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Securitization market:

Is the current economic environment leading to more growth and opportunities?

9 February 2023

AGENDA

9 February 2023

Securitization market: Is the current economic environment leading to more growth and opportunities?

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2 Economy outlook and challenges

3 New securitization law: key learnings and observations in the Luxembourg market

4 Tax challenges for using transparent vehicles and how it works

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6 Valuation: Hot topics

7 Crypto assets: the future of Finance?

8 ESG: Where do we stand today and next steps

9 Luxembourg securitization market: Analysis and perspectives

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Introduction

Papa Saliou DIOP

Partner,

Banking & Capital Markets,

Securitization Leader

EY Luxembourg

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Economy outlook and challenges

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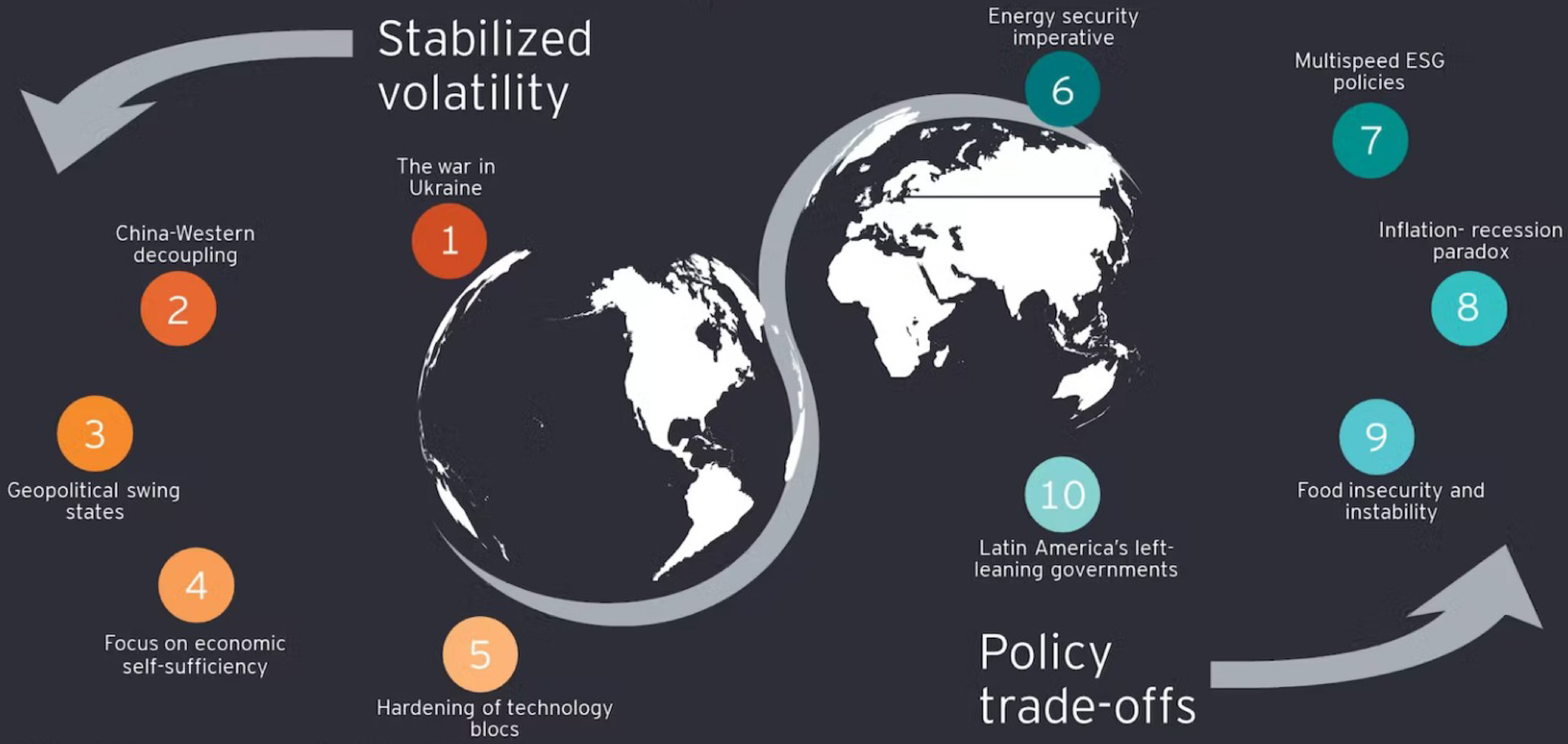
Geopolitical developments in 2023 – business implications



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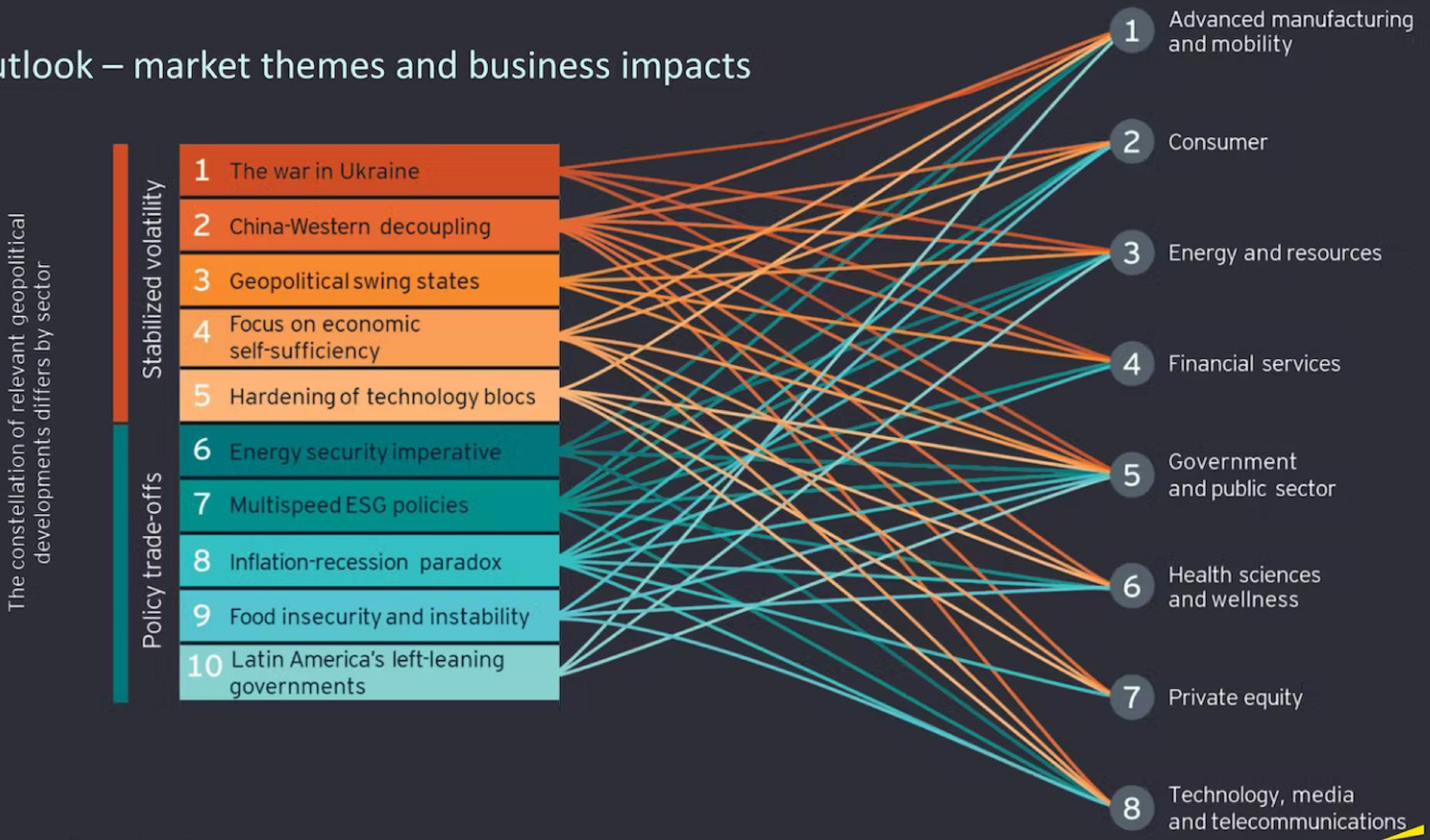
2023 Geostrategic Outlook – market themes and business impacts

The top 10 geopolitical developments in the 2023 Geostrategic Outlook will have broad-based impacts on companies across sectors and geographies. But each development is likely to have more direct impacts on certain sectors, particularly in the near to medium term.



Source: EY analysis

Note: The top 10 geopoitical developments will have varying levels of impacts on sectors. Only the largest impacts are shown on this graph.

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Geostrategic priorities – challenges and opportunities for global organizations

1. Manage higher costs.

Inflation is already high in many markets around the world and almost all the geopolitical developments in 2023 are likely to continue to push costs up for companies in the year ahead. Companies should expect higher costs for capital, energy, labor, and production inputs, including agricultural commodities, green minerals and semiconductors.

In addition, government policies may push up regulatory compliance costs and tax bills for some companies. Executives should assess which rising costs are likely to impact their company and seek to proactively manage them. This could include restructuring supply chains and collaborating with suppliers and customers to limit price increases. It could also include strategies to enhance cross-border operating model effectiveness. And enhancing energy efficiency and decarbonizing business processes could lower energy costs for some companies.

2. Evaluate supplier ecosystems.

All 10 of the top geopolitical developments in 2023 are likely to impact supply chains — the second year in a row for which this is the case. Geopolitical tensions and competition among governments to achieve self-sufficiency in geostrategic products will continue to complicate existing cross-border supply chains. Strategic supply chain shifts are likely to be most significant surrounding the technology sector — including companies within the sector as well as their suppliers and customers.

Executives should examine their supply chain partners and the potential risks they pose as part of a multidimensional risk assessment and identify opportunities to leverage nearshoring, onshoring or friend shoring supply chain strategies. Positioning supply chains to support business growth and resilience in the medium to long term will require strategies that consider sustainability and other ESG considerations alongside geopolitical dynamics.

Geostrategic priorities – challenges and opportunities for global organizations

3. Explore opportunities in "friendly" markets.

The ongoing structural shift toward greater use of industrial policies amid a focus on economic self-reliance requires companies to reassess their strategies. International business models will persist in the emerging multipolar world, but they will need to adapt to new geopolitical realities. The most robust strategies will reflect the reality that geopolitical alliances are likely to impact business decisions as much as economic considerations in the years ahead.

Executives should explore growth and investment opportunities in their home markets, as governments are likely to offer preferential financing, reduced tax rates or other incentives to onshore production in a variety of geostrategic sectors. Executives should also assess their home country government's network of alliances and trade agreement partners, as companies are likely to face lower levels of geopolitical risk in such "friendly" markets.

4. Align strategies with stakeholder priorities.

In the emerging era of stakeholder capitalism, companies should proactively manage dynamic political risks by developing an understanding of how they might impact stakeholders — and how geopolitical developments may shift stakeholder priorities and their expectations of companies.

Executives can then create a growth strategy designed to fulfill stakeholder responsibilities. For instance, a company's sustainability and ESG strategy can be designed to satisfy the demands of customers, employees, investors and policymakers — proactively mitigating the impact of potential future ESG regulations and compliance processes while driving greater financial value. At times the priorities of different stakeholders may diverge, though, complicating companies' efforts. Executives should prioritize strategic actions that align with a broad set of stakeholder priorities and simultaneously unlock new business opportunities — such as an onshoring strategy to advance governments' self-sufficiency goals while also leveraging new technologies and talent pools.

