



Association des Banques et Banquiers, Luxembourg
The Luxembourg Bankers' Association
Luxemburger Bankenvereinigung



10 November 2022

CSSF circular 22/821 on the revised Long Form Report for banks



Agenda



- 01 Welcome address
- 02 Presentation of the new CSSF circular 22/821
- 03 Q&A session

01



Welcome address

Gilles Pierre

Head of Banking Regulation & Financial
Markets – ABBL

02



Presentation of the new CSSF circular 22/821

Nele Mayer

Head of Department
Banking Regulation Implementation – CSSF

Mehdi Mabrouki

Banking Regulation Implementation – CSSF

Quentin von Sternberg

Banking Supervision – CSSF

Review of the Long Form Report

Webinar on the introduction of
Circular CSSF 22/821

10 November 2022



Commission de Surveillance
du Secteur Financier

Commission
Surveillance
Secteur Financier

Context of the review of the long form report

The long form report (LFR) was initially introduced by **Circular CSSF 01/27 in 2001** introducing practical rules concerning the role of statutory auditors (réviseurs d'entreprises). The circular covers both the report on annual accounts / consolidated accounts and the annual long form audit report.



Introduction of the LFR in 2001
The LFR was introduced with Circular CSSF 01/27

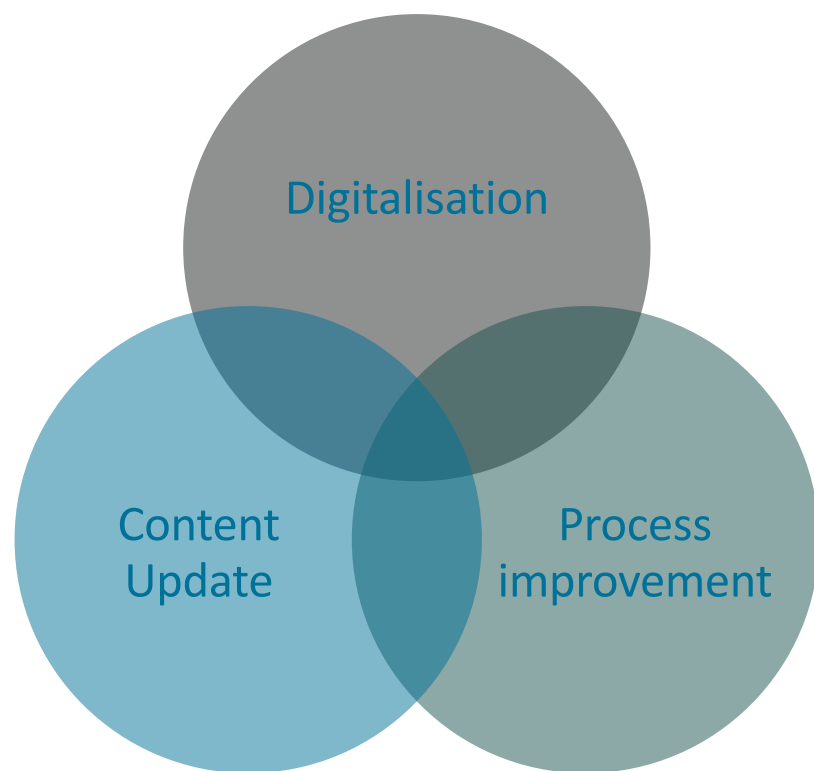


Updates on the content of the LFR
Circular CSSF 01/27 has been amended four times over the last 20 years to reflect regulatory developments



