Annual Report 2000



2000 was a good year for the financial centre and hence for the Commission de Surveillance du Secteur Financier "Financial Sector Supervisory Commission" (CSSF) whose primary role is precisely to prevent any event that might endanger the assets of private investors and to ensure the stability of the financial centre, without neglecting its mission to further the balanced growth of business in the financial centre in the interests of the Luxembourg economy.

The period of growth which the financial centre appears to have enjoyed for several years could be viewed as the result of an automatic process over which the CSSF has no control, a process in which the CSSF simply stands by, waiting to intervene when an irregularity occurs. This conclusion is not supported by the facts. The development of the financial centre, however, beneficial, is not immune to difficulties, errors or malfunctions. In view of this, the CSSF frequently takes the initiative and intervenes to put matters right in specific circumstances, to prevent certain weaknesses or to apply sanctions where necessary in the event of malpractice.

This annual report for the year 2000 provides more information than previous reports on the CSSF's scope of intervention and the reasons for such action. We do not consider that the supervisory function performed by the CSSF is to supervise "spectacular" public cases entailing detailed descriptions of the measures taken and the naming of those involved. This is certainly not our approach. There is no need here to stress the importance of the coercive measures available to us since they are known by those concerned. On the other hand, we do feel it necessary to inform a larger public on the practical action we take.

What does the year 2001 hold in store? We can only answer that question with the caution that befits the financial community. Today, no indicators suggest that the growth of the financial centre is slowing down. Quite the contrary. The political decisions taken in Europe in the last year prompt serious reflection as to the financial centre's future. Professionals, authorities and



Jean-Nicolas SCHAUS, Managing director

clients alike recognise the need to review and refocus their activities in the light of new factors. This reorganisation will prove more difficult for some than for others, quite naturally so, given acquired habits and commitments made.

With new staff who are about to join us following a highly successful recruitment campaign, the CSSF is determined to steadfastly pursue its firm and solicitous approach in order to encourage the development of new financial activities in a spirit of close cooperation.

To conclude, I would like to thank Charles Stuyck, head of the "investment funds" department, who is retiring, for the very fine work he has performed during his long career with the Commissariat au contrôle des banques, the IML, the Banque centrale du Luxembourg and the CSSF.

Jean-Nicolas SCHAUS

Managing director

Table of contents

INTRODUCTION

CHAPTER I	Prudential supervision in the banking sector	11
	1. Developments in the banking sector in 2000	
	2. Movements in own funds and in the solvency ratio	
	3. Other significant events during the year	
	4. Changes to the legal and regulatory framework	
	5. Prudential supervision	
CHAPTER II	Supervision of undertakings for collective investment (investment funds)	51
	1. Developments in 2000	
	2. Newly created entities approved in 2000	
	3. Movements in subfunds mainly investing in the "new economy"	
	4. Supervisory practice	
CHAPTER III	Supervision of pension funds	81
	1. Review of the first pension funds	
	2. Future developments: a European context marked by the recent draft pension funds directive	
	3. Fine-tuning the Luxembourg legal framework	
	4. Principles underlying the prudential approach	
CHAPTER IV	Supervision of other financial sector professionals (FSPs)	87
	1. Movements in financial sector professionals (FSPs) in 2000	
	2. FSPs subject to permanent supervision by the CSSF	
	3. FSPs not subject to permanent supervision by the CSSF	
	4. Freedom of establishment and freedom to provide services for FSPs	

CHAPTER V	Supervision of securities markets	99
	1. Supervision of stock exchanges	
	Monitoring of information published by companies admitted to official listing on the Luxembourg Stock Exchange	
	3. Supervision of securities markets: the TAF project	
	4. Surveys conducted by the CSSF in its supervision of securities markets	
CHAPTER VI	Customer complaints	109
	Analysis of customer complaints handled during 2000	
CHAPTER VII	International cooperation: the part played by the CSSF in international groups	115
	1. Cooperation within European Institutions	
	2. Multilateral cooperation	
CHAPTER VIII	Banking and financial regulations and legislation	129
	1. List of proposals for directives under discussion at Council level	
	2. List of directives adopted by the European Parliament and the Council but not yet implemented under national legislation	
	3. Other draft laws submitted	
	4. Laws passed in 2000	
	5. Regulations concerning stock exchange activities	
	6. Circulars issued in 2000	
	7. Circulars in force (as of 21 March 2001)	
CHAPTER IX	Specific studies	145
	1. Analysis of the performance of Luxembourg investment funds during 2000	
	2. The provision of financial services by Internet	
CHAPTER X	Organisation of the CSSF	173
	1. Personnel	
	2. Information Technology department	
	3. Staff organisation	



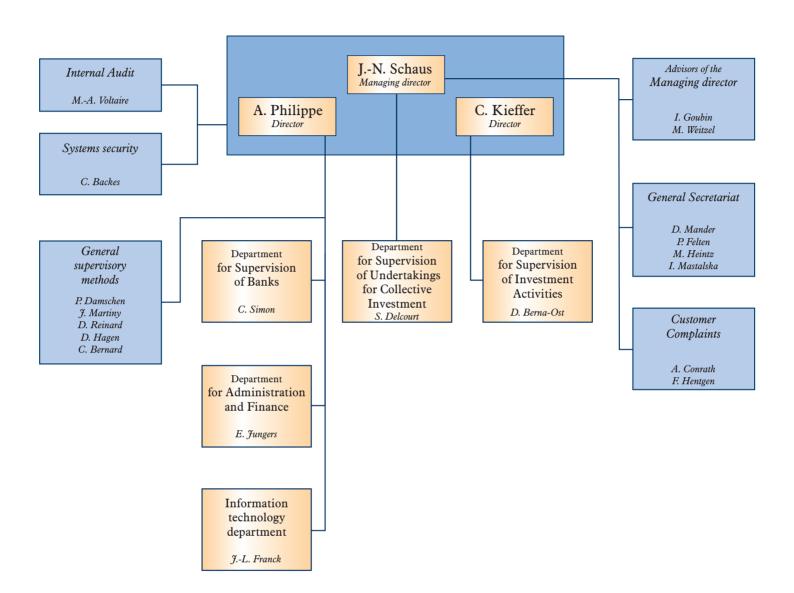
Arthur PHILIPPE, Director



Charles KIEFFER, Director

Corporate governing bodies

The Board of Directors							
Chairman	Jean Guill	Treasury director, Ministry of Finance					
Vice-chairman	Gaston Reinesch	General administrator, Ministry of Finance					
Members	Rafik Fischer	President of the Association Luxembourgeoise des Fonds d'Investissement					
	Jean Fuchs	President of the Association Luxembourgeoise des Professionnels du Patrimoine					
	Paul Meyers	President of the Administration des Biens de S.A.R. le Grand-Duc					
	Etienne Reuter	Government commissioner with Banque Internationale à Luxembourg S.A., Ministry of Finance					
	Claude Wirion	Member of the Executive Committee of the Commissariat aux Assurances					
Secretary	Danielle Mander						
The Executive Board							
Managing Director	Jean-Nicolas Scha	us					
Directors	Arthur Philippe,	Charles Kieffer					



CHAPTER I

Prudential supervision in the banking sector

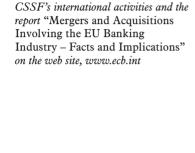
- 1. Developments in the banking sector in 2000
- 2. Movements in own funds and in the solvency ratio
- 3. Other significant events during the year
- 4. Changes to the legal and regulatory framework
- 5. Prudential supervision

1. Developments in the banking sector in 2000

A. Movements in the number of credit institutions

A trend perceptible since the mid 1990s, the number of credit institutions in the financial centre continued to levelling off or even decline in 2000. The number of banks totalled 202 at 31 December 2000 compared with 210 at the end of 1999. These 202 entities comprise 139 subsidiaries and 63 branches. As in previous years, the numerical decline is explained by mergers, which are reshaping the international financial sector and impacting small and medium-sized credit institutions¹. Motivated by the search to achieve critical mass and economies of scale, such mergers inevitably impact the Luxembourg subsidiaries and branches of European and international groups, which often play an active role in the specialised activities of such groups.

The table below reveals that, excluding mergers, three credit institutions (two branches and one subsidiary) ceased operations during 2000. Mergers concern 13 entities, reducing the number of branches by 4 and the number of subsidiaries by 9. Four Japanese banks also merged during the period under review.

