

# Securitisation in Luxembourg

PwC Market Survey 2023

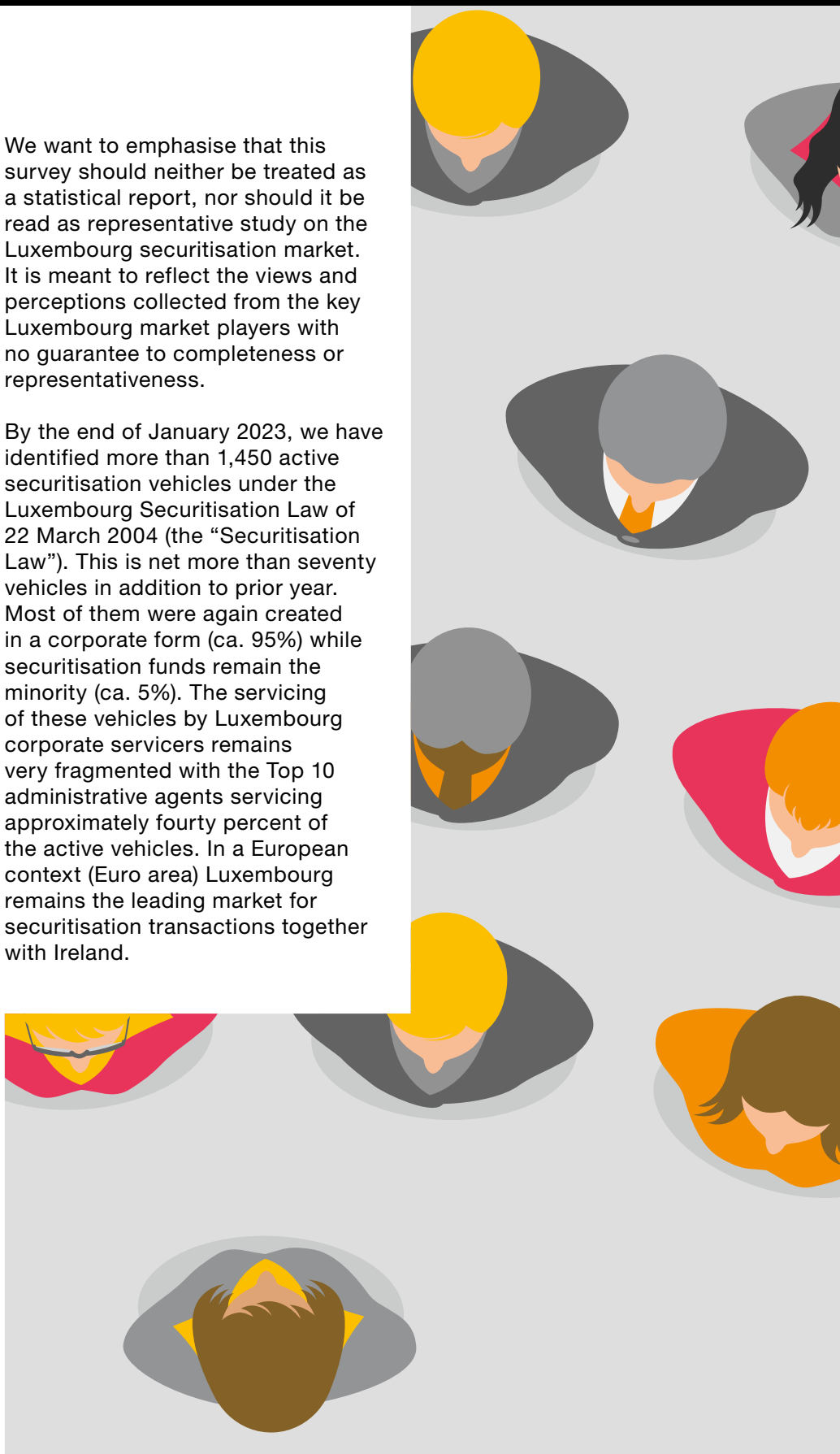
## Dear Reader,

We are proud to present to you once again the result of our annual 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 market view. We are also proud and happy that this year's survey was conducted as a collaboration of PwC Luxembourg and the Luxembourg Capital Markets Association (LuxCMA). This resulted in a record participation compared to prior years, with more than 60 people responding to the questions.

As in the past, we have contacted and received feedback from the main Luxembourg market participants, like corporate servicers, law firms, banks, originators and arrangers. The majority of the respondents, two thirds, are equally split between lawyers and persons with an accounting background and the rest are mainly arrangers and banks. 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 respondents' 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.

