April 2020

Securitisation in Luxembourg

PwC Market Survey

Dear reader,

We are happy to present the results of our first **survey on the Luxembourg securitisation market**. We have contacted and received feedback from the main Luxembourg market participants, like corporate servicers, law firms, banks and arrangers. 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. Nevertheless, it gives a good insight from the key market players.

Please note that this survey was conducted in December 2019, i.e. the pandemic outbreak of the corona virus disease 2019 (**COVID-19**) in early 2020 was not yet known to the participants. Therefore, the potential negative economic and financial impacts of the pandemic on the securitisation markets in Luxembourg, Europe and the world have not yet been taken into account in this survey.

In our view, this crisis will have its effect on the securitisation market as it does on the rest of the economy. Even though it is too early to assess or measure such impact, certain aspects will have to be considered for securitisation transactions as a reaction, e.g.:

- Impact on valuation of assets in general,
- Loans and receivables payment capabilities of individuals and commercials,
- Treatment of government-permitted loan payment deferrals,
- Servicer issues for NPL or trade receivables structures,
- Margin calls under derivatives,
- Future amendments to transaction documents as response to this crisis,
- etc.

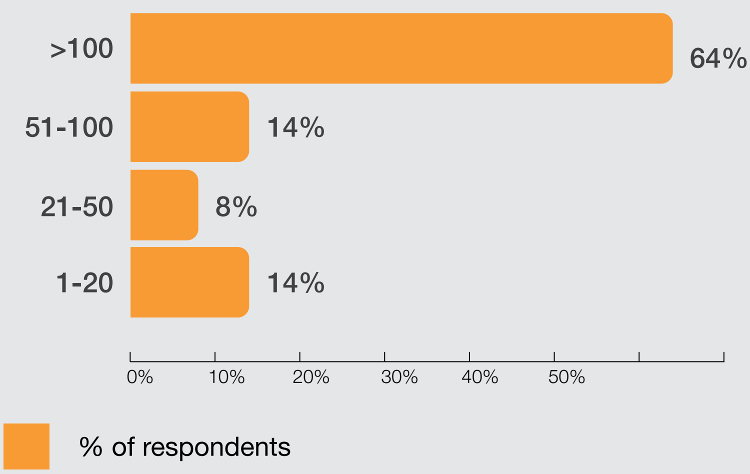
1 Securitisation vehicle characteristics

Most respondents (64%) service securitisation vehicles with total **Assets under (passive) Management** of more than EUR 100m while less than a third services total assets of EUR 50m or less. This confirms our market view that servicing securitisation vehicles requires specific expertise and critical mass. We also observe that a securitisation transaction normally needs to have total assets (sum of all compartments) of EUR 50-100m in order to be economically viable.

