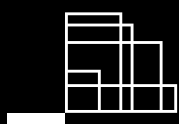


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A photograph of a modern, multi-story glass-fronted building with a large white sculpture in the foreground. The building has a grid-like facade of windows and is set against a cloudy sky. The sculpture consists of several tall, curved, white vertical elements. The foreground is a paved plaza with some black light poles.

Securitisation in Luxembourg

PwC Market Survey
2022



pwc



Dear reader,

We are proud to present to you once again the result of our survey on the Luxembourg securitisation market. We would like to thank those of you who have participated in the survey and shared with us their view of the Luxembourg securitisation market.

As in prior years, we have contacted and received feedback from the main Luxembourg market participants, like corporate servicers, law firms, banks and arrangers. About half of the respondents have an accounting and the other half a legal background. 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 challenges and opportunities 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 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.

By the end of April 2022, we have identified more than 1,400 active securitisation vehicles under the Luxembourg Securitisation Law of 22 March 2004 (the "Securitisation Law").

This is net more than hundred vehicles in addition to prior year. Most of them were again created in a corporate form (ca. 93%) securitisation funds remaining the minority but slightly increasing compared to prior year (ca. 7%). The servicing of these vehicles by Luxembourg corporate servicers remains very fragmented with the Top 10 administrative agents servicing approximately one third of the active vehicles. In a European context (Euro area) Luxembourg remains the leading market for securitisation transactions together with Ireland.

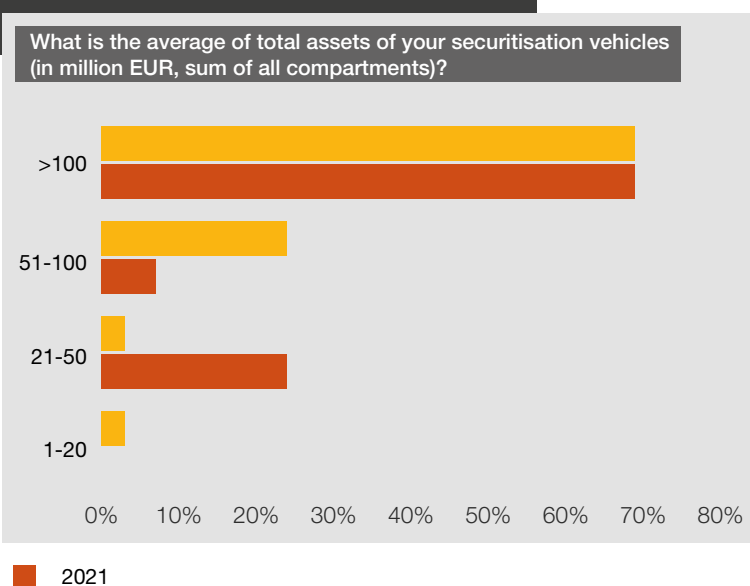
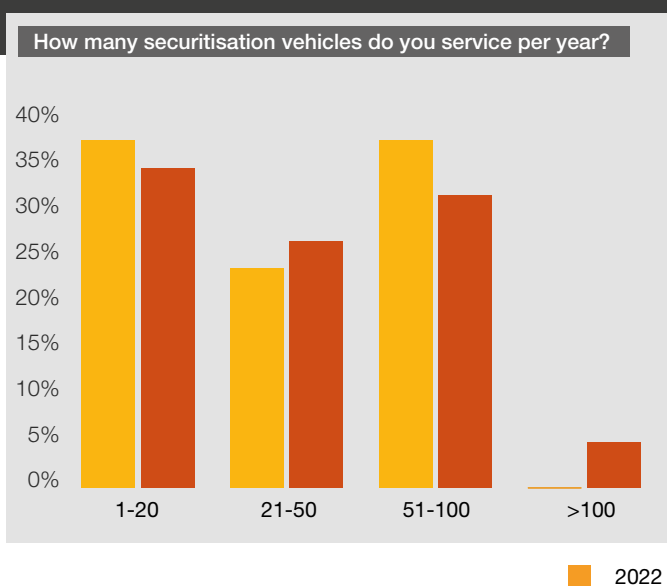
We are also excited to see the development of the Luxembourg securitisation market throughout 2022 with the modernisation of the Securitisation Law voted in February 2022. We have received positive views on the modernisation in our survey and expect this, among others, to help attracting CDO/CLO managers.

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.

