
CHAMBERS GLOBAL PRACTICE GUIDES

Fintech 2026

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Luxembourg: Law and Practice

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LUXEMBOURG



Law and Practice

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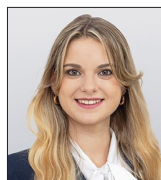


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1. Fintech Market

1.1 Evolution of the Fintech Market

Luxembourg is a major European banking and wealth management centre. As a recognised EU hub for fintech companies, banks, asset managers and insurance companies, Luxembourg has a highly developed financial services ecosystem. Since 2007, when the fintech pioneer PayPal received a full banking licence in Luxembourg, the country has seen robust growth and has now become a home for over 200 fintechs. In particular, Brexit has led to an increase of UK companies engaging in fintech activities in Luxembourg to access the European market and benefit from EU passport authorisation. Furthermore, Luxembourg has a national fintech platform, the Luxembourg House of Financial Technology (LHoFT), which brings together innovators, financial institutions and public authorities to support and accelerate fintech innovation in Luxembourg.

An executive order from the US President prohibiting US federal agencies from undertaking any action to establish, issue or promote Central Bank Digital Currencies (CBDCs) in the USA and abroad may slow down international projects to develop CBDCs, including in the Eurozone, in favour of stablecoins.

Impact of Legislative Developments

Luxembourg's economy heavily relies on financial services, which account for around a quarter of the country's economic activity. As a result, developing effective financial regulations is a key policy concern for the Luxembourg legislature.

The newly published Blockchain IV Law, which entered into force on 31 December 2024, integrates and formalises the use of blockchain technology – specifically distributed ledger technology (DLT) – in the management of dematerialised securities, both debt and equity.

At the EU level, the EU legislature has made efforts to regulate various aspects of fintech. To ensure consistency and clarity in the regulatory framework across Europe, the European Commission introduced the Digital Finance Package in September 2020. This

package includes several regulations, three of which have already been adopted:

- a pilot regime for market infrastructures based on DLT (see **2.5 Regulatory Sandbox**);
- a regulation focused on digital operational resilience (see **2.11 Implications of Additional, Non-Financial Services Regulations**); and
- a regulation on markets in crypto-assets (see **10. Blockchain**).

In addition, the EU Artificial Intelligence Act (the “AI Act”), which came into force in August 2024, provides a legal framework aimed at managing and mitigating the risks associated with AI – in particular, to protect human rights, safeguard sustainability and encourage investment to promote AI innovation across Europe. The new anti-money laundering (AML) directive includes an obligation for all crypto-asset service providers involved in crypto-asset transfers to collect and make accessible data on the originators and beneficiaries of the transfers they operate (see **10.3 Classification of Blockchain Assets**).

Upcoming Changes in EU Legislation

As further elaborated in this chapter, many topics relating to virtual assets and other recently developed technologies used in the financial sector had not been explicitly covered by the traditional financial services regulation.

The Markets in Digital Assets Regulation (MiCA) has significant regulatory influence on digital assets by creating a single regulatory framework for three main types of digital assets:

- asset-referenced tokens (ARTs);
- electronic money tokens (EMTs); and
- utility tokens.

With the full implementation of MiCA since 30 December 2024, digital asset issuers and service providers (CASPs) are subject to licensing and oversight by national authorities, facilitating a harmonised and secure EU digital market.

The Digital Operational Resilience Act (DORA), which took effect in January 2025, has a significant impact

on the financial sector and extends direct oversight to ICT third-party providers, including major cloud and tech platforms.

In recent months, the European Parliament and Council reached an agreement on the Payment Services Regulation (PSR) and the Third Payment Services Directive (PSD3) to strengthen fraud prevention on online platforms across the EU and reduce market barriers for open banking providers. The PSR and PSD3 will, among other things, apply to transfers of e-money tokens used for payment. The PSR and PSD3 are expected to be adopted in early 2026.

Lastly, the European Commission published a proposal for the EU Financial Data Access Regulation (FiDA), which is expected to come into effect in 2027 and is aimed at enhancing digital transformation in the financial sector through the development of open finance.

In May 2025, the Luxembourg government launched “Accelerating Digital Sovereignty 2030”, a unified national strategy for data, AI and quantum technologies as three main priorities. This demonstrates the government’s commitment to integrating advanced technologies and keeping pace with the rapidly growing fintech industry.

2. Fintech Business Models and Regulation in General

2.1 Predominant Business Models

There are a variety of different types of fintech companies in Luxembourg, including payments, big data and AI, insurtech, cybersecurity and authentication, fundtech, regtech, lending and blockchain. Especially in the e-payment and e-commerce sectors, Luxembourg is the home to leading industry players such as Amazon, PayPal, Airbnb and Rakuten, which are licensed and supervised by the Financial Sector Supervisory Commission (*Commission de Surveillance du Secteur Financier* or CSSF) as banks, payment service institutions, e-money institutions or virtual asset service providers, as the case may be.

Furthermore, a significant number of fintech companies in Luxembourg provide services for the compliance and regulatory needs of the financial sector. These services range from KYC obligations, data management and fraud detection to fund reporting, digital investment services and investor information tools. Luxembourg-based fintechs, such as Funds-DLT and Tokeny, are also active in the development of blockchain-based market infrastructures.

While traditional players in the financial industry, including banks and insurance companies, were initially viewed as competitors to fintech companies, today there is a notable shift towards collaboration between these entities in Luxembourg. By way of example, following EU legislative developments on payment services, several Luxembourg retail banks formed a leading European open banking platform, LUXHUB, in 2018.

2.2 Regulatory Regime

The regulatory regime applicable to fintech players depends on the business model and activities of the company.

