

guide on responsible investment. This guide lists 109 Luxembourg-domiciled funds which take social and environmental criteria into account; a relatively low figure compared to the size of Luxembourg fund market. However, let us not forget that thematic funds are enjoying positive growth. These funds may focus on sectors such as water or energy, or issues such as the transition to sustainable development and a low carbon economy.

Nevertheless, if SRI remains a niche product that has not yet attracted all investment firms, the increasing interest by both institutional and private investors should help stimulate the sector. The current negative image of the financial world could also act as a catalyst - by stimulating the restoration of a climate of trust and transparency. What better way to achieve this than

by fostering the values of sustainable investment? Given that we believe the SRI sector's main constraint is its lack of visibility, increased willingness to promote it should help better exploit its potential.

Christophe Henry, Manager - Advisory & Consulting, Deloitte S.A

Isabelle Brion, Senior Manager - Advisory & Consulting, Deloitte S.A



LOOKING FOR A SAFE INVESTMENT? THINK ABOUT *LETTRES DE GAGE*!

Luxembourg has innovated by introducing moveable *lettres de gage* that are guaranteed by rights in or security interests over aircraft, boats or railway equipment recorded in a public register.

Traditionally guaranteed by rights in or security interests over real estate or claims against public entities, *lettres de gage* (in German: *Pfandbriefe*) have been considered for decades as a secure investment. Created in Prussia in 1769, *lettres de gage* seem to be perfectly safe financial instruments. Indeed, since their creation, no German *lettre de gage* has defaulted. This extraordinary track record is due to the particularly regulated legal framework for *lettres de gage* that, among other characteristics, distinguishes *lettres de gage* from ordinary asset backed securities (ABS), and in particular mortgage backed securities (MBS).

In Luxembourg, the regime for banks issuing *lettres de gage* was introduced in 1997 with a law amending the 1993 banking law and has since been improved. To our knowledge, no Luxembourg *lettre de gage* has ever defaulted.



Different categories of *lettre de gage*

A *lettre de gage* is a debt security issued by a bank issuing *lettres de gage* and guaranteed by a cover pool specifically allocated to these securities. Unlike ABS, *lettres de gage* are on-balance-sheet for the issuing bank,

Guarantees ensuring the particular safety of *lettres de gage*

- a specific licence for banks issuing *lettres de gage*, the activity of which is mainly limited to the issue of *lettres de gage*
- specific supervision by the Luxembourg *Commission de Surveillance du Secteur Financier* (CSSF)
- protection of the *lettre de gage* brand
- absolute priority claim by the holders of *lettres de gage* over the cover assets
- over-collateralisation of the *lettres de gage* imposed by law, as the cover assets must at all times represent 102% of the nominal amount of the *lettres de gage* in circulation (that is, for a nominal value of 100, the value of the cover pool will represent at least 102)
- dynamic cover pools so that cover assets satisfy the cover ratio at all times (unlike ABS which often have a static asset pool)
- a ratio of 60% imposed by law when taking into account the value of moveable or real estate assets (80% for residential property) as cover assets (e.g. for a real estate property with a value of 100, only 60 will be taken into consideration when serving as a cover asset)
- a cover assets register detailing each cover asset for each separate cover pool relating to the *lettres de gage* in circulation
- a special auditor who verifies the cover assets register and the permanent ongoing conformity and sufficiency of the cover pools
- *lettres de gage* are issued on-balance-sheet
- bankruptcy remoteness of the cover assets in case of insolvency of the bank issuing *lettres de gage*.

which therefore is, in addition to the strict legal framework, incentivised that the quality and the size of the cover pool meet the standard for repaying the *lettres de gage*.

Traditionally, two categories of *lettres de gage* existed, each secured by a separate cover pool:

- "mortgage *lettres de gage*", guaranteed by rights in or security interests over real estate;
- "public *lettres de gage*", guaranteed by claims against or guaranteed by public entities of the European Union, the European Economic Area and the OECD;

Since the end of 2008, banks issuing *lettres de gage* may also issue "moveable *lettres de gage*", guaranteed by rights in or security interests over moveable assets (e.g. ships, aircraft, boats, trains) which are registered in public registers in the EU, the EEA or the OECD. The list of these cover assets is not limitative; the *Commission de Surveillance du Secteur Financier* may authorise additional cover assets. The issuer must be a bank having a specific licence or a bank whose licence includes the issue of "*lettres de gage*". In both situations, the protective provisions of Luxembourg law apply.

Because of the tightly regulated legal framework within which they are issued, on-balance-sheet, by specialist banks, subject to constant review and adaptation of the cover assets to ensure their repayment, *lettres de gage* can be expected to emerge from the present financial turbulence with colours flying, as they have done in the past.



Nicki Kayser, Partner - Capital Markets and Banking
Mélinda Perera, Associate - Capital Markets and Banking
Linklaters LLP, Luxembourg