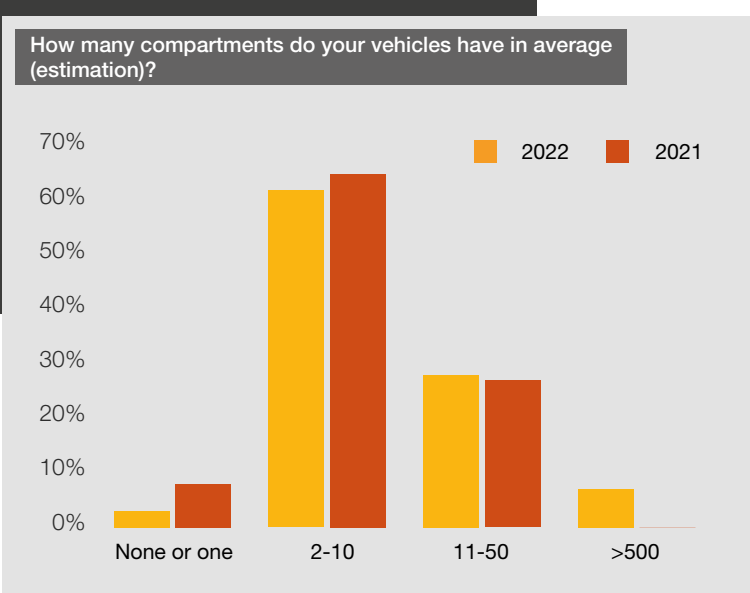
**Your PwC Luxembourg
Securitisation Team**

1 Securitisation vehicle characteristics

We asked again for the number of securitisation vehicles serviced by the respondents' organisation and the average transaction volume. The majority served at least 20 vehicles with an average volume of more than EUR 100 million. This shows that often a critical mass is needed, both for the transaction volume as well as the skills at the service provider.



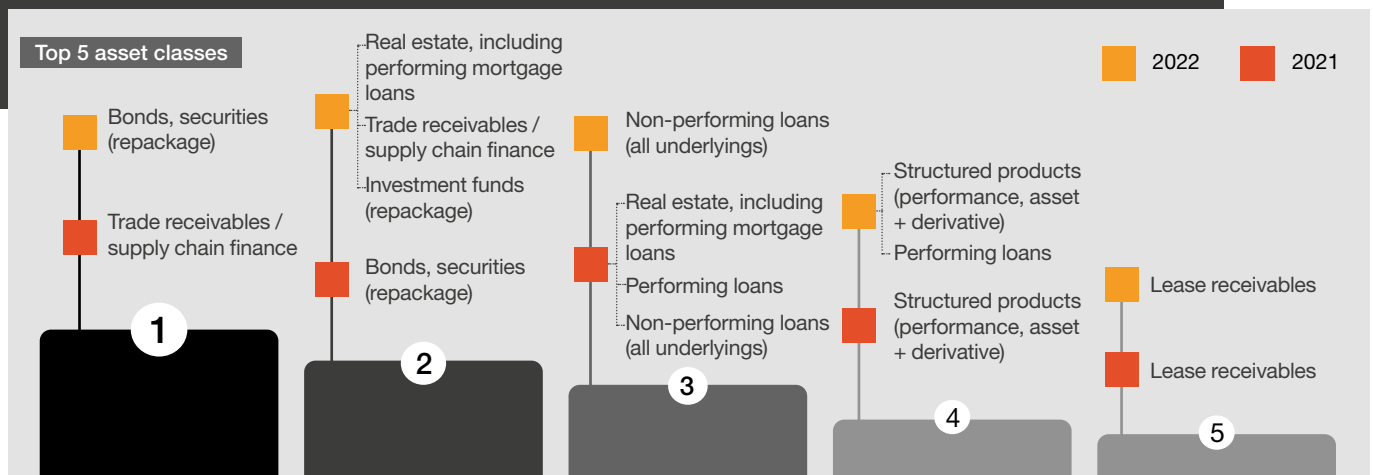
Our survey also confirmed that the possibility to create multiple compartments under the Securitisation Law is widely used. Almost all vehicles served have several compartments, with a majority of 2-10 compartments. Few vehicles even have 500 and more compartments. The possibility to create compartments is also seen as unique selling point for Luxembourg (see below).



2 Asset types and means of financing

We have also inquired which asset classes have been observed the most during the last twelve months. While in prior year's survey trade receivables and bond repacks were the most cited (followed by performing, non-performing and mortgage loans), respondents identified bond repacks as most prominent, followed by trade receivables, fund repacks and mortgage loans. Despite the COVID-19 pandemic, non-performing loan securitisations have not been observed more often than before.

