



# The Luxembourg Rail Protocol Enhancing the scope of Financial Services Centres



## Basic Principles

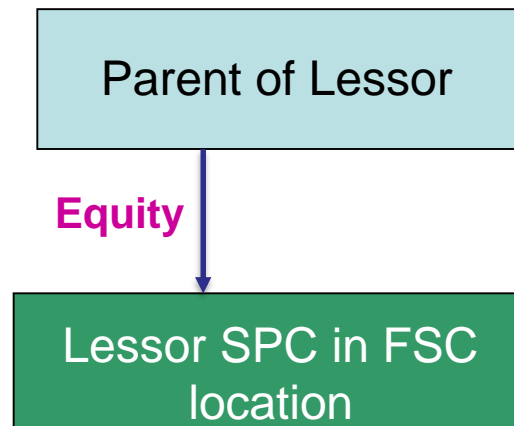
- The Luxembourg Rail Protocol creates a new international security interest to protect a creditor's position when financing railway rolling stock
- It applies to
  - Pledges
  - Leases
  - Conditional sales (title reservation agreements)
- The security interest is registrable and searchable via the internet in a public international registry based in Luxembourg (for competing interests, the first to register has priority unless otherwise agreed)
- The Protocol applies when the pledgor, lessee or conditional vendor is located in a ratifying state

## Basic Principles

- Banks and investors financing operators and lessors will have better security (and therefore the costs will go down) when the debtor is located in a ratifying state
- To isolate risks, creditors often provide finance through a Single Purpose Company (SPC) established by the debtor
- Financial Services Centres (FSCs) in states that have adopted the Luxembourg Protocol can provide efficient, fiscally neutral and cost-effective solutions for national and multinational rail financings through SPCs
- For example .....

