





FUND TOKENISATION LUXEMBOURG BROCHURE



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LAW EXPERTISE INNOVATION

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KEY TERMINOLOGY

Fund Tokenisation

The process of converting a traditional investment fund into a digital token, allowing investors to buy, sell, and trade fund units in a decentralised and transparent manner.

Fund Token

A digital token representing ownership in a traditional investment fund, allowing investors to buy, sell, and trade fund units.

DLT

Distributed Ledger Technology that records transactions and data in a secure and transparent manner, using cryptographic keys for secure transactions.

Smart Contracts

Self-executing contracts with the terms of the agreement written directly into lines of code, allowing for the automation of complex processes and the facilitation of secure transactions.

Cryptographic Keys

Alphanumeric characters secure digital transactions and data through encryption, ensuring confidentiality, integrity, and authenticity.

Sandbox

A testing environment for digital assets, allowing for the simulation of real-world scenarios and the testing of digital assets in a controlled and secure environment.

Market Infrastructures

Infrastructure for buying, selling, and trading digital assets such as cryptocurrencies using DLT and smart contracts.

Tokenisation

Converting a traditional asset, such as a security, commodity, or real estate, into a digital token, allowing for the creation of a new asset class.

CSSF

The Luxembourg's financial supervisory regulator, responsible for supervising financial entities

Real-World Asset

A tangible or intangible asset that has inherent value and can be used to generate income or provide utility, such as a house, car, or piece of art.

Introduction & Key points

At the heart of our securitisation expertise lies tokenisation, a revolutionary process that transforms real-world assets into unique, digital representations.

This innovative approach encompasses a wide range of assets, including intangible intellectual property rights, financial instruments such as equities and bonds, and tangible assets like real estate and art.

Luxembourg has become a leading European hub for tokenisation, with digital assets (virtual, crypto, or financial instruments) represented, transferred, stored, and traded on blockchains or distributed ledgers. Token characteristics and functionalities determine associated risks and opportunities.

The rapid growth of tokenisation is largely attributed to recent advancements in distributed ledger technology (DLT), digitalisation, and encryption mechanisms.

Luxembourg's DLT ecosystem, renowned for its innovative tokenisation and digital custody in the investment fund industry, is recognised by the national blockchain legislation (I, II, and III).



Law I (2019) clarifies DLT use for securities holding and transfer.



Law II (2021) enables DLT-based issuance and conversion of dematerialised securities.



Law III (2023) implements the EU pilot regime for DLT market infrastructures.

Luxembourg practical considerations

Challenges

CSSF and other authorities promote a careful, technology-neutral approach on virtual assets. While recognising their benefits, challenges include:

- legal uncertainties,
- cybersecurity,
- Information, communication technology (ICT) risks
- systems integration,
- interoperability, and cross-border tokenisation complexity.

Opportunities

Tokenising funds presents a range of advantages, including:

- enhanced liquidity,
- operational efficiency,
- democratised access to funds,
- reduced costs,
- improved accessibility.

These benefits collectively revolutionise the investment fund sector, positioning it for the future.



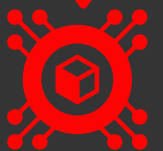
Benefits of Tokenisation

Through tokenisation and blockchain technology, virtual versions of traditional assets like property, art, and commodities can be generated, known as asset tokenisation or digitalisation. This process involves converting rights to assets into digital tokens .



REAL WORLD ASSETS

Conversion of assets into digital tokens.



TOKENISED ASSETS

Tokenising digital assets using blockchain technology.

Enhanced liquidity



Fractional ownership increases liquidity, while tokenisation opens up exclusive assets to a broader investor base, promoting financial inclusion and democratisation.

Improve transparency



DLT-based tokenisation provides a transparent and immutable record of ownership and transactions, reducing the risk of fraud and enhancing trust among participants.

Streamlined processes'



Tokenisation simplifies administrative tasks, such as issuance, transfer, and custody of assets. This leads to faster settlement times, reduced costs, and improved operational efficiency.