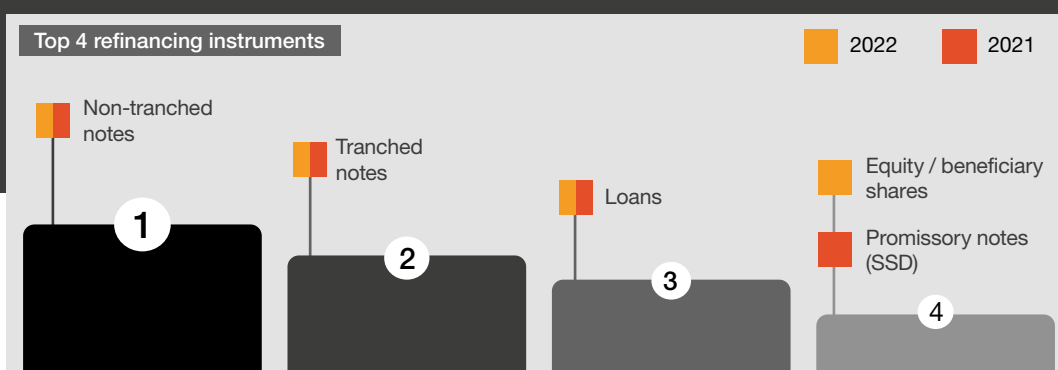
Structured products maintain their relative importance in the Luxembourg securitisation market. Securitisation of marketplace lending loans has been observed more often than the year before. Furthermore, we have added securitisation of crypto assets or currencies on the list and a few observations of that asset class were reported. For the future, we expect to also see more CDO/CLO structures: following the permission of active management for debt instruments in the modernised Securitisation Law, Luxembourg should now become more attractive for this asset class.



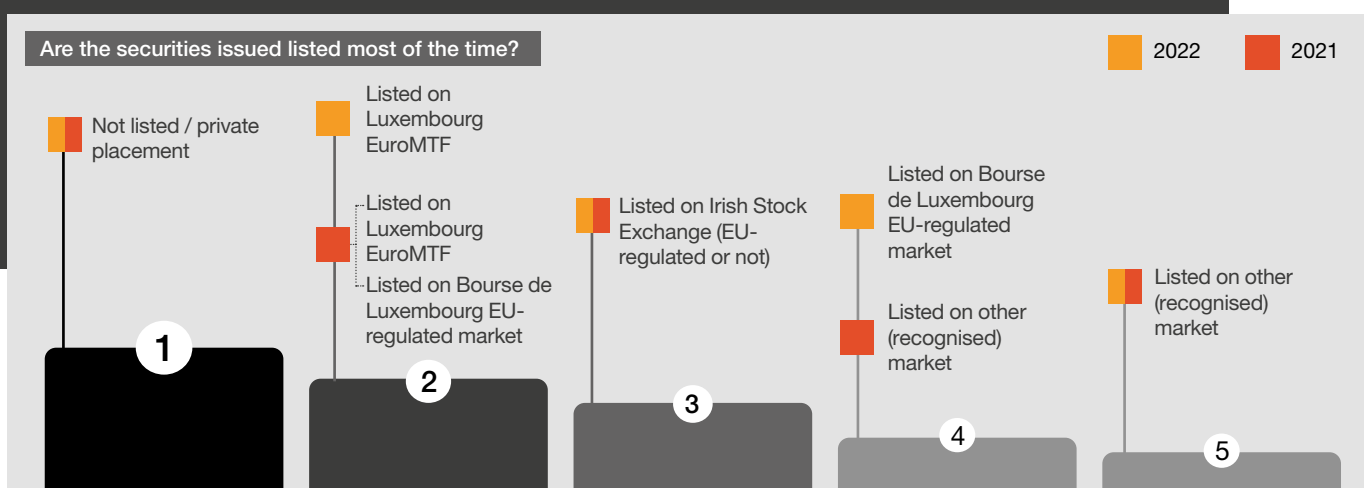
Interestingly enough, this ranking looks slightly different when asking accounting or legal staff.

While repackage structures remain the top asset class for both, legal staff identified mortgage loans and NPLs more often than their accounting fellows. On the other hand, structured products seem to be more present in the accountants daily life.

It is not surprising to see that most of the vehicles are refinanced via the issuance of tranching or non-tranching notes. Loan financing remains less important since it was only allowed in limited circumstances under the current regime. With the modernisation of the Securitisation Law in February 2022, (100%) loan financing is explicitly allowed. Furthermore, the financing through equity securities remains a possibility and is used from time to time (as per ECB statistics in around 5% of the Luxembourg securitisation transactions).