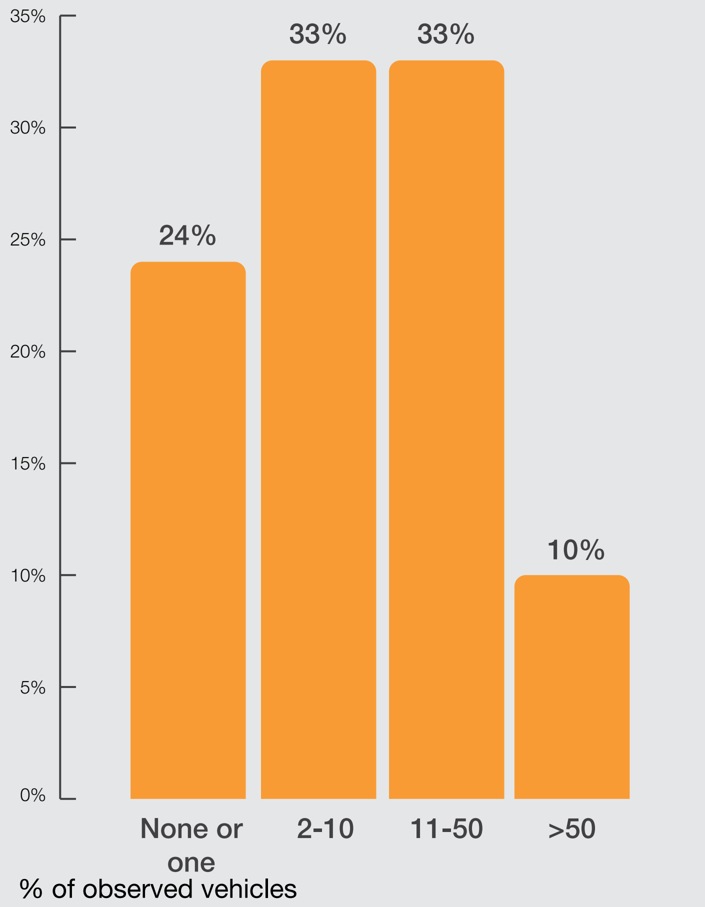
The answers to our survey have also confirmed that the vast majority (76%) of the observed vehicles make use of the favourable Luxembourg securitisation regime with regards of the **creation of multiple compartments**.

Around 10% of the observed vehicles have even more than 50 active compartments.

AuM in million



Number of compartments per vehicle



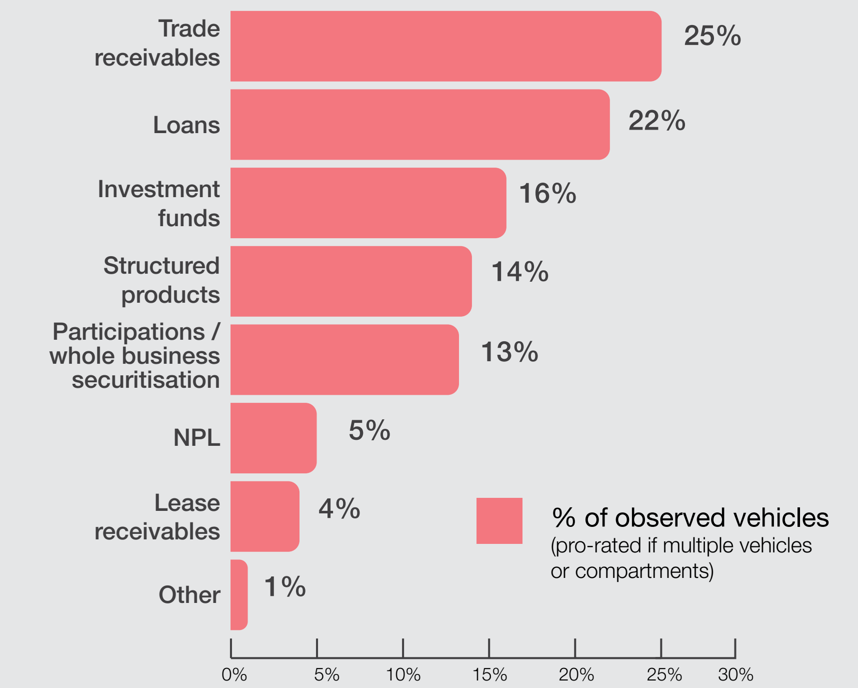
2 Asset types and means of financing

The main **asset classes** observed by our participants are as follows (by number of vehicles observed).

