

Luxembourg Capital Markets Landscape for Debt instruments

by LuxCMA Infrastructure Working Group

NOVEMBER 2021

Introduction

Why Luxembourg Capital Markets?

Luxembourg is widely recognized as a major player in international debt capital markets, with a sound market infrastructure, a responsive regulator and an unrivalled economic stability.

Several elements have contributed to this success, including its strategic and successful position in the primary market, offering a high quality and streamlined listing process which enabled Luxembourg to become the global leader on international securities listings. Likewise, its strong presence in the post-trade segment, including advanced settlement & securities services, secured for Luxembourg a place of choice on the global stage.

Nowadays, capital markets are evolving fast, and Luxembourg main financial actors adapt to such changes very efficiently. Luxembourg-based market infrastructures, including its stock exchange, (I)CSDs and issuance platform, are investing heavily in innovation, digitalization and straight-through processing, in order to always provide solutions which combine the most disruptive technology with the ever more stringent regulatory and security as well as performance requirements that the market needs.

Luxembourg is also investing massively in sustainable finance, positioning itself at the forefront of environmental challenges and offering concrete solutions with socially responsible benefits.

Thanks to this strong will, Luxembourg is today the natural choice for international sustainable finance and provides the world's first platform entirely dedicated to green, social and sustainable securities.

Why this LuxCMA report?

The Luxembourg Capital Markets Association (LuxCMA) intends to provide a global overview of its current ecosystem in terms of key stakeholders as well as business processes.

The present report aims to focus on the primary markets' key players, capabilities and business activities related to (international) debt instruments (including a section dedicated to the display of green, social and sustainability bonds). We will guide you step by step through the different actions and entities involved from the issuance, origination and syndication of a new security as well as the listing, admission to trading and eligibility with the financial market infrastructures.

The report seeks to help issuers and financial institutions to assess and understand the different components of the Luxembourg primary market value chain with a comprehensive review of each of the related main activities and key stakeholders.

Luxembourg Capital Markets Landscape

Secondary Market Primary Market **Post Trade Asset Servicing** Issuance Trade Regulated Trading Notary Function Securities lending Custody & Platform Origination & & Information Settlement Clearing Asset & collateral Placement Servicing management **OTC Market** Transactions Reporting / Managed Services • Intl / Local Issuers • CBL / LuxCSD · LuxSE Regulated Market · LCH and Clearing Members CBL / LuxCSD • Intl / Local Issuers • CBL / LuxCSD · Trading Members · Common Depositories Issuer Agents Investment Banks Common • REGIS-TR Intl / Local Issuers Depositories • Investment Banks • Investment Banks • Law Firms Liquidity Providers · CBL / LuxCSD Custodians LuxCSD Principal Law Firms · OTC Trading platforms · Issuer Paying Agents LuxSE Access to T2S Law Firms Agents • Issuance Platforms • Rating Agency Brokers • BCL / ECB LuxCSD Principal Agents National · National Competent (e.g. eppf) Competent · Settlement Agents · CSSF (if Regulated Authority (CSSF) Authority (CSSF) Market) Issuance Platforms LuxSE (e.g. eppf) Issuance Platforms