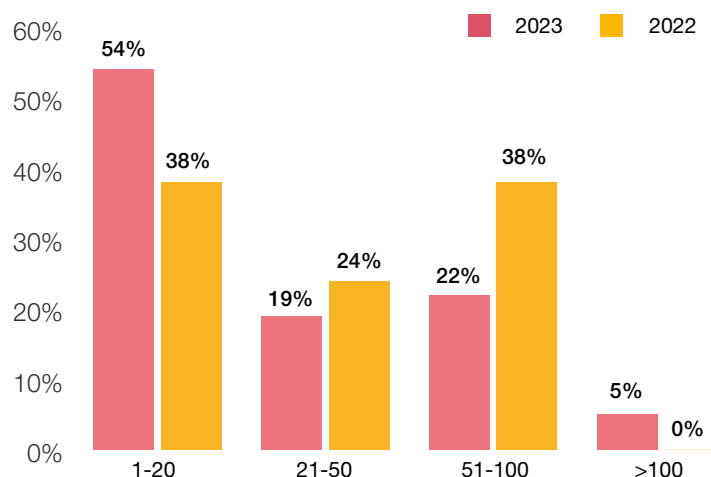
By the end of January 2023, we have identified more than 1,450 active securitisation vehicles under the Luxembourg Securitisation Law of 22 March 2004 (the "Securitisation Law"). This is net more than seventy vehicles in addition to prior year. Most of them were again created in a corporate form (ca. 95%) while securitisation funds remain the minority (ca. 5%). The servicing of these vehicles by Luxembourg corporate servicers remains very fragmented with the Top 10 administrative agents servicing approximately forty percent of the active vehicles. In a European context (Euro area) Luxembourg remains the leading market for securitisation transactions together with Ireland.



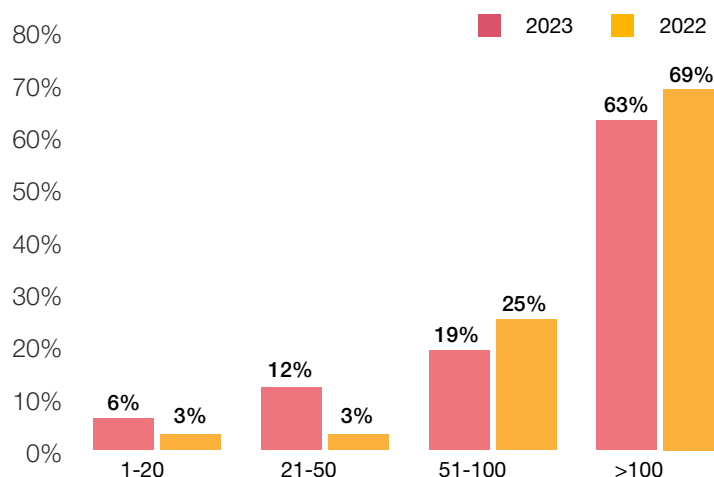
## Securitisation vehicle characteristics

At the beginning, we asked for the number of securitisation vehicles serviced by the respondents' organisation and the average transaction volume. The majority serviced between 1 and 20 vehicles with an average volume of more than EUR 100 million. The result also shows that often a critical mass in relation to the transaction volume is needed to efficiently service securitisation transactions.

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

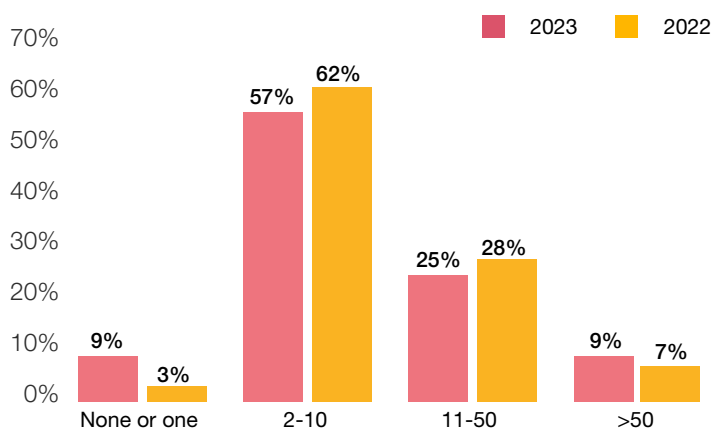


What is the average of total assets of "your" securitisation vehicles (in million EUR, sum of all compartments)?



The survey once again confirmed that the possibility to create multiple compartments under the Securitisation Law is widely used. Almost all vehicles have several compartments, with a majority of 2-10 compartments. Few vehicles even have 500 and more compartments. The extensive use to create multiple compartments confirms the importance of this feature of the Securitisation Law.