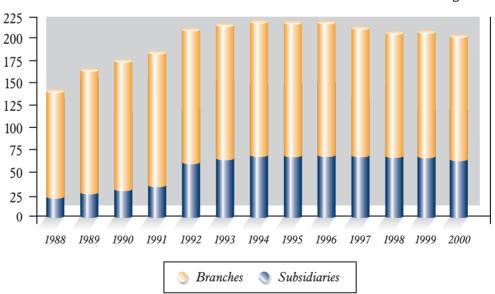


¹ On this subject see also the relevant comments in the chapter on the



Claude SIMON Head of department

Movements in the total number of banks established in Luxembourg



For the institutions concerned, the decision to cease operations is the outcome of various realignments or the re-allocation of skills within the group, mainly as a result of parent company mergers.

Liquidations/mergers of credit institutions

Liquidation /merger	Date of withdrawal from the official list of credit institutions
Credito Emiliano SpA, Luxembourg branch	Merger with Credem International (Lux) on 31.03.2000
Banca Popolare dell'Emilia Romagna, Luxembourg branch	Merger with Banca Popolare dell'Emilia Romagna (Europe) International S.A. on 01.05.2000
Paribas, Luxembourg branch	Merger with BNP, Luxembourg branch, on 24.05.2000
DSL Bank Luxembourg	Merger with Deutsche Postbank International S.A. on 27.05.2000
DSL Bank, Luxembourg branch	Merger with Deutsche Postbank AG, Luxembourg branch, on 26.05.2000
MeritaNordbanken Luxembourg S.A.	Merger with Unibank S.A. on 22.06.2000
Banque Ippa et Associés	Merger with Bank Anhyp Luxembourg S.A. on 26.06.2000
Banque Nationale de Paris (Luxembourg) S.A.	Merger with Paribas Luxembourg on 17.07.2000
Berliner Volksbank eG, Luxembourg branch	Liquidation on 30.09.2000
The Industrial Bank of Japan (Luxembourg) S.A.	Merger through the establishment of Mizuho Trust & Banking (Luxembourg) S.A. on 01.10.2000
Fuji Bank (Luxembourg) S.A.	Id.
Dai-Ichi Kangyo Bank (Luxembourg) S.A.	Id.
Sakura Bank (Luxembourg) S.A.	Liquidation on 06.11.2000
Banque MeesPierson Gonet S.A.	Merger with Banque Générale du Luxembourg S.A. on 23.12.2000
Caisse de Dépôts et Consignations GmbH, Luxembourg branch	Liquidation on 31.12.2000
Banque Continentale du Luxembourg-Royal (Private) S.A.	Merger with Banque Continentale du Luxembourg S.A. on 31.12.2000

On the other hand, eight new entities – seven subsidiaries and one branch – were established during the year. The arrival of these new credit institutions is encouraging for the future development of the financial centre.

The establishment of three banks originating from two countries currently unrepresented in the Luxembourg financial centre deserves mention. These include the first two banks of Icelandic origin, *Kaupthing Bank Luxembourg S.A.* and

Bunadarbanki International S.A. The second new country is Spain, present through the creation of a branch of the Banco de la Pequeña y Mediana Empresa (Bankpyme).

The diversification of activities in the financial centre was confirmed by the establishment of a bank belonging to a major industrial group and created to offer supplier and client financing services. America's *John Deere Group* chose the Luxembourg financial centre to base its business in financing the sale of agricultural machinery through *John Deere Bank S.A.* This entity will be the top company of the group's European network.

Another innovation is the establishment of credit institutions exclusively devoted to online banking. Let us note here the authorisation granted to the Bank MeRich S.A. of Switzerland in which the Banca per la Svizzera Italiana (BSI) is the shareholder. The second online credit institution to receive authorisation to operate from Luxembourg was TDW & BGL Bank S.A., a "joint venture" between the discount broker TD Waterhouse in which the Canadian Toronto Dominion Bank has a shareholding and Banque Générale du Luxembourg S.A. which aims to develop online brokerage services.

Finally, the other two new entities are *Banque du Gothard (Luxembourg) S.A.* and *Banque Puilaetco (Luxembourg) S.A.* which switched status from a "professional acting for its own account" to that of a credit institution.

Creation of credit institutions in 2000

Name of the institution	Shareholders	Date of official registration as a credit institution
Kaupthing Bank Luxembourg S.A.	Kaupthing Investment Bank Ltd.	18 January 2000
John Deere Bank S.A.	John Deere Group	3 February 2000
Banco de la Pequeña y Mediana Empresa (Bankpyme), branch	Banco de la Pequeña y Mediana Empresa	14 February 2000
Banque du Gothard (Luxembourg) S.A.	Banca del Gottardo	30 March 2000
Banque MeRich S.A.	Banca per la Svizzera Italiana (BSI)	17 July 2000
Bunadarbanki International S.A.	Bunadarbanki Islands HF	22 November 2000
Banque Puilaetco (Luxembourg) S.A.	De Laet, Poswick and Co. Banquiers	14 December 2000
The Bank of TDW & BGL S.A.	Toronto Dominion Bank/ Banque Générale du Luxembourg	22 December 2000

The following breakdown according to the geographic origin of the credit institutions reveals a majority of German banks with 63 entities, followed by Belgian and Luxembourg banks, and then Italian banks with 21 entities. Other countries of origin include France (18), Switzerland (14), the Scandinavian countries (13), the United Kingdom (7) and the United States (6). As a result of mergers, the number of Japanese credit institutions fell by 4 entities leaving currently only 5 entities in the financial centre. Finally, 34 credit institutions originating from countries as diverse as Brazil, China, the Netherlands or Portugal operate in Luxembourg.

Other countries United States United Kingdom Scandinavian countries Switzerland France Italy

Geographic origin of credit institutions

B. Movements in local branch networks in Luxembourg

Confirming the trend of previous years, credit institutions continued to downsize their local branch network in Luxembourg, as the following table shows:

	1994	1995	1996	1997	1998	1999	2000
Local branches	262	260	254	240	231	226	225
Number of banks concerned	11	11	11	11	11	10	9

In the last two years in particular, two banks have closed their national branch network. The reduction in the number of branches or their total shedding reflects merger activity on a regional level, as mentioned in the previous section. This downsizing is prompted by cost considerations and targets branches with low volumes of business. At the same time, the banks are encouraging clients to make

Employment in the credit institutions

	I	Total	Ma	Management		0	Office staff		Tec	Technical staff	ff	Tota	Total workforce	e S
	Luxemb.	Luxemb. Countries	Men	Women	Total	Men	Women	Total	Men	Women	Total	Men	Women	Total
1661	I	I	1,957	253	2,210	6,250	7,089	13,339	85	311	396	8,292	7,653	15,945
1992	I	ı	2,030	294	2,324	6,312	7,111	13,423	84	312	396	8,426	7,717	16,143
1993	8,158	8,567	2,097	335	2,432	6,713	7,396	14,109	89	116	184	8,878	7,847	16,725
1994	8,116	9,522	2,308	384	2,692	7,086	7,700	14,786	47	113	160	9,441	8,197	17,638
1995	8,170	10,113	2,533	451	2,984	7,318	7,813	15,131	49	119	168	006,6	8,383	18,283
1996	8,113	10,469	2,658	490	3,148	7,476	7,809	15,285	48	101	149	10,182	8,400	18,582
1997	8,003	11,086	2,765	547	3,312	7,631	8,013	15,644	44	68	133	10,440	8,649	19,089
1998	7,829	12,005	2,900	577	3,477	7,846	8,377	16,223	47	87	134	10,793	9,041	19,834
1999	7,797	13,400	3,119	029	3,789	8,362	8,961	17,323	34	51	85	11,515	9,682	21,197
2000	7,829	15,194	3,360	781	4,141	9,015	9,784	18,799	35	48	83	12,410	10,613	23,023

greater use of available technical facilities (ATMs, home banking, phone banking, internet banking).

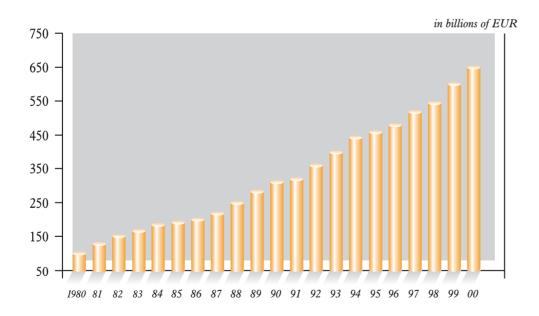
C. Movements in banking sector employment

The number of jobs in credit institutions in the financial centre rose significantly in 2000 (+ 8.6%), proof of the excellent economic conditions across the entire financial sector. The total number of employees rose by 1,826 to total 23,023 jobs. The sharpest rise was among highly qualified staff, up 9.3% and exceeded 4,000 management level staff for the first time. This quantitative and qualitative increase is especially reflected in the share of staff costs posted to the profit and loss account or in the average cost per employee of EUR 70,000 (LUF 2.8 million) per year versus EUR 64,000 (LUF 2.75 million) in 1999. As in previous years, newly created jobs were mainly filled by foreign nationals.