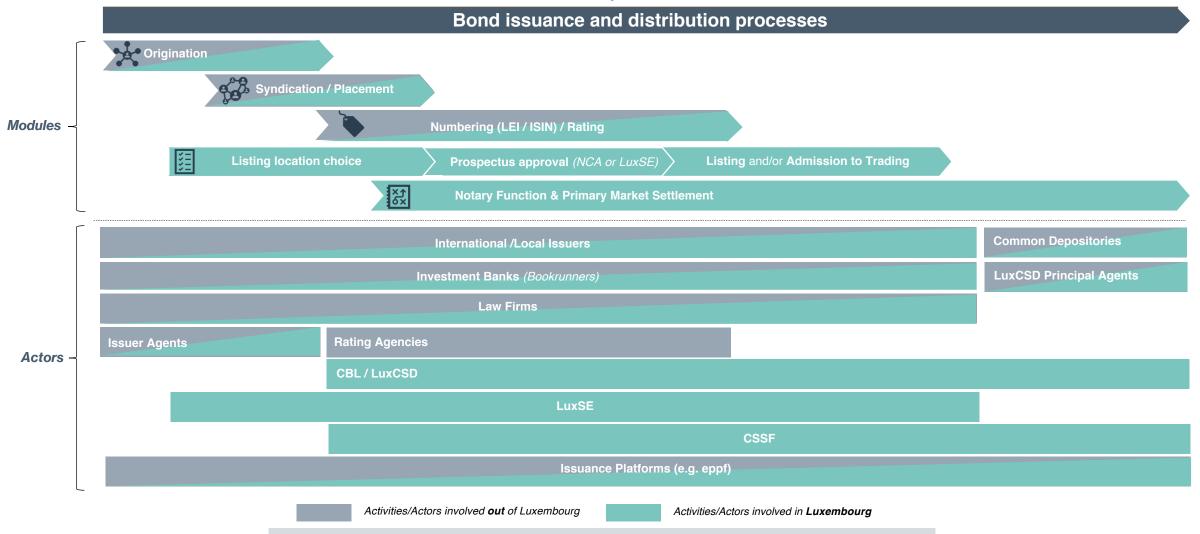


(e.g. eppf)

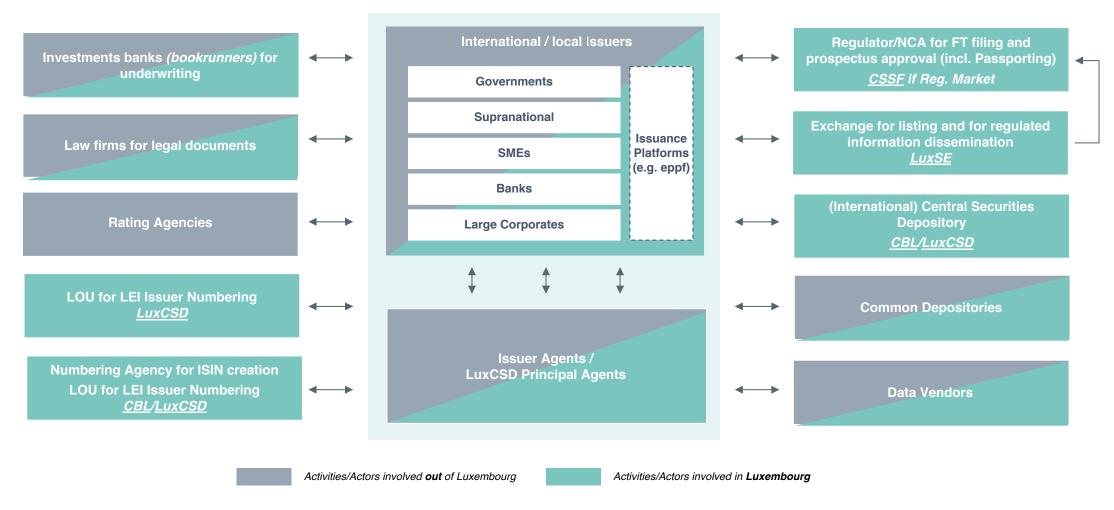
- EU: Prospectus Regulation Framework; MiFID Framework; Market Abuse European Framework; CSDR Framework; Transparency Directive; EMIR (potentially relevant for post-listing)
- LU: Law of 16 July 2019 on prospectus for securities; Law of 5 April 1993 on the financial sector; Law of 23 December 2016 on market abuse; Law of 11 January 2008 on transparency obligations for issuers

Issuance Modules and Actors

Primary Market



High-Level Main Market Interactions



Notes:

Issuance platforms may support one or several of these interactions digitally.