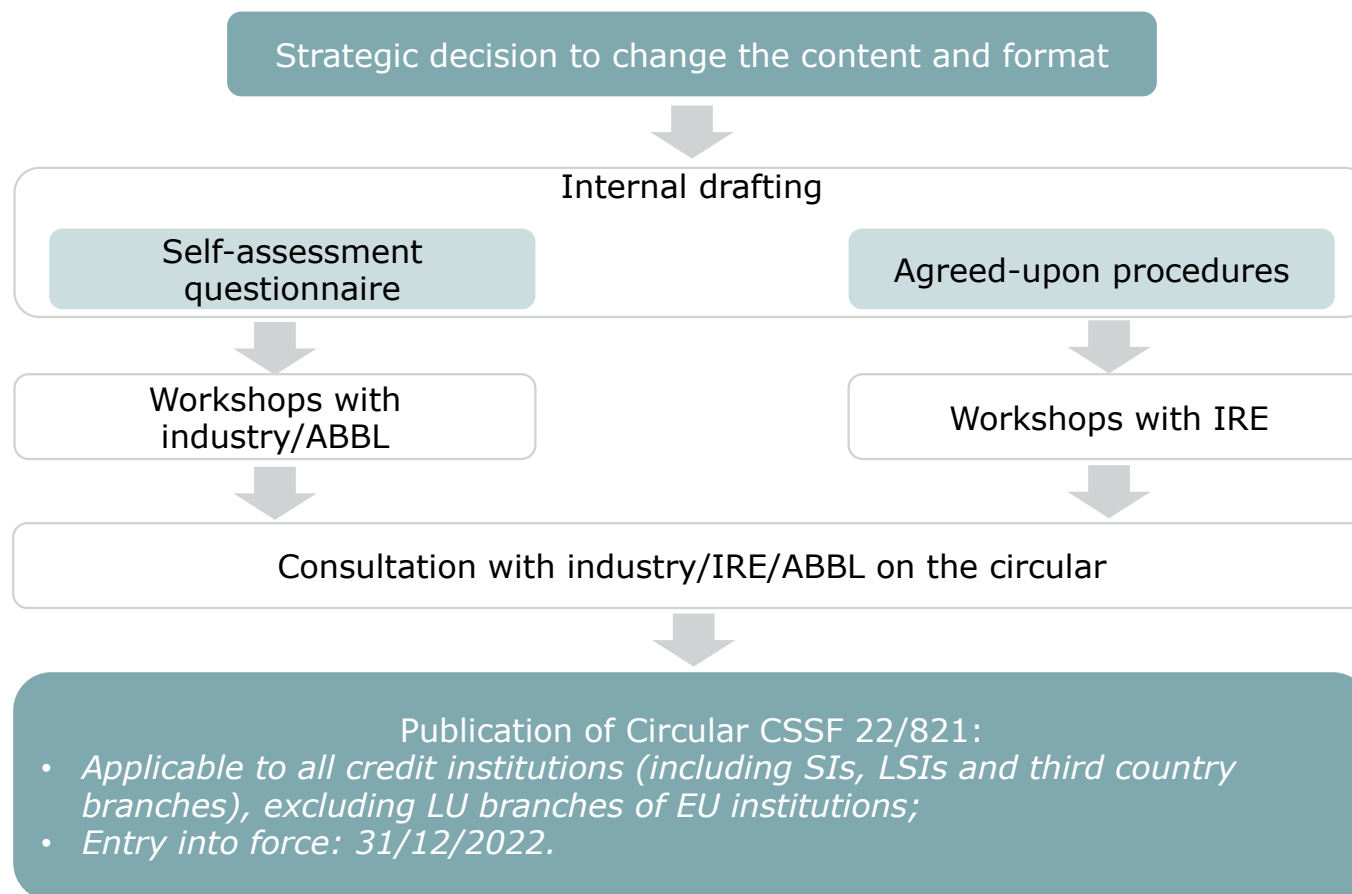
Thorough revision of the LFR in 2022
Revision of the LFR framework both with regard to the content and to the format

