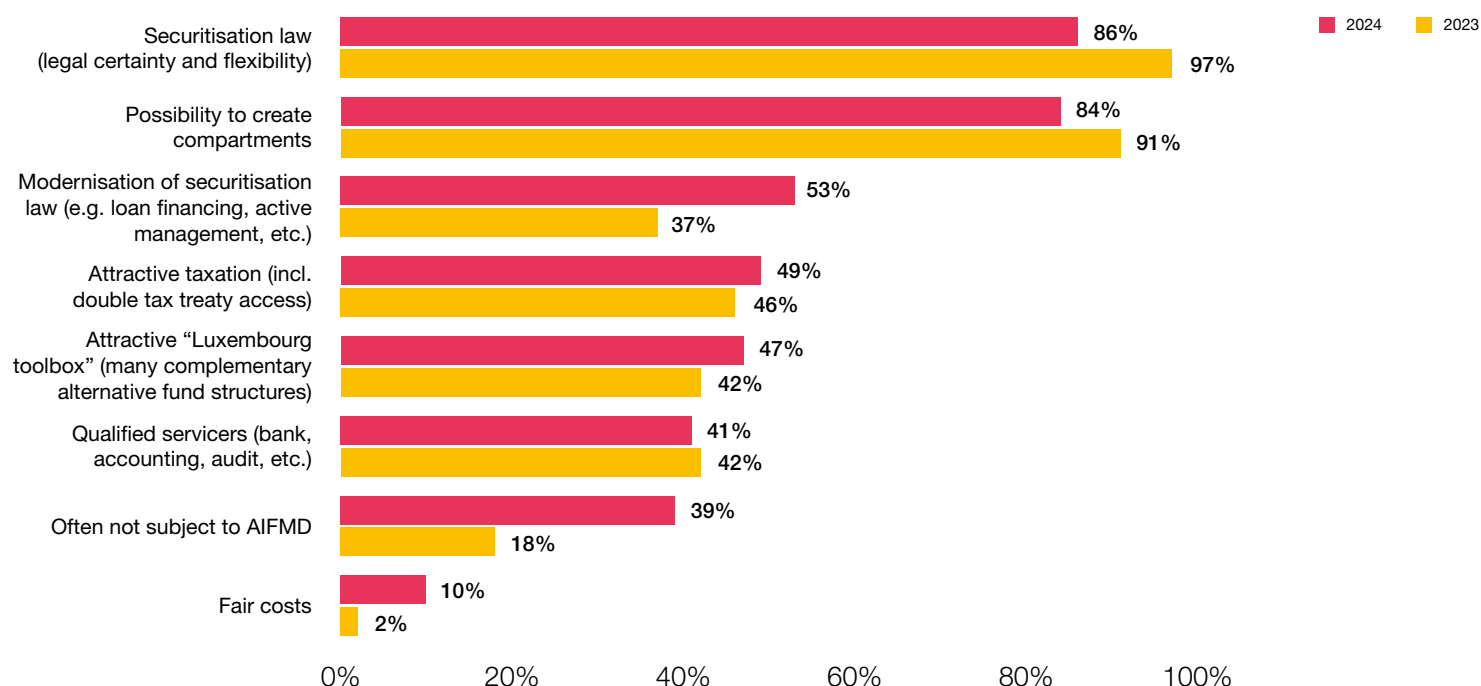
The number of securitisation vehicles subject to the EU Securitisation Regulation remains stable, with only a few (in average 1-10) EU Securitisation Special Purpose Entities ("SSPE") administered or consulted by our respondents. The question on the sub-group of simple, transparent and standardised ("STS") securitisation shows a similar picture. Nevertheless, our impression is that Luxembourg corporate service providers have widened their service offering in this respect during the past few years, now more and more offering and executing the Article 7 transparency reporting for their clients.



Luxembourg competitive advantage and challenges

Our respondents perceived the legal certainty and the possibility to create distinct and segregated compartments provided by the Luxembourg Securitisation Law as the key selling point for Luxembourg and one of its major competitive advantages. This is confirmed by the extensive use of multi-compartment vehicles. The modernisation of the Securitisation Law in 2022 is completing the top 3 in the answers from our respondents. The attractive taxation ranked 4 in the answer of the respondents (decreasing with one position compared with last year's survey) whereas it is at the same time seen as an obstacle (see below). Based on our experience, taxation is usually not the main driver to set up a securitisation vehicle in Luxembourg, but rather an element checked to ensure tax treatment is not being disadvantageous.