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Geostrategic priorities – challenges and opportunities for global organizations

5. Conduct scenario planning.

Effectively navigating geopolitical uncertainty requires scenario analysis — the systematic exploration of multiple plausible futures. This is true for many of the individual developments highlighted in the 2023 Geostrategic Outlook — including the war in Ukraine, China-Western decoupling and geopolitical swing states — and it is also true at the global macro level. In shaping their company strategy, executives should not rely on only one set of predictions about the outlook for globalization, as it may prove incorrect. They should instead assess the potential business implications and strategic imperatives of several alternative global operating environments, rather than trying to predict a precise outcome.

New securitization law: Key learnings and observations in the Luxembourg market

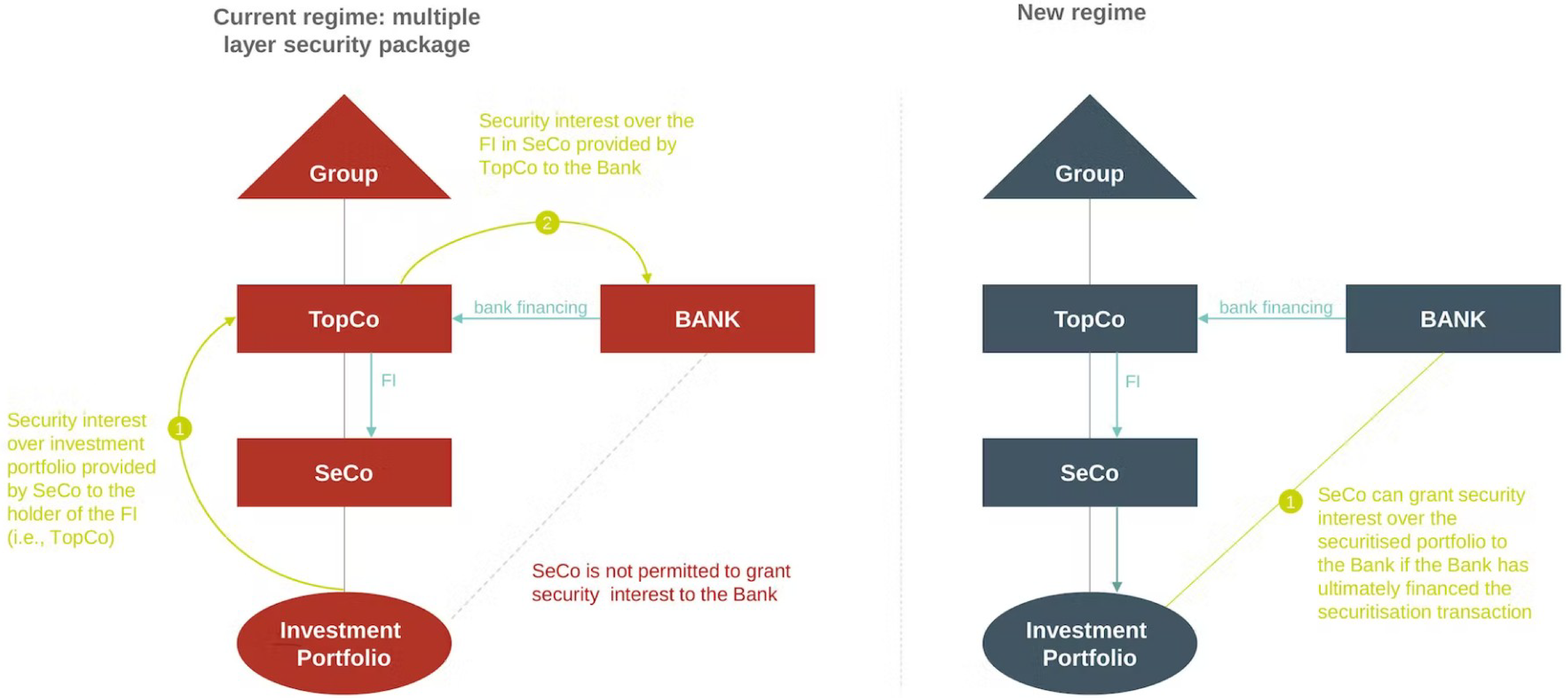
Frank Mausen

Partner, Allen & Overy

Main changes

- Broadening the means of financing: securities replaced by financial instruments and loans **(widely used)**
- Activities triggering regulatory supervision: ongoing public offering requirements included in law
- Active management of CDOs and CLOs: permitted for private placements only **(no CLOs so far in L)**
- New corporate forms: SCS, SCSp, SNC & SAS **(not yet used)**
- Compartment operation adjusted for equity financings: balance sheet & PnL approved per compartment; profits and reserves determined per compartment
- Requirement to register securitisation funds in LBR
- Security interests and guarantees more broadly available **(used by alternative funds)**
- Statutory subordination for different types of financial instruments **(starts being used)**

Security interests and guarantees



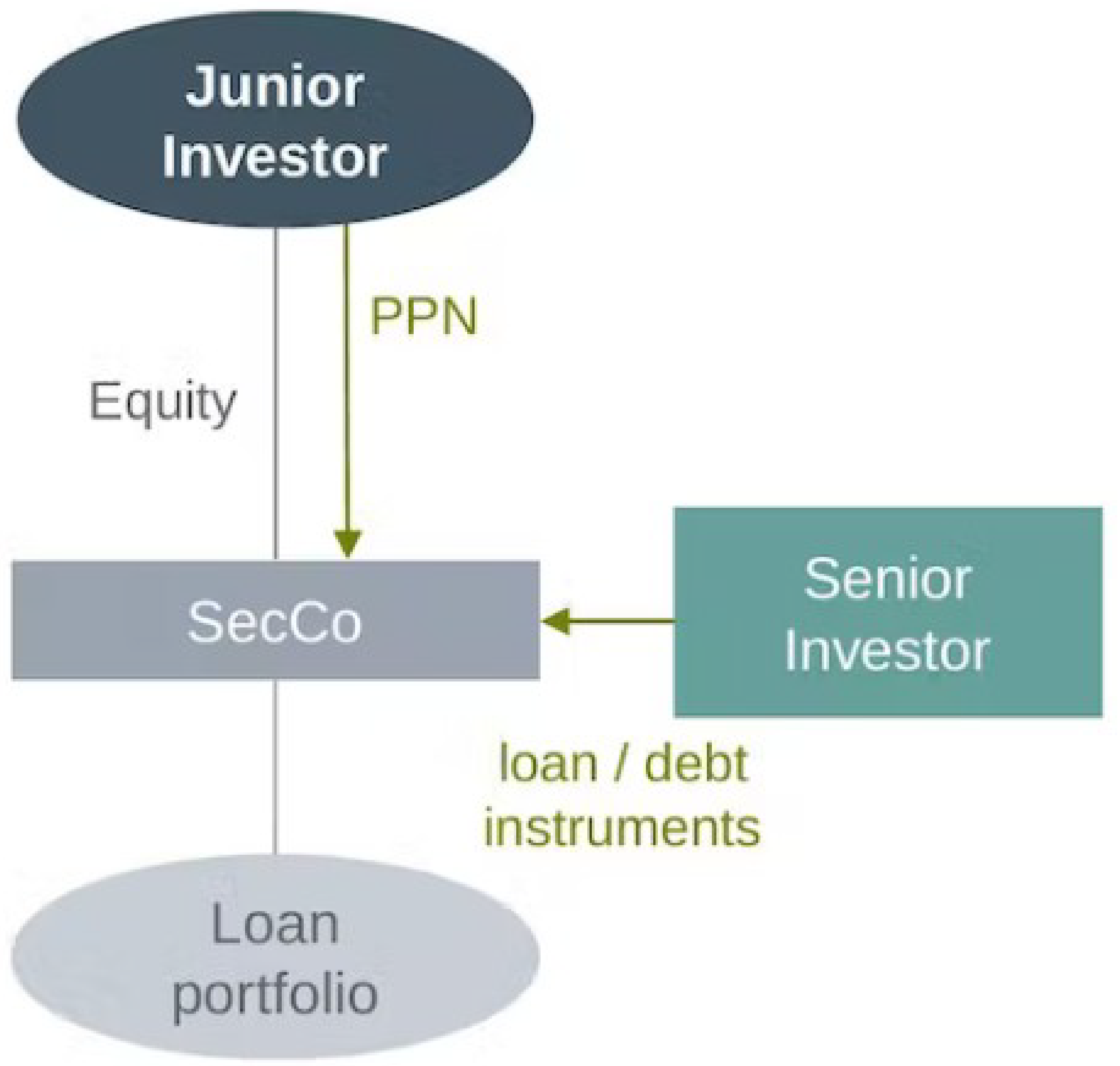
Statutory subordination for different types of financial instruments

New rules under the Securitisation Act 2004:

Art. 64(1)

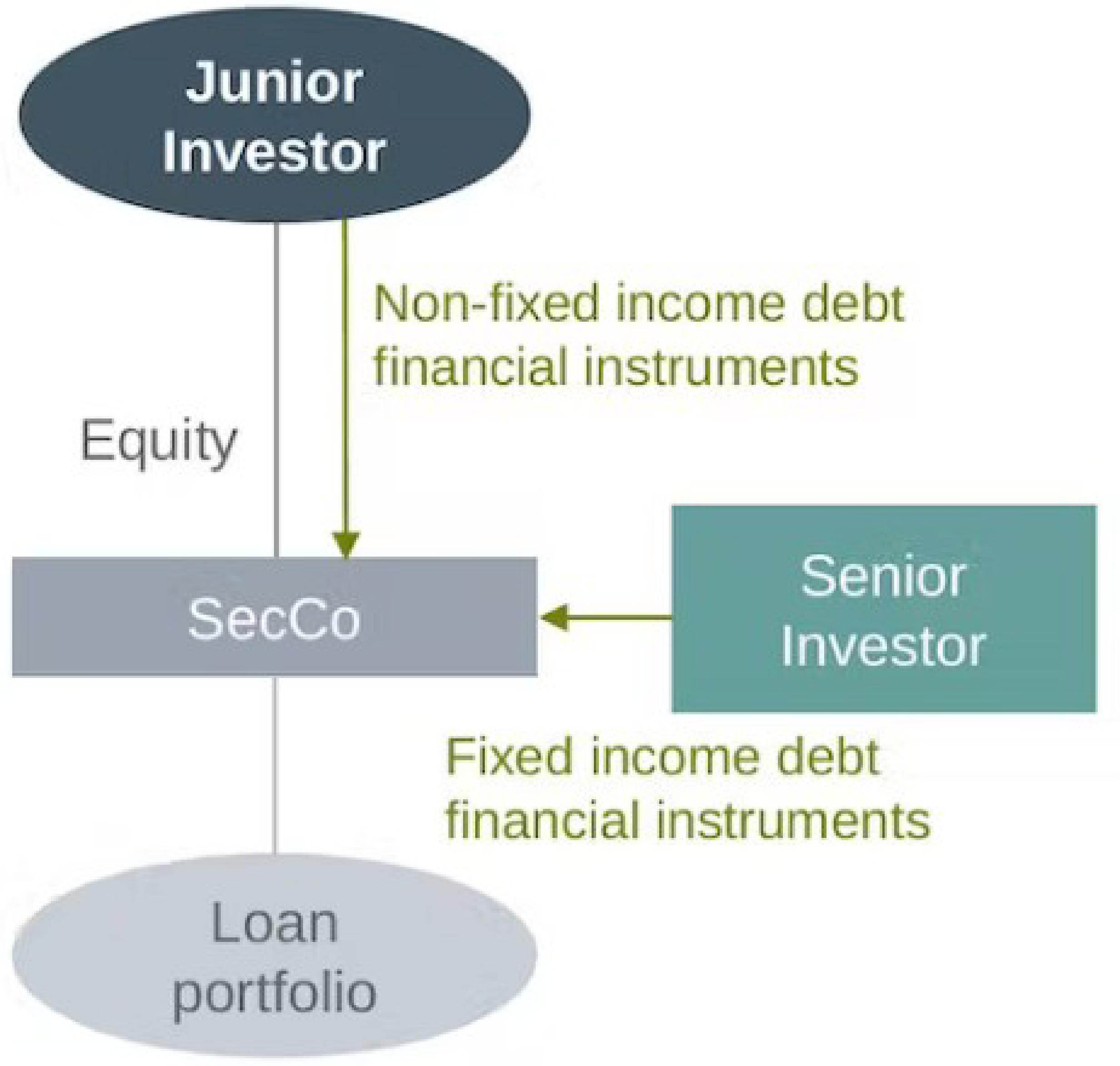
1. Units of a securitisation fund are subordinated to other financial instruments issued by the securitisation fund and borrowings contracted by it.
2. Shares (actions), corporate units (parts sociales) or partnership interests (parts d'intérêt) in a securitisation company are subordinated to other financial instruments issued by such securitisation company and borrowings contracted by it.
3. Shares (actions), corporate units (parts sociales) or partnership interests (parts d'intérêt) in a securitisation company are subordinated to beneficiary shares (parts bénéficiaires) issued by it.
4. Beneficiary shares issued by a securitisation company are subordinated to debt instruments issued and borrowings contracted by it.
5. Non-fixed income debt instruments issued by a securitisation undertaking are subordinated to fixed income debt financial instruments.