Main objectives of the review of the long form report



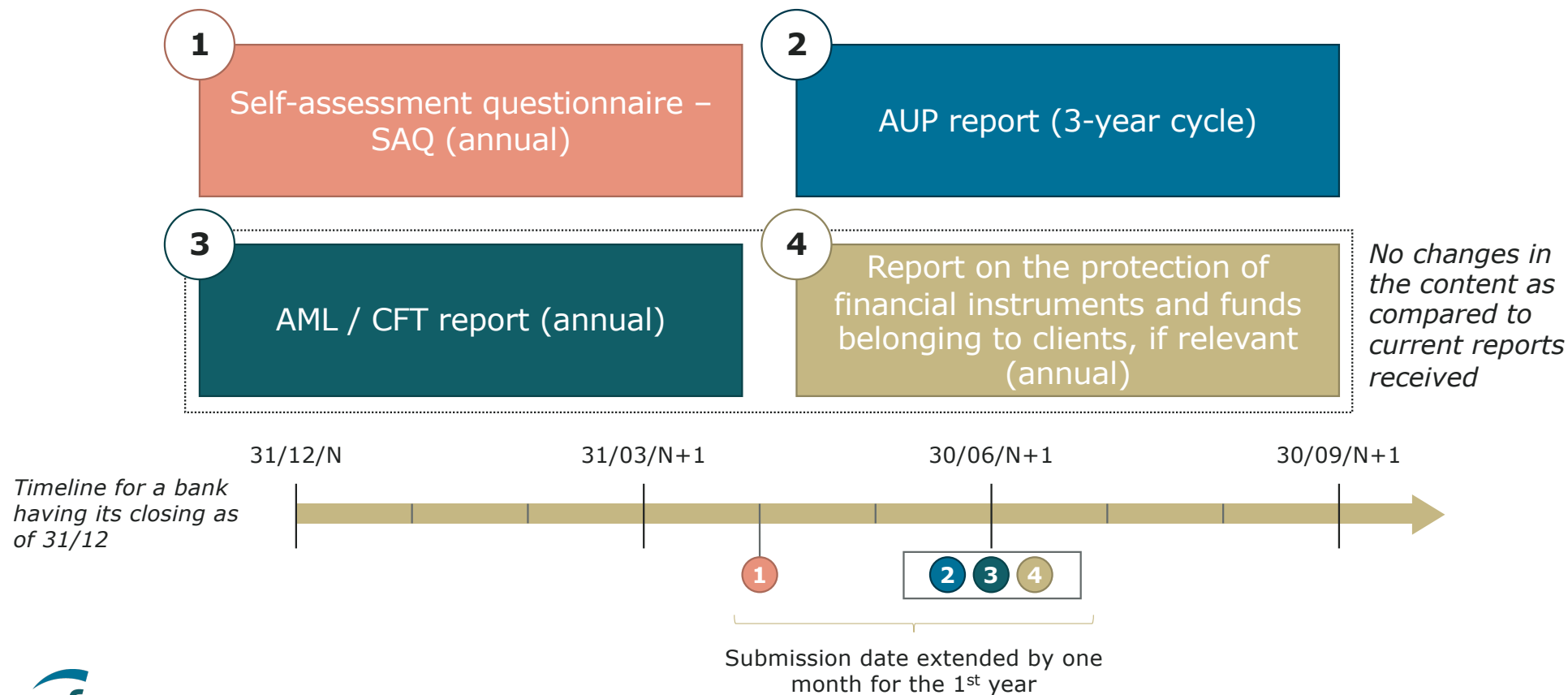
- Transform the LFR (currently text format) to a digital self- assessment questionnaire (SAQ) including Agreed Upon Procedures (AUP) to be performed by the external auditor.
- Adapt content to the regulatory framework, eliminate redundancies (e.g. with ICAAP) and cover more extensively topics such as depositary, PSD and MiFID.
- Repeal and replace existing Circular CSSF 01/27 applicable to all credit institutions (including SIs, LSIs and third country branches), excluding LU branches of EU credit institutions.

