



# The Luxembourg Rail 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 public international 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 subway trains, and from people movers at airports to cable cars and gantries and cranes running on rails at ports
- Applies to financing of new and existing rolling stock where debtor is located in a ratifying state - regardless of the location of the railway equipment
- Introduces a new global identification system (URVIS) for all railway rolling stock, supported by new 2023 UN Model Rules on permanent marking of rolling stock with the URVIS number

The benefits: **more, and cheaper, private sector finance for railway equipment, more operating leasing and easier asset management and tracking.** By allowing smaller and lightly capitalised operators/debtors to finance new and existing rolling stock 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 - **an important tool against climate change, supporting sustainable development while reducing the need for governments to underwrite rolling stock procurement.**

The Cape Town Convention and Aircraft Protocol is already in operation in over 80 countries; the Luxembourg Rail Protocol entered into force in contracting states on **8<sup>th</sup> March 2024.**



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## Summary of financial benefits

- Lower financing costs as banks reduce margins thanks to lower 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 system for identifying and marking all railway equipment
- 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
- Lower capital allocation for banks against loans or leases under BIS risk-weighting models = reduced costs
- Reduced legal, documentation and transaction structure costs
- Export Credit Agencies will take the Protocol into account in assessing their risk premiums or debt charges
- 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 ...
- ...Savings on equipment costs through manufacturing economies of scale as operating leasing encourages standardised products, which in turn underwrites residual values

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