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



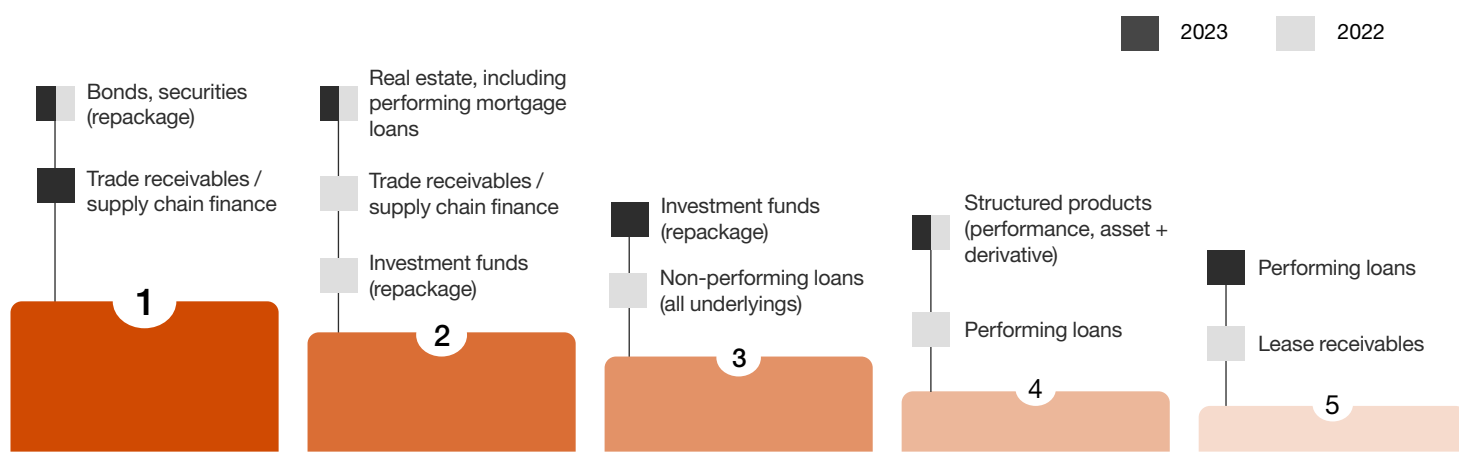
## Asset types and means of financing

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. Bond repacks together with trade receivables remain the most cited assets classes followed by mortgage loans and fund repacks.

Structured products maintain their relative importance in the Luxembourg securitisation market while usually not qualifying as securitisation under the EU Securitisation Regulation. As last year, we only had a few participants mentioning crypto assets or crypto currencies in the survey which shows that the securitisation of that asset class is still in a premature stage. The result also shows that the modernisation of the Securitisation Law in relation to the active management of debt instruments portfolios did not yet result in a higher activity of CLO/CDO structures on the market. It may take some time before CDO/CLO managers decide to move their infrastructure to Luxembourg. However, the fact of having this possibility now in Securitisation Law is clearly another positive aspect when comparing Luxembourg with Ireland.



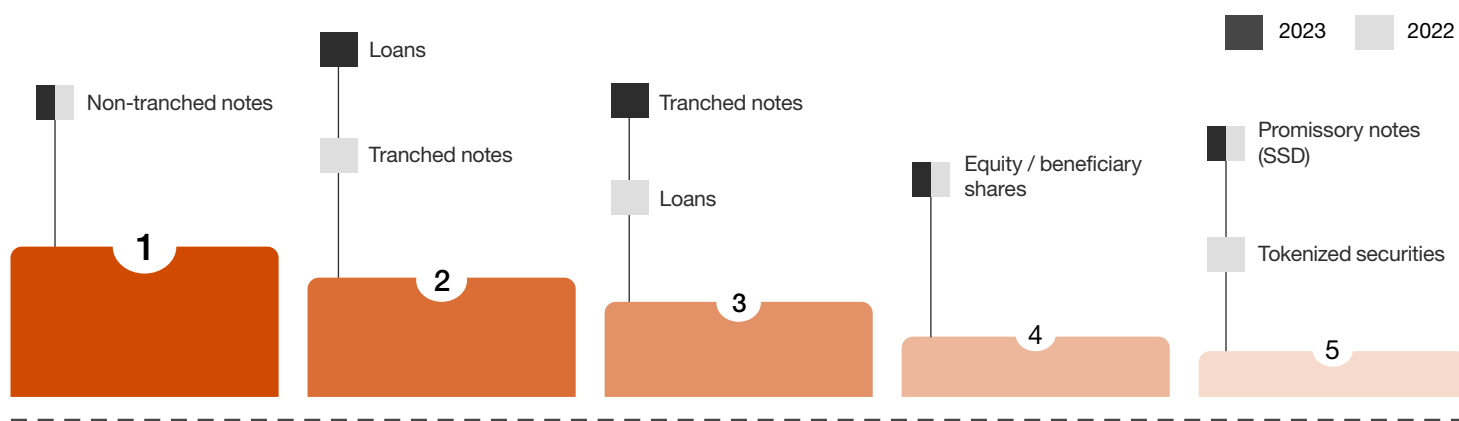
What are the Top 5 asset classes you observed in the last 12 months?