Approach for the reform of the long form report



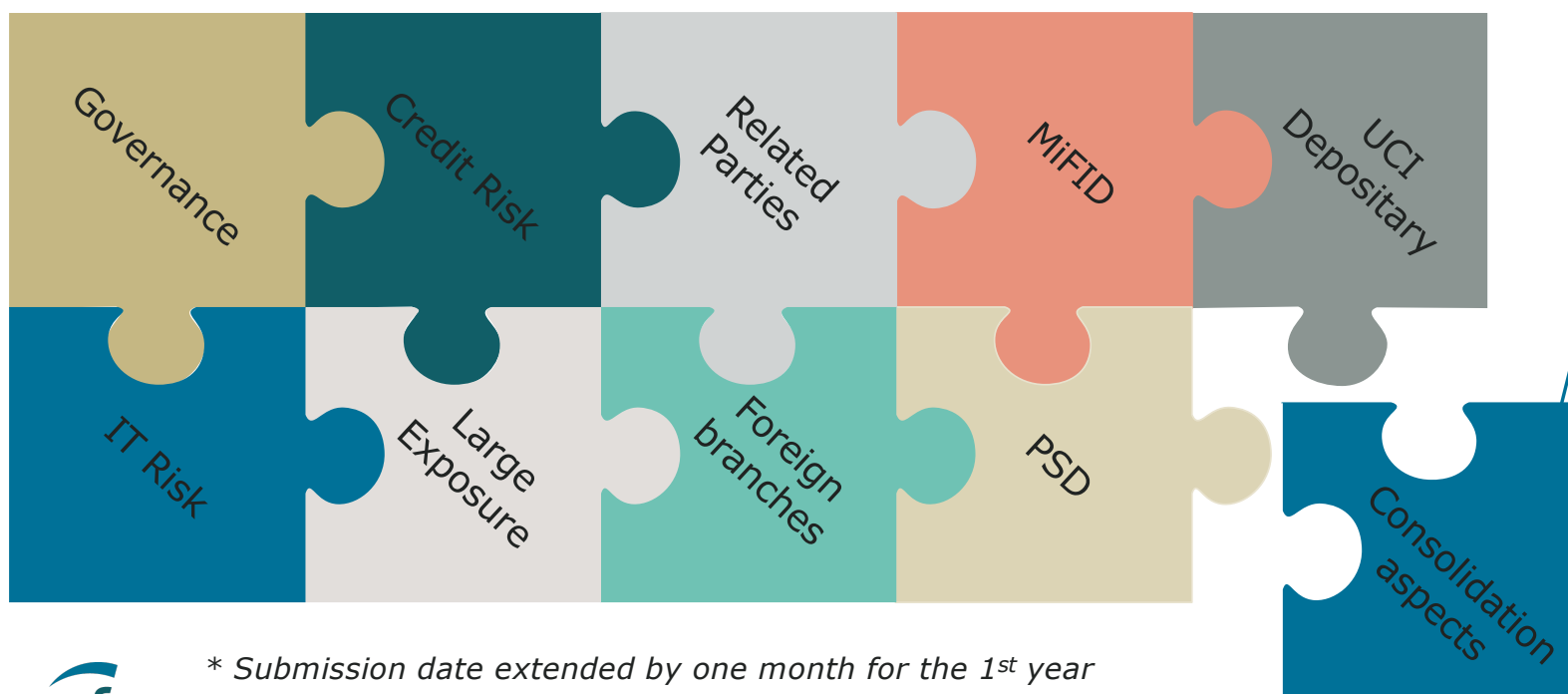
Structure of the revised long form report

■ The new LFR framework consists of 4 building blocks:



Zoom on the SAQ

- The SAQ should **be filled in annually** by the banks via the CSSF digital solution “eDesk”.
- The SAQ should be **submitted within 3 months* after the closure of the financial year**.
- The SAQ consists of the following sections:



The level of application of each section depends on the institutions filling in the questionnaire (e.g. the section on consolidation aspects should only be filled in by institutions that consolidate other entities from a prudential perspective).

Zoom on the AUP report

- Institutions have to **mandate their external auditor to perform a predefined list of agreed-upon procedures (AUP)** broken down into different modules. The AUP follow the ISRS 4400 standards.
- Modules are to be performed, in principle within a **three-year cycle**. The determination of the applicable modules for an institution will be done on a **case-by-case basis** following a **risk-based approach**.
- The AUP will be implemented following a **staggered approach**. For the year 2023, the MiFID and PSD 2 modules are to be performed for all institutions. The remaining modules will be covered in the subsequent years.
- The AUP report must be transmitted by the institution to the CSSF in electronic form via the CSSF digital solution **within 5 months** after the closure of the financial year**.