D. Movements in total balance sheets

Total **balance sheets** posted by credit institutions grew steadily by 8.17% in 2000 to reach EUR 646.9 billion (LUF 26,096 billion) compared with EUR 598 billion (LUF 24.123 billion) at the end of 1999. This increase in balance-sheet totals peaked in October before falling off slightly at the year-end.

Movements in total balance sheets posted by credit institutions



On the **liabilities** side, permanent shareholders' equity again increased sharply. This item, which includes earnings for the year as well as paid-up capital, reserves, the fund for general banking risks and subordinated liabilities increased by 11.55%

to total EUR 58.4 billion (LUF 2,356 billion). This increase is mainly due to the increase in Core capital, in particular the fund for general banking risks and hybrid debt capital instruments. This is explained by the spread of national and international business activities². Permanent shareholders' equity made up 9.03% of balance sheet totals compared with 8.76% in 1999.

Amounts owed to Customers rose significantly by 16.35% to total EUR 225.1 billion (LUF 9,083 billion), an increase of EUR 31.7 billion (LUF 1,277 billion). This source of funding represents a 34.81% share of total liabilities. This substantial increase is mostly explained by large deposits by institutional clients (governments and investment funds).

The major increase in Amounts owed to Customers occurred to the detriment of Amounts owed to other Credit Institutions, which decreased to 45.46% of balance-sheet totals compared with 49.46% in 1999. The volume of interbank financing continued to be the largest liabilities item but fell 0.56% during year to EUR 294.1 billion (LUF 11,864 billion).

The sharpest movement, in relative terms, of nearly 20% concerned Debts evidenced by certificates, representing an issue total of EUR 8.9 billion (LUF 360 billion). Fixed-income securities issued by credit institutions operating in

Balance sheet totals in the financial centre

in billions of EUR

	1999	2000		1999	2000
Loans and advances to credit institutions	289.54	319.01	Amounts owed to credit institutions	295.76	294.10
Loans and advances to customers	117.12	128.32	Amounts owed to customers	193.51	225.15
Fixed-income securities	138.42	142.64	Debts evidenced by certificates	48.88	57.80
Variable-yield securities	4.72	5.63	Various items	7.50	11.44
Participating interests and shares in affiliated undertakings	5.65	7.32	Permanent shareholders' equity (*)	52.35	58.40
Fixed assets and other assets	42.56	43.97	Of which profit for the year	2.03	2.58
Total	598.01	646.90		598.01	646.90

 $^{({}^{\}star})$ Including share capital, reserves, subordinated liabilities and provisions.

² For more details, see the sections below on the expansion of international business and movements in own funds.

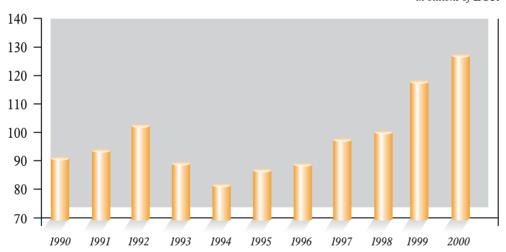
Luxembourg totalled EUR 57.8 billion (LUF 2,332 billion) and now comprise some 9% of balance sheet totals. This movement derives from the first issues of mortgage bond issuing banks totalling EUR 6.9 billion (LUF 277 billion)³.

³ For more details, see the relevant section.

On the **assets** side, the composition of the balance sheet did not vary very significantly in relative terms during 2000. For Loans and advances to credit institutions, there was a noticeable reversal in the trend. In contrast to the levelling off observed in 1999, the share of interbank loans and advances – traditionally the largest asset item accounting for about one half of the total – increased by over 10% to EUR 319 billion (LUF 12,869 billion).

Movements in Loans and advances to customers





The increase in the volume of credit granted to customers was less than in 1999 but remained substantial. In 2000 this item, which includes loans and advances to public authorities as well as to corporate and private clients rose by 9.57% compared with 19.26% in 1999 to EUR 128 billion (LUF 5,176 billion). On the other hand, the share of fixed-income securities levelled off after having risen sharply in 1999. This clearly more moderate growth is due to a more cautious policy of investment in securities in response to trends in interest rates and the growing uncertainty over the future of the economy. Finally, Participating interests and shares in affiliated enterprises rose some 30%, patent proof of the national and international expansion strategy pursued by credit institutions in the financial centre⁴.

⁴ See the above comments regarding permanent shareholders' equity and the relevant section on the subject.

E. Financial derivatives

Banks in the financial centre⁵ used derivatives totalling EUR 470 billion (LUF 18,947 billion) in 2000 compared with EUR 458 billion (LUF 18,481 billion) in 1999. This is equivalent to a growth rate of some 2.5%, far below 1998 and 1999 (+12.6%). The ratio between the volume of derivatives versus the balance sheet totals posted by credit institutions (excluding branches of institutions originating in the European Community) was 88.58% against 93.24% in 1999.

Despite a sharp decline compared with 1999, instruments negotiated on over-the-counter markets remained the most widely used (88% of the total in 2000 versus 94% in 1999), equivalent to EUR 411 billion (LUF 16,594 billion).

Movements in the use of financial derivatives by credit institutions (*)

	19	99	2000		
Instrument	in billions of EUR	as a % of total balance sheets	in billions of EUR	as a % of total balance sheets	
Interest rate swaps (**)	386.0	78.6%	376.2	70.9%	
Future or forward rate agreements	31.8	6.5%	22.2	4.2%	
Of which: over the counter	29.5	6.0%	20.3	3.8%	
Of which: organised market	2.3	0.5%	1.9	0.4%	
Futures (currencies, interest rates and other assets)	12.3	2.5%	6.8	1.3%	
Options (currencies, interest rates and other assets)	28.1	5.7%	64.5	12.2%	
Of which: over the counter	13.1	2.7%	14.9	2.8%	
Of which: organised market	15.0	3.1%	49.6	9.4%	

^(*) Excluding the branches of credit institutions originating in an EU Member State.

Interest rate swaps remain the derivative most widely used by the institutions under supervision, confirming the appeal of this instrument in asset-liability management among credit institutions. With a total of EUR 376 billion (LUF 15,175 billion) compared with EUR 386 billion (LUF 15,570 billion) in 1999, there was a decline, nonetheless, of some 3%. This drop is the result of the levelling off of fixed-

⁵ For statistical reasons, the data do not include figures for branches of institutions originating in an EC country.

^(**) Also includes cross-currency swaps.

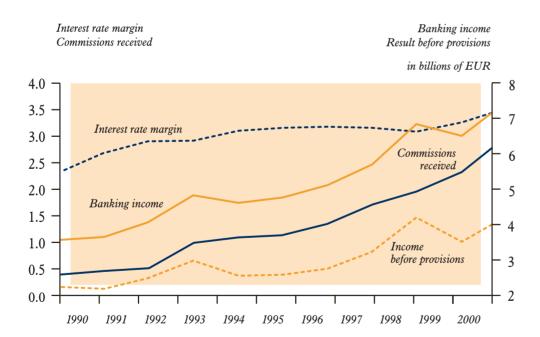
income securities among bank assets. The increase in amounts related to options – up from EUR 28.1 billion to EUR 64.5 billion – is mainly due to an issue covered for the account of the group of a single credit institution.

F. Movements in Profit and Loss accounts

At 31 December 2000 and according to provisional figures, credit institutions established in Luxembourg recorded **gross profits before provisions** of EUR 4.2 billion (LUF 170 billion). In 1999, these same gross profits totalled EUR 3.5 billion (LUF 142 billion). The increase over 1999 is therefore approximately 20%. The year under review was a record year for the Luxembourg banking sector which, unlike 1998 – a year marked by exceptional results generated by many cases of gains on sales of shareholdings⁶ – was characterised by a sharper increase in banking income than in operating expenses.

⁶ See also the two charts below.