Luxembourg Capital Markets Landscape: Focus on Primary Market Focus on Origination

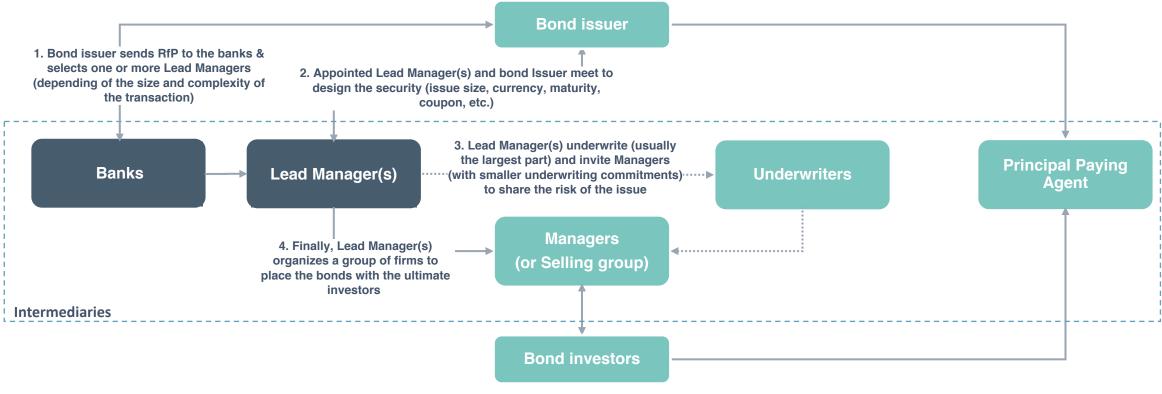
Private phase Public phase Market Sounding Deal Marketing & Rating & Analyst Transaction Preparation & Preliminary Presentation Pricing Marketing **Advisors appointment** Management **Preparations at Transaction Final Rating** Admission advanced stage roadshow announcement Kick-off meeting/ Due diligence One-on-one weekly meetings **Publication of research Stabilisation** substantially complete meetings **Due Diligence Entity numbering (LEI) Target Analyst briefing Analyse demand** Research key investors Prospectus and other **Bookbuilding** legal documents First market sounding Monitor market **Investor relations** preparation **Allocation** Securities numbering Investment case Continuing (ISIN) Analyse feedback obligations development **Execution of transaction** documents Corporate approval of deal Refine size Closing Decide to proceed **Ensure basic** Decide to launch preparedness of with pre-marketing company for compliance with listing obligations <-Procedure for approval by the CSSF/LuxSE->

^{*} Timeline and activities are only indicative. The list is not exhaustive, nor does it present the minimum activities that need to be done.

^{**} We have not considered compliance with the Market Abuse European Framework.

Syndication / Placement

Case: Eurobond Syndication and Placement



- 1. In practice, one company can endorse more than one role.
- 2. In case of a bought deal, lead management, underwriting, and sales are all provided by a unique intermediary.
- 3. Alternatively there could also be a best effort placement without fix underwriting commitments (hence step 3. may be skipped).
- 4. Principal Paying Agent acts also as Fiscal Agent and Trustee (may be needed for English law transactions).

Luxembourg Capital Markets Landscape: Focus on Primary Market Rating Process

Week 1 Weeks 2-5 Weeks 5-11



Define rating strategy

Define rating timetable and information requirements

Conduct initial liaising with Ratings Agencies

Conduct informal meetings with Rating Agencies

Preparation of Rating Agency Documentation Presentation to Rating Agencies and follow-up on issues