## Asset types and means of financing

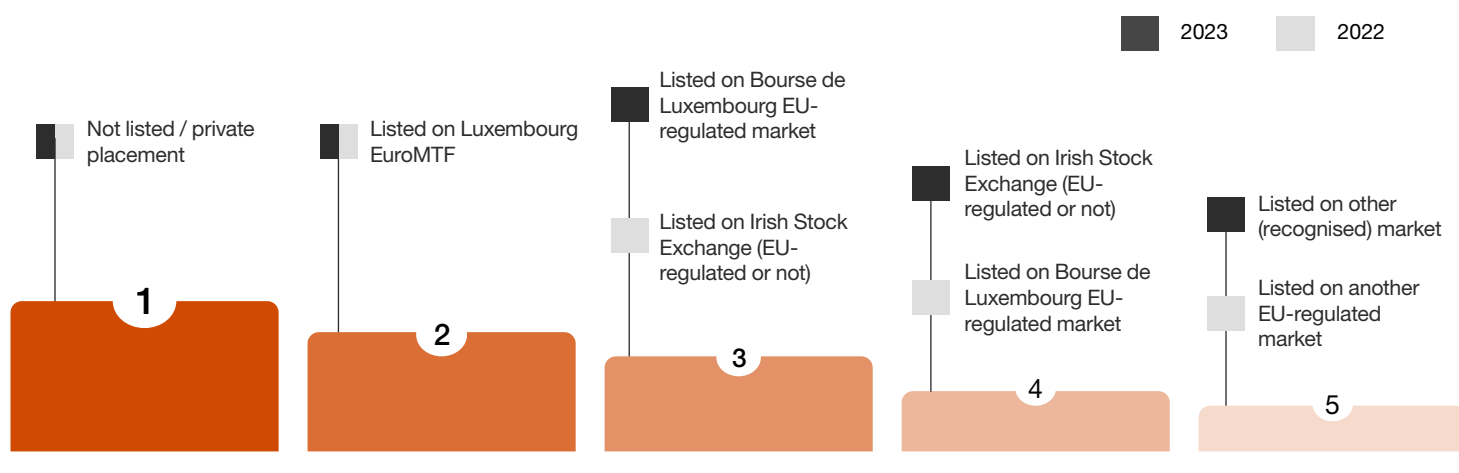
It is not surprising to see that most of the vehicles are refinanced via the issuance of non-tranched notes. Refinancing via loans picked up compared to last years. This might be a consequence of the modernisation of the Securitisation Law in February 2022, which explicitly allows a full loan financing. 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).

What are the Top 5 refinancing instruments you observe?



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

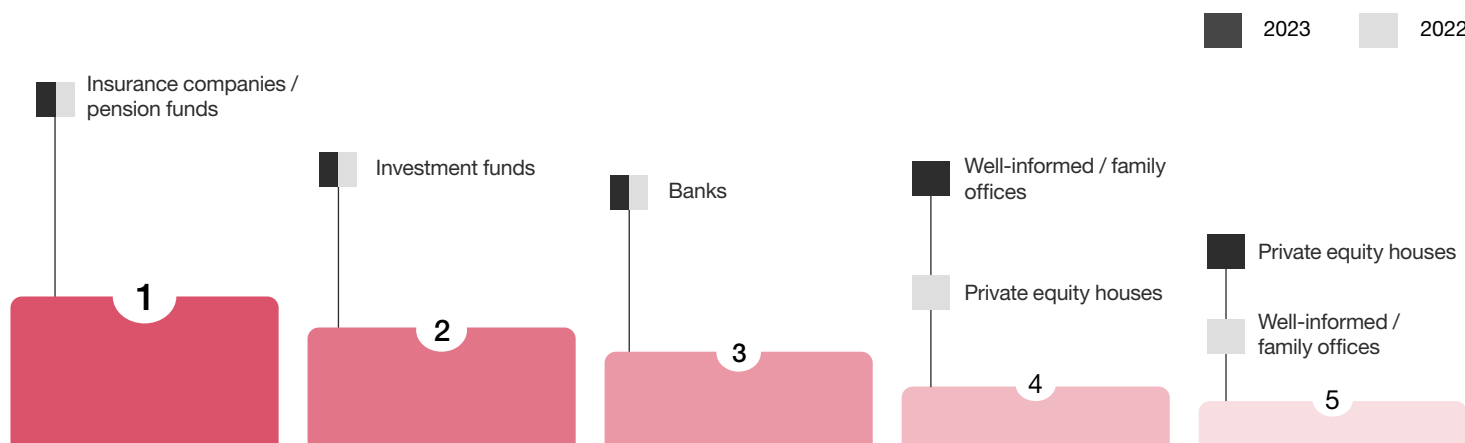
(Where) Are the securities issued listed most of the time (Top 5)?



## Investor base

This year again, insurance companies and pension funds were perceived to be the main investor groups in Luxembourg securitisation structures. These are followed by investment funds and banks. Family offices moved up on place four in this year's survey which underpins the role of securitisation as an alternative investment with an interesting return for well-informed investors. 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 family offices as well as private equity investors. Nevertheless, we have identified only a few new creations during 2022 using the newly permitted legal forms.