In your opinion, what attracts arrangers for setting up a securitisation vehicle in Luxembourg?

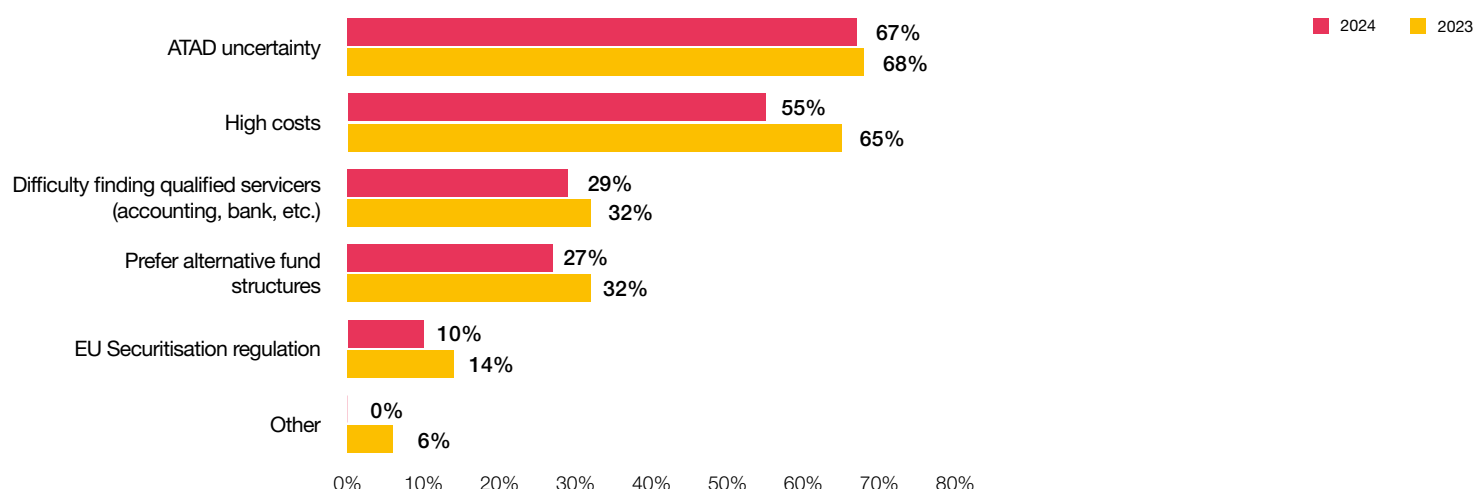


Luxembourg competitive advantage and challenges

We mentioned above that, even though not the main driver, taxation may be an obstacle to set-up a securitisation vehicle in Luxembourg if it turns out to be disadvantageous (or more disadvantageous or uncertain than in competing jurisdictions). Unfortunately, this year again our participants cited the uncertainty about the application of the interest limitation rules under ATAD 1 as the most obstructing factor. This remains an issue and a competitive disadvantage for Luxembourg. Unfortunately, despite some tax circular issued on this topic, some specific questions remain unclear and such uncertainty may have a negative impact on some structures. We remain optimistic that further clarification on these items by policy makers and the tax administration will be achieved soon.

High costs, difficulty in finding qualified service providers and the preference for an alternative (Luxembourg) structure follow as counterargument to create a securitisation vehicle in the view of our respondents. Over the last years, we could observe the cost factor becoming more and more prominent in the answers of our participants. In addition, respondents replied that finding qualified service providers (which explicitly includes financial institutions to open bank accounts) is still an issue. We also remain optimistic here that the (banking) market will respond to these concerns.

In your opinion, what obstructs arrangers from setting up a securitisation vehicle in Luxembourg?