- Payment and electronic money institutions – entities providing payment or electronic money services are subject to the Law of 10 November 2009 on payment services, as amended (the “Payment Services Law”), and accordingly are subject to authorisation by the CSSF.
- Insurtech – entities providing insurance services are subject to the Law of 7 December 2015 on the insurance sector, as amended, and accordingly are subject to authorisation by the Insurance Commissioner (*Commissariat aux Assurances* or CAA).
- Fundtech – entities that operate as investment funds or investment fund managers may be subject to several regulations, including the Luxembourg Law of 12 July 2013 on alternative investment fund managers, the Law of 17 December 2010 on undertakings for collective investment, the Law of 13 February 2007 on specialised investment funds and the Law of 23 July 2016 on reserved alternative investment funds, each as amended. Funds and fund managers are typically authorised by the CSSF.

- Regtech – entities that provide certain services to regulated financial services entities may need to be licensed by the CSSF as support professionals of the financial sector in accordance with the Law of 5 April 1993 on the financial sector, as amended (the “Financial Sector Law”).
- Lending/banking activities – lending on a professional basis would typically require a banking licence in accordance with the Financial Sector Law. Most Luxembourg banks are authorised and supervised by the CSSF, and are subject to EU regulations and national legislation.
- Alternative lending – entities that provide lending services that do not qualify as banks may fall under the scope of the Financial Sector Law, which requires an entity to be licensed as a professional performing lending operations. Alternatively, an entity may also grant loans in the context of a securitisation transaction under the Luxembourg Law of 22 March 2004 on securitisation, as amended.
- Blockchain and virtual assets – entities providing virtual asset services are required to register with the CSSF and are subject to the obligations laid out in the Law of 12 November 2004 on the fight against money laundering and terrorist financing, as amended (the “AML Law”). However, not all blockchain-related operations would qualify as virtual asset services. In addition, if the relevant assets qualify as financial instruments, rules laid out in Directive 2014/65/EU on markets in financial instruments, as amended (MiFID II), and related regulations would apply.

Most of the aforementioned legislation is accompanied by technical standards, regulations, circulars and guidance issued by the competent authorities, which should also be considered. In addition, each of the activities above may be subject to, among others, AML regulations (see **2.14 Impact of AML and Sanctions Rules**) and data protection regulations (see **2.11 Implications of Additional, Non-Financial Services Regulations**).

2.3 Compensation Models

The compensation models that industry participants are allowed to use to charge customers vary mainly depending on the service provided by the fintech enti-

ty and the relevant customer type. Disclosure obligations relating to fees vary depending on the same factors. Typically, regulated entities, such as investment firms, are subject to certain pre-contractual obligations, which include the obligation to disclose costs charged by the service provider.

2.4 Variations Between the Regulation of Fintech and Legacy Players

As a general rule, there is no structural difference between the regulation of fintech companies and legacy players, as long as the services they provide fall under the scope of regulated activities. However, given the size and business model of fintech companies, certain rules applicable to legacy players would typically not apply to fintech companies. In addition, in some cases the applicable regulations depend directly on the scale of the business – for example, the EU crowdfunding regulation provides certain regulatory exemptions as long as the yearly funding remains under the threshold of EUR5 million.

2.5 Regulatory Sandbox

There is currently no general regulatory sandbox regime in Luxembourg applicable to all fintechs.

However, the adoption of Regulation (EU) 2022/858 has introduced a pilot regime for market infrastructures based on DLT (the “DLT Pilot Regime”), which is fully applicable from March 2023. The DLT Pilot Regime provides a temporary exemption from certain regulatory requirements for eligible firms for the development of market infrastructures used for the trading or settlement of financial instruments that are issued, recorded, transferred and stored using DLT.

In addition, the CSSF has established an innovation hub that seeks to foster an open and constructive dialogue with the fintech industry. The innovation hub is a single point of contact for any person who wishes to present an innovative project or exchange views on challenges facing financial innovation in Luxembourg.

2.6 Jurisdiction of Regulators

Fintech companies may be supervised by several regulators in Luxembourg, of which the following are the most relevant.

The CSSF

The CSSF is the competent authority of the prudential supervision of credit institutions, professionals of the financial sector, alternative investment fund managers, undertakings for collective investment, authorised securitisation undertakings, regulated markets, payment institutions, electronic money institutions and other entities operating in the financial sector. In addition, the CSSF is also the competent authority to ensure that such supervised entities comply with the laws protecting financial consumers and with AML laws.

The CAA

The CAA is the competent supervisory authority for the insurance sector in Luxembourg, which mainly includes insurance undertakings, reinsurance undertakings, certain pension funds, insurance professionals and insurance intermediaries.

The CNDP

The National Commission for Data Protection (*Commission Nationale pour la Protection des Données* or CNDP) is the national authority for verifying the legality of the processing of personal data, and ensures the respect of personal freedoms and fundamental rights with regard to data protection and privacy. The CNDP is the supervisory authority for Regulation (EU) 2016/679 on data protection (the “General Data Protection Regulation” or GDPR).

European Regulators

In addition to national regulators, technical guidelines issued by the European Banking Authority (EBA), the European Securities Market Authority (ESMA) and the European Insurance and Occupational Pensions Authority (EIOPA) apply in Luxembourg. Significant credit institutions incorporated in Luxembourg are directly supervised by the European Central Bank (ECB).

2.7 No-Action Letters

The practice of issuing “no-action” letters does not currently exist in Luxembourg. The CSSF may provide guidance, FAQs and clarifications and may conduct public consultations on regulatory compliance in the financial sector; however, these are not typically referred to as “no-action” letters.

At European level, the EBA and ESMA do issue “no-action” letters from time to time, although these letters are intended to provide guidance to market participants and are not legally binding.

2.8 Outsourcing of Regulated Functions

Authorised financial institutions may outsource their activities subject to certain restrictions. Most importantly, strategic or core functions cannot be outsourced, and the institution needs to retain the necessary expertise to efficiently monitor such services and to manage the associated risks.

Outsourcing must comply with the detailed guidance outlined in CSSF Circular 22/806 published in April 2022. In addition, banks should take into consideration specific requirements set out in CSSF Circular 12/552, as amended.