Movements in Profit and Loss account items



The interest rate margin improved slightly and compared with the figure recorded at the end of the previous year shows a relative increase of 8% to total EUR 3.5 billion (LUF 142.3 billion). Interestingly, interest paid increased more than interest and dividends received; this is mainly due to the greater impact of the rise in short-term rates in 2000 on refinancing by credit institutions. Interest and dividends

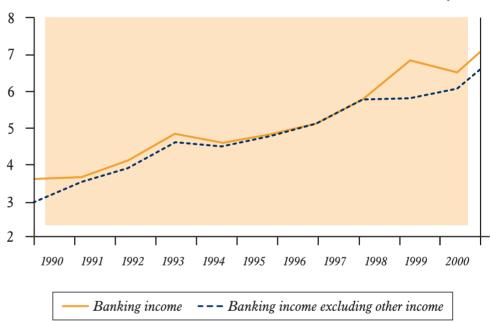
received totalled EUR 49 billion (LUF 1,978 billion), an increase of 36% while interest paid totalled EUR 46 billion (LUF 1,836 billion), an increase of 39% on the previous year.

⁷ See also comments on the balance-sheet and movements in own funds.

The above figures show that the increase in margin in monetary terms is mainly due do the rise in volume which in addition was financed by a larger proportion of liabilities not entailing interest charges ("endowment effect"), such as core capital⁷. The relative margin calculated on average balance sheet totals in the last thirteen months fell to 56 basis points compared with 60 basis points in 1999.

Movements in banking income including and excluding other income

in billions of EUR



Comments:

- 1. 1990: the size of the differential is attributable to one particular operation totalling EUR 461 million (LUF 18.6 billion) conducted by a single credit institution.
- 2. 1997: the negative differential is explained by trading operations and derivatives transactions specific to one credit institution largely offset by net income on the sale of securities.
- 3. 1998: the size of the differential is explained by capital gains realised on the sale of SES securities by several banks.
- 4. 1999 and 2000: as in 1998, the differential is due to the sale of shareholdings by a few credit institutions and to the resulting capital gains; this is non-recurring revenue.

Income excluding interest, the second largest source of revenue, rose substantially by 26% to EUR 4.1 billion (LUF 166 billion). This figure reflects the scale of private banking and custodian bank business for undertakings for collective investment as well as own account transactions. The two items for which the highest

Profit and loss account

in millions of EUR

in millions of I						ons of EUR	
		19	98	19	99	2000 (*)	
			Relative share		Relative share		Relative share
1	Interest and dividends received	37,304		35,943		49,042	
2	Interest paid	34,216		32,664		45,514	
3	Interest margin (1-2)	3,088	44.96%	3,279	50.15%	3,528	46.20%
4	Income from the sale of securities	411	5.99%	195	2.98%	327	4.28%
5	Commissions received	1,962	28.57%	2,338	35.75%	3,013	39.46%
6	Income from foreign exchange operations	347	5.06%	292	4.47%	292	3.82%
7	Other income	1,059	15.42%	435	6.66%	476	6.24%
8	Income excluding interest (4+5+6+7)	3,780	55.04%	3,260	49.85%	4,108	53.80%
9	Banking income (3+8)	6,868	100.00%	6,539	100.00%	7,636	100.00%
10	Staff costs	1,268	18.47%	1,444	22.09%	1,603	20.99%
11	Operating expenses	1,037	15.10%	1,183	18.09%	1,406	18.42%
12	Various taxes	85	1.24%	97	1.49%	87	1.14%
13	Depreciation	267	3.89%	282	4.32%	306	4.01%
14	Administrative expenses (10+11+12+13)	2,658	38.70%	3,007	45.99%	3,403	44.57%
15	Result before provisions (9-14)	4,211	61.30%	3,532	54.01%	4,233	55.43%
16	Creation of provisions	1,819	26.48%	1,199	18.33%	1,495	19.58%
17	Write-back for provisions	795	11.58%	577	8.82%	758	9.93%
18	Net creation of provisions (16-17)	1,023	14.90%	622	9.51%	737	9.66%
19	Result after provisions (15-18)	3,187	46.40%	2,910	44.51%	3,496	45.78%
20	Income tax	711	10.35%	880	13.45%	918	12.02%
21	Net profit(19-20)	2,476	36.05%	2,030	31.05%	2,578	33.76%

^(*) provisional figures





Marc WILHELMUS



Nico GASPARD

8 See also the section on employment in the banking sector below.

growth is recorded are commission income and income from the sale of securities. It is important to emphasise here the major differences between these two sources of revenue in terms of volatility and their relative importance to the business conducted in the financial centre.

Income from the sale of securities rose sharply by 68%, reflecting the strong first half of 2000 on the financial markets. However, at EUR 327 million (LUF 13 billion) this revenue is limited to 4% of total banking income generated in the financial centre. The small share of this highly volatile revenue shows that trading activities only account for a very small proportion of business conducted in the financial centre: in addition, this revenue was lower than other income (EUR 476 million or LUF 19 billion) which includes sales on financial fixed assets (fixed-income debt securities) performed by a certain number of credit institutions in the financial centre. Income from foreign exchange operations fell again in relative terms.

Banking income comprising the interest rate margin and net income excluding interest exceeded LUF 300 billion, i.e. LUF 308 billion (EUR 7.6 billion) for the first time, up 17% on 1999. The composition of banking income highlights the importance in the financial centre of private banking and fund custodian business which mainly generate revenue excluding interest (54% of banking income). These activities are replacing more traditional financial intermediation in which the interest rate margin is the main source of revenue (accounting for 46% of banking income).

Administrative expenses rose 13% to total EUR 3.4 billion (LUF 137 billion). These expenses absorb 45% of banking income. Staff costs increased 11% to reach a total of EUR 1.6 billion (LUF 65 billion). However, the share of staff costs in banking income fell slightly (21% in 2000 versus 22% in 1999) despite the increase in jobs and the unit cost of labour⁸, illustrating the growth in labour productivity in the financial centre.

Operating expenses is the expense item that rose most significantly (+19%) to total EUR 1.4 billion (LUF 57 billion) or 18% of banking income. This movement reflects capital investment in IT made necessary by higher business volume and more complex activities.

Total net provisions rose 19% to some EUR 737 million (LUF 30 billion) or about 10% of banking income. This rise is mainly due to the allocation of a proportion of profits to the fund for general banking risks in order to increase core capital.

Income tax charges in absolute terms rose 4% to EUR 918 million (LUF 37 billion). The effective taxation rate fell on average from 30% in 1999 to 26% in 2000 following the changes in rates of corporate income tax introduced by the government.



2. Movements in own funds and in the solvency ratio

A. Number of banks required to calculate a solvency ratio

At 31 December 2000, the number of banks required to calculate a non consolidated solvency ratio stood at 141: two credit institutions are branches originating from outside the EU while 139 banks are registered in Luxembourg. The number of banks in the financial centre whose trading activities are limited, enabling them to calculate a simplified ratio rose to 117 – proof that trading remains focused on a small number of banks.

Number of banks required to calculate a solvency ratio	Integrat	ed ratio	Simplifie	ed ratio	Tot	al
	1999	2000	1999	2000	1999	2000
Non consolidated	29	24	114	117	143	141
Consolidated	10	13	8	9	18	229

⁹ Banks whose holdings are deducted from own funds on an individual basis do not need to calculate a consolidated

B. Movements in the solvency ratio

The figures below are based on consolidated figures for banks required to calculate a consolidated solvency ratio.

Although the aggregate solvency ratio is down from 13.3% to 12%, it is still far in excess of the minimum 8% laid down by the prudential regulations in force. Capital requirements increased proportionally more than **eligible own funds**. While gross equity capital before deductions again rose 9.3% to EUR 27.2 billion (LUF 1,097 billion), deductible items, however, rose 49.7% so that the growth in eligible own funds was only 5.9%. This is due to the acquisition of participating interests by certain banks and to the holding of other capital items such as subordinated loans granted by certain banks and deductible from the own funds.

The total capital requirement rose 16.6%, mainly as a result of credit activity. Capital requirements for foreign exchange and trading risks remained negligible.

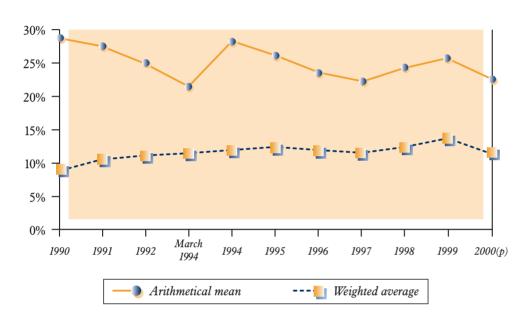
Taking only Tier 1 into account, the aggregate solvency ratio in the financial centre decreased from 10.7% at 31.12.1999 to 10%, provisionally, at the end of 2000. The minimum 8% is therefore largely attained with Tier 1 items alone.