# Classic Financing

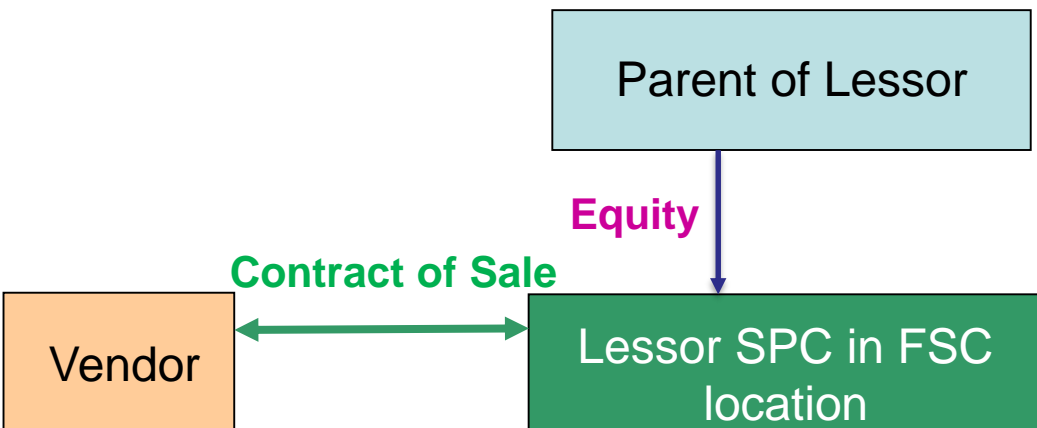
Finance group establishes SPC in an FSC



FSC State has ratified the Luxembourg Rail Protocol

# Classic Financing

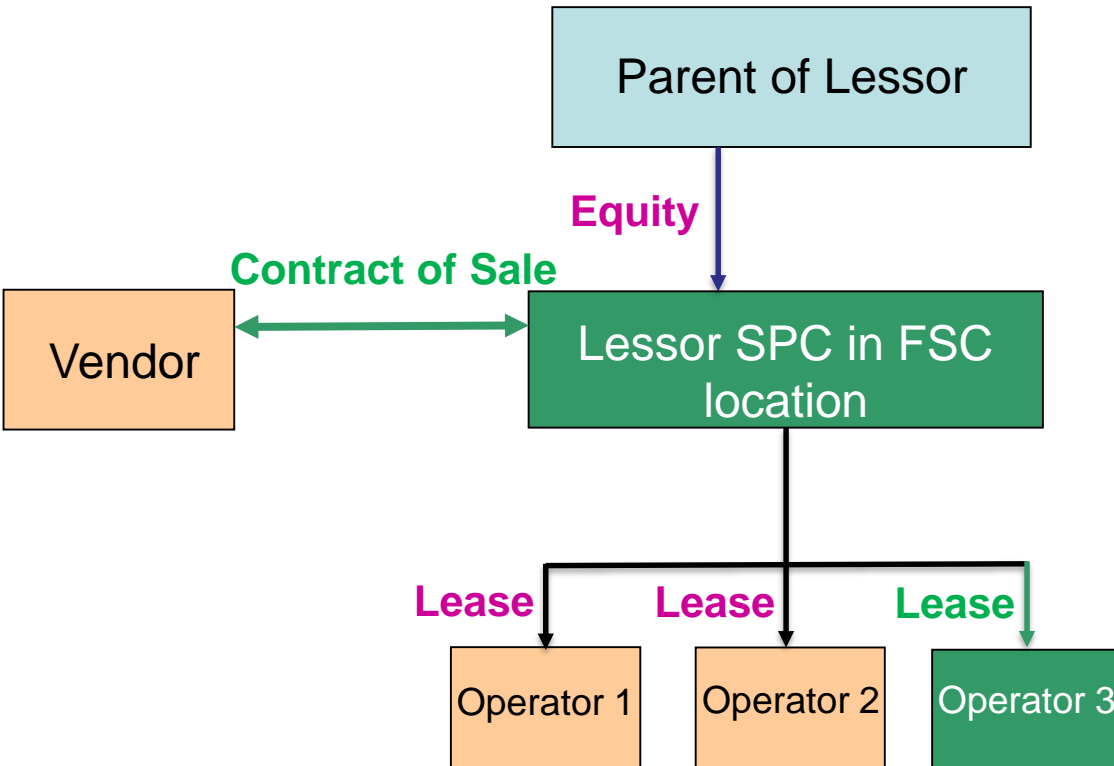
The SPC agrees to buy rolling stock



The Contract of Sale is a registrable title reservation agreement

# Classic Financing

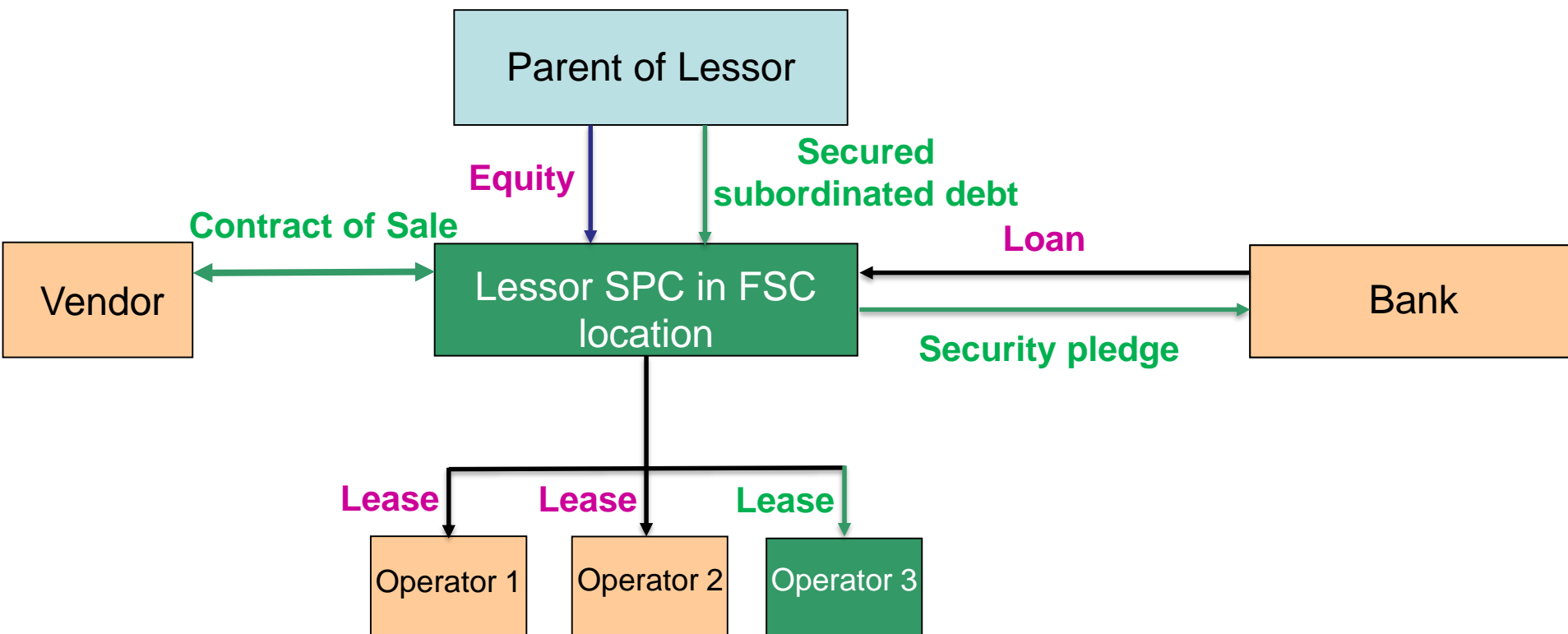
The SPC agrees to lease rolling stock to operators in other States



