

## No Roadblocks for Blockchain in Luxembourg: Extending the Use of Distributed Ledger Technology



Luxembourg has gradually deployed the use of distributed ledger or database technology (DLT)<sup>1</sup>, on which blockchain is based, since the very early stages of its development, with the outright intention of positioning the country at the forefront in the race for innovation and finance modernisation.

An additional step forward was taken on 22 January 2021, with the adoption of Bill of Law 7637 (the **Law**) that amends the law of 6 April 2013 on dematerialised securities and the law of 5 April 1993 on the financial sector, as amended (the **Financial Sector Law**). The latter's main novelty consists of extending the use of DLT in financial transactions and broadening the horizons of Luxembourg's financial market players.

### Key features of the Law

→ **Extension of DLT to the operation of single securities issue accounts**

To keep track of dematerialised securities in circulation, all dematerialised securities which form part of the same

issuance are recorded in a so-called "single securities issue account", which may now also be operated under DLT. Such specific accounts, which shall not be assimilated to "classic bank accounts", are maintained by a single settlement organisation or central account keeper designated by the issuer and record all dematerialised securities of the same type, together with their identification elements, the issued quantities, and any subsequent change.

By recognising secure electronic registration mechanisms, such as DLT, as valid underlying technology at the time of issuance of dematerialised securities as well as during their life cycle, Luxembourg sustains the development of securities tokenisation, i.e. traditional securities wrapped into tokens, which are traded via DLT.

→ **Loosening the conditions to act as central account keeper in Luxembourg**

The faculty to act as central account keeper, which previously required the issuance of a specific license from the

<sup>1</sup> DLT is a secure information storage and transmission technology that operates without a central control unit and relies instead on a register or a secure database, distributed and shared by the various users forming a network, where transactions are recorded. The transactions are grouped in blocks and each new block includes a hash of the previous one, chaining them together, hence why distributed ledgers are often called blockchains.

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Luxembourg Financial Supervision Authority pursuant to article 28-11 of the Financial Sector Law, has been extended to investments firms and credit institutions.

Investments firms and credit institutions may now act as central account keepers without obtaining any additional license, provided that:

- (i) such activity is limited to unlisted Luxembourg law governed debt instruments, likely to be in the form of bearer instruments and public debt instruments, and
- (ii) they have implemented the appropriate infrastructure, control, and security mechanisms.

## Minimum requirements for DLT

As of today, in Luxembourg DLT does not have a specific legal framework and its concept, *per se*, only refers to a way of processing data. In the name of technological neutrality, the Luxembourg legislator decided not to impose minimum requirements to be met by DLT to be validly considered for the purposes of a single issuance account, other than being secured, without further requirements.

By giving legal certainty to fully DLT operated dematerialised securities, the Law broadens the horizons of Luxembourg financial market players, which may seize this opportunity to expand their service offering.

For more information and to stay up to date on this topic, please feel free to reach out to us.



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