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



Similar to prior years, our participants observed only a limited impact of the EU Securitisation Regulation on their securitisation vehicles. Most of our respondents stated that they service 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 overall increased compared to prior years.

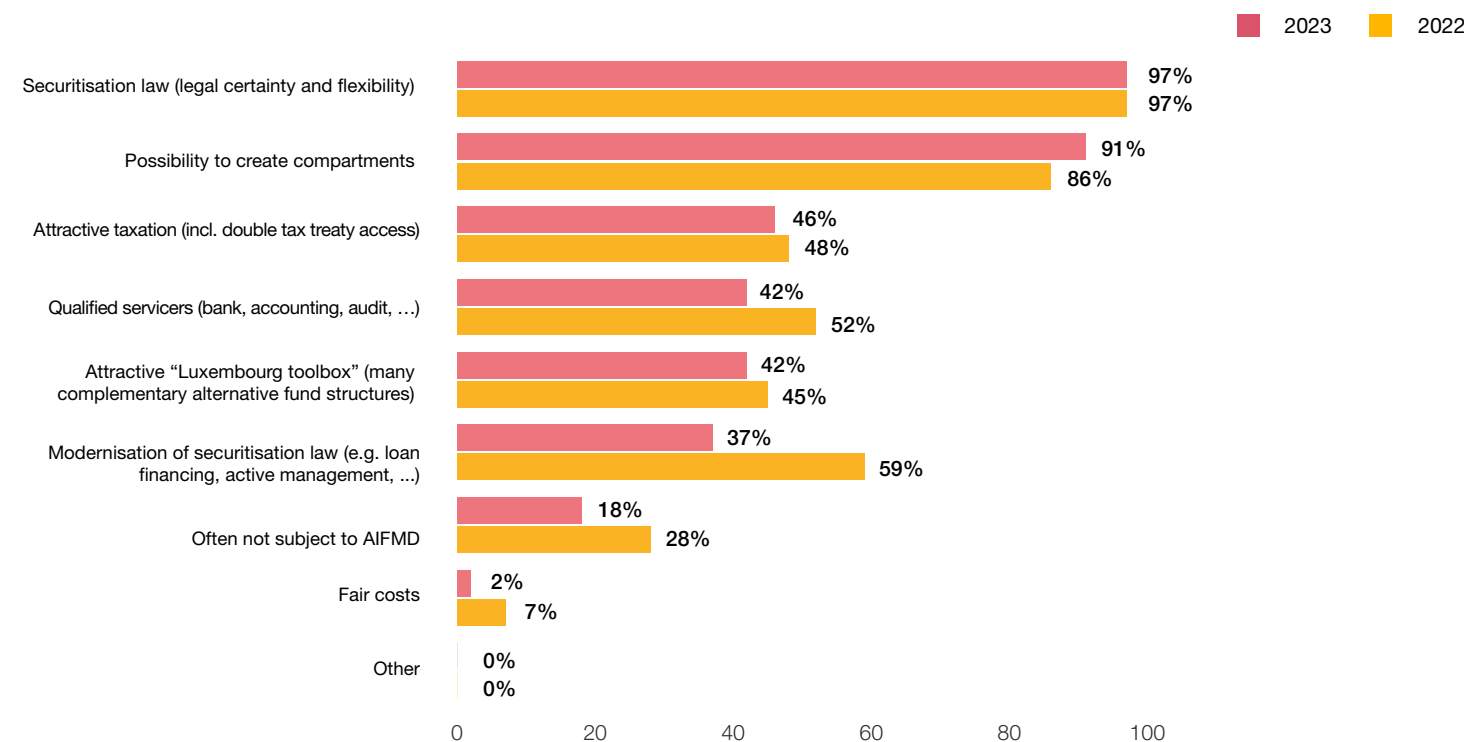


## Luxembourg competitive advantages and challenges

Our respondents perceived the legal certainty and the possibility to create distinct and segregated compartments provide 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 introducing new features such as active management of debt portfolios or the loan refinancing but also the clarification of some aspects, e.g., the treatment and distribution of profit/losses of equity financed compartments was an important step to further attract market participants. Surprisingly, this year the attractive taxation in general was the top 3 answer of the respondents whereas it was of less significance or even an obstacle in prior years surveys. 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?