The Tokenisation process

Phase 1	ASSET IDENTIFICATION : <ul style="list-style-type: none">• Determination of the traditional asset (such as property, art, treasury) for tokenisation.• Establishment of necessary information related to the value, ownership, and rights associated with the asset.
Phase 2	TOKEN CREATION- LEGAL STRUCTURING : <ul style="list-style-type: none">• Converting traditional assets into digital tokens• Defining the token's characteristics such as its name, symbol, and quantity.• Linking the token to its original asset and explaining the relationship.• Implementing legal agreements through self-executing smart contracts to enforce agreed-upon contractual obligations. This part takes generally 1-2 months.
Phase 3	TOKEN ISSUANCE: <ul style="list-style-type: none">• Smart contracts are established on the blockchain to support the digital tokens that represent ownership.• Introduction of the digital token to the market.• Decision on token's initial allocation, whether through an initial coin offering (ICO) or private sale.• Establishment of the token's starting price and trading volume.
Phase 4	TOKEN TRADING: <ul style="list-style-type: none">• The token should be listed on a digital exchange or marketplace.• Offering access to buyers and sellers to trade the token.• Monitoring and control of token's trading volume and price.
Phase 5	TOKEN MANAGEMENT: <ul style="list-style-type: none">• Ensure the token's integrity and security are maintained.• Validate the accurate documentation and transfer of ownership and rights for the token.• Continuously evaluate and improve the tokenisation process for effective implementation and scalability.

The DLT in fund Tokenisation

Tokenising financial instruments in the fund sector involves utilising blockchain or Distributed Ledger Technology (DLT) to digitally represent real-world assets as tokens. Traditional assets such as stocks, bonds, and currencies are transformed into digital tokens, classified as off-chain (representing physical assets) or on-chain (issued directly on the blockchain).

This process generates a digital twin, enabling efficient and secure trading, management, and ownership verification.

The DLT has the potential to eliminate redundant reconciliations and automates operations, leading to quicker, more cost-effective, and smoother transactions.

Undoubtedly, the tokenisation of financial instruments provides various advantages, including improved efficiency through automation, heightened transparency, enhanced liquidity, and faster post-trade processing.

Fund tokenisation has the potential to allow fractional ownership of assets, increasing access for retail investors and supporting private financing for small and medium-sized enterprises. Moreover, fund regulation and governance can be integrated into the token itself or the underlying protocol, simplifying KYC and AML procedures.



Financial interest

Tokenisation enables the fractional ownership of assets, making them more accessible to a broader spectrum of investors.

This process of converting traditional financial instruments into digital tokens, facilitating wider access to financial products and modernising the investment infrastructure.



Fund distribution

The Distributed Ledger Technology (DLT) establishes a decentralised network where all members access identical information, boosting transparency and efficiency in distributing funds.

Through the utilisation of blockchain and tokenisation, DLT automates fund distribution processes such as subscriptions, redemptions, and share transfers using smart contracts. This minimises manual involvement and enhances operational efficiency.

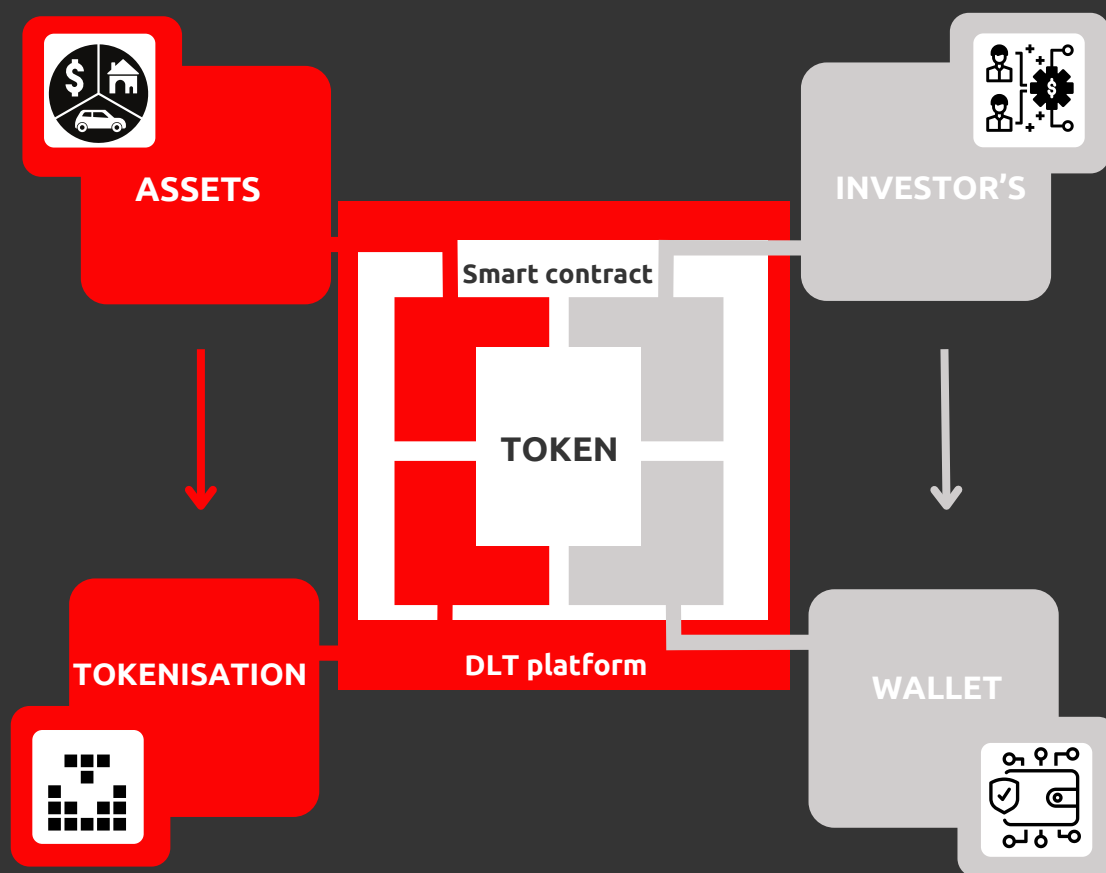
Regulatory Sandbox for DLT Market Infrastructures