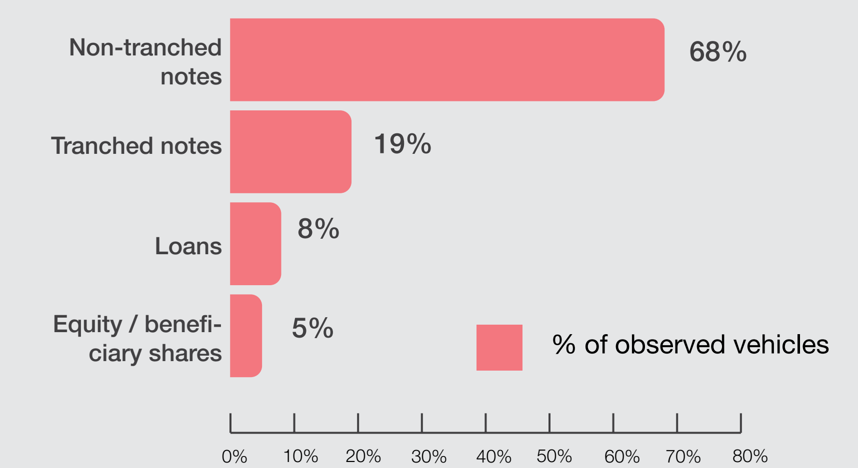
About 29% of the vehicles served by our participants securitise trade or lease receivables, with another 27% focussing on loan securitisation (incl. non-performing loans). Those more classic securitisations are complemented by typical Luxembourg products, namely investment fund and participation repackages (29%) as well as so-called structured products (14%). From our observation, most of the structured products issue on a regular basis and promise the performance of an index or basket to theirs noteholders which are often retail clients. As such, they are regularly supervised by the CSSF.

It is interesting to see, that more than two thirds of the observed transactions obtained their **financing** via non-tranched notes (based on the survey participants' answers), i.e. they would not classify as securitisation in an EU Securitisation Regulation sense. Most transactions described in this survey are private securitisations, i.e. not listed on an EU-regulated market.