Statutory subordination - Practical examples



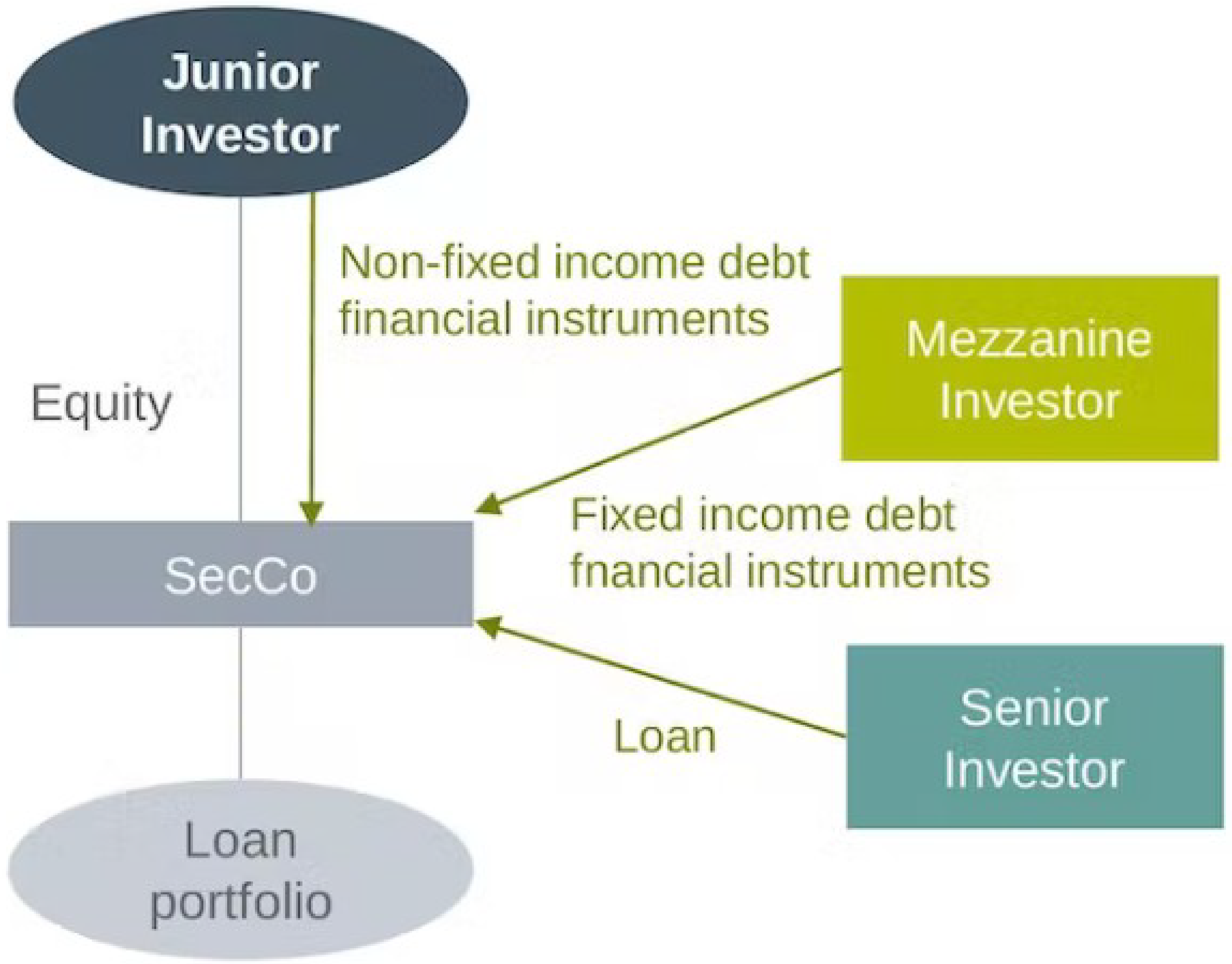
Example prior to new Securitisation Law

- Contractual subordination
- **Sec Reg may potentially apply**



Application of art. 64(1) of the new Securitisation Law

- Statutory subordination
- **Sec Reg would not apply**



New Securitisation Act:

- Contractual subordination at loan level
- **Sec Reg may potentially apply**

Tax challenges for using transparent vehicles and how it works

Anja Taferner
Executive Director
Tax
EY Luxembourg

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Tax transparent vehicles

Partnerships, funds

- Generally not taxable
- Also no access to tax treaties
- Pay attention to who owns equity units
  - Possible adverse tax consequences if held by
    - Luxembourg corporate
    - Non-Lux entity in certain jurisdictions

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Status of SSPE exemption

- Draft law pending
- Earliest application 2024

Digitalization: Current trends and impacts

Ajay Bali

Partner

Digital Emerging Technologies and Data Solutions Leader

EY Luxembourg

DIGITALIZATION: CURRENT TRENDS AND IMPACTS

Cost, risk, and compliance management are becoming increasingly difficult due to a lack of digitization and automation throughout the securitization process

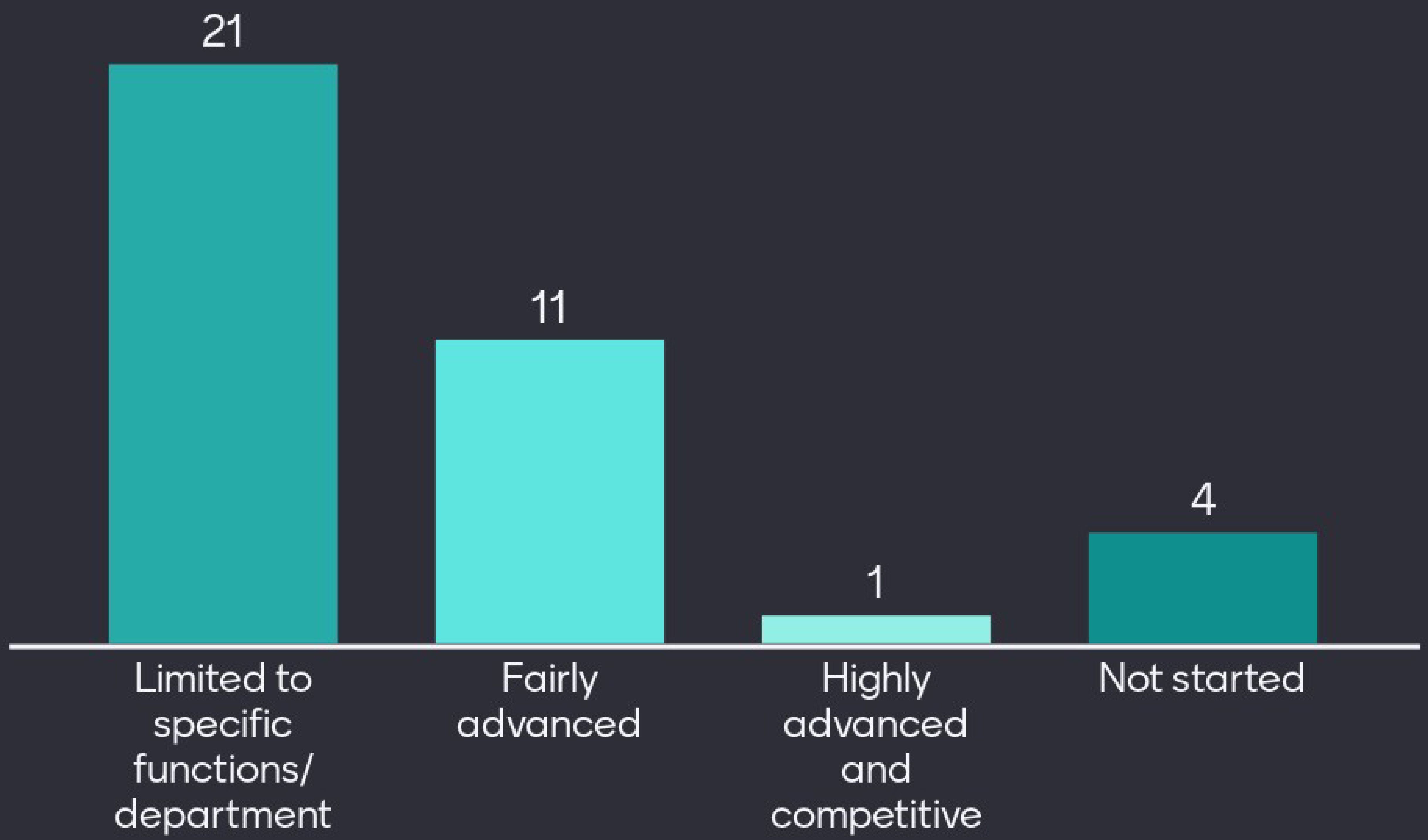
Manual Accounting process
(i.e., Balance sheet reconciliation,
Invoicing, Journal entry)

Paper based work
(i.e., Legal document, contracts)

Compliance issues
(i.e., Reporting, due diligence, Tax)

Opaque
(i.e., Onboarding, structuring and service cost)

What is your status of digital maturity in your oganization?



Which process will benefit from digitalization in terms of process optimization?

On-boarding	accounting	Book keeping
On-boarding	Accounting	Reporting
Reporting	Reporting	Kyc

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Which process will benefit from digitalization in terms of process optimization?

Aml cft	Legal documentation	Onboarding and accounting
Investor/client interface	All	Investor onboarding
I don't know	Reportingg	Reporting

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Which process will benefit from digitalization in terms of process optimization?

KYC	Reporting	Reporting

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What are you key expectations from digitalization?