Ratings Committees and release of rating



Rating Advisor Issuer

Rating Advisor

Rating Advisor Issuer

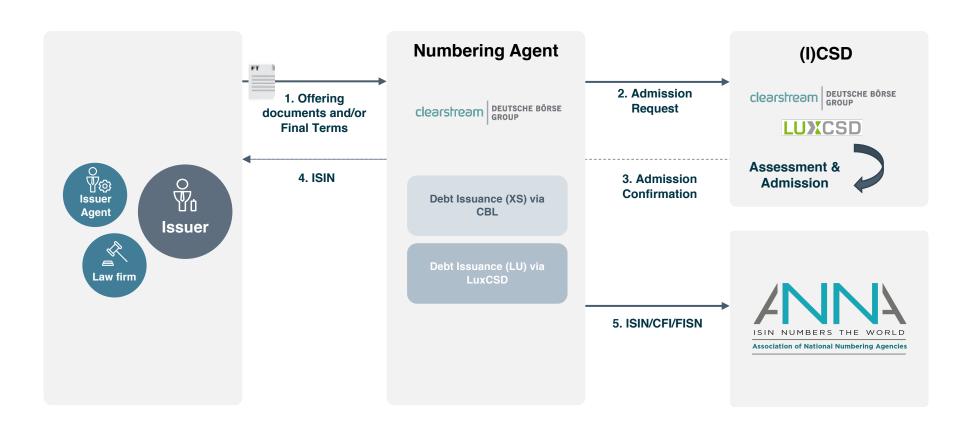
Rating Advisor Issuer

Rating Advisor

Issuer
Rating Advisor
Rating Agencies

Rating Agencies

Luxembourg Capital Markets Landscape: Focus on Primary Market Securities Numbering (ISIN) & (I)CSD Admission



- 1. For securities issued under programme, ISINs are delivered on a pre-allocated basis or real-time via EPIM; for stand-alone securities, requests are reviewed individually and a response provided within 24h.
- 2. (I)CSD admission is not always required for ISIN allocation; for exhaustive ISIN allocation rules & guidelines, please refer to ISO & ANNA publications.
- 3. Details for securities flagged as confidential are not shared with ANNA.

Issuer Numbering (LEI)



Figure: LEI attribution process from GLEIF

"New EU rules (MiFID II/MIFIR) took effect on 3 January 2018. According to MiFIR, investment firms should obtain LEIs from their clients before providing services which would trigger related reporting obligations."

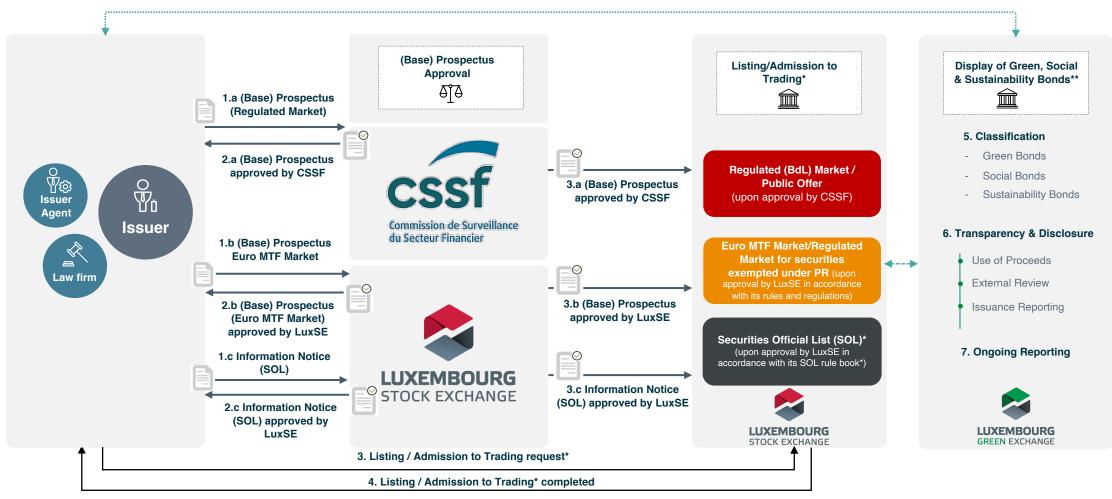
"In the context of primary market distribution, the issuer of the security is required to have a valid LEI." (CSDR requirement).