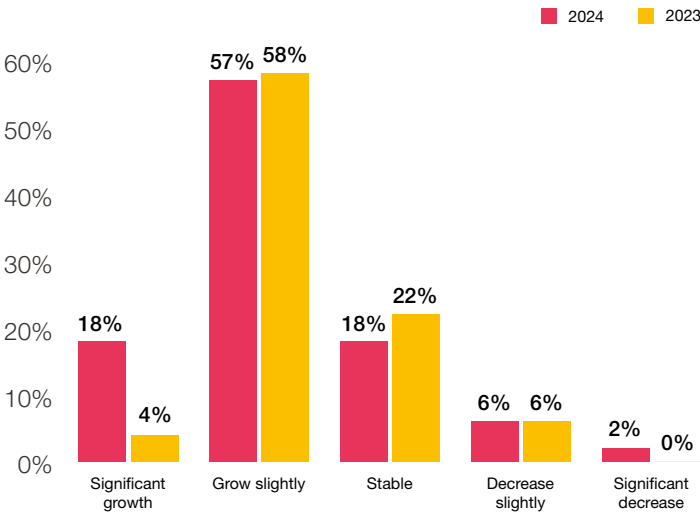


Outlook

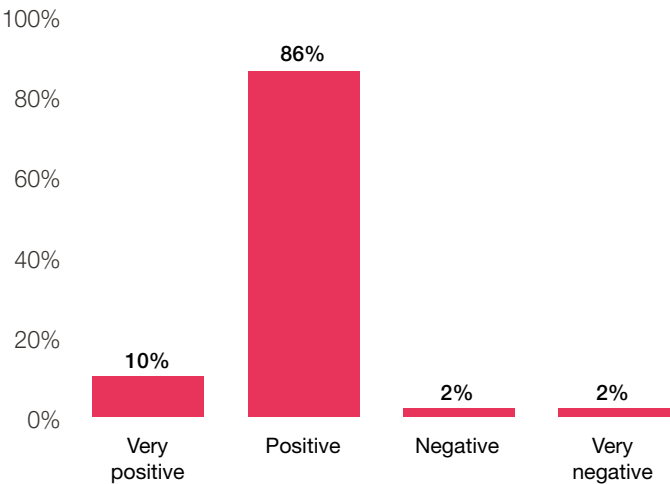
The general outlook for the Luxembourg securitisation market is seen positive. 58% of our participants expect a market growth within the next one to five years, whereas 18% of them expect even a significant growth. However, compared to last year the outlook is not as optimistic as it was one year ago (86% growth expectation) keeping the trend from previous year.

The main reasons for the expected positive market development are the modernisation of the Luxembourg Securitisation Law and the overall growth of the European securitisation market. The competition with other jurisdictions, the costs of setting up and maintaining securitisation structures in Luxembourg as well as the ATAD uncertainty are they key limiting factors for such growth.

How do you expect the Luxembourg securitisation market to develop over the next 1-5 years?



In your opinion, what is the impact of the recent change in government in Luxembourg on the Luxembourg securitisation market and why?



When it comes to political environment, we asked our respondents what their view is in regard to the recent changes in the Luxembourg government. Most of the respondents have a positive or very positive view regarding the recent change in the Luxembourg government which led to different parties in the coalition and new people on top of ministries and some administrations. The main reasons for that positive view were that people observed more flexibility demonstrated by the government in the discussions with market participants, higher legal certainty and a more business friendly approach.

Outlook

On the question which new feature within the modernisation of the Securitisation Law will enhance the attractiveness of the Luxembourg securitisation market most of our participants consider the enhanced refinancing options (now including full loan refinancing) as well as the additional legal forms (SCSp, SCS, SNC, SAS) as key contributors. Legal subordination for different types of securities introduced and the active management of vehicles with risks linked to debt instruments (CLOs/CDOs) ranked 3rd and 4th.