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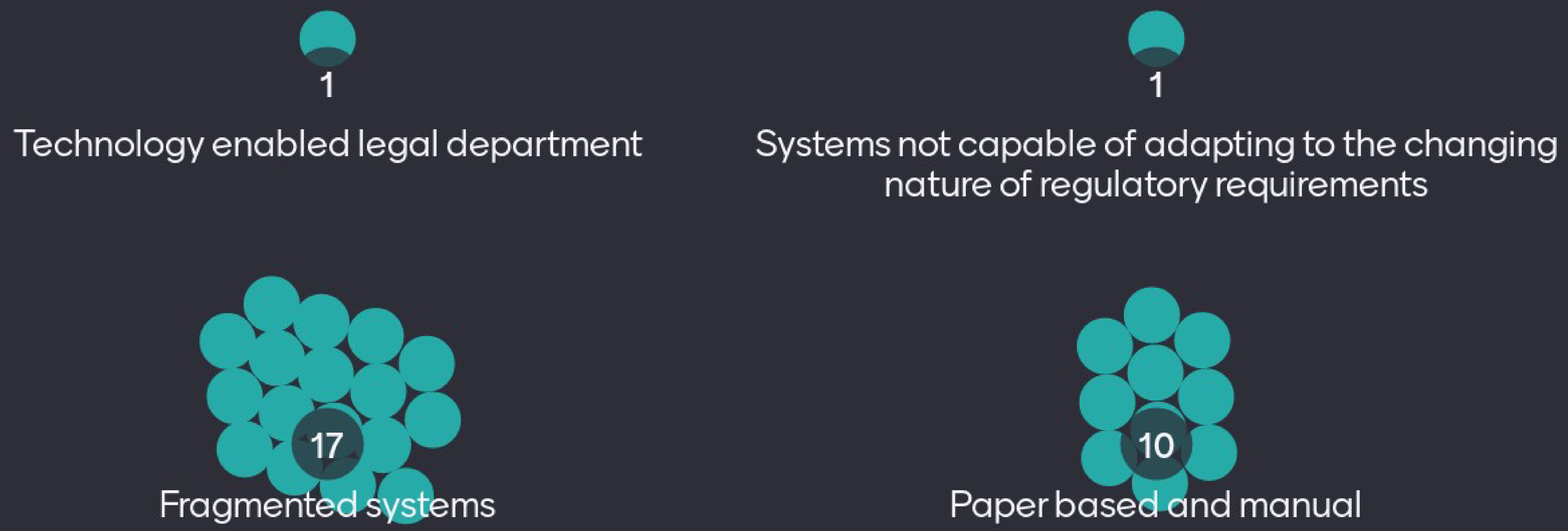
When it comes to legal and regulatory compliance, how is your organization currently handling the process?



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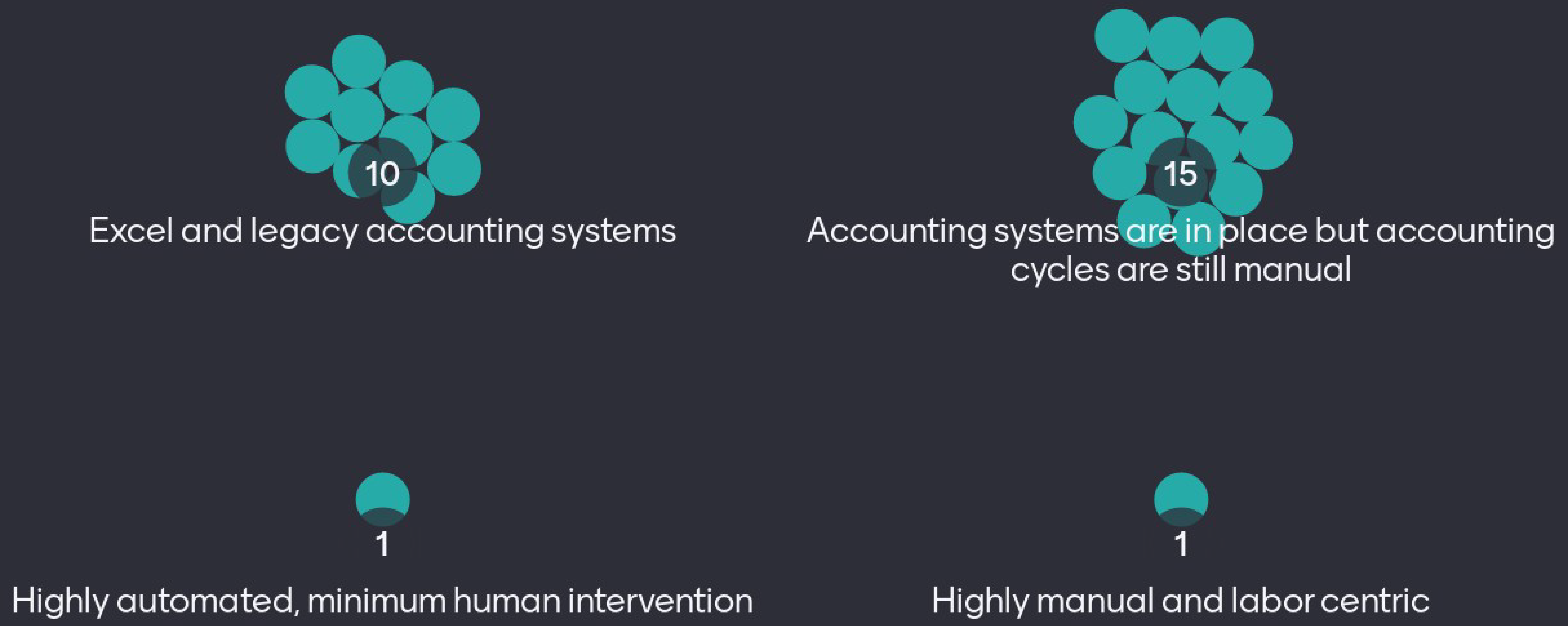
How are your organization's bookkeeping processes managed?



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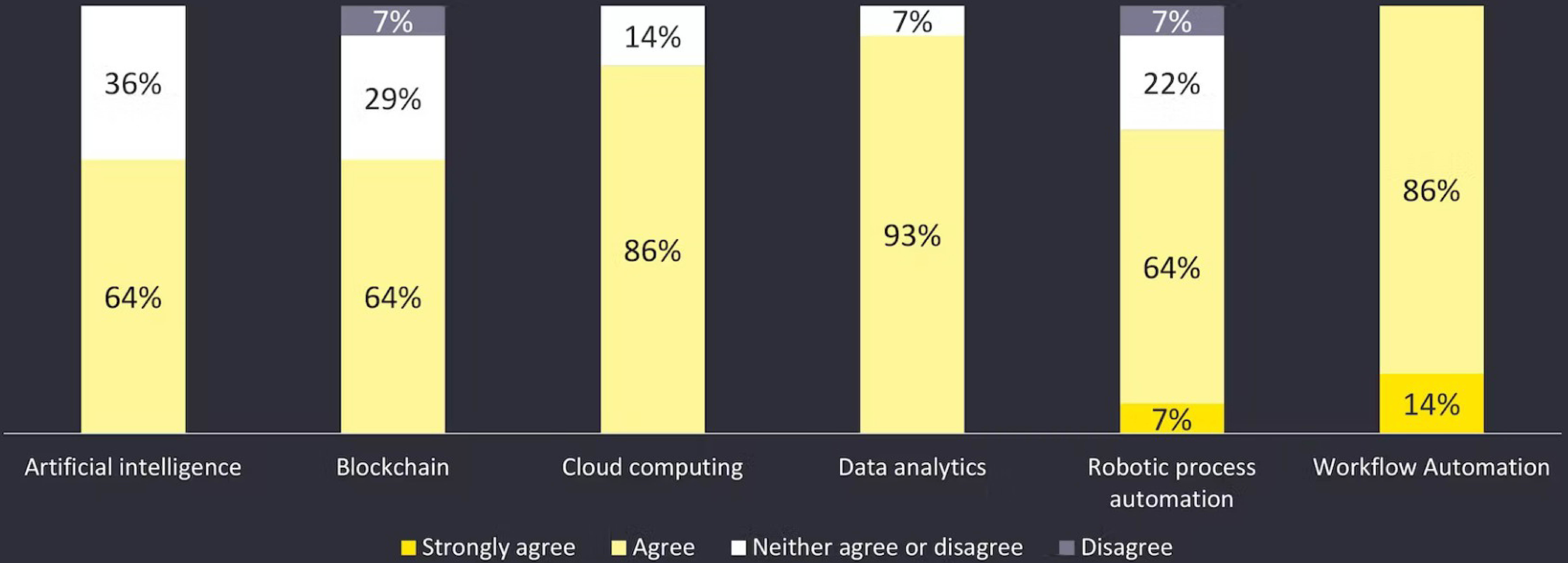
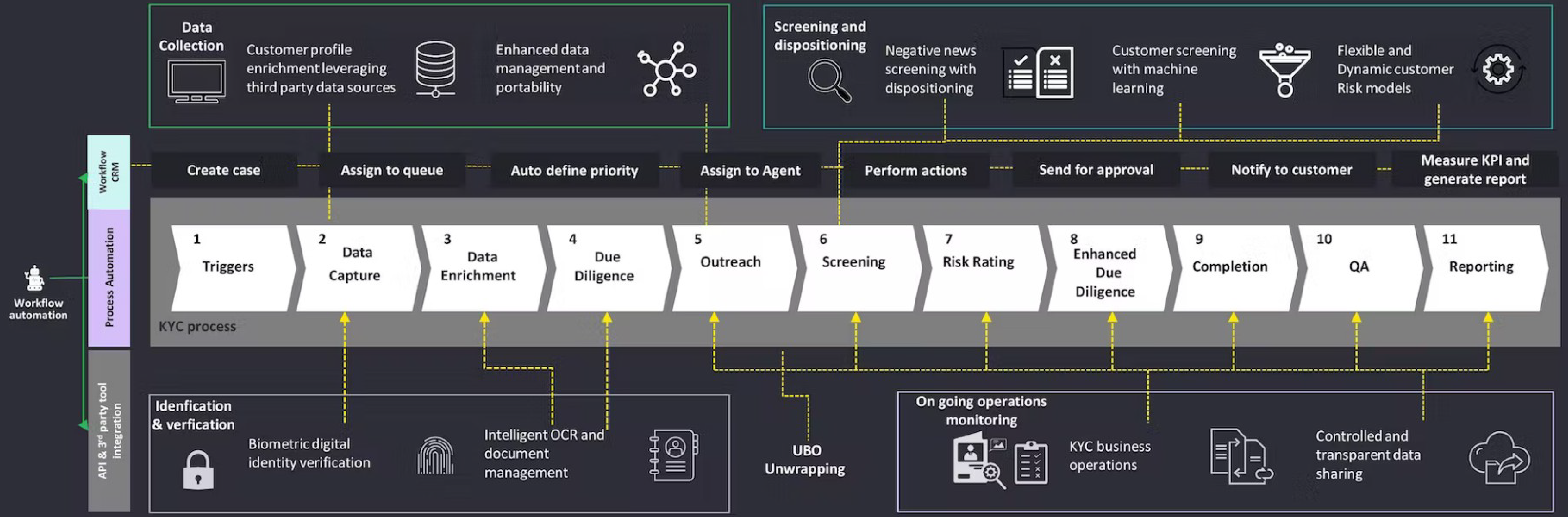
DIGITALIZATION: CURRENT TRENDS AND IMPACTS

TO WHAT EXTENT DO YOU BELIEVE THE FOLLOWING EMERGING TECHNOLOGIES WILL IMPACT YOUR INDUSTRY NOW AND IN NEXT 2-5 YEARS?