	ın r	nillions of EUR
Numerator	1999 consolidated data	2000 (prov.) consolidated data
Original own funds before deductions	18,806	20,571
Paid-up capital	6,236	6,650
Silent participation	1,981	2,098
Share premium accounts, reserves and profits brought forward Fund for general banking risks	7,982 1,734	9,055 1,896
Profits for the financial year	634	317
Specific consolidation items	240	555
Items to be deduced from original own funds Own shares	-103 -7	-196 -4
Intangible assets	-7 -51	-4 -89
Losses brought forward and loss for the financial year	-34	-28
specific consolidation items	-11	-76
ORIGINAL OWN FUNDS (TIER 1)	18,703	20,375
Additional own funds before capping	6,227	6,891
"upper TIER 2"	2,714	3,343
of which: cumulative preference shares with no fixed maturity of which: subordinated "upper TIER 2" debt instruments	22 2,152	22 2,707
"lower TIER 2"		
"lower TIER 2" subordinated debt instruments and	3,513 3,513	3,548 3,548
cumulative preference shares with fixed maturity	3,313	3,5 10
ADDITIONAL OWN FUNDS AFTER CAPPING (TIER 2)	6,170	6,813
Super additional own funds before capping	0	0
SUPER ADDITIONAL OWN FUNDS AFTER CAPPING (TIER 3)	0	0
OWN FUNDS BEFORE DEDUCTIONS (T1+T2+T3)	24,873	27,188
ITEMS TO BE DEDUCTED FROM OWN FUNDS	1,673	2,504
• items of share capital in other credit and financial		
institutions in which the bank owns a shareholding exceeding 10% of their share capital	157	679
• items of share capital in other credit and financial	137	0//
institutions in which the bank owns a shareholding		
less than or equal to 10% of their share capital	1,516	1,825
ELIGIBLE OWN FUNDS	23,218	24,595
Denominator	1999	2000
TOTAL CAPITAL ADEQUACY REQUIREMENT	14,018	16,349
CAPITAL REQUIREMENT to cover CREDIT RISKS	13,563	15,904
CAPITAL REQUIREMENT to cover FOREIGN EXCHANGE RISKS	126	134
CAPITAL REQUIREMENT to cover TRADING PORTFOLIO RISKS	330	310
Ratio	1999	2000
SOLVENCY RATIO (base 8%) ¹⁰	13.3%	12%
SOLVENCY RATIO (base 100%)	165.6%	150%
()		

¹⁰ Eligible own funds/(total capital adequacy requirement * 12.5)

The graph below shows movements in the solvency ratio (minimum 8%) since 1990. The weighted average is the ratio between total eligible own funds in the financial centre and total weighted risks. This weighted average takes into account all credit institutions according to their volume of business. The arithmetical mean is the average of the individual ratios of all credit institutions regardless of their volume of business.

Movements in the solvency ratio (minimum 8%) since 1990



C. Movements in the solvency ratio distribution (minimum 8%)

Distribution	Number of banks		As % of total
Ratio	1999	2000	2000
< 8%	0	0	0%
8% - 9%	7	10	7%
9% - 10%	10	9	6%
10% - 11%	19	16	11%
11% - 12%	13	9	6%
12% - 13%	7	10	7%
13% - 14%	9	9	6%
14% - 15%	8	8	6%
15% - 20%	16	22	16%
> 20%	54	48	34%
TOTAL	143	141	100%

In 2000, 19 banks out of a total of 141 had a solvency ratio under 10%, compared with 17 banks at the end of 1999 out of a total of 143.

D. Movements in the own funds

Core capital comprising paid-up share capital, share premiums, new capital instruments and reserves continued to increase and accounted for over 75% of total own funds on 31.12.2000.

Supplementary capital climbed 25.8% mainly owing to the increase in higher quality subordinated debt (Upper Tier 2), while the increase in lower quality subordinated debt (Lower Tier 2) was only 1%. The proportion of supplementary capital therefore accounted for only 51.5% of all Tier 2 elements.

Composition of own funds before deductions	1999	2000
Original own funds	75.2%	74.9%
Additional own funds	24.8%	25.1%
Super additional own funds	0.0%	0.0%

3. Other significant events during the year

A. The international expansion of Luxembourg banks

Name of the bank	Entity created or acquired
Banca Popolare di Verona International S.A.	Creation of the Banca Popolare di Verona (Switzerland) S.A.
Banque de Luxembourg S.A.	50% shareholding in FUND-MARKET DEUTSCHLAND GMBH
Banque Degroof S.A.	Purchase of a shareholding in Bearbull (Switzerland) S.A.
Banque Edmond de Rothschild Luxembourg S.A.	Opening of a branch in Madrid
Banque Edmond de Rothschild Luxembourg S.A.	Opening of a branch in Lisbon
Banque Générale du Luxembourg S.A.	Acquisition of a majority shareholding in Société Alsacienne de Développement et d'Expansion (SADE)
Banque Internationale à Luxembourg S.A.	Acquisition of a participating interest in the Spanish bank Bancoval

Name of the bank	Entity created or acquired
Banque Internationale à Luxembourg S.A.	Acquisition of participating interest in Petersen Hinrichsen Holding and Petersen Hinrichsen Bank S.A. in Denmark
Banque Internationale à Luxembourg S.A.	Acquisition of a 51% stake in the Labouchère group in The Netherlands
Banque Pictet (Luxembourg) S.A.	Opening of a branch in Frankfurt
Banque Populaire du Luxembourg S.A.	Opening of a branch in Monaco
Banque Safra - Luxembourg S.A.	Creation of Banque Safra (France) S.A.
Dexia Direct Bank	Opening of a branch in Paris
Dresdner Bank S.A.	Opening of a branch in Madeira
Europäische Hypothekenbank S.A.	Opening of a branch in Ireland
Fideuram Bank (Luxembourg) S.A.	Opening of the Fideuram Bank (Switzerland) S.A.
John Deere Bank S.A.	Acquisition of a 50% stake in John Deere Credit SAS in France
John Deere Bank S.A.	Opening of a branch in Gloucester Great Britain
SEB Private Bank S.A.	Opening of a branch in Geneva

The above table only includes branches opened abroad and the creation or acquisition of large direct subsidiaries abroad that fall within the financial area.

The number of staff employed abroad by the foreign entities of Luxembourg banks totalled 6,500 – a substantial figure.

B. Banks issuing mortgage bonds

While three mortgage banks in the Luxembourg financial centre were granted special status for the specific purpose of issuing mortgage bonds in 1999, the first Luxembourg mortgage bonds were only issued during 2000. Although the law of 21 November 1997 enables mortgage banks to issue public sector mortgage bonds and mortgage debentures, the Luxembourg banks limited their main activities in 2000 to the issuance of public sector mortgage bonds which are guaranteed by highly rated sovereign borrowers.



Joan DE RON



Marguy MEHLING

At 31 December 2000, the total volume of mortgage bonds issued by the three banks totalled EUR 6,870 million. These issues are guaranteed by collateral totalling EUR 8,319 million with the result that the mortgage bonds as at 31 December 2000 were over-collateralised for a total of EUR 1.450 million. The ordinary collateral of municipal bonds for the three banks in question breaks down as follows:

- loans secured by public government organisations: EUR 3,010 million;
- bonds issued by public organisations: EUR 3,861 million;
- municipal bonds of other issuers: EUR 1,058 million;
- financial derivatives: EUR 308 million.

Besides these ordinary collateral instruments, the banks used alternative collateral instruments (other loans to credit institutions) totalling EUR 82,626,213.

Significantly, all mortgage bonds issued by the three specialist institutions were awarded a AAA rating by the Standard & Poor's rating agency. This excellent rating is due to the faultless quality of the bank's investments, to the extent of the over-collateralisation compared with the mortgage bonds issued and to legislative and regulatory changes which give mortgage bond holders greater protection if the mortgage bank goes into liquidation.

The supervisory role of the CSSF includes general supervision as laid down in the amended law of 5 April 1993 on the financial sector as well as special supervision of activities specially related to the issuance of mortgage bonds. Under such special supervision, the mortgage banks are obliged to supply not only their ordinary reporting charts but also special monthly reports comprising a monthly balance-sheet in a format geared to the specific activities of the bank and a table giving a breakdown of the collateral. This information enables the CSSF to determine the type of collateral, the volume of mortgage bonds issued and therefore the extent of the over-collateralisation needed, and to verify the limitation on the value of mortgage bonds issued in relation to the capital resources of each bank.