Lease is a registrable security interest if Lessee is located in a ratifying state

# Classic Financing

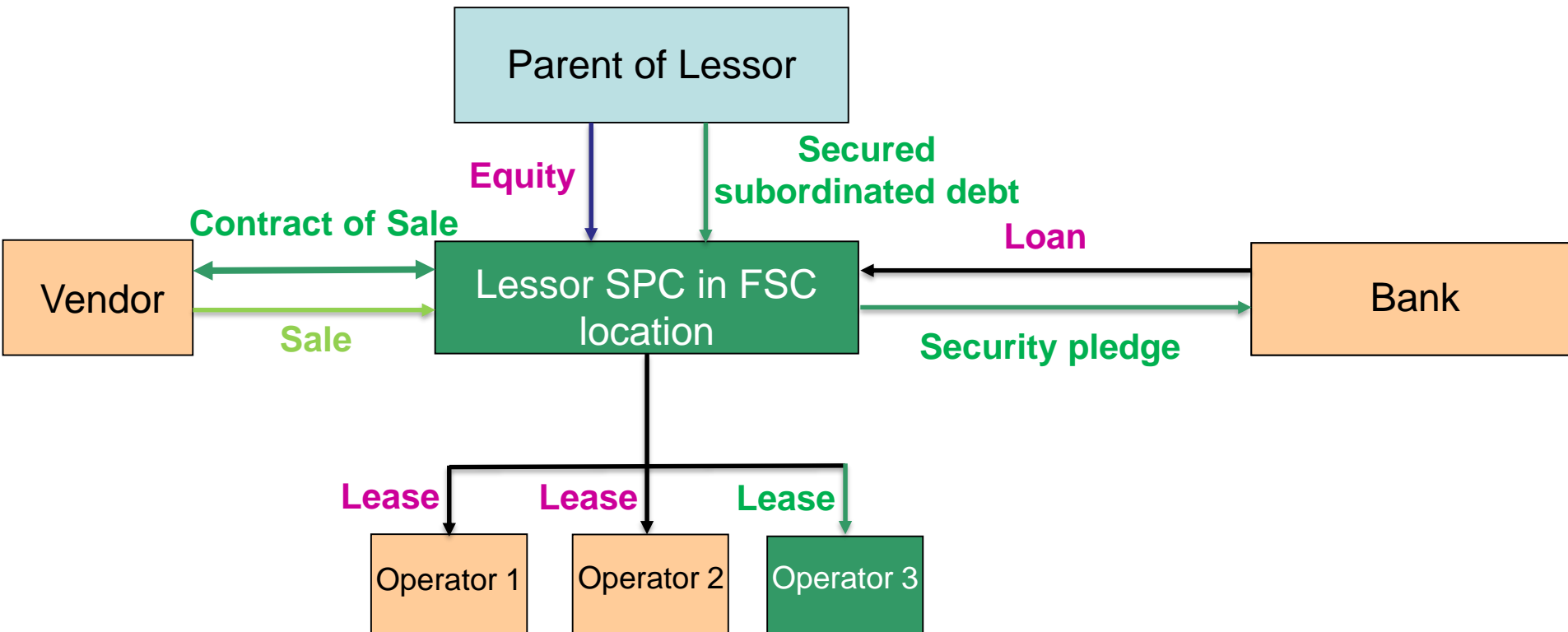
The SPC borrows from its parent and a bank



Security interests given to lenders are registrable at the International Registry

# Classic Financing

The SPC completes the rolling stock purchase and leases to operators



The Notice of Sale may be registered at the International Registry



## Results

- Because the Protocol applies at the SPC level, this means
  - Better security for the bank
  - The priorities of concurrent registered security interests are clearly regulated
  - There is no need for the parent to pledge the SPC shares to the bank (avoiding any potential loss of management control)
  - It is easier to finance multinational revenue streams

## Results

This protected structure will also assist where

- A financing bank
  - syndicates its position, or
  - places the secured senior debt in the capital markets, or
  - wishes to create different tranches of debt (e.g. senior and junior debt)
- Investment, private equity or institutional funds take over the equity of the lessor SPC and
  - wish to structure the investment through a mixture of debt and equity, or
  - wish to leverage their investment with external debt

## Results

For FSCs, when the Luxembourg Rail Protocol is adopted, it will attract new areas of business, which will

- Enhance the jurisdiction's attraction for the global financial services community
- Deliver additional revenue for corporate service providers, legal advisers and government
- Create new jobs
- Result in new local financing skill sets

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For more information  
please visit  
[www.railworkinggroup.org](http://www.railworkinggroup.org)