DIGITALIZATION: CURRENT TRENDS AND IMPACTS

Client/investor onboarding – Potential for 70% efficiency gain through workflow automation



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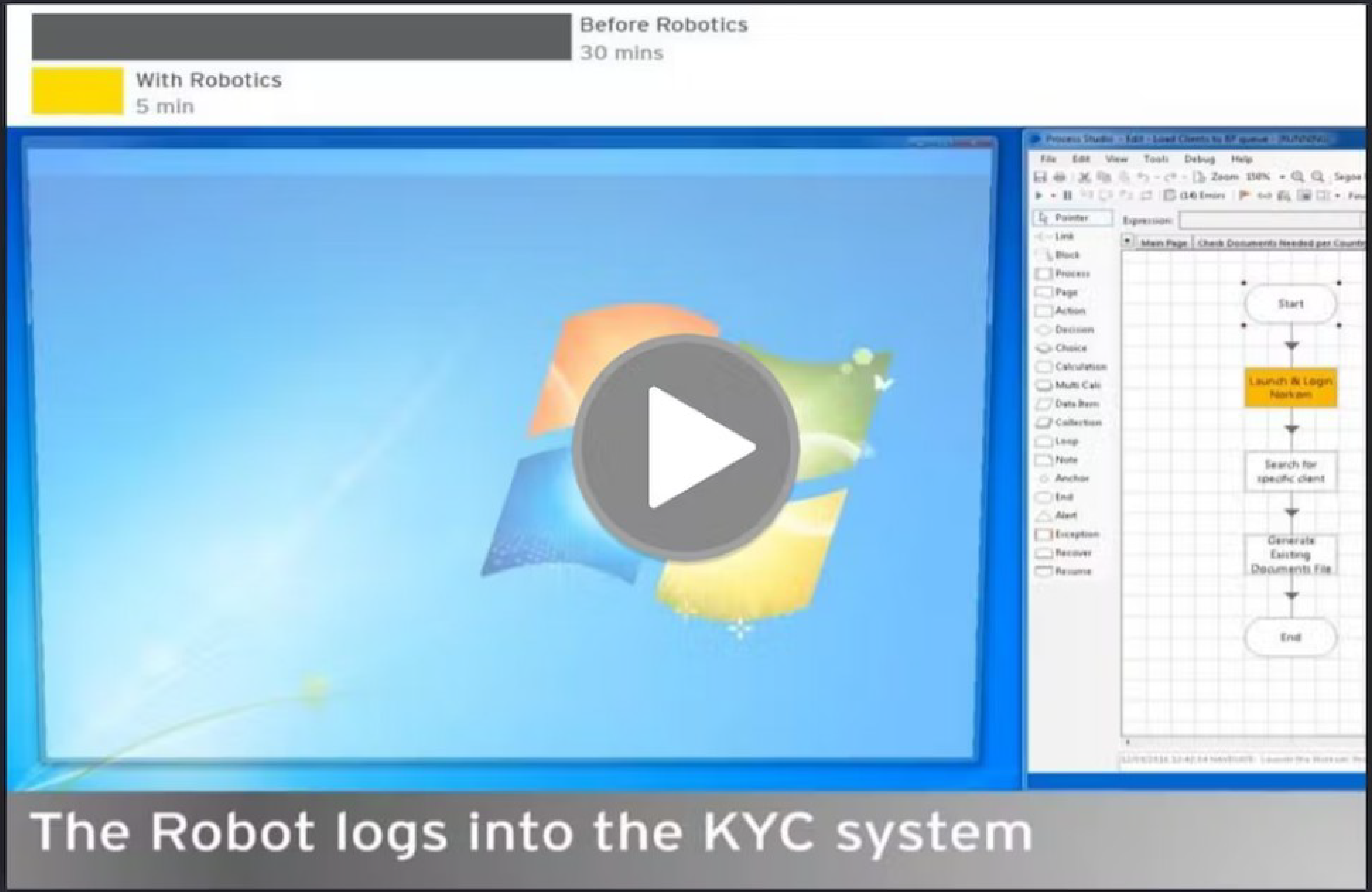
CLIENT ONBOARDING AUTOMATION



DIGITALIZATION: CURRENT TRENDS AND IMPACTS

Emerging technologies are reshaping the securitization process, with a variety of stakeholders already using and reaping the benefits through automation

Client/investor onboarding

Benefits

- Automated risk rating
- 60% speed to market
- 70% efficiency gain
- Audit trail

Financial statement closure and journal entry

Benefits

- 100% accuracy
- Working capital insights
- Reduced processing time up to 90%

Invoice processing

Benefits

- 93% fully automated
- Cash Flow and Performance Optimization

Document intelligence and insights for contracts

Benefits

- Key data points
- Summary reports
- Anomaly deductions

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Valuation: Hot topics

Christophe Vandendorpe
Partner
Strategy and Transactions Leader
EY Luxembourg

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Valuation: Hot topics

Interview

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Crypto assets: the future of Finance?

Romain Swertvaeger
Partner, Fintech Leader
EY Luxembourg

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Securization market event
Crypto assets – the future of finance

Main trends:

- The rise of tokenization
  - Use cases
  - Opportunities/challenges
- Will DeFi be the new revolution?
  - Definition
  - Opportunities/challenges
- Stablecoins and crypto assets – Any future?
- Impacts of blockchain and tokenization on securization

Securization market event
Crypto assets – the future of finance

Regulatory overview:

- Overview on current market turmoil and impacts
- MiFID
- MiCar

How do you believe securization can benefit from the blockchain technology and tokenization?

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ESG:
Where do we stand today and next steps

Vanessa Müller
Partner
ESG Services Leader
EY Luxembourg

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ESG: Where do we stand today and next steps

Interview

08 Defining the emerging sustainability information ecosystem

While there are increasing connections between the financial and the sustainability information ecosystems, there are additional voices in the sustainability information ecosystem, including but not limited to largely unregulated ESG ratings and data providers, civil society, including activist investors, and employees.

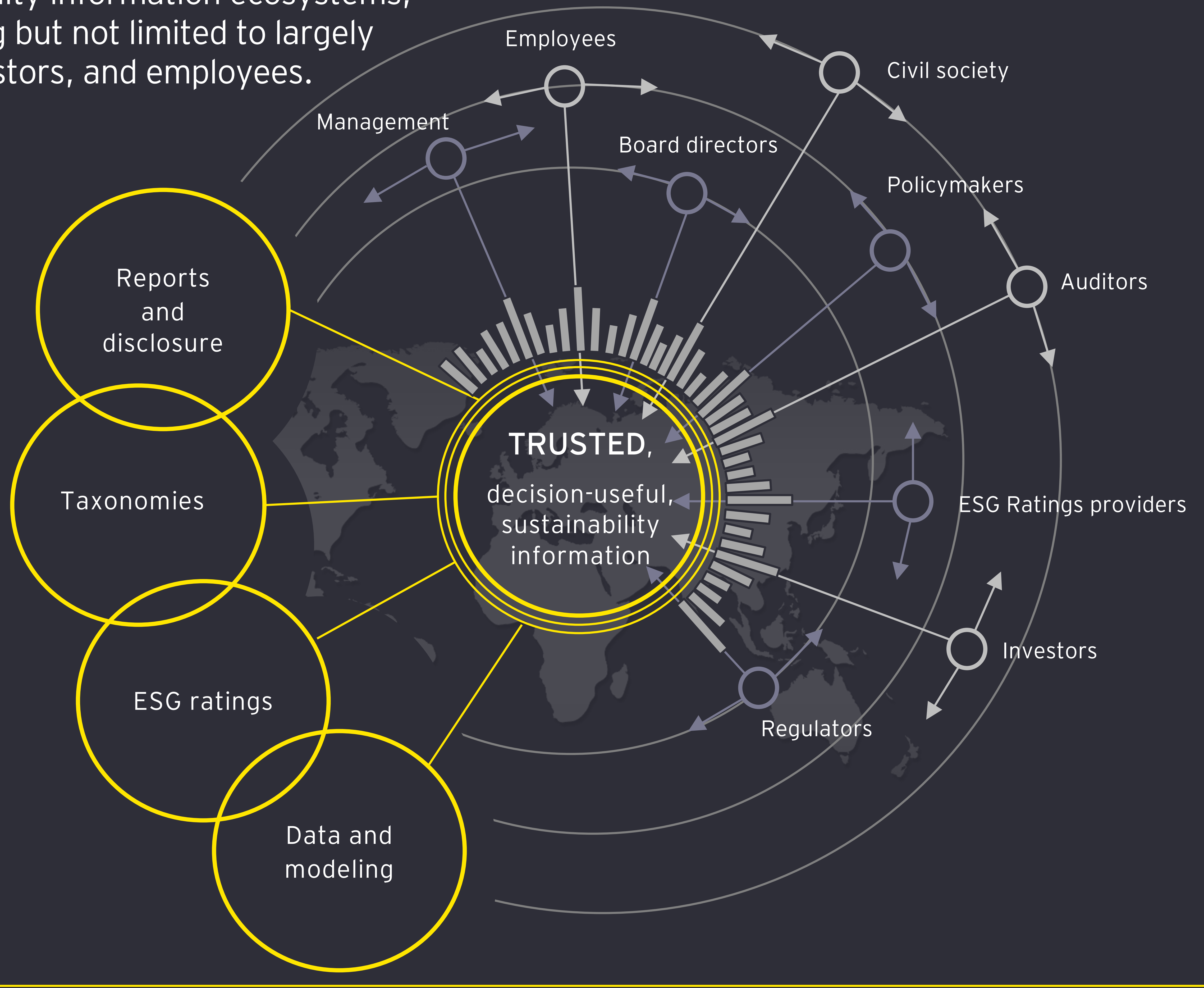
The sustainability information ecosystem intends to serve two primary investor groups:

Those focused on financial risk

That is, those who seek material information related to the financial impact on a company of sustainability-related factors

Those focused on social impact

That is, those who seek information about the company's impact on its external surroundings (including on people, communities, the environment, and society)



To better suit the needs of investors looking for useful ESG data, those within the sustainability information ecosystem must build trust and improve collaboration

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Key EU ESG regulations timeline

International ESG voluntary standards have been in the market for a long time, but now there are more stringent, mandatory ESG-related regulations that will directly impact all industries. The EU Sustainable Finance Action Plan sets out a series of regulations that aim at integrating corporates' and investors' sustainability reporting, including SFDR and the Taxonomy regulation.

08

Sustainable Finance Disclosures Regulation (SFDR) - Overview

Summary of the main requirements

- SFDR introduced mandatory ESG disclosure requirements for asset managers and other financial markets participants. It aims to foster more transparency with respect to sustainability risks, adverse sustainability impacts and financial products targeting sustainability-linked objectives
- SFDR is integrated by the Regulatory Technical Standards (RTS) that specify the manner in which the information reported in SFDR shall be disclosed
- The RTS align with the Taxonomy the disclosures of financial market participants

Main challenges to be addressed

1. **Collecting data from investee companies:** the accuracy of disclosure at fund-level depends on the quality of disclosure at asset-level from assets in the portfolio
2. **Integrating data from non-EU companies:** Large non-EU companies have been excluded from the European Commission proposal; however, they can be found in EU funds portfolios
3. **Selecting estimates:** the accuracy of disclosure at fund-level will also depend on the choice of estimates where data at entity-level is not available

Main implications

Sustainable Finance Disclosures Regulation (SFDR)

Applicability

All asset managers (IFMs) and funds

Categorization of funds

- Art. 8 — Financial products promoting ESG characteristics with no sustainability objective ('light green')
- Art. 9 — Financial products with a sustainability objective ('dark green')
- Art. 6 — All other products

- 10th March 2021: applicability of SFDR (Level 1)
- 1st January 2023: Applicability of SFDR RTS (Level 2)

Information to be provided

Integration of sustainability risks in investment decisions… — How it reflects on the remuneration policy — Consideration of Principal Adverse Impacts of investments on sustainability factors — ESG categorization of the financial product — For Art. 8 & 9: Proportion of investments in the portfolio aligned with the Taxonomy

Where to disclose

1. Website of the IFM or of the product
2. Pre-contractual documents
3. Periodic reports

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EU Taxonomy - Overview

A regulatory classification system for sustainable economic activities

Short definition

- The EU Taxonomy is a classification system, which will be used to determine which corporate activities are sustainable.
- The Taxonomy will create a common language for companies, investors, and society alike.
- Corporate activities (known as economic activities under the Taxonomy regulation), will need to be aligned with certain sustainability criteria to be considered sustainable or "green" under the Taxonomy Regulation.