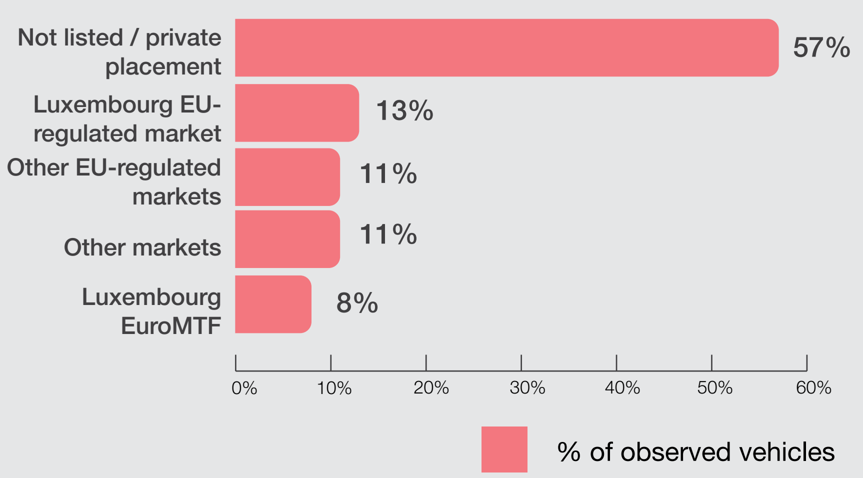
Main asset classes



Means of financing



Distribution channel

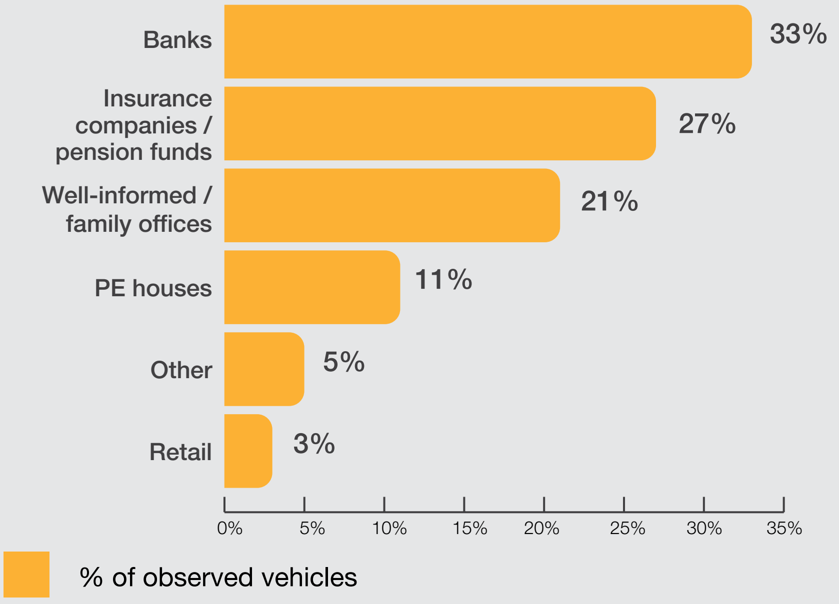


3 Investor base

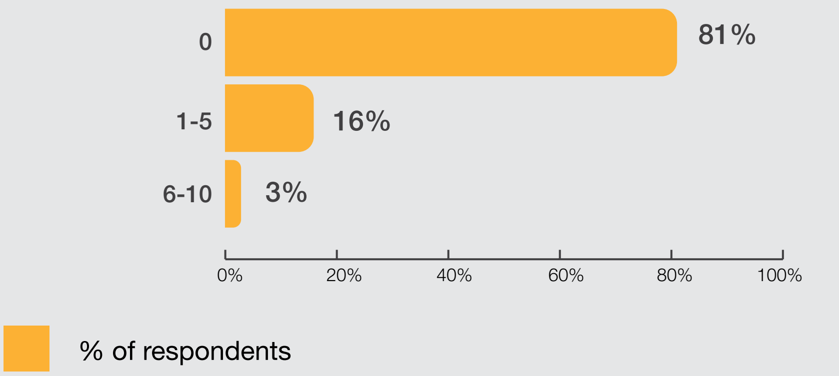
With little surprise, we noted that most **investors** in securitisation vehicles are institutional. We assume the 3% retail investors to be mainly invested in the CSSF-supervised vehicles. For the split it is interesting to see, that banks and insurance companies/pension funds represent 60% of the investor base. This matches historical and European observations. In addition, we can see around one third of the money coming from family offices or private equity (PE) houses, i.e. rather from the alternative investment side than from large financial institutions.

With regards to the **EU Securitisation Regulation**, we note that a limited number of Luxembourg securitisation vehicles are subject to this regulation. In this regard, none of the respondents services more than 10 such vehicles. With regards to STS securitisations only around 20% of the respondents worked for such structure.