Owing to the need to ensure the continuity of outsourced activities, certain provisions must be included in the relevant written contracts. Among others, outsourcing agreements must set out specific clauses relating to termination and the right of the entity to monitor the service provider’s performance on an ongoing basis. In addition, specific contractual clauses are required if an outsourced IT activity relies on a cloud computing infrastructure. Furthermore, DORA introduced new rules governing the outsourcing functions to ICT service providers, ensuring that operations remain reliable and secure.

2.9 Gatekeeper Liability

The extent to which fintech providers may be deemed to be “gatekeepers” depends on the business model of the company. In general, fintech entities may be deemed liable for activities on their platforms in relation to AML obligations if the activities are within the scope of the AML Law. In addition, gatekeeper liability may come into question if the fintech entity is involved in a transaction that falls under the scope of Directive (EU) 2018/822 on mandatory automatic exchange of information (DAC 6) as a reportable cross-border transaction.

2.10 Significant Enforcement Actions

As the supervisory authority, the CSSF has broad powers to impose sanctions on entities subject to its

supervision. For example, in the area of anti-money laundering and countering the financing of terrorism (AML/CFT) supervision, the CSSF has the authority to issue warnings, reprimands, administrative fines and professional disqualification, and these sanctions may be made public.

With regard to administrative fines, the CSSF has recently imposed a fine of EUR5 million on a Luxembourg bank due to non-compliance with the applicable AML/CFT legislation. The amount of the fine is proportional to the bank's turnover.

In addition to imposing administrative fines, the CSSF may also report cases to the prosecutor's office regarding investment firms that claim to be established in Luxembourg and offer investment services without authorisation.

Otherwise, fintech companies may be subject to enforcement actions by the CNDP for non-compliance with the applicable data protection rules.

2.11 Implications of Additional, Non-Financial Services Regulations

Data Protection and Privacy

The GDPR together with the Luxembourg Law of 1 August 2018 regulate the processing of personal data, and such rules apply regardless of the industry sector or whether the relevant entity is a legacy player or a newly established start-up. In addition to the general rules governing the processing of personal data, the rules relating to privacy by design and privacy by default as well as automated decision-making and profiling may be relevant for fintech companies.

Cybersecurity

Management of risks relating to information and communication technologies (ICT) is an essential part of the necessary risk management by financial institutions. The CSSF has recently implemented the guidelines adopted by the EBA on ICT and security risk management, which need to be complied with by all entities authorised under the Financial Sector Law and the Payment Services Law.

In addition, specific requirements apply to entities considered operators of essential services in accord-

ance with Directive (EU) 2016/1148, as transposed into national legislation by the Law of 28 May 2019. Certain entities of the financial sector, such as banks, may need to take specific measures to manage security risks if their services are judged accordingly by the CSSF.

Following the adoption of DORA, all entities in scope must ensure that they can withstand ICT-related disruptions and threats. In particular, fintechs may need to adhere to strict standards to prevent and limit the impact of ICT-related incidents. DORA also provides an oversight framework on service providers (such as Big Techs) that provide cloud computing to financial institutions.

2.12 Review of Industry Participants by Parties Other Than Regulators

The activities of financial sector participants are mainly reviewed by the regulators; however, auditors are typically appointed by industry participants to review their business activities. Furthermore, certain regulated entities – eg, banks – must set up internal risk control, compliance and internal audit functions.

2.13 Conjunction of Unregulated and Regulated Products and Services

In principle, there is no general prohibition for regulated entities to combine regulated and unregulated products. However, in certain cases the regulator must be notified of such activities and may then assess the compatibility of these services and products in more detail. For example, in the case of services and products related to virtual assets, the CSSF has published FAQs outlining its position on the possibility of banks opening virtual asset accounts. According to the CSSF, banks may open accounts, similar to securities accounts, that allow customers to deposit virtual assets; however, they cannot open virtual asset bank accounts (eg, current accounts).

2.14 Impact of AML and Sanctions Rules

In accordance with the AML Law, which transposes, among others, Directive (EU) 2015/849 into national law, fintech companies that qualify as professionals under the AML Law are required to comply with several professional obligations.

The AML Law applies, for instance, to banks, financial institutions, virtual asset service providers, payment institutions and electronic money institutions. In particular, these entities are required to comply with customer due diligence obligations, adequate internal management requirements and co-operation requirements with the authorities. The CSSF is required to ensure that all the persons subject to its supervision, authorisation or registration comply with the professional AML/CFT obligations and implement a risk-based approach. Accordingly, the CSSF has broad sanctioning powers (see **2.10 Significant Enforcement Actions**).

In addition, the new AML package sets up the EU Anti-Money Laundering Authority (AMLA) to directly supervise high-risk entities, and mandates CASPs to comply with AML/CFT regulations, banning anonymous transactions and enhancing transparency in the crypto sector.

2.15 Financial Action Task Force (FATF) Standards

Luxembourg is recognised as one of the most progressive jurisdictions in AML/CFT matters. The AML/CFT rules apply to the majority of financial entities, ensuring compliance with the Financial Action Task Force (FATF) standards. As a member of the FATF, Luxembourg adheres to over 40 FATF Recommendations and, according to the Mutual Evaluation Report 2023, is regarded as having a “solid AML/CFT” framework.

2.16 Reverse Solicitation

In accordance with the Financial Sector Law, third-country investment providers may rely on reverse solicitation in Luxembourg and are not obliged to establish a branch or obtain authorisation from the CSSF, provided that the services shall be provided:

- solely at the initiative of a Luxembourg client;
- without any marketing activities; and
- not to circumvent the legislation of any member state.

In addition, reverse solicitation is specifically targeted at professional investors and should not be considered a method for placing investments or offerings.

3. Robo-Advisers

3.1 Requirement for Different Business Models

While there are no regulatory requirements in Luxembourg tailored specifically for services provided by robo-advisers, providing digital or automated services is, however, subject to the same regulatory requirements as non-automated financial advisers. Depending on the business model of the robo-adviser, specific licences will be required in accordance with the Financial Sector Law, which implements the relevant provisions of MiFID II into national law.