Nomenclature of Economic Activities (NACE) classification system

NACE (Nomenclature of Economic Activities) is the European statistical classification of economic activities. The Technical Expert Group has developed screening criteria for priority sectors within NACE to classify sustainable activities, linking the EU Taxonomy with the NACE code system.

NACE sections eligible to EU Taxonomy

- **B** Mining and Quarrying
- **D** Electricity, Gas, Steam & Air Conditioning Supply
- **L** Real Estate Activities
- **K** Financial & Insurance Activities

3 main principles to respect

- **A significant contribution to at least one of the 6 objectives**, assessed through **technical assessment criteria by sector** (quantitative and qualitative)
- **No negative impact on any of the 6 objectives** ("Do No Significant Harm" principle, DNSH) assessed through technical evaluation criteria
- Compliance with **social minimum safeguards:** respect of OECD, ILO, and UN main conventions and principles on human rights and social practices

Environmental objectives

- Climate change mitigation
- Climate change adaptation
- Sustainable used and protection of water and marine resources
- Transition to a circular economy
- Pollution prevention and control
- Protection and restoration of biodiversity and ecosystems

Mandatory application date

- January 2022: Climate change mitigation; Climate change adaptation
- January 2023: Sustainable used and protection of water and marine resources; Transition to a circular economy; Pollution prevention and control; Protection and restoration of biodiversity and ecosystems

The regulation texts of the EU Taxonomy

Taxonomy Article 8

Article 8 introduces the obligation to report the share of revenue, investment and spend (i.e., Turnover, Capex and Opex) associated with "green" activities from 2021 financial year

Taxonomy Article 9

Article 9 describes the six environmental objectives

Delegated Act on Climate Change Adaptation and Mitigation

Itreminds the Taxonomy's context and intro-duces 2 appendices for the Technical screening criteria and the DNSH principle for the 2 first objectives

Delegated Act on Article 8

The draft explains the content and presentation of the information to be disclosed (e.g., Calculation of Taxonomy-Aligned financial indicators)

Pending texts: Delegated Act and technical criteria on the 4 other objectives (official version expected by the Q1 2023)

08

Corporate Social Responsibility Directive (CSRD) - Overview

Extended coverage with new challenges

The CSRD aims to ensure that companies publicly disclose adequate information about the **risks, opportunities and impacts** of their activities on people and the environment (i.e., principle of double materiality). Reported information should be consistent with **EU regulations**, including the EU taxonomy, an EU-wide classification system that establishes a list of environmentally sustainable economic activities. According to the directive, it should also be "**comparable, reliable and easy** for users to find and make use of with digital technologies."

Which entities is it applicable to?

NFRD → CSRD

NFRD

Large 'Public interest entities' with > 500 employees:

- Listed companies on EU regulated markets
- Banks and insurance companies

CSRD

All large EU companies who meet 2 of the following 3 criteria:

- >250 employees
- >€40M turnover (revenue)
- >€20M total assets (or balance sheet total)

All companies listed on EU regulated markets (except for listed micro-enterprises)

- Listed SMEs
  - Option to use simpler, proportionate reporting standards
  - Possibility to opt-out until 2028

Non-European companies with substantial activity in the EU market:

- (i.e., >€150M annual net turnover in the EU) and
- which have at least one subsidiary (large/listed) or branch (net turnover >€40M) in the EU
- Separate EU reporting standards will apply (to be defined at later stage) not covering all reporting areas: focus on impact, no reporting on risks

NFRD	→	CSRD
11,700 affected companies concerned in EU		**49,000** affected companies in EU *>75% of total EU companies' turnover - revenue*

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EY Luxembourg ESG services overview

Advisory Services				Assurance Services
ESG Regulatory compliance	**Green and Social Bonds Services**	**Sustainability Advisory**	**Non-Financial Report Advisory**	**Non-Financial Report Assurance**
What we do				
We help organizations to comply with the new ESG regulatory requirements	We support organizations with the pre- and post-issuance of Green and Social Bonds	We help organizations set up strategies and action plans to address their sustainability risks and opportunities	We support organizations meeting the increasing stakeholders' demand for greater transparency and reliability around non-financial performance	We support organizations in the transparency and reliability of their non-financial performance reporting
How we do it				
▶ Compliance with the latest regulatory requirements (EU Taxonomy, SFDR, NFRD and CSRD among the others) ▶ Gap analysis and compliance requirements identification ▶ Support with the narrative preparation	▶ Development of "green and social" criteria for use of proceeds definition ▶ Review of internal processes and controls and definition of a monitoring system ▶ Adopt or define impact reporting methodology	▶ Sustainability/Climate strategy development ▶ Stakeholder engagement ▶ Materiality analysis ▶ Policy development ▶ Quality management ▶ GRESB Support ▶ Decarbonization strategy development and implementation	▶ Support in the adoption of generic and industry-specific sustainability reporting frameworks (GRI; SASB; TCFD; CDP; etc) ▶ Compliance with nonfinancial reporting regulations	▶ Help companies comply with constantly evolving requirements and reporting frameworks ▶ Assurance over the report content and data ▶ Assurance of SFDR and Taxonomy disclosures

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Luxembourg securitization market: Analysis and perspectives