Type of investors



Number of STS securitisation vehicles served

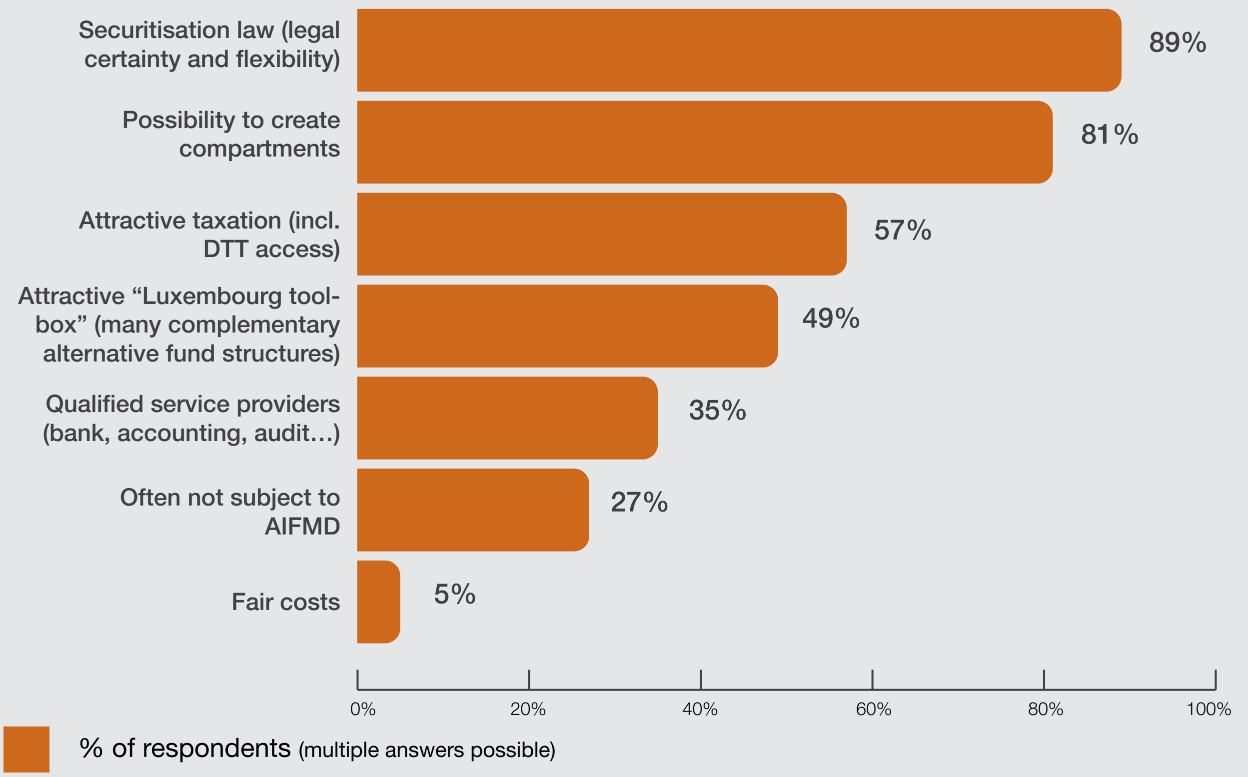


4 Luxembourg competitive advantage and challenges

The last part of our survey was focused more on the perception of certain market developments, e.g. what makes Luxembourg attractive, what are the alternative products, etc.

The first **key selling point for Luxembourg** remains the dedicated securitisation law which is robust and flexible at the same time. An amendment of law, which will aim to bring more flexibility, would probably be perceived even more positively. The second key element of Luxembourg is the legal possibility to create compartments and having key concepts like segregation of assets and limited recourse provided in law and applicable on compartment level. Despite all tax discussions in Luxembourg and the world, this is not the key driver to set-up a securitisation vehicle as per our survey while of course tax neutrality is very important.