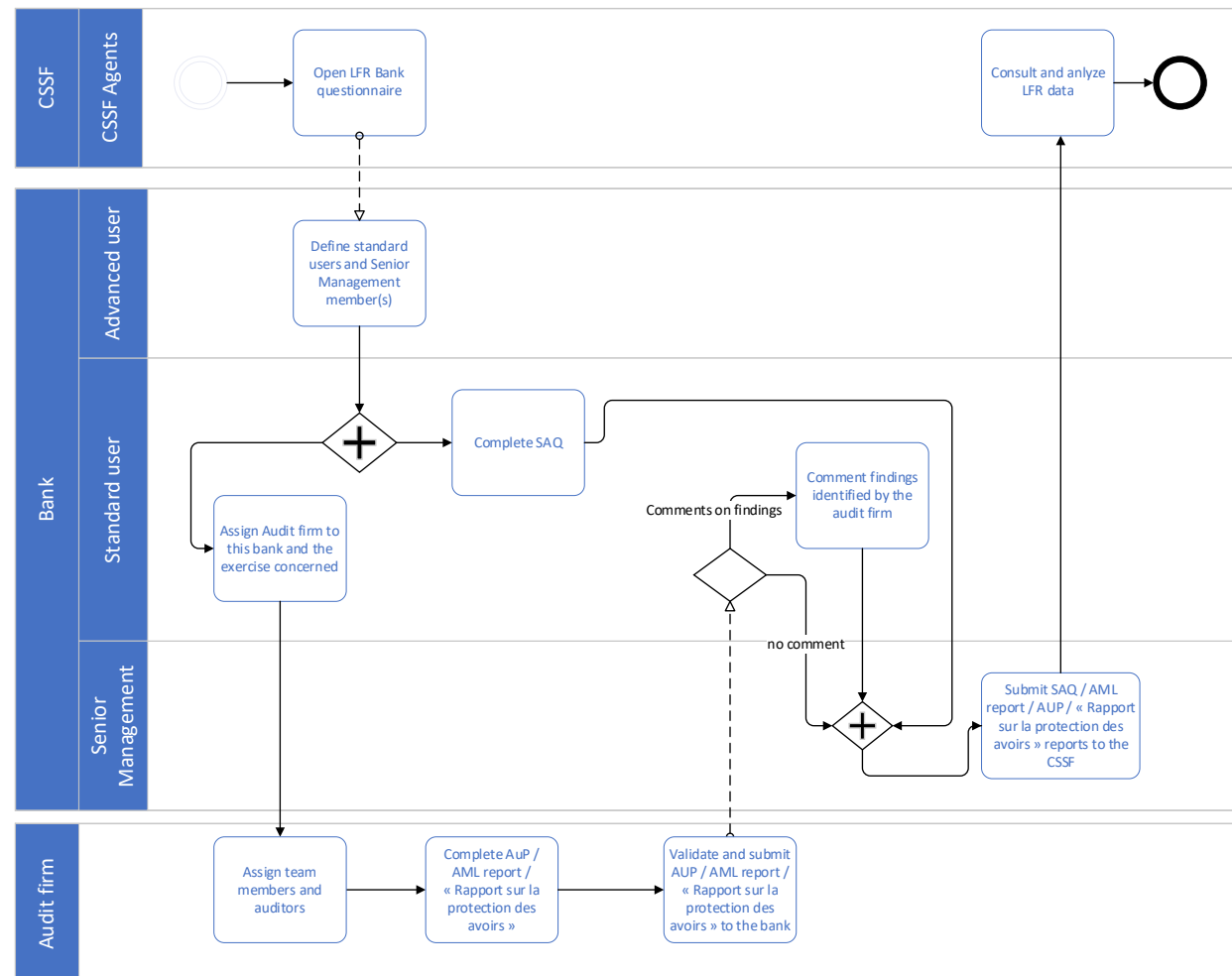
* For SIs, AUPs may be requested, subject to ECB decision