Local Operating Unit (LOU) in Luxembourg: LUXCSD

LEI may also be applied via LuxSE acting as Registration Agent, as it is an obligation for issuers to have a valid LEI to operate on LuxSE Regulated Market or on LuxSE Euro MTF market and to communicate it to the relevant supervisory authorities.

Approval of (Base) Prospectus for SIPs and bonds - LuxSE

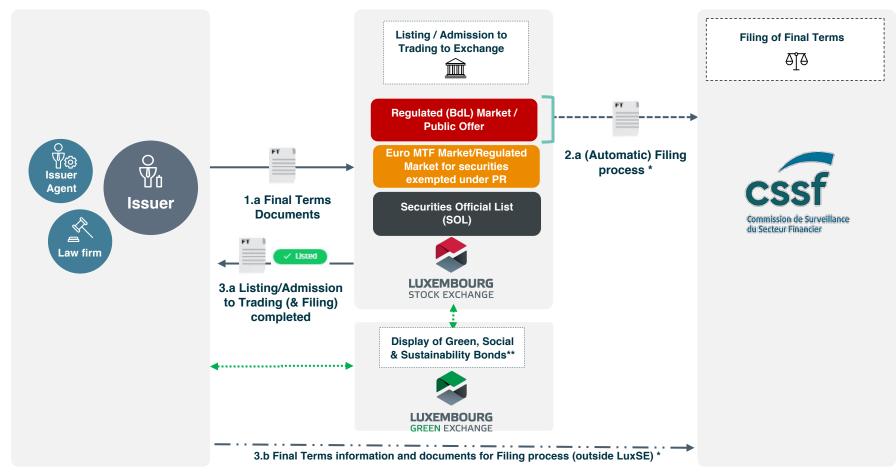
Case: Standalone and Programme for debt securities



Notes: * For SOL only listing applies (no admission to trading). **See Appendix 3 for more information on the Display of Green, Social and Sustainability Bonds.

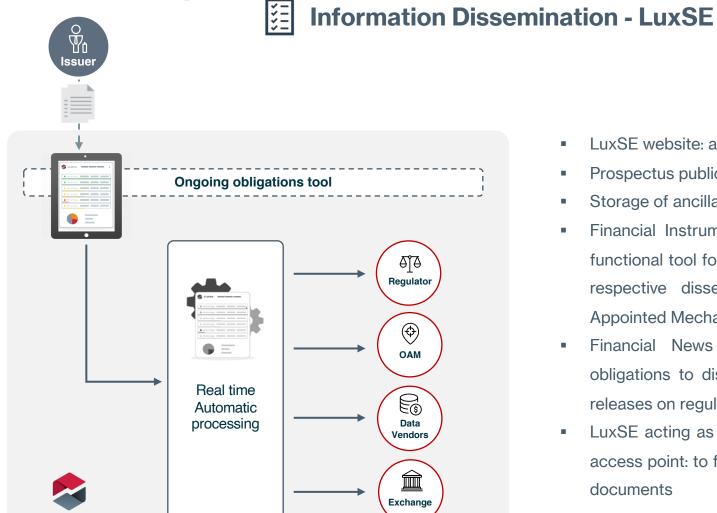
Listings of SIPs and Bonds - LuxSE

Case: Final Terms – Issue Under Programme with Base Prospectus Already Approved by CSSF



^{*} Filing of FT only applies to the listing on the Regulated Market and to Public Offers.

^{**}See Appendix 3 for more information on the Display of Green, Social and Sustainability Bonds & LGX.