For example, if automated technology is used to provide personal recommendations to a client in respect of transactions relating to financial instruments, such service provider will need to be authorised by the CSSF as an investment adviser. Additionally, the Blockchain IV Law introduced the “control agent”, which is responsible for managing and verifying dematerialised securities and providing a secure alternative management. Overall, this development can enhance direct distribution models, including robo-advisers.

3.2 Legacy Players’ Implementation of Solutions Introduced by Robo-Advisers

In some cases, legacy players are implementing solutions introduced by robo-advisers. The Luxembourg bank, *Banque et Caisse d’Epargne de l’Etat* (BCEE), was the first retail bank in Luxembourg to launch a robo-adviser service called SpeedInvest in 2017, which helps allocate investments into certain funds. Since then, other banks have also introduced investment services based on automated tools, such as Investify and KeyPrivate.

3.3 Issues Relating to Best Execution of Customer Trades

In accordance with the rules on best execution, the Financial Sector Law requires robo-advisers and traditional advisers to take sufficient steps when executing orders to obtain the best possible result for their clients. This includes price, costs, speed, likelihood of execution and settlement, size, nature or any other consideration relevant to the execution of the order. However, if the customer has given specific instruc-

tions, the order must be executed in accordance with such instructions.

4. Online Lenders

4.1 Differences in the Business or Regulation of Fiat Currency Loans Provided to Different Entities

With regard to regulation on online lenders, the main difference relates to whether the borrower is a consumer or not. Luxembourg legislation on lending in a professional or commercial context does not in principle separate different categories of legal entities based on, for example, the size of the business or the sector in which the borrower operates.

Loans to Consumers

Specific mandatory rules apply to credit agreements between a consumer and a lender acting in the context of any business activity. Lenders providing consumer credit need to be licensed either by the CSSF or in accordance with the Law of 2 September 2011 relating to the establishment of certain businesses and business licences. Currently, according to the Luxembourg Consumer Code, provisions on consumer credit apply to agreements under which the creditor grants consumer credit in the form of a deferred payment, loan or other similar financial accommodation, if, among others, the total amount of the credit is between EUR200 and EUR75,000. However, the new Directive (EU) 2023/2255 on credit agreements for consumers (CCD II) expands its scope by removing any minimum threshold and setting a maximum amount of EUR100,000. These changes will apply by November 2026, once the Directive is transposed into national law.

Specific obligations apply to the contractual relationship, which relate namely to the pre-contractual information, assessment of the consumer's creditworthiness, content of the agreement, right of withdrawal and right of early repayment of the credit. In addition, similar obligations apply to mortgage credit agreements – ie, agreements where a creditor grants a credit to a borrower in view of the acquisition of a residential immovable property.

Loans in a Professional Context

The legal framework applicable to non-consumer loans includes fewer mandatory provisions, as general principles of contract law apply to the loan agreements. However, providing lending activities even in a professional context is in principle a regulated activity. According to the Financial Sector Law, professionals performing lending operations – ie, professionals engaging in the business of granting loans to the public for their own account – are subject to authorisation by the CSSF.

4.2 Underwriting Processes

The underwriting process used by industry participants typically varies depending on the type of borrower and the type of credit. Specific regulatory requirements apply, namely in relation to AML/CFT obligations and consumer protection.

Obligations Relating to AML/CFT

All professionals operating in the financial sector typically need to comply with obligations relating to AML/CFT (see 2.14 **Impact of AML and Sanctions Rules**). In particular, the AML Law requires professionals to establish a customer acceptance policy adapted to their activities and to apply customer due diligence measures when establishing a business relationship. These KYC obligations include identifying and verifying the customer's and the customer's ultimate beneficial owner's identities, and may also be conducted through an online video conference.

Specific Obligations Relating to Consumer Lending

If a loan is qualified as a consumer credit agreement (see 4.1 **Differences in the Business or Regulation of Fiat Currency Loans Provided to Different Entities**), the lender must adhere to certain pre-contractual obligations. Prior to entering into a consumer credit agreement, the lender must provide the consumer with the necessary information to compare the different consumer credit proposals in order to make an informed decision, which is provided by using a standard European consumer credit information form. In addition, the lender must assess the consumer's creditworthiness on the basis of sufficient information. Lastly, consumer credit agreements must be drawn up on paper or other durable medium, and each party

must be provided with a signed copy of the agreement.

4.3 Sources of Funds for Fiat Currency Loans

Fiat loans may be funded from a variety of different sources, and, depending on the source of funds, different licensing requirements apply. Only entities authorised as credit institutions may receive deposits or other receivables from the public and grant credits for their own account. Other alternative sources of funds for fiat loans include securitisation and crowdfunding.

Securitisation

Luxembourg is one of the leading European centres for securitisation with a comprehensive and market-friendly legal framework. Although securitisation vehicles are exempt from the requirement to be authorised as professionals performing lending operations, authorisation by the CSSF is required if the securitisation vehicle funds its activities by issuing financial instruments to the public on a continuous basis.

Crowdfunding

Crowdfunding can be a source of fiat loans, particularly through peer-to-peer lending. Loans funded through lending-based crowdfunding platforms benefit from the newly established legal framework. The EU Crowdfunding Regulation provides a harmonised EU framework for crowdfunding services provided to non-consumer project owners relating to offers for an amount of up to EUR5 million calculated over a period of 12 months per project owner. The provision of crowdfunding services is subject to a licence as a European Crowdfunding Service Provider (ECSP) and prudential supervision by the CSSF.

4.4 Syndication of Fiat Currency Loans

Syndication of fiat currency loans provided by fintech companies is currently not market practice in Luxembourg. Loan syndication is typically used to finance larger-scale projects such as company takeovers, property projects or significant investment projects. These extensive and complex financings typically involve legacy players.