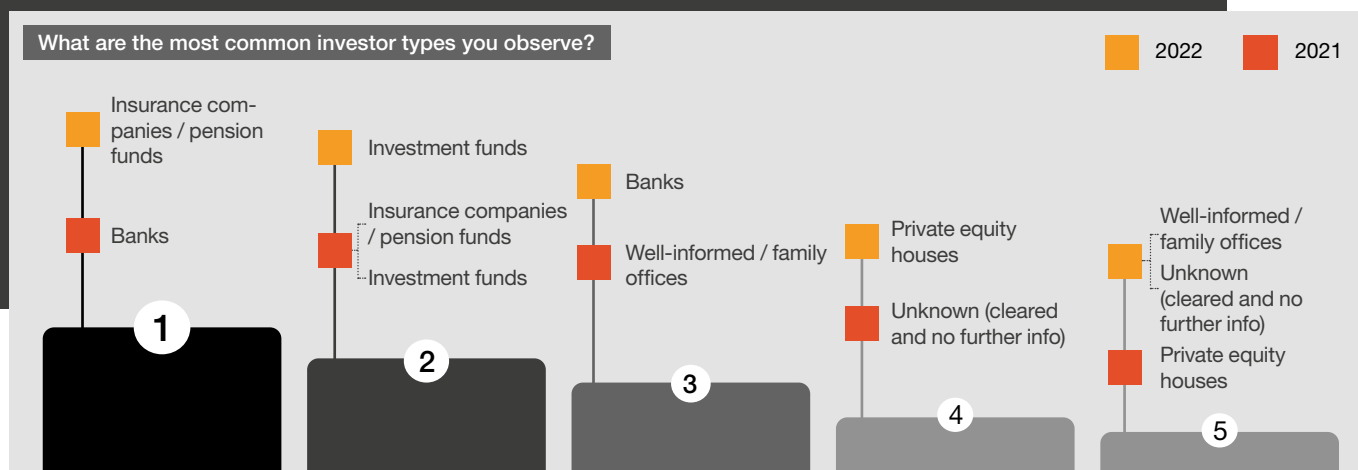


Similar to prior year, respondents observe mostly non-listed, private placement transactions followed by listing on the EuroMTF. Listing on an EU-regulated stock exchange remains as important, with Luxembourg and Irish Stock Exchange as the main listing venues.



3 Investor base

For the first time since we make our survey, banks were not perceived to be the main investor group in Luxembourg securitisations. Those were investment funds together with insurance companies and pension funds, which were already identified as key investor group in the past. Private Equity investors increase in relative importance. This underpins the perception of Luxembourg as a comprehensive market that offers a full toolbox of possible vehicles and structures. With the possibility of new legal forms following the modernisation of the Luxembourg Securitisation Law (e.g. creation of a securitisation vehicle as SCSp), the use of securitisation vehicles may become even more interesting for private equity investors.