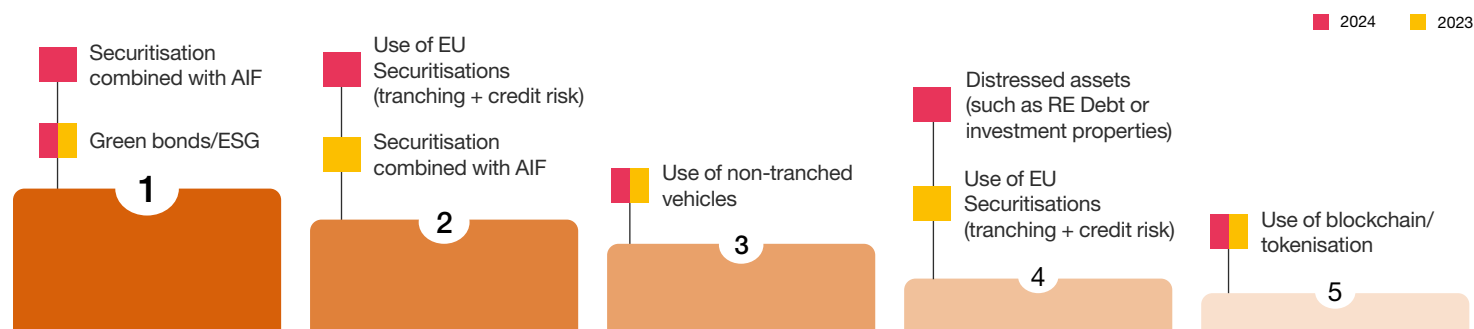
In your opinion, which new feature introduced within the modernisation of the Luxembourg Securitisation Law in 2022 will enhance the attractiveness of the Luxembourg securitisation market?

	Ranking 2024	Ranking 2023
Further refinancing options (e.g. loans or promissory notes)	1	1
Additional legal forms (SCSp, SCS, SNC, SAS)	2	3
The active management of vehicles with risks linked to debt instruments (CLOs/CDOs)	3	2
Legal subordination for different types of securities introduced	3	3
Security interests for all third parties	4	5
The clarification on the distribution of profits/losses of equity financed compartments	5	4
No impact	6	6

In terms of the market's view of the upcoming hot topics in securitisation for the next years we can see that sustainable or green securitisation are expected to impact the securitisation market in the future. Our participants also mentioned securitisation in combination with alternative investment funds as current and future trend. Maybe in the context of the current European and global economy, the securitisation of distressed debt was mentioned as another future trend. The use of blockchain and tokenisation in a securitisation structure, which is not that prominent for the time being, is expected to become more significant in the future too.

We have also inquired the respondents about the current macroeconomic effects and the potential (or existing) impact on securitisation in Luxembourg. The higher interest rate environment is seen to have the biggest impact, followed by the changes in market conditions for real estate investments. The general economic slowdown and the expected higher loan default rates (leading to more non-performing loans) are also expected to influence the securitisation market.

What are the main trends you observe in the market (multiple answers possible)?



Contacts

We would like to thank all participants to this survey for their valuable input and hope that you read the results with as much interest as we had when putting this publication together.

Your contacts at LuxCMA as well as the members of our PwC securitisation team remain available for you for any question around this survey or our securitisation services in general.