5. Payment Processors

5.1 Payment Processors' Use of Payment Rails

Payment processors can either use existing payment rails or create their own payment rails. However, in the latter case, specific licensing requirements apply.

5.2 Regulation of Cross-Border Payments and Remittances

Luxembourg is part of the Single Euro Payments Area (SEPA), which aims to create a single euro payments area in which all scriptural (book) payments are considered domestic – ie, without any distinction between national and cross-border payments. With regard to large-value transactions, these are currently processed through the T2 system, which settles cross-border payments in euros in real time.

When it comes to the regulation of cross-border payments, Luxembourg has implemented the Cross-Border Payment Regulation (CBPR2), Directive (EU) 2015/2366 on payment services (PSD2) (see **11.1 Regulation of Open Banking**) and the SEPA Regulation. These rules integrate the EU payment market, enhancing the security of payment transactions and the regulation of cross-border payments. Additionally, AML/CFT standards require companies to verify identities, detect suspicious activities, ensure the legitimacy, monitoring of cross-border transactions, and sanction screenings.

6. Marketplaces, Exchanges and Trading Platforms

6.1 Permissible Trading Platforms

In accordance with MiFIR/MiFID II rules, as transposed into national law, trading venues in Luxembourg can be divided into three categories: regulated markets, multilateral trading facilities (MTFs) and organised trading facilities (OTFs). Operators of a regulated market, an MTF or an OTF are subject to the authorisation and supervision of the CSSF. The only entity authorised to operate the business of a trading venue in Luxembourg is the Luxembourg Stock Exchange, which operates the regulated market named *Bourse*

de Luxembourg and an MTF named Euro MTF. At present, there are no OTFs based in Luxembourg.

In addition, MiCA introduced a specific legal framework applicable to CASPs, including crypto-asset trading platforms, requiring these service providers to be authorised by the competent authority. Recently, Bitstamp, the cryptocurrency exchange headquartered in Luxembourg, became the first provider in Luxembourg to obtain a CASP licence from the CSSF.

6.2 Regulation of Different Asset Classes

In general, the regulatory regime relating to trading is the same for all asset classes. However, specific rules on transparency and trading are slightly different for equity and debt instruments. In addition, specific rules apply with regard to crypto-assets (see **10.5 Regulation of Blockchain Asset Trading Platforms**).

6.3 Impact of the Emergence of Cryptocurrency Exchanges

The emergence of cryptocurrency exchanges and the significance of the crypto sector has led to the adoption of, and proposals for, new regulations. Following the adoption of the sixth AML directive, CASPs are required to comply with AML legislation by ensuring the full traceability of transactions and authentication of users (see **1.1 Evolution of the Fintech Market**).

Further, MiCA introduced a prudential regime relating to cryptocurrency exchanges.

The emergence of cryptocurrency exchanges and the growth of the sector around crypto-assets also prompted Luxembourg to adopt the Blockchain IV Law in December 2024.

Additional regulatory changes at European level are expected with respect to decentralised exchanges (see **10.9 Decentralised Finance (DeFi)**).

6.4 Listing Standards

Listing standards vary depending on the relevant trading venue and the type of financial instrument. In accordance with the Law of 30 May 2018 on markets in financial instruments, as amended, regulated markets shall have clear and transparent rules regarding the admission to trading of financial instruments. For

listing on the Luxembourg Stock Exchange's regulated market, issuers must publish a prospectus prepared in accordance with Regulation (EU) 2017/1129 on prospectuses (the "Prospectus Regulation") that has been reviewed and approved by the CSSF. Alternatively, the prospectus may be approved by a competent authority of another EU member state and passported to Luxembourg. For listing on the Euro MTF in Luxembourg, the prospectus must be approved by the Luxembourg Stock Exchange.

Furthermore, on 8 October 2024, the EU adopted a package of legal acts (the "Listing Act"), which eases issuer obligations by expanding prospectus exemptions and introducing the EU Follow-on Prospectus and the EU Growth Issuance Prospectus, effective from 5 March 2026.

Following the listing and admission to trading on either trading venue, issuers must regularly disclose regulated information concerning their business and the listed security.

6.5 Order Handling Rules

In accordance with the MiFID II/MiFIR framework, the Financial Sector Law requires that investment firms and credit institutions that are authorised to execute orders on behalf of their clients implement procedures and arrangements which provide for the prompt, fair and expeditious execution of client orders, relative to other client orders or their own trading interests. Otherwise, comparable client orders must be executed in accordance with the time of their reception.

6.6 Rise of Peer-to-Peer Trading Platforms

There are currently no peer-to-peer trading platforms located in Luxembourg. The regulator has not yet provided specific guidance on the regulatory environment applicable to them; whether or not specific rules on, for instance, AML and loan origination apply should be checked on a case-by-case basis.

6.7 Rules of Payment for Order Flow

The MiFID II legal framework, as transposed into Luxembourg law, in principle prohibits the possibility of routing client orders to a particular trading venue or execution venue to receive any remuneration, discount or non-monetary benefit. In practice, and as

clarified by guidance issued by ESMA, payments for order flows between brokers and market makers are generally not permitted.

Fees, commissions or non-monetary benefits from a third party may only be accepted if such benefit is designed to enhance the quality of the relevant service to the client and does not impair the service provider's duty to act honestly, fairly and professionally in accordance with the best interest of its clients. In addition, the benefits received must be clearly disclosed to the client before providing the relevant service.

6.8 Market Integrity Principles

The basic legal framework to preserve market integrity is laid out in Regulation (EU) No 596/2014 on market abuse (MAR), which is directly applicable in Luxembourg.

MAR, together with the delegated and implementing acts, imposes rules regarding disclosure, recommending/inducing prohibitions on persons in possession of inside information, ongoing issuer disclosure obligations and prohibition on market manipulation. The CSSF is the competent authority in Luxembourg for the purposes of MAR and has the supervisory and investigatory powers. Non-compliance may lead to administrative sanctions or criminal liability.