Owing to their specific nature and pursuant to articles 2(4) and 4(1) of the Law of 17 June 1992 on the annual and consolidated accounts of Luxembourg registered credit institutions, banks issuing mortgage bonds are obliged to provide additional information when presenting their annual accounts, both in the balance sheet, by providing a more detailed breakdown of certain items, and in the Notes to the annual accounts, by supplying further information on the composition of the two forms of collateral. Note that the Profit and Loss account does not need to be modified with regard to the existing legislation.

C. Internet banking

2000 was marked by many projects to launch e-banking websites. At 31 December 2000, 77 had a website on the Internet compared with 47 in 1999, while 8 operated a second website¹¹.

¹¹ See Ch. IX, Specific studies, the provision of financial services via the Internet

The number of transactional sites enabling clients to perform operations from a web browser more than doubled in one year, up from 6 to 15, although this latter figure is quite low compared with the total figure of 85 websites in all. The initial transactional websites mainly enabled transfers of funds and the forwarding of stock exchange orders. The existing sites, as well as many new sites, are developing into e-brokerage sites involving the immediate purchase and sale of securities via a broker who places the order on the stock market in real-time. However, certain banks have chosen not to evolve towards Internet-based transactional services, either because they wish to deal directly with clients or because most clients have signed a discretionary management contract so that they do not manage their portfolios themselves. Repeated stock market falls in the second half of the year somewhat deterred banks from introducing e-brokerage services and raised questions as to the lead times needed to achieve a return on the often substantial investment in this area.

A technical review of the new websites reveals that there is an increasing awareness of security issues among credit institution officials. Technical platforms now include more protection systems against hacking (anti-virus software, firewalls, IDS hacking detectors, etc.) and network supervision is integrated as a recurring task in day-to-day operations.

There are currently two banks which operate entirely on the Internet: TDW & BGL Bank S.A. and Bank MeRich S.A. A third bank of this type is being formed.

4. Changes to the legal and regulatory framework

A. The Law of 22 June 2000 on banks issuing mortgage bonds

During 2000, changes were made to the law regulating the activities of banks issuing mortgage bonds. The main purpose was to provide a legal framework enabling Luxembourg mortgage bonds to be rated as favourably as those of other countries. The Law of 22 June 2000 aims to amend and supplement the provisions on banks issuing mortgage bonds such as introduced by the Law of 21 November 1997 and inserted in the amended Law of 5 April 1993 on the financial sector.

The first amendment to the Law (defined in paragraph 4 of article 12.5) confirms that the banks can use futures (including derivatives) to neutralise differences between the currency and interest rates of mortgage bonds in circulation and their collateral or to fill any gaps in collateral. The financial futures used in the collateral pool and recorded in the registry of mortgages benefit from privilege conferred on holders of mortgage bonds as stated in article 12-8 of the Law.

Moreover, the second set of amendments to the Law contributes to further protect investors in the event that the issuer becomes bankrupt or defaults. In the event of liquidation, the mortgage bonds together with their collateral do not form part of the assets to be liquidated but continue to be administered normally. Responsibility for administering the mortgage bonds and their collateral then lies with the CSSF; the new law defines three possible areas of intervention:

- 1) The CSSF may administer the mortgage bonds and the collateral pool and protects the rights of mortgage bond holders to the collateral in relation to maturity dates;
- 2) The CSSF may sign a service contract with another mortgage bank governing the administration of the mortgage bonds and collateral in relation to the maturity dates of the mortgage bonds issued;
- 3) The CSSF may transfer the mortgage bonds together with the collateral pool to another specialised bank.

Any surplus resulting from the sale of collateral after the buy-out of the holders of the bank's mortgage bonds in the event of liquidation is added to the general liquidation proceeds. In the opposite case, if the sum originating from the sale of collateral is not enough to fully buy out the mortgage bond holders, such holders become unsecured creditors for the balance.

Among other reasons, on account of all the above changes the three specialised institutions issued mortgage bonds which received the top AAA rating from Standard & Poor's.

B. Law of 27 July 2000 on investor-compensation schemes (concerns banks and investment companies)

The Law of 27 July 2000 aims to implement under Luxembourg law Community Directive 97/9/EC of the European Parliament and of the Council on investor-compensation schemes. The provisions on investor compensation have been included in a new part IVter of the Law of 5 April 1993 on the financial sector. They concern both credit institutions, which are alone referred to in part IVbis on deposit guarantee schemes, as well as investment firms. Participation in a system to compensate investors has become a condition for approval for credit institutions and investment firms.

The law is flexible on the diversity of schemes. It is not therefore necessary for the credit institutions to adhere to two distinct schemes provided that a single scheme meets the stipulations of the Law of 11 June 1997 on the implementation Directive 94/19/EC on deposit guarantee schemes and the law dated 27 July 2000 on the enactment of Directive 97/9/EC.

The law aims to protect the interests of small investors in cases where a credit institution or investment firm is unable to honour its commitments towards its depositors. The same investor is entitled to receive up to 20,000 euros in compensation. However, the law does not provide for compensation in the event of losses resulting from a depreciation in the market value of client investments.

In addition, the law draws a series of parallels with the Law of 11 June 1997 on deposit guarantee schemes. It upholds the principle that all Luxembourg registered credit institutions and investment firms must adhere to an investor-compensation scheme introduced in Luxembourg and officially recognised by the CSSF.

Under the legal provisions on deposit guarantee schemes, investor compensation schemes cover investors with Luxembourg registered credit institutions and investment firms and with the branches that the latter have established in other member states of the European Union.

Following the adoption of the Law of 27 July 2000, the Association pour la Garantie des Dépôts du Luxembourg (AGDL) amended its Articles of Association in an Extraordinary General Meeting on 14 December 2000 to bring them into line with the provisions on the adoption of the provisions on investor compensation under Luxembourg law. The CSSF subsequently recognised the AGDL as an investor compensation scheme. The consequence of this recognition is that credit institutions that are members of the AGDL automatically comply with the law. Investment firms may fulfil their legal obligation to adhere to an investor compensation scheme by becoming a member of the AGDL.



Danièle KAMPHAUS-GOEDERT



Claude REISER



Jean-François HEIN



Martine WAGNER

C. Circular CSSF 2000/10 defining capital adequacy ratios pursuant to article 56 of the amended law of 5 April 1993 on the financial sector

Circular CSSF 2000/10 defining capital adequacy ratios includes the provisions of Circular IML 96/127, as amended by Circular CSSF 2000/9 that it revokes.

In amending the Circular IML 96/127 dated 10 May 1996 which defined capital adequacy ratios, the latter enacted the following Community directives into Luxembourg banking regulations:

- Directive 98/31/EC of the European Parliament and of the Council dated 22 June 1998 amending Council Directive 93/6/EEC on the capital adequacy of investment firms and credit institutions;
- Directive 98/32/EC of the European Parliament and of the Council dated 22 June 1998 amending Council Directive 89/647/EEC, particularly in the area of mortgages, on a solvency ratio for credit institutions; and
- Directive 98/33/EC of the European Parliament and of the Council dated 22 June 1998 amending articles 2, 5, 6, 7 and 8 and appendices II and III of Council Directive 89/647/EEC on a solvency ratio for credit institutions as well as article 2 and appendix II of Council Directive 93/6/EEC on the capital adequacy of investment firms and credit institutions.

Circular CSSF 2000/10 supplements the arrangements concerning solvency requirements and limitation of large exposures defined in Circular IML 96/127 without altering the basic principles. The new features are mainly as follows:

- The Circular introduces special capital adequacy requirements to cover the risk linked to changes in commodities prices associated with all activities undertaken by credit institutions. Banks calculating the integrated and simplified ratio are obliged to calculate a distinct capital adequacy requirement related to the risk related to changes in commodities prices.

A new section XII defines a system for assessing the risk related to changes in commodities prices and a capital adequacy requirement to cover this risk. This section applies to positions in commodities and instruments representing commodities whether inside or outside the trading portfolio. Moreover, this new capital adequacy requirement may entail cover by excess supplementary capital similar to the approach chosen for foreign exchange and trading portfolio risks. Section XII presents two methods to calculate the capital requirement, the application of these methods is left to the discretion of the credit institutions. Instead of the methods described in section XII, the banks can use the approach based on internal models described in section XIV or a combination of these methods.