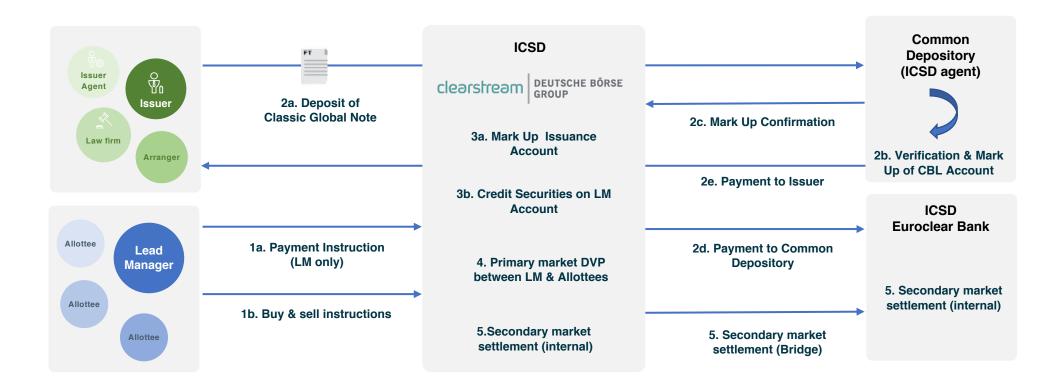


STOCK EXCHANGE

- LuxSE website: access to centralised information
- Prospectus publication
- Storage of ancillary documents (PLUS)
- Financial Instruments Reporting Services Tool (FIRST): multifunctional tool for reporting, filing and storage of documents for respective dissemination to the market, to the Officially Appointed Mechanism (OAM) and/or the regulator
- Financial News Services (FNS) to comply with issuers' obligations to disseminate notices, announcements and press releases on regulatory and statutory information
- LuxSE acting as OAM for Luxembourg / Regulated information access point: to file, store and consult regulated information and documents

Notary Function and Primary Market Settlement

Case: Syndicated Distribution via ICSD



- 1. All payment (1a) and buy & sell (1b) instructions from the Lead Manager and the allottees shall be entered into the ICSD systems ahead of the new issues closing date.
- 2. The payments to the Issuer (2e) is only executed upon effective closing and deposit of the Global Certificate (Classic Global Note).
- 3. The above illustration is valid for syndicated distribution for securities issued in Classic Global Note form; for securities issued in New Global Note form or non-syndicated distribution, please refer to Clearstream publications.

Appendix 1 Abbreviations

- ANNA: Association of National Numbering Agencies
- BCL: Banque Centrale du Luxembourg, acting as National Central Bank for Luxembourg
- BdL: Bourse de Luxembourg (Regulated Market)
- CBL: Clearstream Banking Luxembourg
- CSSF: Commission de Surveillance du Secteur Financier, acting as NCA for Luxembourg
- **ECB:** European Central Bank
- **eppf:** European primary placement facility
- FT: Final Terms
- ICSD: International Central Securities Depository
- ISIN: International Securities Identification Number
- LEI: Legal Entity Identifier
- LOU: Local Operating Unit
- LGX: Luxembourg Green Exchange
- LM: Lead Manager
- LuxSE: Luxembourg Stock Exchange
- NCA: National Competent Authority
- OTC trade: Over The Counter (outside Stock Exchange) trade
- RfP: Request for Proposal
- SIPs: Structured Investment Products

Appendix 2 Definition of Regulations



Prospectus Regulation Framework: Regulation (EU) 2017/1129 (as amended), as well as any implementing acts, rules and regulations

MiFID Framework: Directive 2014/65/EU (as amended) and Regulation (EU) No 600/2014 (as amended), as well as any implementing acts, rules and regulations

Market Abuse European Framework: Regulation (EU) No 596/2014 (as amended), as well as any implementing acts, rules and regulations

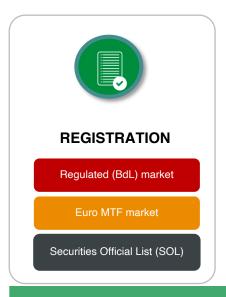
CSDR Framework: Regulation (EU) No 909/2014 (as amended), as well as any implementing acts, rules and regulations

EMIR: Regulation (EU) No 648/2012 (as amended), as well as any implementing acts, rules and regulations

Transparency Directive: Directive 2004/109/EC (as amended), as well as any implementing acts, rules and regulations

Appendix 3: Display of Green, Social and Sustainability Bonds –

Luxembourg Green Exchange









COMMITMENT TO ONGOING REPORTING

LGX review process

Upon receipt of the listing documentation LGX verifies the availability of:

- Use of Proceeds
- Framework
- External Review

If the documentation is available, LGX will immediately start to classify the security and proceed to onboarding.