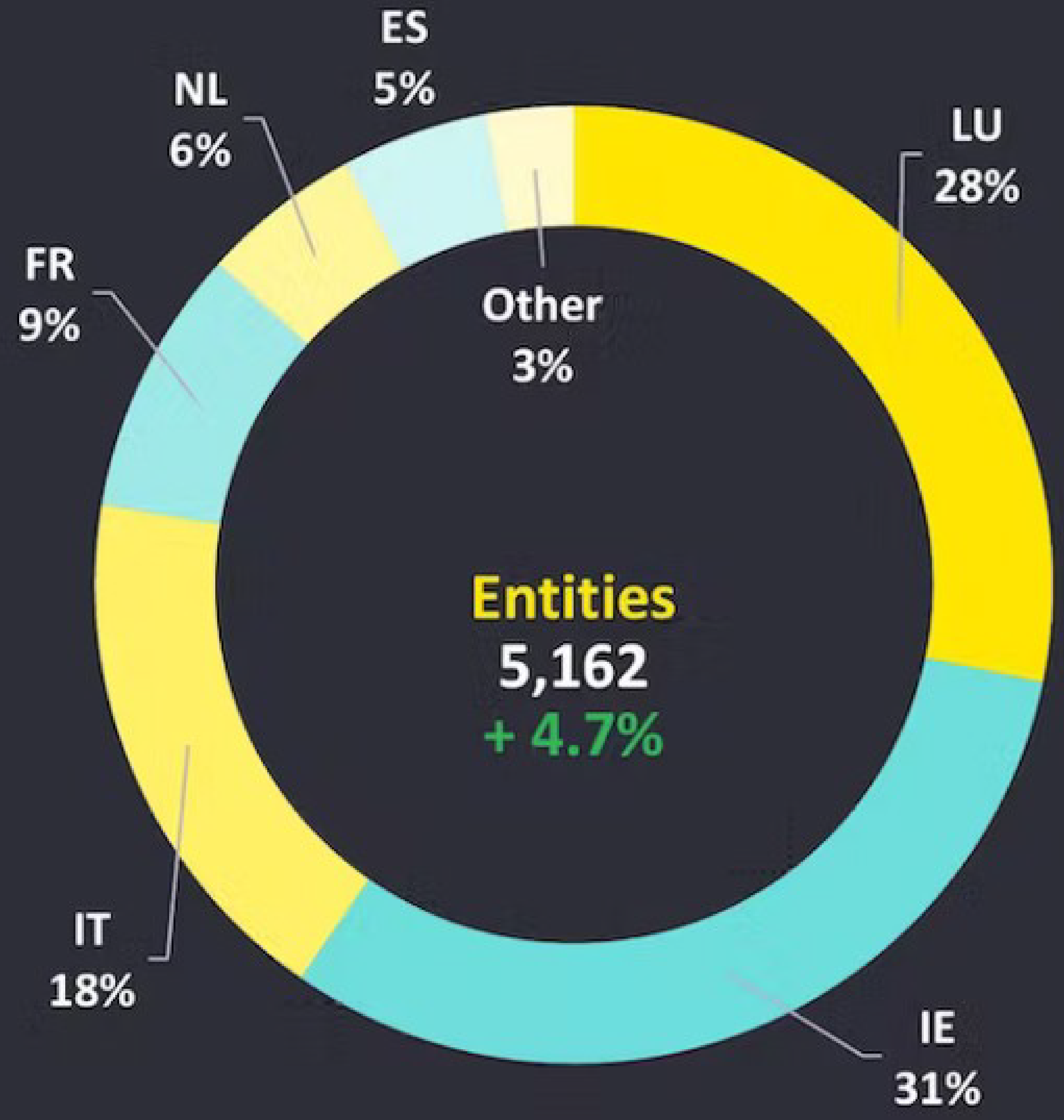
Oliver Cloess

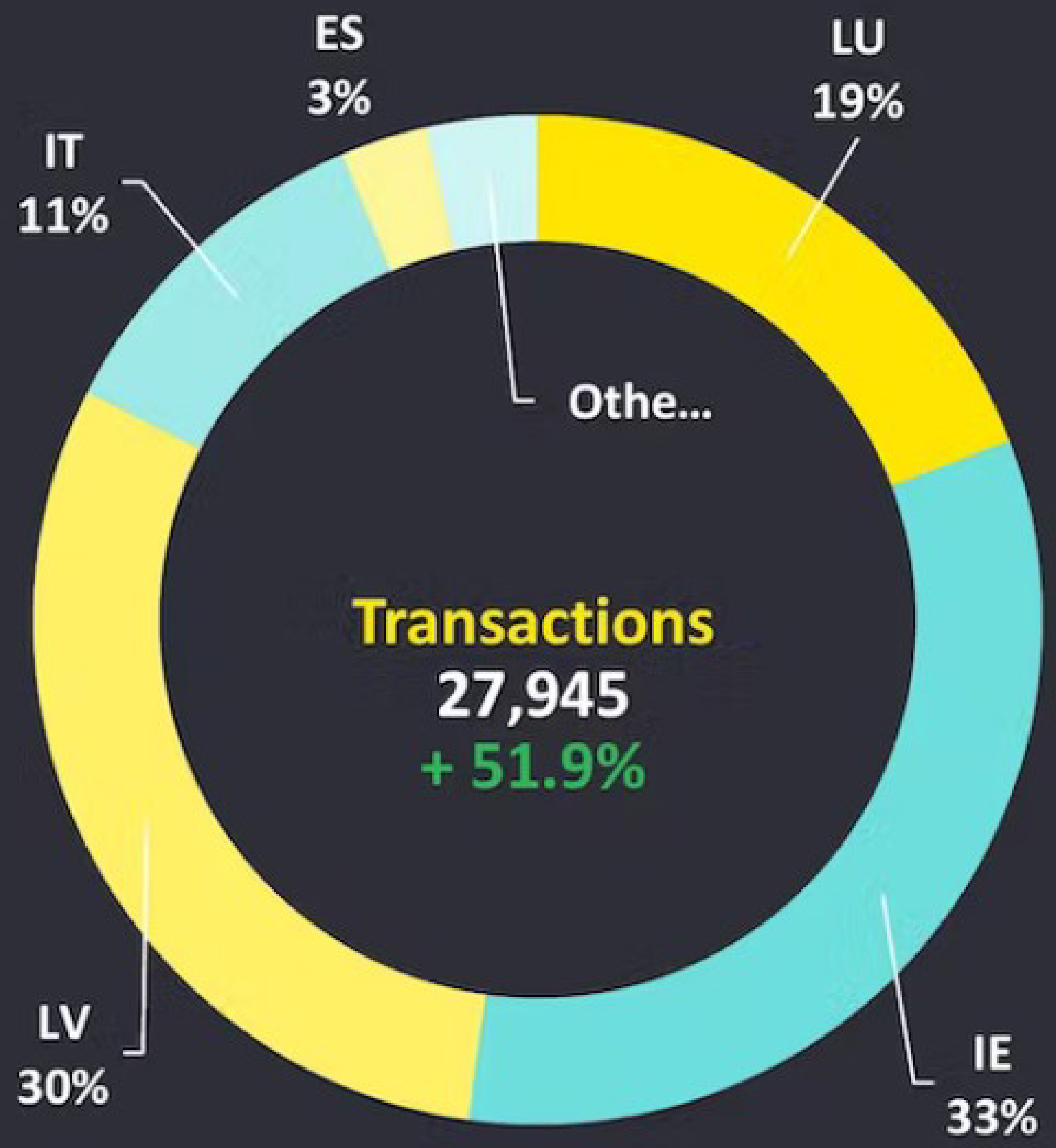
Partner

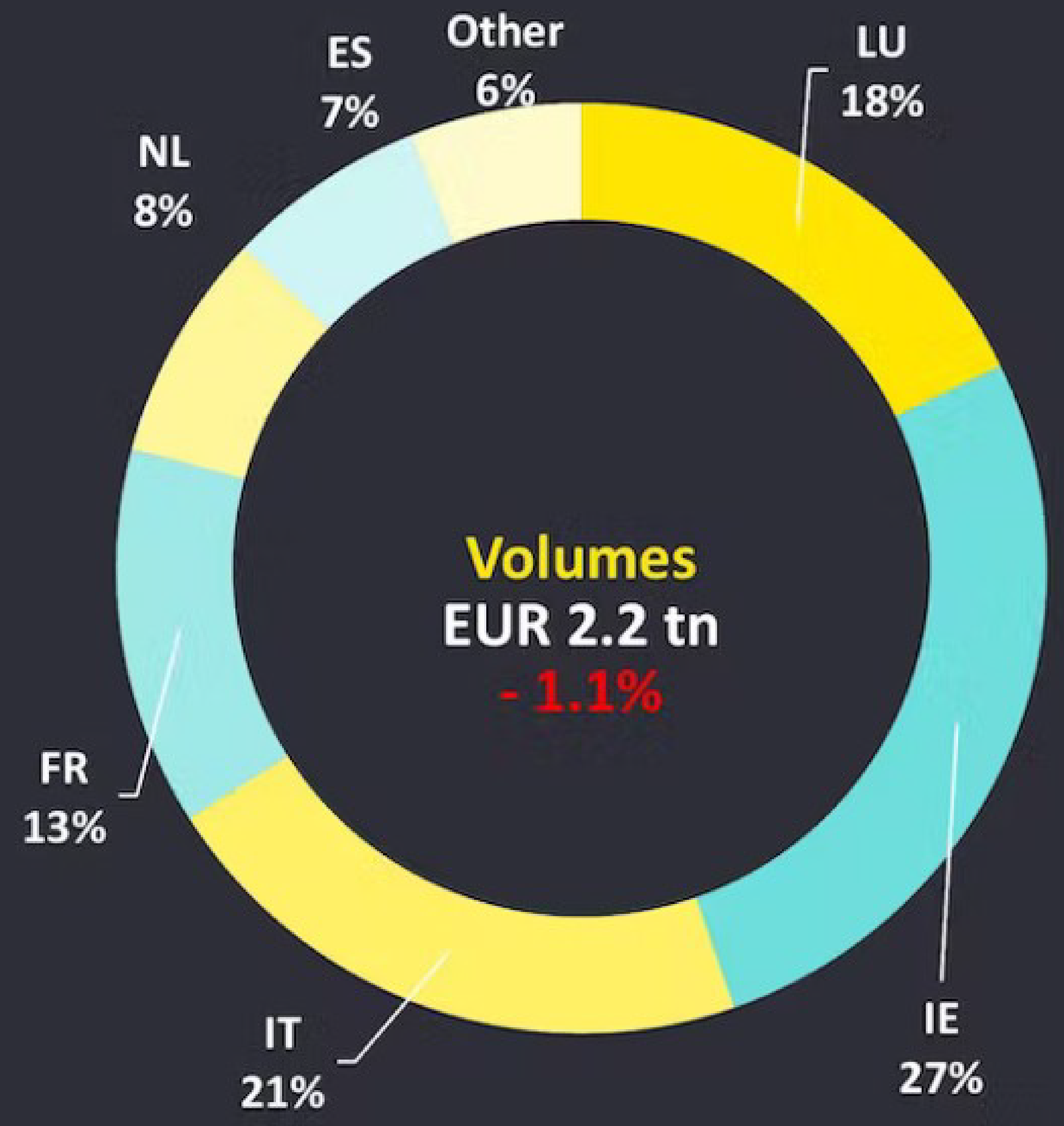
Assurance, Banking & Capital Markets

Securitization & Structured Finance

ECB Euro Area Securitization Market Shares (Q4 2022)





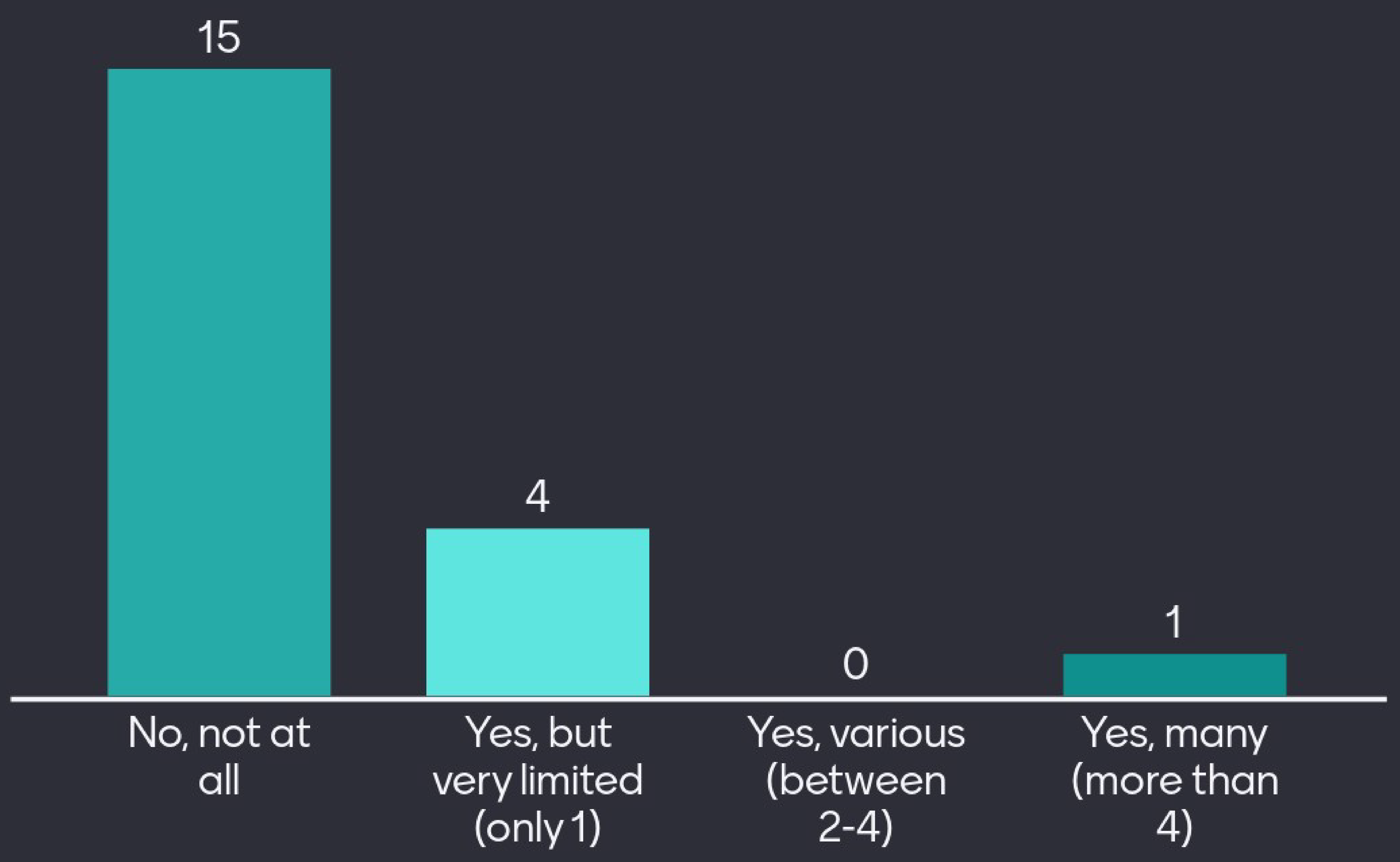


Source: ECB FVC statistics

ECB Luxembourg & Ireland movements (Q4 2022)

Source: ECB FVC statistics

Have you seen CDO's / CLO's coming in 2022?