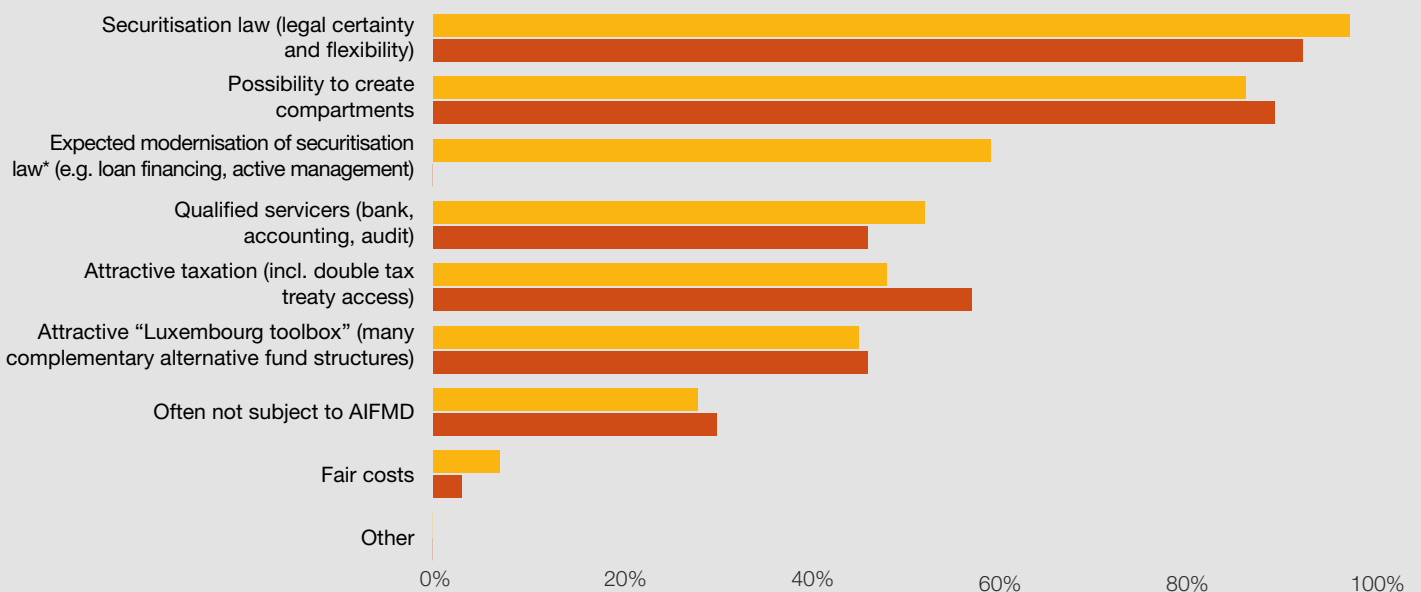
As in prior year's survey, most of our respondents stated that they serve only a few (in average 1-10) EU Securitisation Special Purpose Entities ("SSPE"). However, the relative importance of SSPEs and the sub-group of simple, transparent, and standardised ("STS") securitisation has increased significantly compared to prior years. This year, almost all respondents serve at least one SSPE and STS.

4 Luxembourg competitive advantage and challenges

The fact of having a dedicated Securitisation Law remains the key selling point for Luxembourg. As expected, the modernisation of the Securitisation Law adopted in February 2022 is also perceived very positively by the majority of respondents. One of the features of the Securitisation Law remains the possibility to create distinct and segregated compartments on a legal basis, which is one of Luxembourg's competitive advantages. Furthermore, taxation plays a relevant role for decision takers, but with less relative importance than prior year. Based on our experience, taxation is not the main driver to set up a securitisation vehicle in Luxembourg, but rather an element checked to ensure tax treatment not being disadvantageous.

In your opinion, what attracts arrangers for setting up a securitisation vehicle in Luxembourg?
(multiple answers possible)