No formalised request required from the issuer

A rigourous three level validation process will determine if the security complies with LGX criteria, if positive:

Issuance Reporting

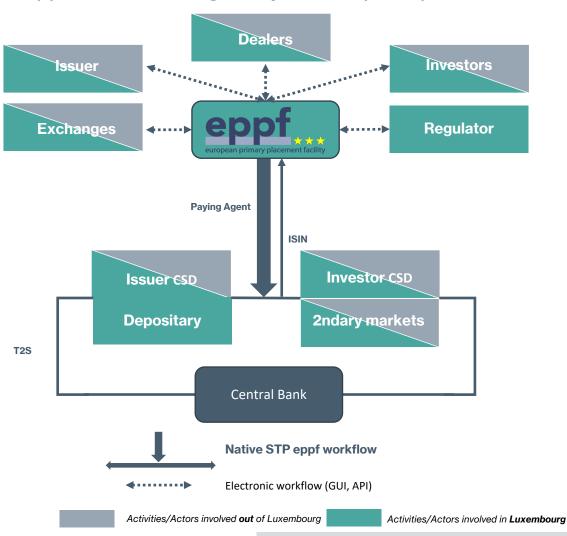
Security admitted to LGX & confirmation message sent to the issuer

Post issuance reporting is verified 12 months after issuance. After review the report is uploaded to the issuer's security card.

No action required by the issuer

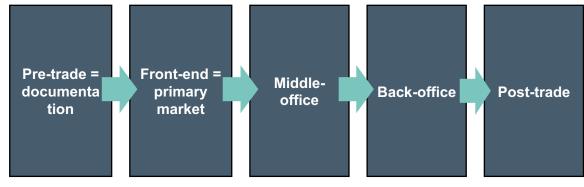
Appendix 4: eppf end-to-end value chain, simplified workflow

eppf is Luxembourg's only one-stop-shop



eppf: covering value chain end-to-end (high level view)

All steps along value chain covered: pre-trade with modular documentation, price discovery incl. term sheet automation, full middle-/back-office suite and post trade incl. clearing and settlement connections out of one hand.



- machine readable digital documents
- full optionality to reflect issuer's standard
- Crossinstrument usability
- to date: via traditional channel from banks to investors
- to come: digital eppf solution
- Digital riskmanagement + monitoring tool to prevent error transmission
- Provision of central data hub

- payments
- Custody*Settle-
- ment*
 final docu-
- mentation
- Clearing*Listing*
- on going compliance / reporting

^{*} via GUI or API connections to service providers

About the LuxCMA - Luxembourg Capital Markets Association

Created on 1 March 2019, the LuxCMA is a not-for-profit association (a.s.b.l.), registered at the RCSL (F12205), whose registered office is 6 rue Jean Monnet, L-2180 Luxembourg. The LuxCMA today represents memberships detailed on LuxCMA's website (www.luxcma.com), which is composed of banks, law firms and services providers, amongst others.

Working Group - Infrastructure

The main purpose of the Infrastructure Working Group is to cover topics related to market infrastructures, as well as preparing relevant position papers.

For more information, please contact info@luxcma.lu

LuxCMA - Luxembourg Capital Markets Association

6 rue Jean Monnet, L-2180 Luxembourg email: info@luxcma.lu

Connect with us on www.luxcma.com or via LinkedIn LuxCMA