The European Union's DLT pilot regime serves as a temporary platform for testing Distributed Ledger Technology (DLT) market infrastructures. This regime offers market infrastructures a six-year exemption from current regulations, including MiFID II, CSDR, Prospectus Directive, Short Selling Directive, Market Abuse Directive, Transparency Directive, and Settlement Finality Directive. It allows for experiments in issuing, trading, settling, and safeguarding fund tokens on blockchain networks.

Key categories of DLT infrastructure comprise:

- DLT-Multi Trading Facilities (DLT-MTF)
- DLT Settlement Systems (DLT-SS)
- Integrated DLT Trading and Settlement Systems (DLT-TSS)

By establishing this regulatory sandbox, innovative blockchain-based trading and settlement systems can be developed, promoting a more efficient and secure digital financial environment. This endeavor aims to minimise regulatory obstacles and unlock the full potential of the digital financial realm.



Supervision of tokenised financial instruments

Token issuers in Luxembourg are required to provide transparent and consistent financial reporting to investors, regulators, and stakeholders. The Commission de Surveillance du Secteur Financier (CSSF) regulates and supervises financial activities, including tokenised assets and distributed ledger technology (DLT) financial instruments.

The CSSF provides guidance and oversight on tokenisation of financial instruments, supervising professionals involved in virtual assets. The CSSF emphasises understanding token risks and opportunities, and ensures entities have robust governance and risk management in place.

The CSSF regulates the tokenised asset market through three key oversight activities: reporting redeemable token numbers, disclosing asset details, and analysing redemption asset availability. These measures ensure transparency, accountability, and stability in the market.



Redeemable token securities reports :

Token issuers must report redeemable token numbers regularly for transparency and accountability in the tokenised asset market.



Assets redemption :

Issuers must disclose asset details for redeeming tokens, maintaining transparency and investor trust.



Asset tokens alignment :

Token issuers must analyse redemption asset availability for asset-backed fiat-pegged tokens to ensure they can redeem all tokens issued, maintaining stability and integrity.

Jurisconsul legal services

Our expert legal services enable clients to embrace the fund tokenisation with confidence. By leveraging our knowledge of the Luxembourg framework and providing comprehensive end-to-end support, we empower clients to take advantage of the potential of blockchain and create innovative digital investment products respecting the regulatory framework.

Fund Tokenisation

Our team deliver a specialised suite of legal services tailored to fund tokenisation initiatives. This includes contract review, negotiation, token issuance, and comprehensive risk management counsel.

Services

We provide a complete range of legal services designed to optimise the fund tokenisation process. Transform traditional assets into digital tokens seamlessly, creating a new asset class that blends the advantages of conventional investments with the benefits of blockchain, and DLT technology this concentrate into the 3 following categories .

Advise on regulatory frameworks



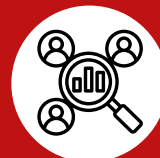
We advise on regulatory frameworks, such as MIFID, MiCAR and DLTR, and assess ownership rights, transferability, and compliance of assets to be tokenised.

Asset tokenisation advice



Review documents that outlines the terms and conditions of a tokenised asset, including the risks associated with its ownership, transfer, and potential losses.

Assessment of the ownership rights



Assessing legal and regulatory needs for tokenised assets, verifying ownership rights, secure transfers, and compliance with laws.

OUR TEAM



ERWIN SOTIRI

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Partner



CHARLOTTE FERON

—
Associate




LOÏCK KABONGO

—
Associate

OUR VALUES

 Client-focused

 Transparent


 Collaborative


 Innovative



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