



Luxembourg's legal framework has just been amended to recognise the use of DLT for issuing and settling dematerialised securities

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Bill 7637 (to be referred to as the **Blockchain II Act 2021**) was approved by the Luxembourg Parliament on 21 January 2021. The Blockchain II Act 2021 enables (a) the issuance of dematerialised securities directly in DLT (distributed ledger technology) devices and (b) opens the central account keeper role to record and operate DLT issuances of unlisted debt securities to any EU credit institutions or investment firms.

To enable such changes, the Blockchain II Act 2021 amends (i) the Luxembourg act dated 6 April 2013 on dematerialised securities (the **Dematerialised Securities Act 2013**) and (ii) the Luxembourg act dated 5 April 1993 on the financial sector, as amended (the **Banking Act 1993**).

Issuance of dematerialised securities

The Blockchain II Act 2021 completes a set of past legislative initiatives in the DLT space that amended the Luxembourg act dated 1 August 2001 on the circulation of securities, as amended to enshrine the use of DLT devices to settle fungible securities.

With its amendment to the Dematerialised Securities Act 2013, the Blockchain II Act 2021 bridges a gap left by previous legislation and clarifies the fact that central account keepers or settlement organisations may use DLT devices to make such records. Such organisations may now use private or public DLTs to make such records. Operating in a DLT set-up, the central account keeper or settlement organisation will operate a wallet (in the form of a DLT or Blockchain address) to record dematerialised securities that will be settled like native tokens. As such, a dematerialised security may thus exist entirely in a DLT environment as a native token that can also be settled in a fully-fledged DLT environment.

In short, the Blockchain II Act 2021 allows the direct issuance of dematerialised securities in tokenised form.

Central account keeper role

The Blockchain II Act 2021 also amends Article 1(10) of the Dematerialised Securities Act 2013 and Article 28-12 of the Banking Act 1993 by notably opening the central account keeper role to EU (including Luxembourg) credit institutions and investment firms rather than limiting it to an entity specifically licensed to do so by the Luxembourg authorities.

EU (including Luxembourg) credit institutions and investment firms will not need to hold an additional central account keeper licence to provide such services for unlisted debt securities (that is, debt securities not admitted to trading in EU trading venues).

However, these EU (including Luxembourg) credit institution and investment firms will have to meet certain conditions to provide central account-keeping services:

- Luxembourg central account keepers will have to demonstrate that they have (a) adequate

professional experience of management and (b) robust internal governance arrangements; and

- both Luxembourg and other EU central account keepers will be required to put in place control and security mechanisms for their IT systems (depending on the private or public nature of the DLT device used), which have to be adapted for the keeping of central accounts allowing for:
 - the registration in an issuance account of all the securities composing each issue admitted to their operations;
 - the circulation of securities by transfer from one account to another (book-entry transfer);
 - the verification that the total amount of each issue admitted to their operations and registered in an issuance account is equal to the sum of the securities registered in the securities accounts of their account holders; and
 - the exercise of the rights attached to the securities recorded in the securities account.



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