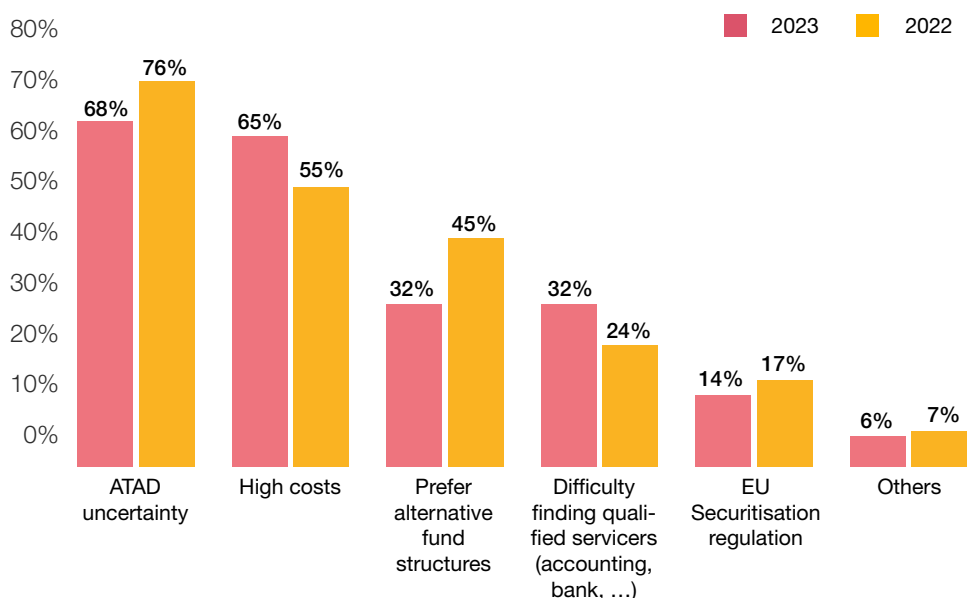


## Luxembourg competitive advantages and challenges

This year again our participants cited the uncertainty about the application of the interest limitation rules under ATAD 1 as the most obstructing factor. Despite some tax circulars being 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 will be achieved in the future.

High costs, the preference for an alternative (Luxembourg) structure as well as the difficulty in finding qualified service providers follow as counterargument to create a securitisation vehicle in Luxembourg 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 (only 3% behind the ATAD uncertainty). The inflation and rising interest rates since 2022 played certainly a role in the answers of the participants. In addition and compared to last year, more respondents replied that finding qualified service providers (which explicitly includes financial institutions to open bank accounts) is still an issue and we remain confident that the (banking) industry will respond to these concerns.

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

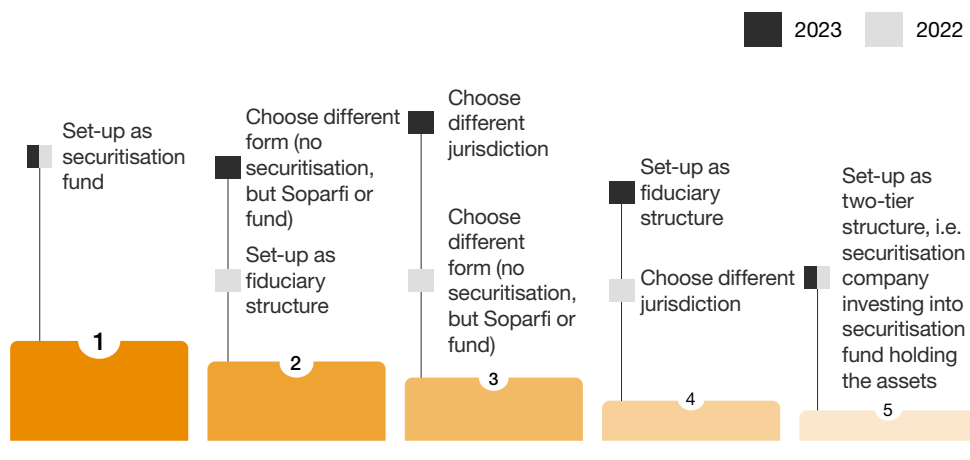




## Luxembourg competitive advantages and challenges

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. The choice of a different legal form (e.g. as a partnership), the set up as a fiduciary structure or the choice of another jurisdiction remain alternative options observed by the respondents. However, as mentioned above, the use of the new partnership forms or securitisation funds observed in the market remains limited. Losing business to another jurisdiction is of course an issue for the Luxembourg securitisation market and we hope that the evolution of the Securitisation Law and the development of the ATAD 1 clarification will help attracting arrangers to come to Luxembourg.