2022 2021



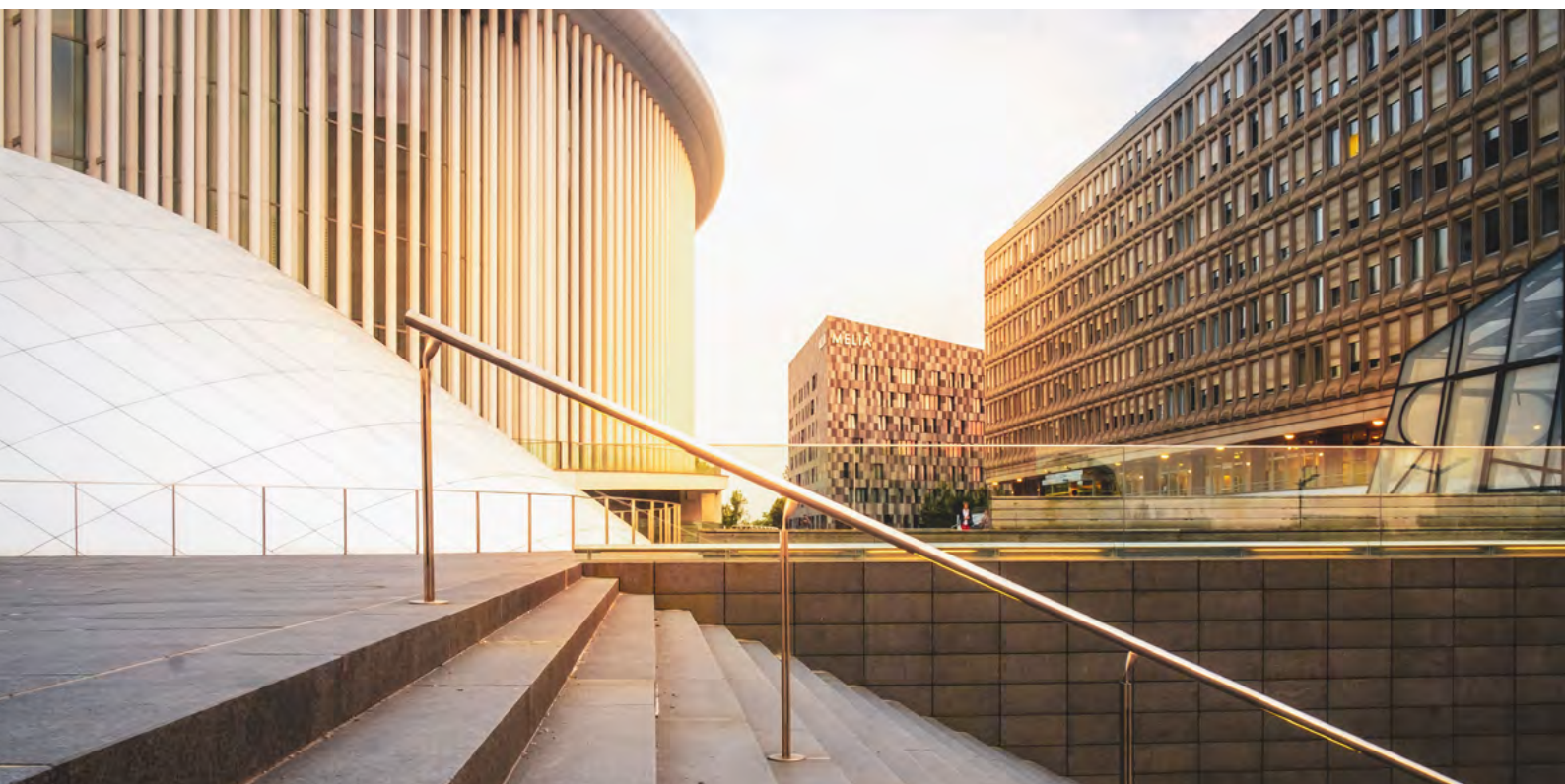
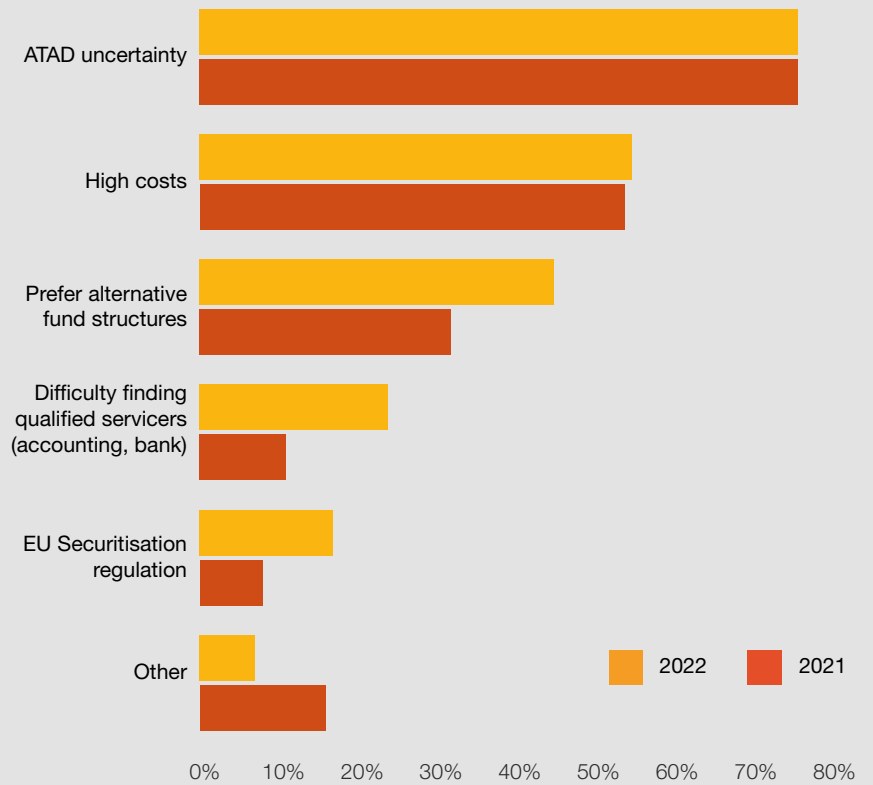
*At the moment of our survey, the modernisation of the securitisation law was not yet voted.

Even though the overall picture remains the same, the answers given by accounting versus legal staff slightly differ. The importance of the possibility to create compartments is emphasised even more by arrangers, lawyers and legal staff of corporate servicers.