7. High-Frequency and Algorithmic Trading

7.1 Creation and Usage Regulations

The rules applicable in Luxembourg for the creation and usage of high-frequency and algorithmic trading have been implemented in the Law of 30 May 2018 on markets in financial instruments, transposing MiFID II. These rules apply to trading of all financial instruments, and no differentiation is made between different asset classes within the scope of MiFID II.

Investment firms, credit institutions and certain other entities incorporated in Luxembourg that engage in algorithmic trading must have effective systems and risk controls in place that ensure, among others, that the trading systems:

- are resilient and have sufficient capacity;
- are subject to appropriate trading thresholds and limits;
- prevent the sending of erroneous orders; and
- cannot be used for purposes that are contrary to MAR.

In addition, such systems need to be fully tested and properly monitored, and effective business continuity arrangements need to be in place to deal with any failure of the systems. Engagement in algorithmic trading needs to be notified to the CSSF.

7.2 Requirement To Be Licensed or Registered as a Market Maker When Functioning in a Principal Capacity

Specific requirements apply in accordance with the MiFID II legal framework if the entity engaging in algorithmic trading is pursuing a market-making strategy. An entity is considered to pursue a market-making strategy when dealing on its own account, as a member or participant of a trading venue, where its strategy involves posting firm, simultaneous two-way quotes of comparable size and at competitive prices relating to one or more financial instruments on a single trading venue or across different trading venues, with the result of providing liquidity on a regular and frequent basis to the overall market.

In contrast to MiFID II, MiCA covers the term "market participant". Market participants include, but are not limited to, CASPs, which are subject to authorisation and rules of transparency and consumer protection. In addition, all digital issuers, who may also be considered market participants, should adhere to strict disclosure requirements. Therefore, market makers may fall under the scope of MiCA if they align with the role of CASPs – namely the buying and selling of financial instruments.

7.3 Regulatory Distinction Between Funds and Dealers

The applicable regulations do not distinguish between funds and dealers engaged in high-frequency or algorithmic trading.

7.4 Regulation of Programmers and Programming

Programmers who develop and create trading algorithms are not directly regulated; however, the investment firm using such trading algorithms or other electronic trading tools must ensure that the trading tools it uses comply with the regulatory requirements (see 7.1 Creation and Usage Regulations). An investment firm that outsources or procures software or hardware used in algorithmic trading activities remains fully responsible for its legal obligations relating to algorithmic trading.

8. Insurtech

8.1 Underwriting Processes

Insurance underwriting is a licensed activity in Luxembourg, governed by the Law of 7 December 2015 on the insurance sector, as amended, and insurance companies located in Luxembourg are supervised by the CAA. In particular, insurance contracts are subject to the specific regulatory requirements laid out in the Law of 27 July 1997 on insurance contracts, as amended, which requires, for example, providing certain pre-contractual information to customers. Consumer and data protection requirements must also be taken into consideration, as applicable to the specific underwriting processes.

8.2 Treatment of Different Types of Insurance

The main types of insurance in Luxembourg are life insurance and non-life insurance, which are governed by separate legal provisions as outlined in the Law of 7 December 2015 on the insurance sector, as amended. Life insurance contracts under the Luxembourg legal framework provide an important part of Luxembourg's wealth management offering. In addition, the Consumer Code applies to insurance contracts concluded with consumers, unless specific provisions of the Law of 27 July 1997 on the insurance contract, as amended, state otherwise.

9. Regtech

9.1 Regulation of Regtech Providers

Regtech providers are not directly regulated in Luxembourg. However, they might fall within the scope of the existing financial services regulation depending on their activities. If regtech companies provide services for regulated financial service entities, they may need to be licensed as a support Professional of the Financial Sector (PFS) in accordance with the Financial Sector Law. Relevant support PFS licences that may be required for regtech providers include authorisation to act as client communication agent, administrative agent, primary IT systems operator or secondary IT systems and communication networks operator. Regtech entities providing merely technical solutions would not typically be subject to these licence requirements.

9.2 Contractual Terms to Ensure Performance and Accuracy

There are no specific contractual terms dictated by regulation that financial service firms would need to impose on regtech service providers. In addition to terms following general industry practice, if the service provided falls under the scope of outsourcing, specific contractual requirements apply (see 2.8 Outsourcing of Regulated Functions).

10. Blockchain

10.1 Use of Blockchain in the Financial Services Industry

Blockchain-based products and solutions are increasingly used by traditional players of the financial services industry in Luxembourg. For example, the European Investment Bank has continued to develop the digitalisation of capital markets by issuing digital bonds on private and public blockchains. In 2024, the CSSF authorised the launch of the first tokenised UCITS fund in its kind in Luxembourg by using a blockchain-enabled transfer agency platform. Furthermore, in 2025, Luxembourg issued its first digital treasury certificates using DLT through HSBC's Orion platform, further strengthening the financial centre's leadership in digital finance.

In addition, since January 2022, the Luxembourg Stock Exchange admits security tokens to be registered onto the Securities Official List (SOL), which marks an important step towards making DLT securities mainstream and enhancing visibility. Owing to the current regulatory framework applicable in the EU, security tokens cannot be admitted to trading on a regulated market or MTF. However, thanks to the DLT Pilot Regime (see **2.5 Regulatory Sandbox**), MTFs can be granted temporary exemptions, for a period of up to six years, from certain existing requirements in order to enable DLT to also be used for trading (see **10.5 Regulation of Blockchain Asset Trading Platforms**).

10.2 Local Regulators' Approach to Blockchain

The CSSF has indicated that it applies a principle of technology neutrality towards the use of blockchain, and has acknowledged that innovative processes and technologies such as DLT, when properly used, can improve the provision of financial services.

In line with this approach, in 2022, the CSSF published a non-binding White Paper to guide professionals in conducting due diligence on DLT in financial services. It aims at helping to assess the risks and benefits of such technologies by providing key questions and recommendations for risk analysis and due diligence.