- It defines the practical implications of using an approach based on the banks' internal models for managing risks. Credit institutions may use this method, subject to the prior approval of the CSSF, as an alternative to the standard approach or in combination with the latter to calculate capital adequacy requirements to cover foreign exchange, interest rate, and investment risks or the risk of changes in commodities prices. However, the approach based on the banks' internal models cannot be used to calculate the capital adequacy requirement for covering credit risk exposures to or to limit large exposures.

The CSSF's approval is subject to compliance with a series of quantitative and qualitative criteria. In particular, the models must be closely integrated in the daily management of the relevant risks and serve as a basis for reports addressed to the authorised member of senior management concerning the size of the credit institution's exposure. These criteria aim to ensure that the risks are reliably and properly assessed and controlled within the credit institution. The CSSF reserves the right to impose a prior period for monitoring and testing in a real-life situation before issuing its approval for the determination of capital requirements on the basis of internal models. The methods for calculating the capital requirement on the basis of internal models are defined in section XIV.

Finally, for prudential purposes the CSSF may recognise partial models regarding a given type of risk, activity or product provided that the credit institution has formalised objective procedures designed to accurately determine the scope of such partial models.

– In principle, the methods for calculating the capital adequacy requirement for credit risks associated with activities outside the trading portfolio (e.g. credit and investment activities) are applicable as they stand. The changes introduced ease the capital adequacy rules. Commercial mortgages and mortgage-backed securities may therefore benefit, under certain conditions, from the 50% preferential weighting. Moreover, the banks may, under certain conditions, compare derivatives negotiated on recognised regulated markets with financial derivatives negotiated outside a recognised regulated market and cleared by a recognised clearing house for the purpose of calculating the capital adequacy requirement in relation to credit risk.

The favourable regime applying to commercial mortgages and derivatives negotiated outside a recognised regulated market also applies under the regulations on large exposures.

– With regard to foreign exchange risks, it should be emphasised that the 2% excess will be converted into a 2% threshold from 1 January 2005. Banks which exceed the 2% limit must cover their entire net position in foreign currencies with eligible own funds. The banks will then no longer be able to invoke the method based on statistical techniques from this time; however, they may, as of now, use the approach based on internal models which is closely related to the approach based on statistical techniques.

The banks can use the standard methods described in section IX or the approach based on internal models described in section XIV or a combination of these approaches. Positions in the different euro-zone participating currencies must be regarded as positions in the euro.

- Moreover, the Circular introduces changes to the way in which the total capital requirement is calculated on an individual and consolidated basis. These changes are the consequence of the new prudential system in connection with the risk of

changes in commodities prices associated with all banking activities. The capital requirement in connection with the risk of changes in commodities prices must therefore be included when calculating the total capital requirement for the purpose of calculating the capital adequacy ratio on both an individual and consolidated basis.

D. Circular CSSF 2000/15 on rules of conduct in the financial sector (concerns all companies under supervision)

On 2 August 2000 the CSSF issued Circular 2000/15 on rules of conduct in the financial sector. This Circular was drafted on the basis of article 37 of the amended law of 5 April 1993 on the financial sector and article 11 of Council Directive 93/22/EEC of 10 May 1993 on investment services in the securities field (ISD). It clarifies the general principles by setting out practical procedures that closely reflect the activities of the financial players concerned. The Circular makes a distinction between professional investors and other investors in the application of rules of conduct. For this purpose, it integrates the system for classifying professional investors adopted by FESCO under article 11 of the DSI dated March 2000. Pursuant to the Circular, financial sector professionals are required to take the necessary steps to implement rules of conduct, to adapt the application of the rules to the kind of operation considered, the type of product or service concerned, methods of distribution, type of markets and type and volume of activity and organisational structure. The professionals must comply with the requirements and supply the CSSF with detailed information within six months.

E. Circular CSSF 00/16: Supplement to Circular IML 94/112, Measures to combat money laundering and prevention of the use of the financial sector for the purposes of money laundering (concerns all companies under supervision)

In the previous year the CSSF twice contributed supplements to Circular IML 94/112 on measures to combat money laundering and prevention of the use of the financial sector for the purposes of money laundering.

In Circular 00/16 dated 23 August 2000 the CSSF informed all financial sector professionals on the report identifying non-cooperative countries or territories in the fight against money laundering published by the Financial Action Task Force (FATF) on 22 June 2000. This report identifies fifteen countries or territories whose money laundering regulations are regarded as not complying with the Forty Recommendations of the FATF. The jurisdictions concerned were identified on the basis of twenty-five criteria defined by the FATF in an initial report on non-cooperative countries and territories in the fight against money laundering published on 14 February 2000. Based on the findings of the FATF report, Circular 00/16 underlines the obligation of professionals – pursuant to article 39(7) of the amended law of 5 April 1993 on the financial sector – to closely monitor transactions performed with counterparties located in such non-cooperative countries or territories. Professionals must endorse a specific policy on these business relations and put in place adequate internal procedures to track them.



Christian SCHALK



Christina PINTO

F. Circular CSSF 00/21: Supplement to Circular IML 94/112 and BCL 98/153 on measures to combat money laundering and prevention of the use of the financial sector for the purposes of money laundering (concerns all companies under supervision)

Circular CSSF 00/21 dated 11 December 2000 supplement circulars IML 94/112 and BCL 98/153 on measures to combat money laundering and prevention of the use of the financial sector for of the purposes of money laundering. This circular falls within the framework of the Law of 15 January 2001 approving the OECD Convention of 21 November 1997 on Combating Bribery of Foreign Public Officials in International Business Transactions and covering misappropriations, the destruction of certificates and securities, extortion, the illegal collection of interest, and corruption, and amending other legal provisions.

It raises the awareness of financial sector professionals of the legal and financial risks that money laundering originating from corruption entails on their reputation. Financial institutions will therefore have to pay special attention when establishing business contacts, accepting and safeguarding assets that belong directly or

indirectly to persons performing important public functions in a given country or to persons and companies recognised as being closely related or affiliated to them.

In addition, the circular set outs procedures that the professionals mentioned must apply in this context in terms of their internal organisation. The institutions are obliged to introduce specific controls to obtain all the necessary guarantees in their relations with a client belonging to the set of persons defined. The acceptance and monitoring of such clients must involve senior management.

5. Prudential supervision

A. Requirements to be met by credit institutions

A key mission of the CSSF is to ensure compliance by persons subject to its supervision with the laws and regulations related to the financial sector, in the public interest. The legal and regulatory provisions to be met by the credit institutions include the Law of 5 April 1993 on the financial sector and different circulars issued by the supervisory authority clarifying this law. Moreover, the CSSF also ensures compliance by the credit institutions with the Law of 10 August 1915 on commercial companies and the Law of 17 June 1992 on the annual and consolidated accounts of credit institutions. On the other hand, the CSSF is not responsible for overseeing compliance with other laws that generally govern the banks (labour law, tax law, etc.).

The role of the CSSF is therefore to oversee compliance by credit institutions with a certain number of quantitative and qualitative standards which may vary over time.

The main quantitative standards concern:

- minimum equity capital
- own funds ratio
- limitation of large exposures
- liquidity ratio

The main qualitative standards concern:

- the central administration
- sound administrative and accounting organisation and adequate internal procedures
- transparency in the shareholding structure and the quality of major shareholders

- the moral standing and the experience of the management
- financial sector rules of conduct
- legislation to combat money laundering.

In all areas not specifically governed by prudential standards, the credit institutions are normally at liberty to choose their own business and risk taking policy provided they fulfil the general obligation to manage their institutions in a sound and prudent manner. The CSSF also oversees compliance with this general rule.

B. Prudential supervision instruments

The CSSF has four types of instruments for prudential control purposes:

- the reporting system established by credit institutions which allows the monitoring of activities and risks, control of the solvency ratio and limitation of large exposures,
- the analytical report compiled annually by the independent auditor and which contains a description and detailed analysis of the quality of the organisation and systems, as well as of risks,
- the summary report of the internal audit on all controls conducted during the year and the management report on the bank's internal control status,
- on-site inspections performed by CSSF officials.

C. Control of quantitative standards

Quantitative standards are intended to ensure financial stability and the risk spreading undertaken by credit institutions. They are mainly governed by Circular CSSF 2000/10 on capital ratios. The banks must also ensure a minimum ratio between liquid assets and current liabilities to ensure their liquidity.