** Submission date extended by one month for the 1st year

| | |
|---|------------------|
| 1 | MiFID |
| 2 | PSD 2 |
| 3 | Credit risk* |
| 4 | IT risk* |
| 5 | UCI depositary |
| 6 | Related parties* |
| 7 | Large exposures* |

Overview of the LFR process in the IT solution

- The CSSF **eDesk** portal will allow institutions to fill in and submit the different deliverables that are part of the LFR framework.
- **Strong authentication** will be required to access the portal.
- Advantages of relying on the eDesk portal:
 - Security
 - Audit
 - Availability
 - Usability



Design of the IT solution

*For illustration
purpose only*

Home > LFR Bank

General information

Information on the institution

Self Assessment

AML

AUP

Information on the institution

CSSF code

BXXX

Name of the entity

Banque XYZ

Address - Street & N°

283, route d'Arlon

Address - Postcode & City

L-1150 LUXEMBOURG

Financial year end

31/12/2022

Audit firm

CABINET D'AUDIT ABC

Questions related to the self-assessment questionnaire

Did the institution have one or several foreign branches established as of the closure of the financial year?

No

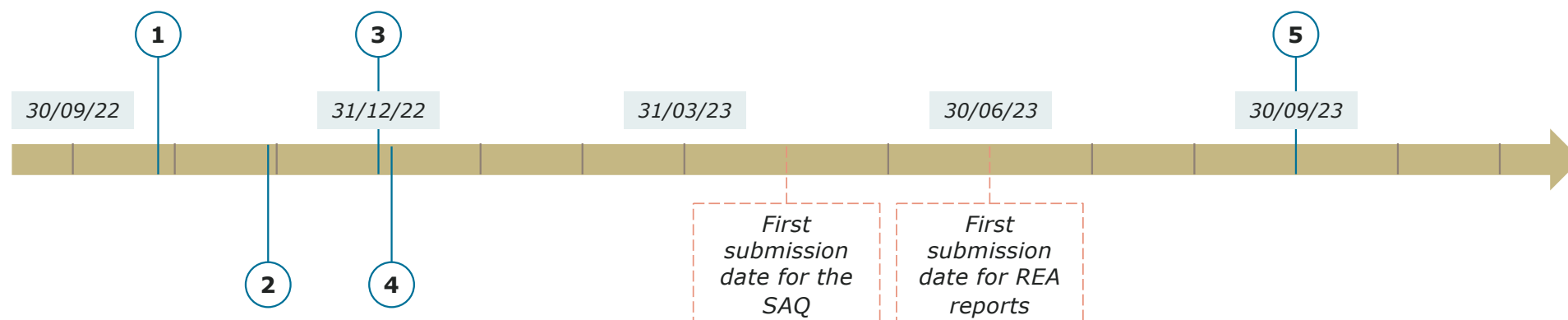
Did the institution provide investment services, or sell or advise in relation to structured deposits during the financial year?

No

Has the institution been appointed as depositary for Luxembourg domiciled UCIs on the annual closing date?

No

Next steps



- 1 Publication of **Circular CSSF 22/821** on 25 October 2022.
- 2 Publication of a **separate circular on the review of annual accounts** and **update of the following circulars** by the end of November 2022:
 - Circular CSSF 07/325 – Provisions relating to credit institutions and investment firms of EU origin established in Luxembourg by way of branches or exercising activities in Luxembourg by way of free provision of services;
 - Circular CSSF 19/731 – Documents to be submitted to the CSSF and to the European Central Bank on an annual basis.
- 3 **Entry into force** of Circular CSSF 22/821 and other circulars listed in (2) as of 31 December 2022.
- 4 Availability of SAQ and AUPs through the **eDesk portal** as of beginning of 2023.
- 5 Review and update of Circular CSSF 22/821 foreseen for 30 September 2023.