Overall, with the adoption of MiCA and the Blockchain IV Law, Luxembourg is emerging as a leading European hub in the digital finance sector. The dual framework of EU and national legislation creates a secure environment for digital assets, digital securities and related technologies, and highlights Luxembourg's commitment to aligning with EU objectives for innovation and market security.

10.3 Classification of Blockchain Assets

There is currently no general legal framework or single legal definition of blockchain assets applicable in Luxembourg. Moreover, there are several related terms often used in this context – eg, the Luxembourg regulator does not use the term “blockchain assets” in its guidance but uses the term “virtual assets”, while the term “crypto-assets” has been used at an EU

level (such as in MiCA and in documentation issued by ESMA).

Regardless of the terminology used, blockchain assets may or may not be considered a form of regulated financial instruments falling within the scope of existing financial services regulation, and such assessment should be made on a case-by-case basis depending on the characteristics of the asset.

With regard to AML/CFT legislation, the Luxembourg AML Law was amended in 2020 in accordance with the fifth EU AML directive (2018/843/EU), by introducing the obligation of virtual asset service providers to register with the CSSF and to comply with certain AML/CFT obligations. Virtual assets are defined as a digital representation of value, including virtual currencies, that can be digitally traded or transferred and can be used for payment or investment purposes – however, excluding virtual assets that fulfil the conditions of electronic money, as defined in the Payment Services Law, and virtual assets that fulfil the conditions of financial instruments, as defined in the Financial Sector Law.

In addition, MiCA regulates crypto-assets that so far have fallen outside the scope of specific regulation, such as MiFID II. The definition of crypto-assets includes any digital representation of value or rights that may be transferred or stored electronically, using a distributed ledger or similar technology. The applicable new rules, which include transparency and authorisation requirements, will differ based on the characteristic of the token.

10.4 Regulation of “Issuers” of Blockchain Assets

Luxembourg has steadily developed its blockchain framework over the past few years. In 2019, it introduced its first Blockchain Law, allowing DLT for holding and managing securities. This was expanded in 2021 to enable the issuance of dematerialised securities. Further updates in 2023 incorporated the EU DLT Pilot Regime and revised collateral arrangements, and in 2024 Blockchain Law IV reinforced Luxembourg's position as a leading hub for DLT-based financial innovation.

In addition, depending on the nature of the financial instrument, the issuer may be subject to:

- the Prospectus Regulation;
- the Law of 11 January 2008 on transparency requirements for issuers;
- the AML Law;
- MAR;
- the MiFID II framework, among others; and/or
- MiCA.

Luxembourg has established itself as a leading European hub for the tokenisation of digital assets, transposing MiCA and adopting a set of Blockchain Laws. However, market participants continue to face regulatory uncertainties, practical difficulties in implementation, and a lack of industry standards and governance frameworks. Furthermore, concerns such as limited liquidity and the complexities of cross-border issuance still hinder the full potential of tokenised assets in Luxembourg.

10.5 Regulation of Blockchain Asset Trading Platforms

The regulation of blockchain asset trading platforms depends on the regulatory status of the assets traded on the platform. For blockchain assets that do not qualify as financial instruments under the MiFID II framework, the relevant trading platforms are now subject to the regulatory requirements set out in MiCA, which fully took effect on 30 December 2024.

If the blockchain assets qualify as financial instruments under the MiFID II framework, the trading venues would also fall within the scope of the MiFID II rules on trading venues. In January 2024, ESMA published a consultation paper outlining an operational roadmap to determine when a crypto-asset falls under MiFID II and therefore when a trading platform should be classified as a regulated market, MTF or OTF.

The currently applicable EU regulatory framework requires the transfer of any such instrument to be settled through central securities depositories (CSDs) in accordance with Regulation (EU) No 909/2014 on central securities depositories, as amended (CSDR); accordingly, DLT financial instruments cannot currently be admitted to trading on a regulated market, MTF

or OTF. However, in view of encouraging technological innovation in the area of settlement, the DLT Pilot Regime provides a possibility for MTFs and CSDs to be exempt from certain provisions of the CSDR.

10.6 Staking

The provision of staking services relating to cryptocurrencies is neither addressed nor prohibited by MiCA. Nevertheless, the provisions of MiCA would apply in the event that a staking service provider holds crypto-assets in custody. If staking services are offered alongside other crypto-asset services, the CASP must obtain consent from the client before staking their crypto-assets.

10.7 Crypto-Related Lending

The lending and borrowing services related to crypto-assets are not addressed by MiCA; however, these activities are still subject to regulatory oversight, in particular for compliance with AML/CFT standards. Furthermore, licensing may be required depending on the nature of services offered, such as collateralised loans or the use of fiat currencies.

10.8 Cryptocurrency Derivatives

MiCA does not directly address cryptocurrency derivatives. However, derivatives that qualify as financial instruments with crypto-assets as their underlying asset are regulated under MiFID II. Since cryptocurrency is classified as a crypto-asset, these financial instruments fall under the regulation of MiFID II. Additionally, cryptocurrency derivatives are subject to MAR if they are traded on regulated markets, MTFs or OTFs.

10.9 Decentralised Finance (DeFi)

There are no specific regulations governing DeFi in Luxembourg. Since DeFi includes a broad range of financial services, it should be assessed on a case-by-case basis whether a certain activity or product would fall within the scope of existing financial services regulation. At European level, MiCA failed to directly address DeFi. Nevertheless, ESMA is actively monitoring DeFi developments and co-operating with international organisations such as the Internal Organisation of Securities Commissions and the Financial Stability Board.

In addition, if a party facilitates the trading of security tokens or cryptocurrencies without any intermediary, MiCA shall not apply.

