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Luxembourg regulation change - a new opportunity for the CLO market?

THE RECENT AMENDMENTS to Luxembourg's 2004 securitisation law mean that active management of securitisation vehicles linked to bonds, loans and other debt instruments will now be allowed.

This could present new opportunities for the European collateralised loan obligation (CLO) market, according to asset-servicing specialist Alter Domus, which has more than 3,600 staff, $1.6 trillion assets under administration and nearly 20 years' experience.

Assessing the potential impact of this development on the European CLO landscape, Elizabeth Fitzgibbons-Butler, Head of Sales, Debt Capital Markets Europe, at Alter Domus, says: "Ireland is the traditional European CLO 'hub'. However, on 9 February 2022, the Luxembourg parliament adopted bill no. 7825 (the "New Law"), which makes both important adjustments and clarifications, increasing flexibility and legal certainty of the securitisation business for Luxembourg."

"Luxembourg has always been involved in the securitisation industry, and the extension of the law means that managers can now look at Luxembourg as an alternative jurisdiction. So, this new development opens the market up, giving managers more choice."

Fitzgibbons-Butler takes the view that private equity houses or family offices, who already extensively use partnership structures in Luxembourg for their usual business, pick their jurisdiction in accordance with attractiveness for their investors as well as ease of execution and familiarity. Pan-European investors tend to like Luxembourg as a jurisdiction, she says.

"I believe that managers will look at their book and consider where they want their structure to be set up, and which jurisdiction is going to suit them best for their securitised transactions. They don't want to be working across multiple jurisdictions – it's complicated and time-consuming. And I think that Luxembourg leads the way when it comes to understanding loan finance," she observes.

A positive outlook

CLOs had a good year in 2021. According to Fitch Ratings' European CLO index update at the end of January, primary issuance achieved a post-global-financial-crisis record in 2021 with 94 CLOs and €38.5 billion of notes priced. This is well up on the previous year's figures, of 66 transactions and €22.1 billion of notes.

While acknowledging that there is some concern about supply chain issues and inflationary concerns, Fitzgibbons-Butler believes that a 'tsunami' of defaults is unlikely, and anticipates that positive progress in the CLO market will continue in 2022.

"It is an asset class that has held up incredibly well, even during the pandemic," she says. "And there is a good demand for AAA notes from investors, so I think the market is looking strong and that interest will continue."

Alter Domus is well placed to support CLO managers in dealing with the many demands of their job, as Fitzgibbons-Butler explains: "In a world where ESG is a high priority, data is king and managers are being squeezed to find the yield that they need, we're here to solve the data, reporting and regulatory requirements that they face on a daily basis, working with them as a trusted partner."

She concludes: "Change is a great thing. It shakes up the market and I think it's good to have options beyond one jurisdiction. This change to the law is going to be positive for the European CLO market."

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