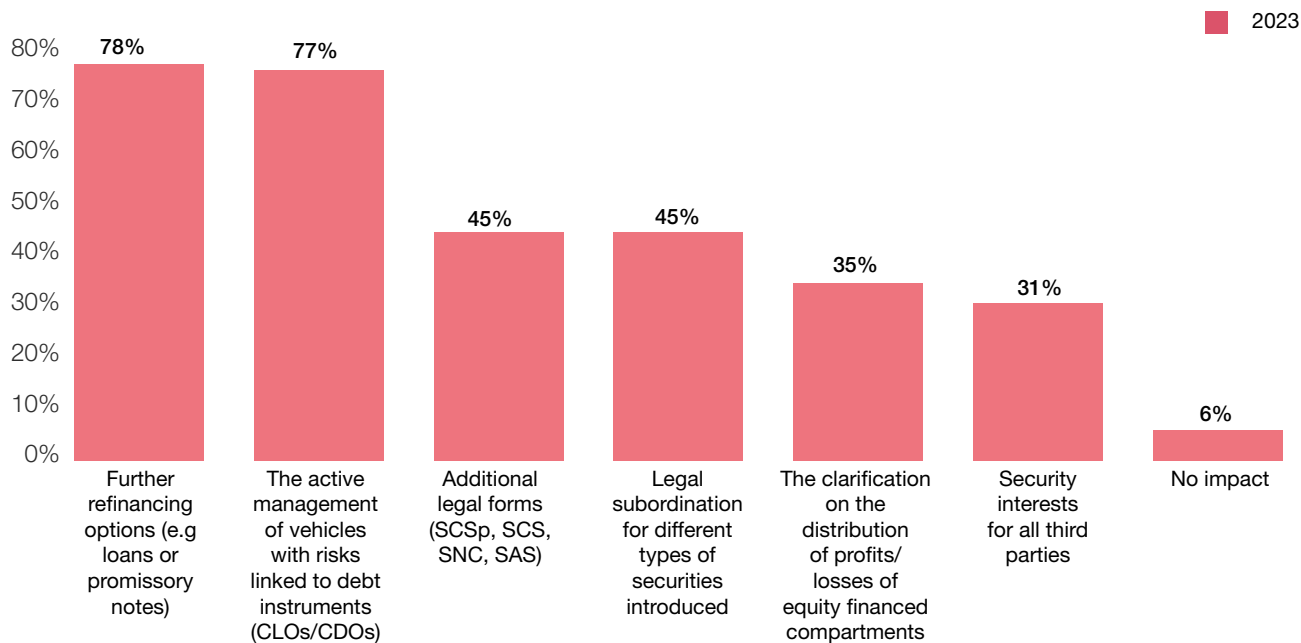
In your opinion, what were the main market reactions on ATAD for potentially impacted structures (Top 5)?



## Market outlook

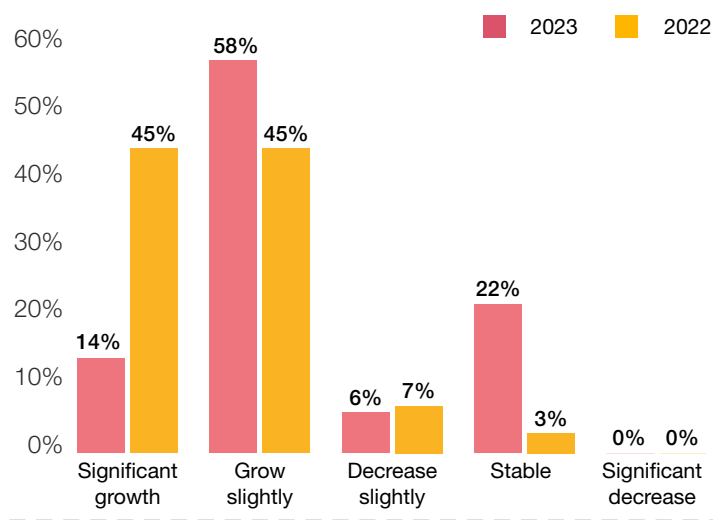
On the question which new feature within the modernisation of the Securitisation Law will enhance the attractiveness of the Luxembourg securitisation market, most of our participants consider the enhanced refinancing options as well as the active management of debt portfolios as most beneficial. The possibility to actively manage CLOs/CDOs will enhance Luxembourg's competitiveness, especially towards Ireland which has the highest market share of these structures for the time being.