10.10 Regulation of Funds

While there is no specific regulation targeting funds that invest in blockchain assets, according to the recently updated ESMA Q&As on the Alternative Investment Fund Managers Directive (AIFMD), managers of an undertaking investing in crypto-assets may be subject to the directive if the relevant undertaking meets the definition of an alternative investment fund (AIF). Funds that raise capital from a number of investors to invest in crypto-assets in accordance with a defined investment policy for the benefit of those investors will qualify as an AIF in accordance with the AIFMD.

Although the AIFMD does not provide a list of eligible or non-eligible assets, the CSSF has published FAQs on the possibility of investment funds investing in virtual assets. Pursuant to the position of the CSSF, an AIF may invest directly (and indirectly) in virtual assets if its units are marketed only to professional investors, and a Luxembourg authorised AIFM must obtain an authorisation from the CSSF for this investment strategy. Accordingly, the CSSF has indicated that UCITS and UCIs addressing non-professional customers and pension funds are not allowed to invest, directly or indirectly, in virtual assets (as defined in the AML Law).

10.11 Virtual Currencies

In accordance with the AML Law, virtual currencies – ie, digital representations of value that are not issued or guaranteed by a central bank or a public authority, which are not necessarily attached to a legally established currency and do not possess a legal status of currency or money, but are accepted by persons as a means of exchange and which can be transferred, stored and traded digitally – are also considered to be virtual assets. Therefore, the relevant AML/CFT obligations also apply to virtual currencies (see **10.3 Classification of Blockchain Assets**).

10.12 NFTs

There are currently no specific provisions relating to non-fungible tokens (NFTs) and NFT platforms in Luxembourg. Unless NFTs are considered to be virtual

assets or financial instruments, they would not fall within the scope of existing financial services regulations. For example, guidance issued by the FATF outlines that digital assets which are unique, rather than interchangeable, and which are used as collectibles rather than as payment or investment instruments, would generally not be considered as virtual assets.

Nonetheless, whether or not NFTs could be used for payment or investment purposes and thus qualify as virtual assets should be assessed on a case-by-case basis. If an NFT qualifies as a virtual asset under the AML Law, specific registration and AML/CFT obligations would apply (see **10.3 Classification of Blockchain Assets**). Moreover, NFTs are also excluded from the scope of MiCA, unless their de facto uses or features would qualify as crypto-assets under MiCA.

10.13 Stablecoins

Luxembourg is one of the first EU member states to adopt legislation transposing MiCA into national law and to operationalise MiCA for token issuers. The governance framework for stablecoins set out in MiCA has been applicable since 30 June 2024 and empowers the CSSF to supervise issuers of stable-value crypto-assets. In practice, stablecoins are regulated as either:

- EMTs, which maintain a stable value by reference to an official currency; or
- ARTs, which aim at maintaining a stable value by reference to one or more assets, such as currencies, commodities or crypto-assets.

Accordingly, MiCA imposes detailed requirements on issuers of ARTs and EMTs, including an obligation to file a White Paper and rules on reserve assets, governance, redemption rights, own funds and disclosures.

EMTs must be redeemable at their original value, on demand, in the reference currency. Redemption should not be subject to a fee unless specifically allowed by MiCA. EMT issuers must meet capital requirements, following existing banking or electronic money rules, depending on their type. ART issuers, on the other hand, follow the capital requirements set out in MiCA. ART holders have the right to redeem tokens at the fiat value of the underlying referenced assets, rather than at par value. Like EMT issuers, ART issuers must also

prepare and submit recovery and redemption plans to the CSSF.

Recently, Alipay (Europe) Limited SA has been authorised by the CSSF to issue e-money tokens under MiCA, namely a euro-backed stablecoin, providing EU-wide passporting of EMT activities.

The authors also note a trend in using Luxembourg securitisation structures in the context of issuance of stablecoins denominated in currencies of emerging markets.

11. Open Banking

11.1 Regulation of Open Banking

The main regulation governing open banking, PSD2, has been transposed into Luxembourg law by the Law of 20 July 2018 amending the Payment Services Law. PSD2 enables customers to share their data securely via application programming interfaces with banks and third parties.

Although PSD2 has significantly impacted the payment sector in the EU, it can be argued that so far open banking in Europe has not fully lived up to its expectations. Some technical issues faced by third-party providers due to PSD2 rules have required further fine-tuning to the legal framework, which has, for example, required the EBA to extend the frequency of customer re-authentication from 90 days to 180 days. However, once the PSD3/PSR package is adopted, PSD2 will be partially updated and replaced, further reducing re-authentication frequency.

11.2 Concerns Raised by Open Banking

Concerns raised by open banking include risks relating to data protection and security breaches. Both topics are highly regulated by the EU, as the GDPR also applies to open banking, and financial sector regulation, including PSD2 and DORA, has applied from January 2025 and includes strict requirements to increase cybersecurity and the resilience of ICT infrastructures. So far, there have not been any significant enforcement actions by the competent authorities in Luxembourg relating to open banking.

12. Fraud

12.1 Elements of Fraud

There are no specific elements relating to fraud in financial services. The general definition of fraud under the Luxembourg Criminal Code applies, which requires the employment of fraudulent manoeuvres or abuse of trust or credulity. The CSSF has highlighted the main elements to detect suspicious providers, including unsolicited contact, offers of high profits or returns, tight deadlines, trial investments, and unclear identification of contracting parties, among other suspicious manoeuvres.

12.2 Areas of Regulatory Focus

The CSSF provides recommendations and warnings in order to detect and report fraudulent activities. In particular, the CSSF is mostly vigilant with respect to falsification of websites of supervised entities, identity theft and cold calling.

12.3 Responsibility for Losses

Fintech service providers are governed by the Payment Service Law, according to which they are responsible for customer losses in cases of unauthorised transactions and are obliged to refund the customer.

In accordance with MiCA, CASPs are responsible to their clients for any losses resulting from incidents related to ICT, including cyber-attacks, theft or any system failures, as well as for any loss of crypto-assets resulting from providing custody and administration services. Moreover, the CSSF has the power to impose administrative penalties and other administrative sanctions (see **2.10 Significant Enforcement Actions**).

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