



# The Luxembourg Protocol to the Cape Town Convention

- A new global treaty for the recognition and prioritisation of security interests held by creditors in railway rolling stock; these interests will be registered in a new international public registry, based in Luxembourg, accessible 24/7 through the internet
- Protects creditors financing rolling stock through leases, secured credits, and conditional sale contracts
- Covers all vehicles running on tracks or above, on, or under a guideway; from high-speed to light rail trains, from freight and passenger locomotives and wagons to trams and subways, and from people movers at airports to cable cars and gantries and cranes running on rails at ports
- Applies where debtor is located in a ratifying state - regardless of the location of the railway equipment
- Introduces a new global identification system for all railway rolling stock – a permanent and unique 16-digit number to be issued by the registry

The benefits: **more, and cheaper, private sector finance for railway equipment, lower costs on credit insurance; more operating leasing of rolling stock (domestic and cross border); easier asset management and tracking; and less expensive and more effective finance documentation.** By allowing smaller and less heavily capitalised operators/debtors to finance railway equipment on attractive terms, the Protocol will lead to **a more competitive and dynamic rail industry and more investment in the rail sector.** This will bring economic, social and environmental benefits, **being an important tool in fighting climate change and supporting sustainable development** - while **reducing the need for governments to finance or underwrite rolling stock procurement.**

The Cape Town Convention and Aircraft Protocol is already in operation in over 80 countries; the Luxembourg Protocol is expected to enter into force in **late 2022 or early 2023.**



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## Summary of financial benefits

1. Lower financing costs as banks reduce margins thanks to smaller risks through
  - A common legal system regulating creditor rights, particularly relating to repossession on debtor default or insolvency, making it easier and safer to finance even domestic transactions
  - Registration of creditor security interests in a public register
  - New global, permanent and unique identification system for all railway equipment
2. Margins also reduce because a more secure system encourages institutions/pension funds and private equity investors to enter the market, thereby increasing the supply of private capital
3. Lower capital allocation for banks against loans or leases under BIS risk-weighting models = reduced costs
4. Reduced legal, documentation and transaction structure costs
5. Export Credit Agencies will take the Protocol into account in assessing their risk premiums or debt charges
6. Support for operating leasing with higher residual value assumptions from lessors (reducing initial rents) because of the ease of repossession and remarketing, in turn creating ...
7. ...Savings on equipment costs through manufacturing economies of scale as operating leasing encourages standardised products, which in turn underwrites residual values

The costs will be minimal - the benefits will be significant