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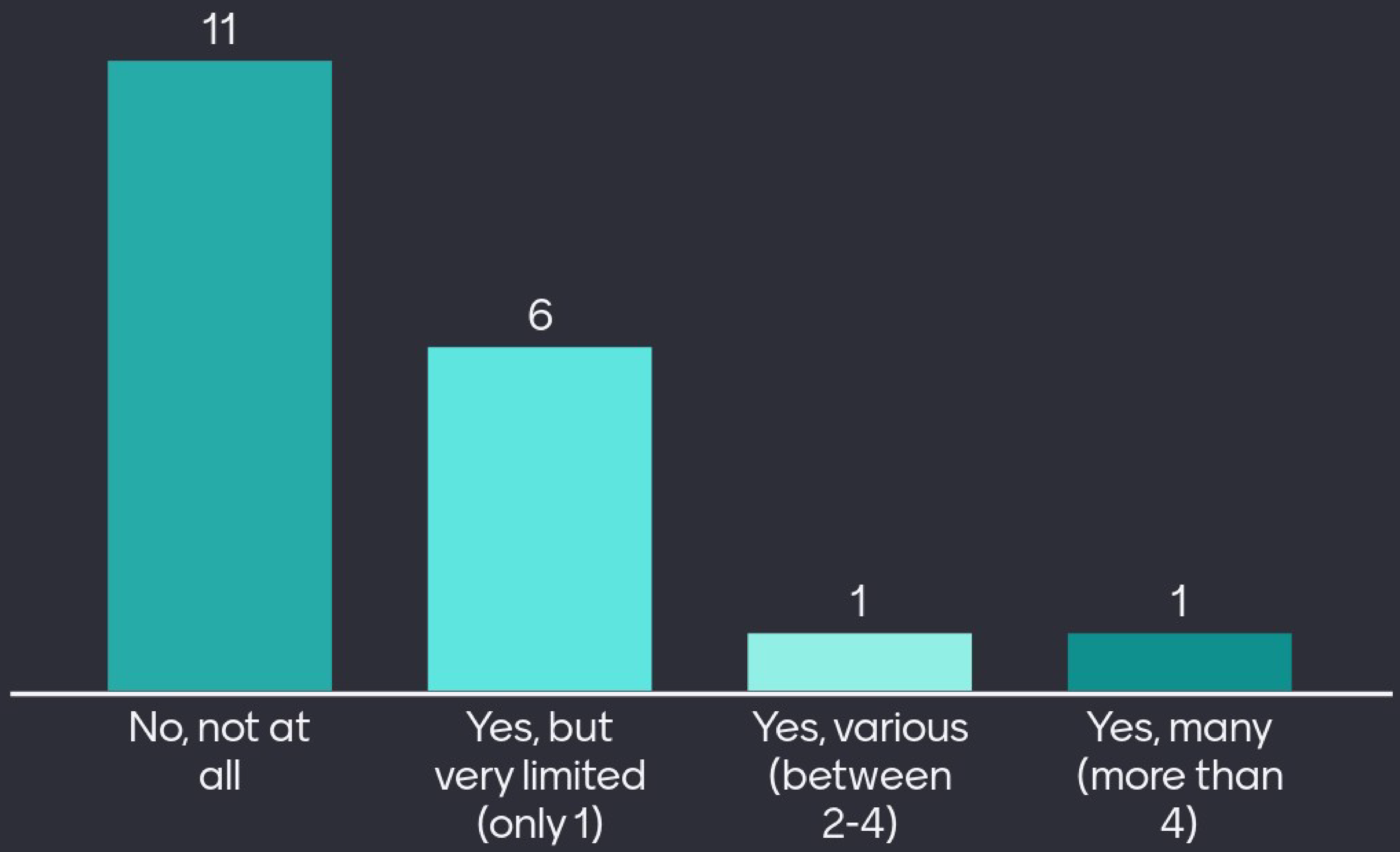
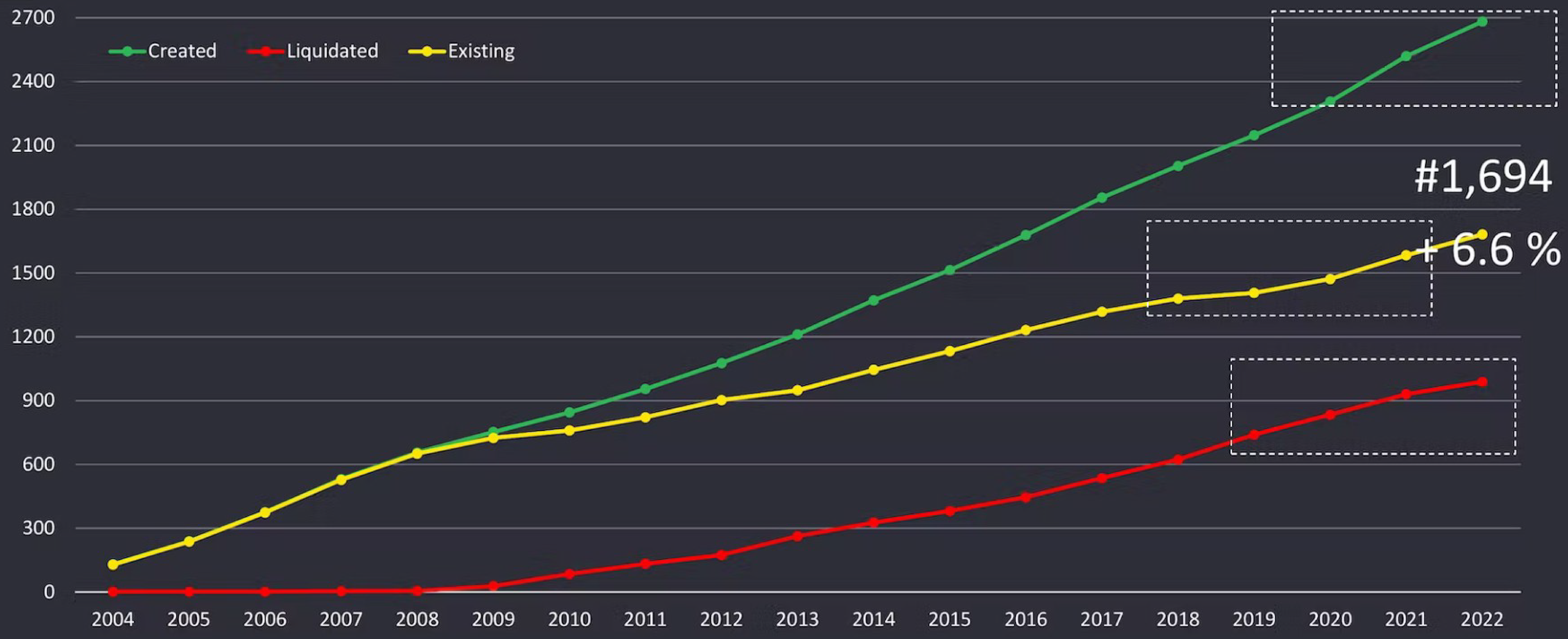
Are partnerships used for SV's in 2022?

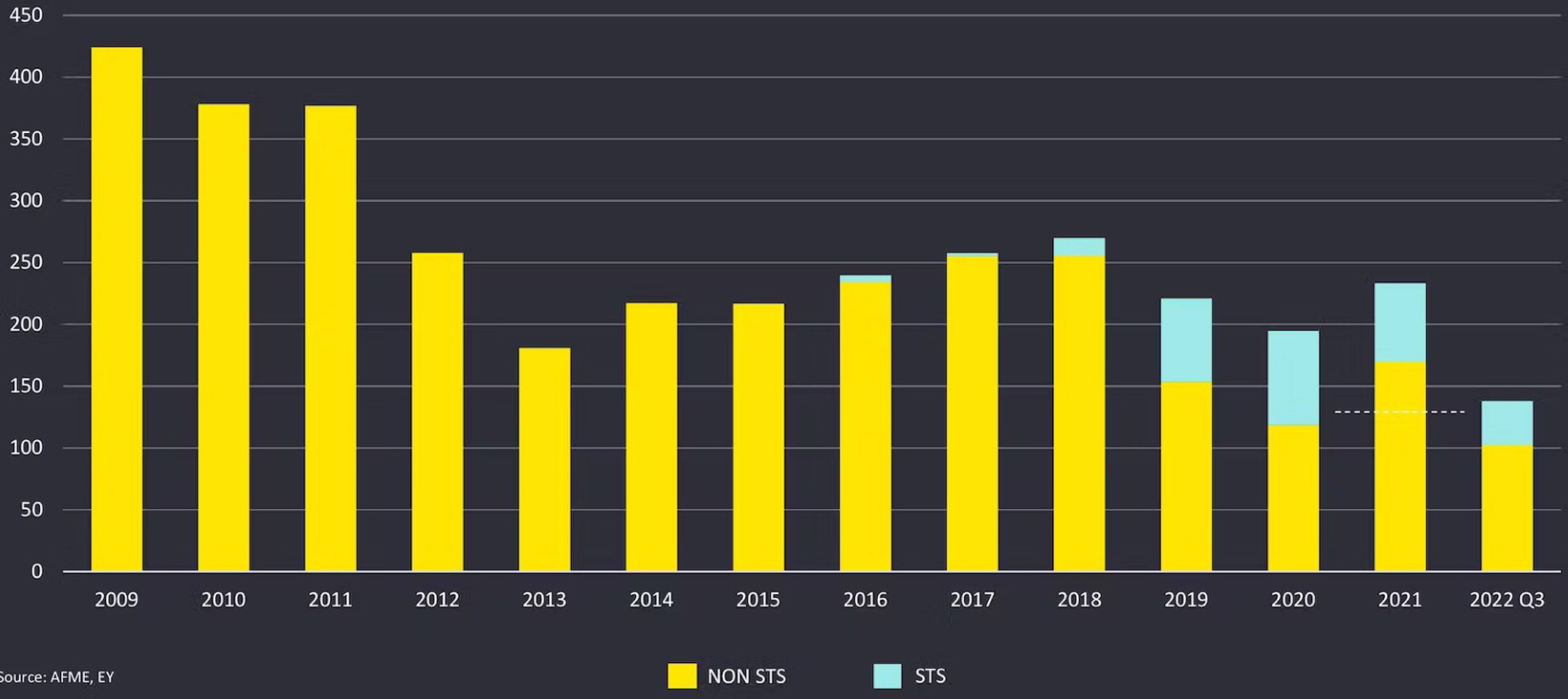


EY Research – Securitization Vehicles including ManCo's (gross)



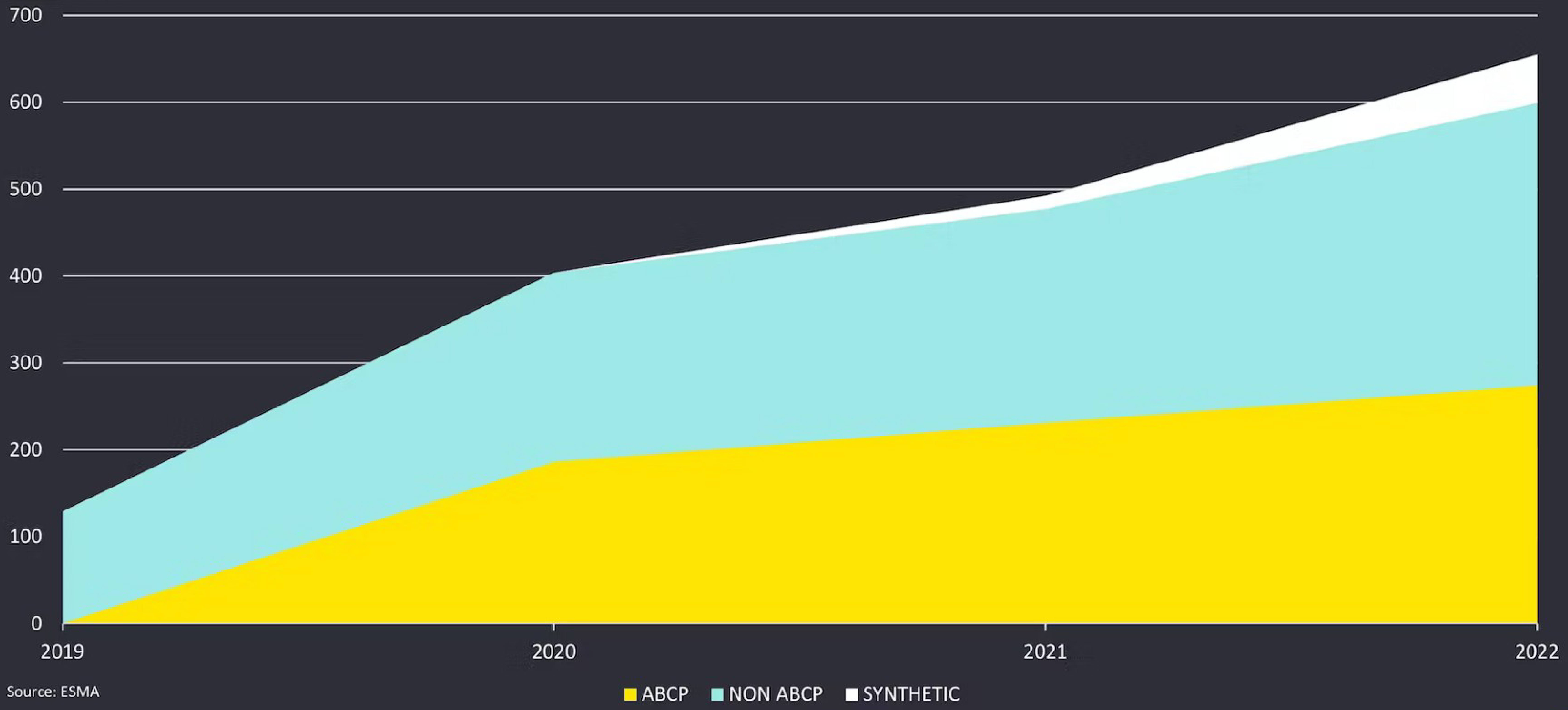
Source: ECB, EY, RCS

European Issuance Volumes in EUR billion (Q3 2022)



Source: AFME, EY

ESMA – Existing STS Notifications (Q4 2022)



Source: ESMA

Closing remarks

Papa Saliou Diop, *Partner, Securitization Leader, EY Luxembourg*

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Thank you!

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