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

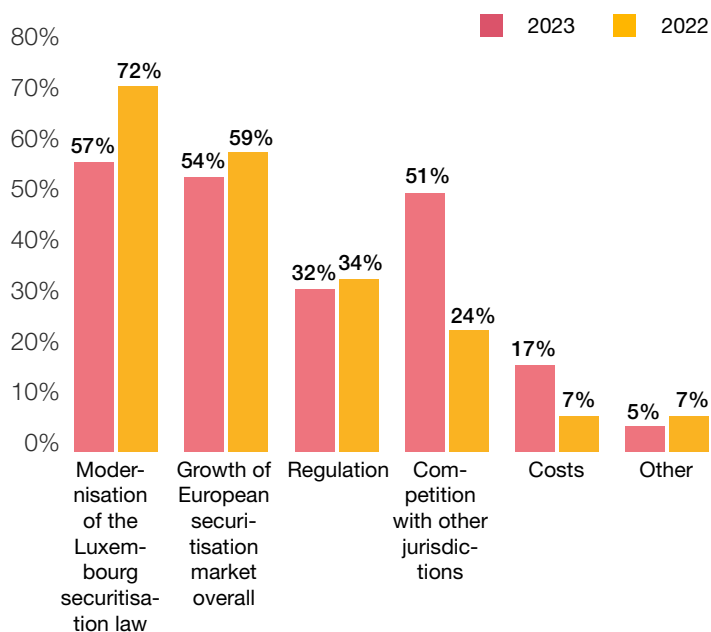


The general outlook for the Luxembourg securitisation market is seen positive. 72% of our participants expect a market growth within the next one to five years, whereas 14% of them expect even a significant growth. However, the outlook is not as optimistic as it was one year ago (90% growth expectation). These more cautious expectations are certainly linked to the current geopolitical tensions, the fact that central banks all over the world hike interest rates in response to the growing inflation as well as the fear of a global recession but also due to the ATAD uncertainty in Luxembourg.

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



In your opinion, what are the main reasons for this market development?



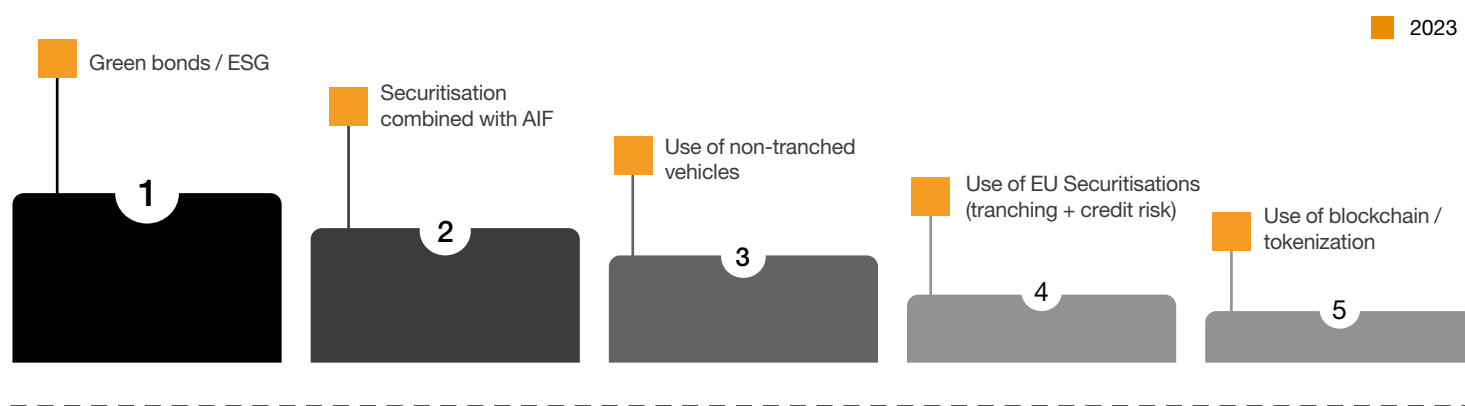
The main reasons for the expected positive market development are the modernisation of the Luxembourg Securitisation Law, the overall growth of the European securitisation market as well as the competition with other jurisdictions. Interestingly, the modernisation of the Luxembourg Securitisation Law was already mentioned last year, before its adaptation, as a main reason for a positive outlook. It seems that a year later some of the expectations were already fulfilled or that there is strong hope that the modernisation will further enhance the attractiveness of the Luxembourg marketplace in the near future.



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 and ESG in general are expected to impact the securitisation market in the near future, as it already does in the investment fund world. Our participants also mentioned securitisation in combination with alternative investment funds as upcoming topic. Currently, we see that the main vehicles used as an alternative or in combination with securitisation vehicles are RAIFs, SIFs, UCIs (Part II) or SICARs. In addition, the possibility to structure a securitisation within or out of the scope of the EU Securitisation Regulation remains highly relevant.



What are the main trends you observe in the market?



*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.*

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.

## Your securitisation contacts

Should you have any questions, please do not hesitate to contact us:

### Assurance Services

**Holger von Keutz**

Partner, Securitisation Leader,  
PwC Luxembourg  
holger.von.keutz@pwc.com  
+352 49 48 48 2383

**Markus Zenz**

Partner, PwC Luxembourg  
markus.zenz@pwc.com  
+352 49 48 48 2647

### Regulatory Services

**Xavier Balthazar**

Partner, PwC Luxembourg  
xavier.balthazar@pwc.com  
+352 49 48 48 3299

### Tax Services

**Direct taxes****Luc Petit**

Partner, PwC Luxembourg  
luc.petit@pwc.com  
+352 49 48 48 3148

**VAT****Marie-Isabelle Richardin**

Partner, PwC Luxembourg  
marie-isabelle.richardin@pwc.com  
+352 49 48 48 3009

For any further information about our firm or services, please contact the PwC Marketing & Communications department: [lu\\_info@pwc.com](mailto:lu_info@pwc.com)