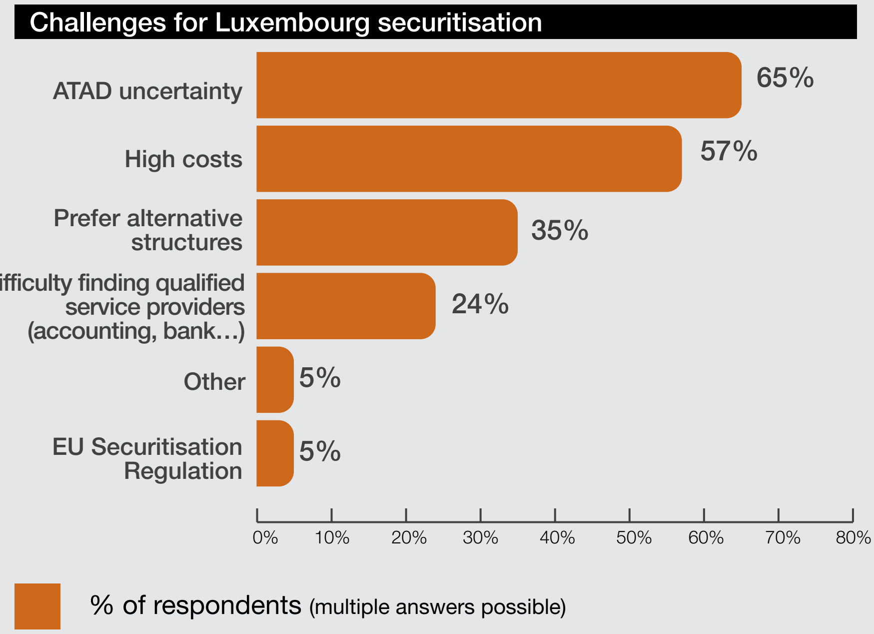
Advantages of Luxembourg securitisation

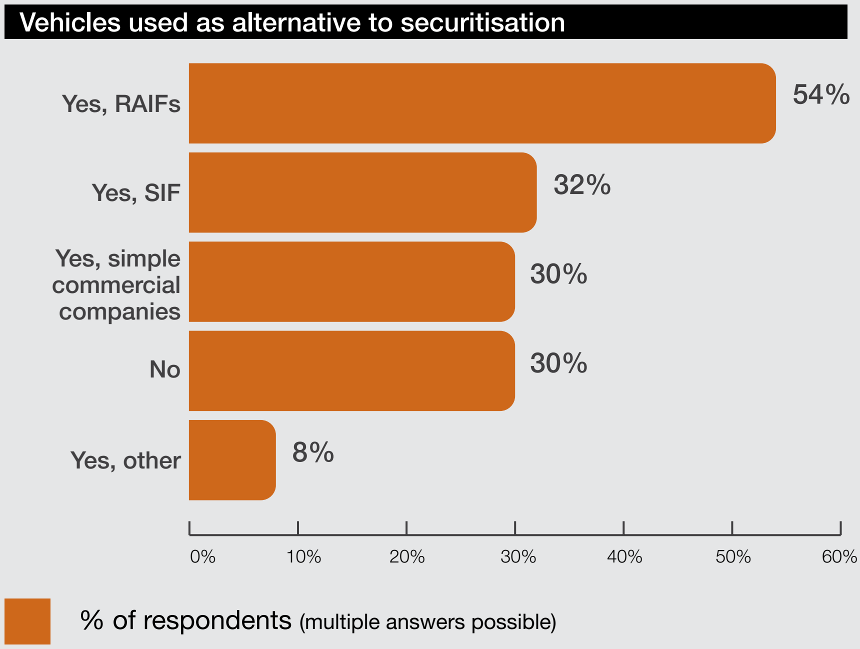


Luxembourg Securitisation market

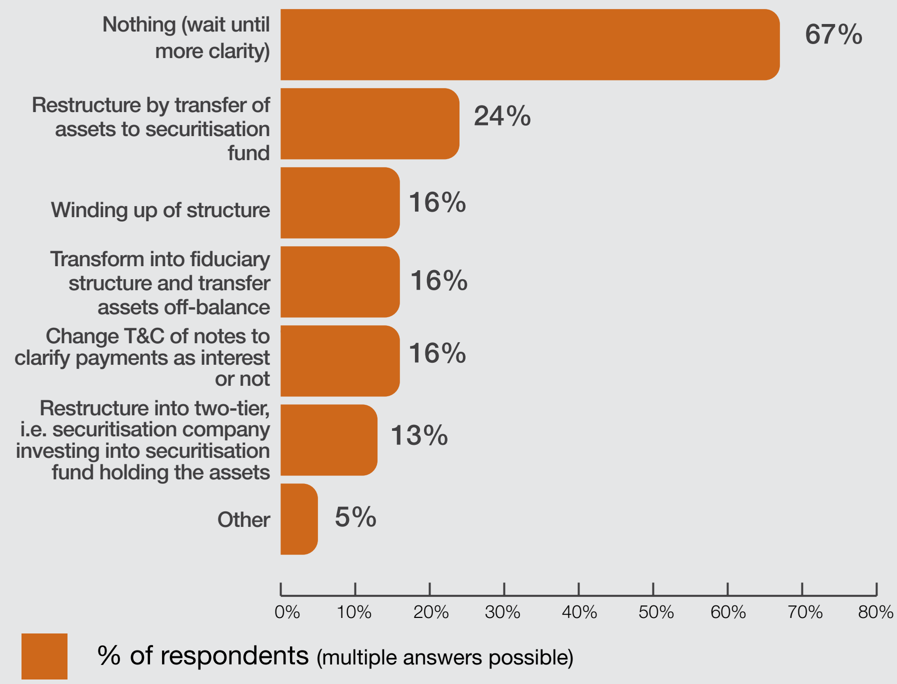
On the other hand, tax (namely the anti-tax avoidance directive "ATAD") and particularly the absence of clarity, turns out to be an **obstacle for securitisation vehicles** even though the aim of ATAD was not to particularly target the securitisation vehicles. However, the next three items in the list of potential obstacles are actually aspects we can all work on together in order to make Luxembourg an even more attractive place for securitisation:

I. relatively high costs – we need to demonstrate the added value and quality to clients;
II. alternative structures – we need to offer services not only limited to securitisation but also to other structure types to accommodate the whole appetite of clients. As we can see in the next graph, main alternatives (or complements!) are RAIF, SIF or normal Soparfi structures;
III. finding high qualified servicers - as for the costs, we need to demonstrate added value and quality to clients.

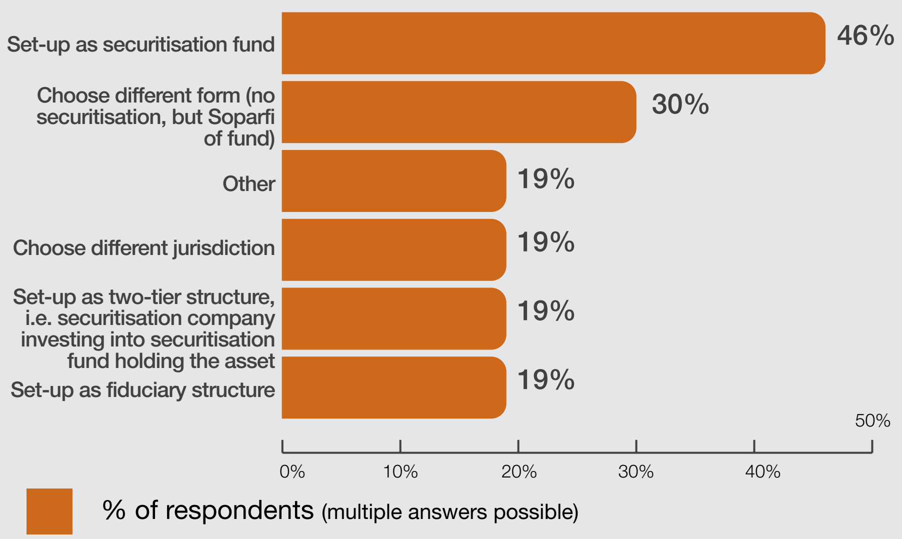




ATAD actions taken for existing structures



ATAD actions taken for new structures



We have also added specific questions on **ATAD** which was the main topic in the securitisation market during the last year. Surprisingly enough, the majority of potentially affected structures decided to wait with any restructuring until clarity is obtained. This demonstrates the urgent need for guidelines from the Luxembourg tax authorities.

Others decided to restructure into securitisation funds and some fiduciary structures or redesigned the terms and conditions of the transaction without legal restructuring.

For new structures, choosing a different legal form (securitisation fund, fiduciary or no securitisation at all) was the main answer to ATAD. Unfortunately, some transactions were also wound-up and/or moved to another jurisdiction (mainly Ireland) as a response to ATAD and the related uncertainty.

Your securitisation contacts

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

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