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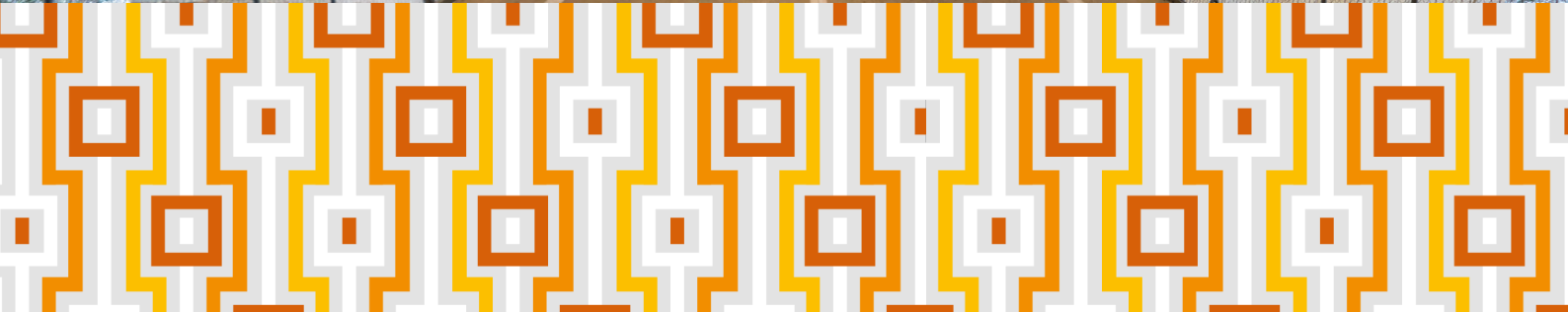
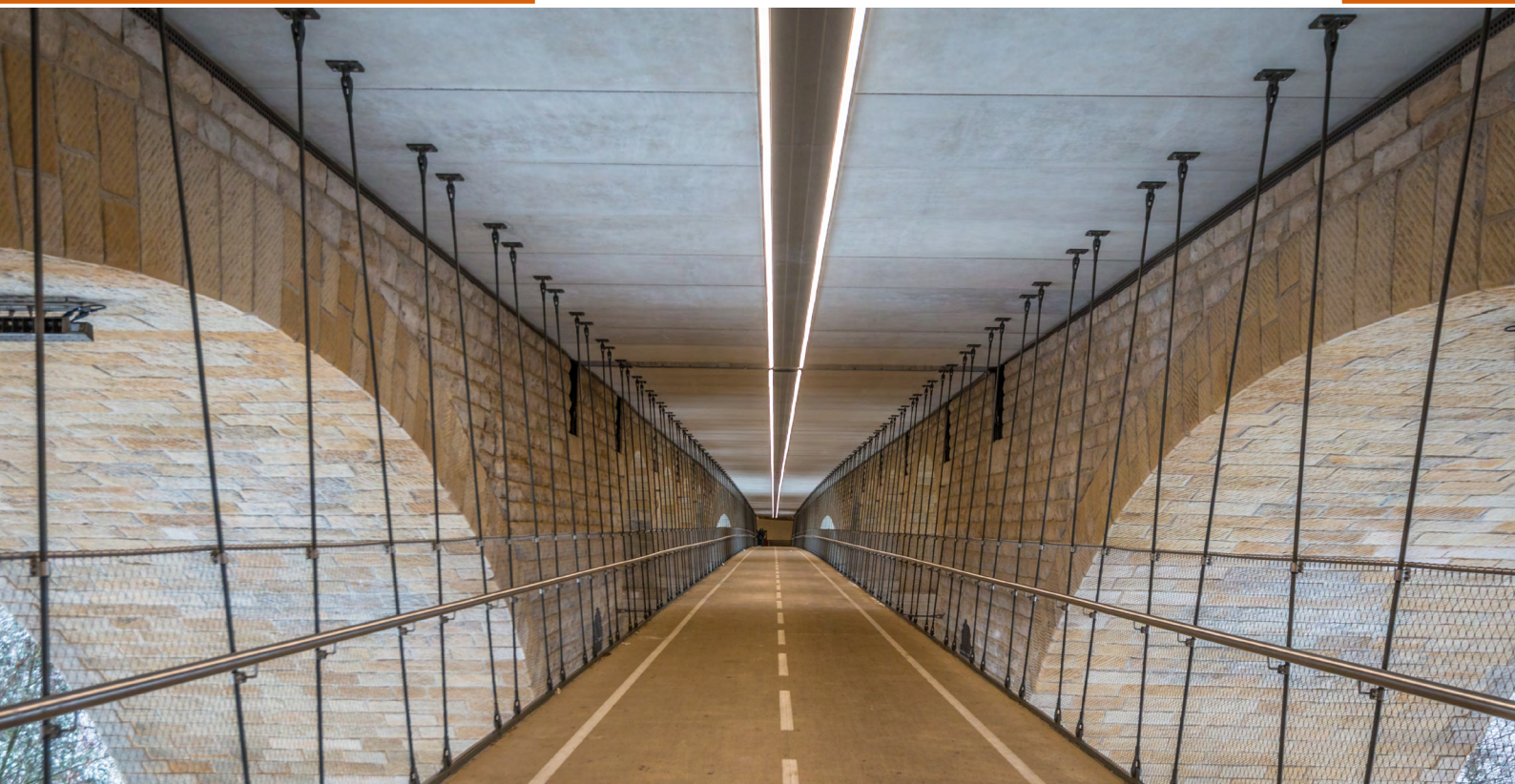


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