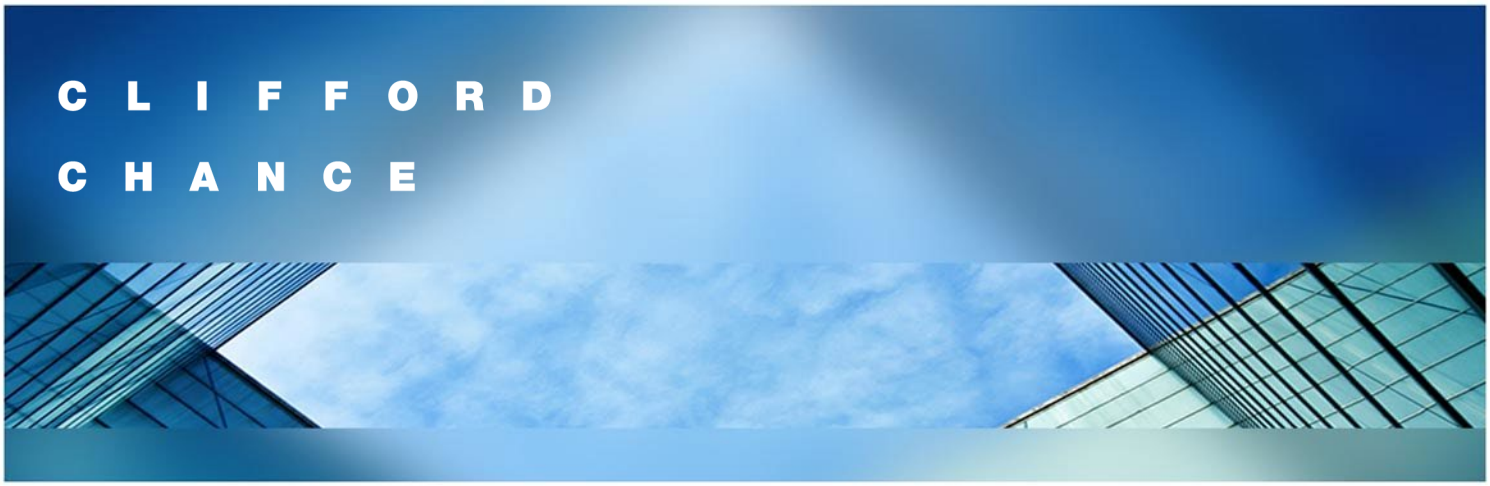


# LUXEMBOURG BILL OF LAW PROPOSES RECOGNITION OF DLT FOR THE ISSUANCE OF DEMATERIALISED SECURITIES

The Luxembourg government has submitted a bill (bill of law n°7637) to the Luxembourg Parliament with the aim to modernise the existing legal framework for dematerialised securities. The bill forms part of the continued modernisation of Luxembourg's legal framework for finance transactions and is a continuation of the law of 1 March 2019 which has expressly recognised the possibility to hold and register book-entry securities in securities accounts by way of distributed ledger technology (DLT). The bill recognises the possibility to use secure electronic recording systems (including DLT) for dematerialised securities (whether at issuance or upon conversion from another form of security). The publication of the bill constitutes the start of the legislative procedure. This briefing summarises the key aspects of the proposed framework.

**Key aspects**

- The bill of law recognises the possibility to use secure electronic recording systems (including DLT) for the issuance of dematerialised listed or unlisted securities.
- The proposed framework is technologically neutral and complements the law of 1 March 2019 that recognised already the use of secure electronic recording systems (including DLT) for the registration and transfer of book-entry securities in securities accounts.
- The bill also extends the scope of entities permitted to act as central account holders for unlisted debt securities to Luxembourg and EU credit institutions and investment firms.

## ISSUANCE ACCOUNT

The issuance of dematerialised securities and the conversion into dematerialised securities are regulated in Luxembourg by the law of 6 April 2013 on dematerialised securities ("**2013 Law**"). The issuance or conversion of dematerialised securities is carried out thereunder exclusively by registering the securities in an issuance account (*compte d'émission*). The latter is held with a settlement institution or a central account holder.

The issuance account (*compte d'émission*) acts as the creator account of the securities and is used for reconciliation with the securities registered in the securities account (*compte-titres*) of the clients of the settlement institution or central account holder. The dematerialised securities are represented by the entry in such a securities account (*compte-titres*) and are transmitted by a transfer from securities account to securities account.

The bill introduces a definition of the term "issuance account" (*compte d'émission*) in the 2013 Law, stating that such account may be held and the securities records therein may be effected within or by virtue of secure electronic recording systems (*dispositifs d'enregistrement électroniques*

*sécurisés*), including ledgers or databases relying on distributed ledger technology (DLT).

The bill constitutes a continuation of the law of 1 March 2019 modifying the law of 1 August 2001 on the circulation of securities which already recognised the possibility to hold and register book-entry securities in securities accounts (*comptes-titres*) within or by virtue of secure electronic recording systems, including distributed ledgers or databases.

The bill highlights the technological neutral character of this new framework.

## EXTENSION OF THE SCOPE OF ENTITIES ACTING AS CENTRAL ACCOUNT HOLDERS

In accordance with the law of 5 April 1993 on the financial sector (as amended) (FSL), the central account holders are persons or entities whose activity is to hold central accounts for dematerialised securities. Under the existing framework, no person other than settlement institutions may carry on the activity of central account holder without holding a licence in accordance with Article 28-11 of the FSL. Such licence may however under the current framework only be granted to Luxembourg credit institutions or investments firms or Luxembourg branches of credit institutions or investment firms authorised in another Member State.

The bill opens the activity of central account holder with respect to unlisted debt securities to investment firms and credit institutions governed by European law (i.e. MiFID[1] investment firms and CRR[2] credit institutions, as defined in Article 1, 9) and 13) of the FSL). Such institutions must have specific mechanisms and procedures in place as well as operational and technical capacities for the exercise of their activity equivalent to those required for the authorisation as central account holder.

[1] Directive 2014/65/EU on Markets in Financial Instruments (recast).
[2] Capital Requirements Regulation (EU) No 575/2013.

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