The obstructing factors give pretty much the same picture as before: the uncertainty about the application of the interest limitation rules under ATAD 1 remains an issue. Unfortunately, despite some tax circular issued on this topic, the view of the tax authorities on certain specific topics remains unclear and may have a negative impact on many structures.

High costs and preference for an alternative (Luxembourg) structure follow as counterargument to create a securitisation vehicle in the view of our respondents. In addition, more people than before replied that finding a qualified service provider (including banks) becomes a challenge.

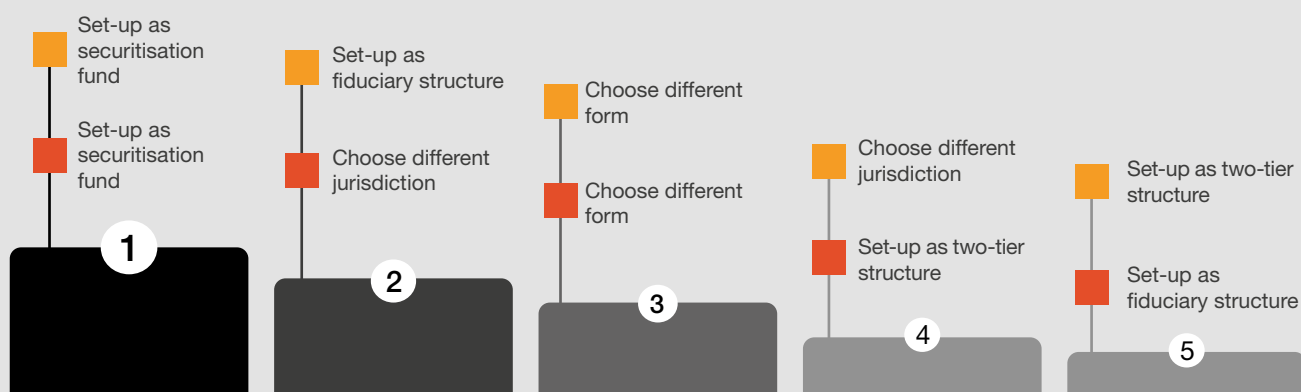
In your opinion, what obstructs arrangers from setting up a securitisation vehicle in Luxembourg? (multiple answers possible)



When looking at the interest limitation rules under ATAD 1 in specific, we have asked which reactions this caused with regards to securitisation structures. The picture looks similar to prior year, with a majority considering the set-up of a securitisation fund as alternative. Fiduciary structure, Soparfis or the choice of another jurisdiction remain alternative options observed by the respondents.

In your opinion, what were the main market reactions on ATAD for potentially impacted structures?

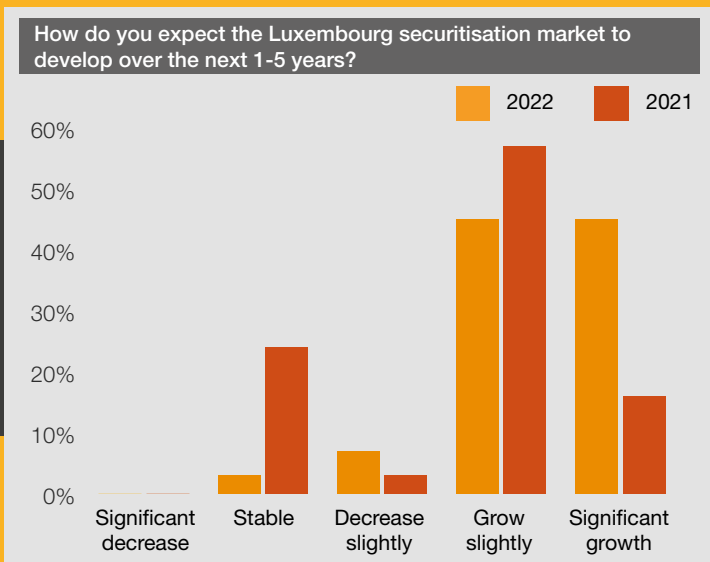
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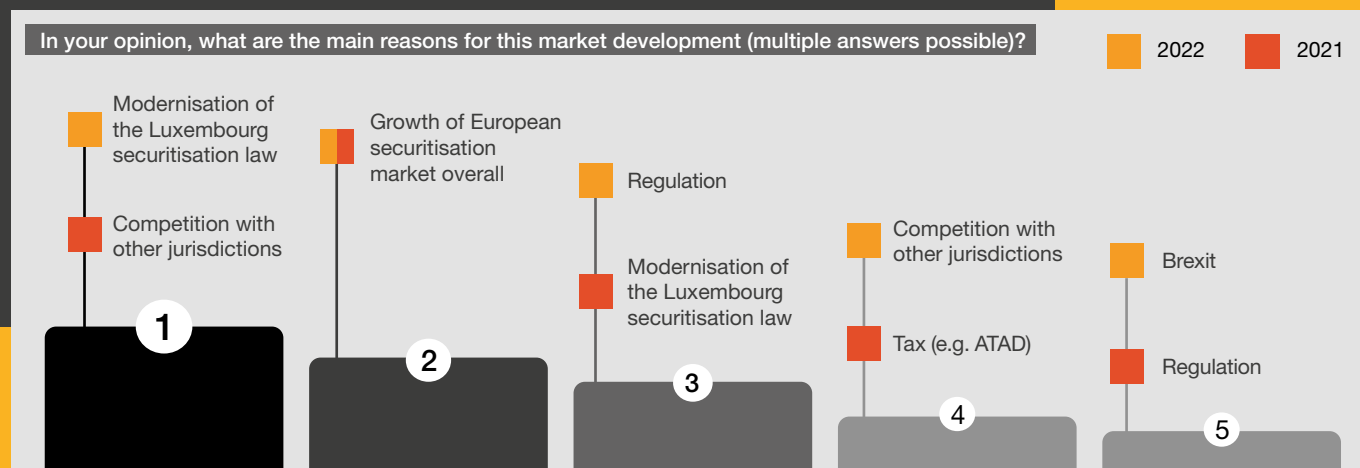
5 Outlook