03



Q&A session

Q1 Opening question

Which are from your perspective the 3 most significant changes the industry should be aware of?

Q2 Entry into application of the circular: the case of banks having closed their accounts before 31 December 2022

The circular enters into application on 31 December 2022. Assuming a bank has closed its accounts before that date, for example on 31 October 2022, when will it submit to the CSSF the Self-Assessment Questionnaire and the reports prepared by the external auditor?

Q3 Scope of application: consolidation

1. We understand that the old Circular IML 96/125 on the “Supervision of credit institutions on a consolidated basis” will be completely replaced by the new circular 22/821. Is our understanding correct?
2. Which is the objective of the section "Consolidation" of the Self- Assessment Questionnaire?

Q4 Scope of application: Luxembourg branches of EU credit institutions

We noted that the circular does not apply to the Luxembourg branches of EU credit institutions.

What are the intentions of the CSSF with regard to these entities?

***Q5 Interplay with existing regulatory requirements:
CSSF circulars 18/697 and 16/644***

Could the CSSF clarify if the section "Depository bank" of the Self Assessment Questionnaire will replace the information requested under Annex I of CSSF Circulars 18/697 (AIFs depositaries) and 16/644 (UCITS depositaries)?

Q6 Interplay with existing regulatory requirements: CSSF circular 01/27

The CSSF circular 01/27 covers several topics, in particular “II. Report on annual accounts / consolidated accounts ».

As this chapter is not part of the new circular 22/821, we wonder if this important topic will change and which regulation will cover it.

Q7 AuPs for Significant Institutions directly supervised by the ECB

For Significant Institutions, several AuPs will cover domains where the ECB/SSM is the competent authority, i.e. credit risk, IT risk, related parties and large exposures.

What are the practical consequences for Significant Institutions?
How will the ECB request the AuPs and will there be any differences regarding the process applied by the CSSF for Less Significant Institutions?

Q8 AuP on MIFID: samples of transactions or clients

Could the CSSF allow using the same sample of transactions or clients to be used for the purpose of different checks/controls?

Q9 AuP on MIFID: relying on internal control functions

To avoid duplication of efforts, could the work of internal control functions still be relied upon for the new AuP procedure?

Q10 AuPs: comments on findings

We understand that there will be an additional comment section on the findings. Could you please confirm who will complete this section?

Q11 AML/CFT report: external auditor informing the CSSF on suspicious transactions that the institution should have reported to the CRF

The circular states that the external auditor must motivate the reasons why the institution should have reported any suspicious transaction to the Cellule de Renseignement Financier.

Do you consider that the institution should also be allowed to clarify why it did not report these suspicious transactions?

Q12 AML/CFT report, report on the protection of financial instruments and funds belonging to clients

We understood that the AML/CFT Report and the Report on the protection of financial instruments and funds belonging to clients remain separate for the year 2023. Will these reports be integrated in the SAQ /AuPs for subsequent financial years?

***Q13 Digital tool to transfer the elements of the LFR to the CSSF:
eDesk portal***

By when will the eDesk portal be fully operational?

Will it be possible to upload files in the eDesk portal, for example for parts of the Self-Assessment Questionnaire requiring large tables of data?

Q14 Digital tool to transfer the elements of the LFR to the CSSF: level of validation

What is expected in terms of validation from the senior management (e.g. authorized management, audit committee, board) before submitting the requested deliverables to the CSSF?

How will the access rights be granted to review and proceed with the submission?

Q15 Cost-related aspects

Does the CSSF share the objective of cost-neutrality of the Long Form Report over the three-years cycle?

Will the CSSF be open to discuss cost-mitigating measures to reach this objective?

Q16 Annual review of the LFR

We propose to set up an annual review of the circular based on an exchange between the CSSF and the ABBL. This dialogue will make it possible to address and resolve the various issues identified, i.e. the monitoring of the cost of the LFR as well as any other relevant subject.

Does the CSSF agree with this approach?



Thank you for your
attention!