With time passing by we can observe that more vehicles have to consider impairments following the COVID-19 pandemic even though the actual financial impact on the structured is deemed limited. Our survey did not consider the current Ukraine-Russia crises which might also have an impact on the performance of the single securitisation vehicles.

The general outlook for the Luxembourg securitisation market is seen very positively and even more than in the prior year (almost half of the respondents expect a significant growth while in the prior year a majority expected a slight growth only).

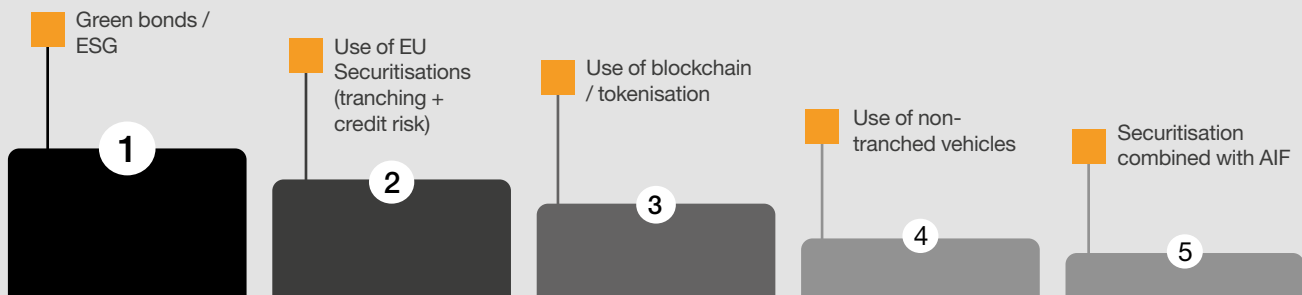


In this context, the modernisation of the Luxembourg Securitisation Law is perceived very positively as well as the overall growth of the European securitisation market. The competition with other jurisdictions, taxation, and the costs in Luxembourg lose relative importance but most likely because those negative factors become less relevant in an overall positive outlook.



Last but not least, we were interested in the market's view of the upcoming hot topics for the next years: without surprise green bonds, sustainable securitisation or ESG in general are expected to impact the securitisation market in the near future, as it already does in the investment fund world. In addition, anything around being in scope of the EU Securitisation Regulation or not (mainly due to tranching) remains highly relevant. The other "new" hot topic is the tokenisation of securitisations and the use of a blockchain. This is not to be confused with investments in crypto assets which is also, but significantly less often, identified by our respondents and demonstrates a completely different risk profile. Following these interesting results, we will cover sustainable securitisation as well as blockchain more prominently in this year's edition of our "Securitisation in Luxembourg: A comprehensive guide" publication.

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



We would like to thank all participants to this survey for their valuable input without which this publication would not have been possible.

The members of our PwC Securitisation Core Group and the whole PwC securitisation team remains available for you for any question around this survey or our securitisation services in general.

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