Compliance with capital and liquidity ratios is verified monthly using a specific reporting tool. During the year under review, the CSSF took action concerning 6 banks on account of non-compliance with one of these ratios. These cases were rectified within a short time frame.

Credit institutions may not take risks exceeding 25% of their own funds on a single debtor or group of affiliated debtors. Compliance with this limit is verified by quarterly reporting. In 2000 the CSSF intervened 17 times for non-compliance with the set limit. It was frequently observed that these excess exposures were due to difficulties in interpreting the regulations.



Jean-Louis BECKERS

D. Control of qualitative standards

- To evaluate quality of bank organisation, the CSSF draws largely on reports compiled by the auditors. The content of these reports, which must be compiled manually, is defined in Circular IML 89/60. During the year under review, the Commission took action concerning 82 banks owing to weaknesses detected in the organisation or systems. The deficiencies observed mainly concerned the logical and physical security of IT systems, the lack of formal procedures and weaknesses related to the separation of functions. In some banks weaknesses were detected in private banking procedures, especially concerning dormant accounts and "letter box" accounts. The number of pending transactions linked to reconciliations and the control of internal accounts are also problems that were regularly detected.
- One subject that was thoroughly reviewed at the beginning of the year was that of loans collateralised with securities ("<u>Lombard loans</u>"). The CSSF analysed the policy of the banks in weighting different types of assets received as collateral. As a general rule, the maximum acceptable weighting rate for the Commission is 80% for debt securities and 50% for shares.
- The CSSF also reviewed how often the value of pledged asset portfolios was calculated and the procedure to be followed if the value of securities depreciates to the extent that internal limits are no longer respected. The CSSF recommends daily calculation, if the portfolio mainly comprises shares, and weekly calculations if the portfolio mainly comprises debt securities. These securities must be overseen by a person other than the account manager. Moreover, the procedure for liquidating the portfolio must depend on an independent party. Finally, deeds of pledge signed by clients must contain an explicit description of the liquidation procedure.
- The CSSF also examined the commitments of the banks in the <u>telecommunications sector</u>. The CSSF found that these commitments remained within an acceptable proportion against the own funds of the banks concerned and were concentrated on a small number of banks whose financial stability is such that the risks seem under control.
- Another problems the CSSF regularly faces concerns the problem of <u>canvassing the clients</u> of a financial sector professional by managers who have changed their employer and who attempt to move clients to the new employer. The

CSSF believes that this practice is unfair towards the former employer and also infringes professional secrecy. Once an employee leaves his employer he is no longer entitled to use in any way the information he has received in the exercise of his duties with his former employer. Canvassing raises a problem of banking ethics. Circular CSSF 2000/15 on rules of conduct in the financial sector stipulates in point V "Rules governing specific cases of competition" that the financial sector professional must refrain from removing or attempting to remove clients from a competitor by using dishonest or unfair methods. The financial sector professional is, in particular, not permitted to try to receive and use confidential data on the clients of a competitor available to a member of his staff previously employed by that competitor. He must also ensure that his employees do not actively use such data for the same purpose. The professional must refrain from all practices of this kind, particularly when a manager changes employer. The professional as well as the employee concerned must, according to the facts and circumstances, be aware of the criminal and civil liability they may incur. Moreover, we maintain that it is the duty of the management of a credit institution to draw the attention of newly recruited employees to provisions on bank secrecy and then ensure that practices that infringe bank secrecy laws do not occur.



Claude MOES



Françoise DALEIDEN

• Professionals must also refrain from signing employment contracts in which the new recruit undertakes to contribute goodwill existing with his former employer. Moreover, negotiated remuneration matrices must not provide too high a segment based on the sales turnover achieved by a manager so as to prevent him from undertaking shady practices (such as poaching clients) to increase sales and thereby his remuneration. The professional reputation of persons concerned under the terms of articles 7 and 19 of the Law of 5 April 1993 on the financial sector may be challenged by the CSSF if such practices are detected.

• The CSSF also observed a few cases in which banks were led into operations that later proved fraudulent. The banks as victims of such practices were offered operations for which the financial risk was covered but whose economic purpose remained opaque. Owing to the apparent lack of financial risk, the banks concerned agreed to participate in these operations without realising what the implications were and without taking into account the risks to their reputation. These fraudulent operations were only possible with their participation, since the fraudsters abused the rating or standing of the bank and the clients who were victims were therefore misled. These clients subsequently



Luc EICHER

filed a claim against the banks for damages arguing that fraud would not have occurred if the banks had intervened and not given the impression of respectability. The CSSF observed that in these specific cases of fraud the banks concerned did not take the trouble to obtain full details on the operations, the economic background or how they would work in practice. It therefore impresses on credit institutions the importance of refusing to take part in apparently zero-risk operations without clearly knowing their economic purpose.

Alain WEIS

E. Combating money laundering

Since money laundering became a punishable offence in Luxembourg law in 1989, the CSSF closely oversees the compliance by credit institutions with their professional duties in this regard.

The annual report compiled by the independent auditors must cover compliance with the legal obligations and enforcement of internal procedures to prevent money laundering. In 2000, the CSSF took action concerning 22 banks owing to weaknesses detected by auditors. Most of the interventions related to sometimes incomplete documentation on the opening of accounts. In these cases, the CSSF asked the credit institutions concerned to freeze the accounts in question until all the required documents were received. A few cases were also observed in which staff were inadequately trained and where there was no system to detect irregular operations.

The law requires that banks with branches or subsidiaries abroad ensure compliance by these entities with the professional obligations under Luxembourg law in addition to the standards of the host country. The internal audit conducted by the Luxembourg bank must regularly verify compliance with these requirements.

Following the introduction of Internet Banking and so as not to disadvantage the Luxembourg banks' competitiveness compared with other EU countries, the CSSF has changed his requirements on the identity documents needed for an account holder. Contrary to previous requirements, when opening an account by mail, the photocopy of the holder's ID no longer needs to be a certified true copy provided the person in question already has an account with a bank in an FATF member country and provided the first transfer of funds comes from that account. Banks wishing to use this option must submit a proposal for an alternative procedure to the CSSF to ensure that the related requirement is met.

A procedure accepted by the CSSF is one in which the transfer order signed by the client is sent directly by the Luxembourg bank to the client's bank with a reference number. On receipt of the transfer, the Luxembourg bank may check via the account number and reference number that the funds come from an account belonging to the client at his bank of origin.

Moreover, Circular CSSF 00/21 dated 11 December 2000 marks an important phase in the prevention of money laundering. It explains the notion of corruption and requires banks to pay special attention to business relations with persons who perform important public functions in a given country.

Professional obligations with regard to money laundering

The amended Law of 5 April 1993 on the financial sector defines a certain number of professional obligations to be met by financial sector professionals so that they are not used for money laundering purposes. These professional obligations, set out in Circulars IML 94/112, BCL 98/153, CSSF 00/16 and CSSF 00/21, are as follows:

- Identify customers using probative documents. Customer here means direct clients and the beneficial owners of screen companies; the aim is not only to determine the identity of the client but also to assemble information on the purpose of the business relationship sought;
- Introduce adequate internal control and communication procedures to anticipate and prevent money laundering;
- Raise the awareness of employees on anti-money laundering measures and organise training programmes;
- Track operations conducted by customers and closely examine operations that appear suspect;
- Co-operate with the authorities by replying as exhaustively as possible to requests for information and by informing the public prosecutor of any signs of possible money laundering.

F. On-site inspections

During the year under review, the CSSF significantly stepped up its on-site inspections. 37 inspections were conducted compared with 18 in 1999. Most of these controls were performed following the detection of specific problems requiring an on-site inspection. However, the CSSF also began to conduct preventive on-site inspections not related to a specific problem.

In particular the CSSF conducted:

- 8 inspections concerning transactional internet sites: (see above).
- Controls of internal procedures to prevent money laundering in four banks.
 No major irregularity was detected regarding the identification of customers.
- In view of the international expansion of certain Luxembourg banks, inspections of the management and control functions introduced to oversee the international networks of three banks. The introduction of a "group leader" function and an internal audit covering the international network were identified. However, certain shortcomings with regard to risk control were detected. The CSSF insisted on the clear allocation of responsibilities where a group is organised around the matrix model.
- Inspections of the credit business of four banks. The CSSF insisted that two banks improve their documentation and, in the case of one branch, that local management should be more involved in the decision-making process.
- Follow-up work on the quality of the organisation and procedures at two banks. It was found that major improvements had been introduced.

G. Interviews

The CSSF regularly conducts interviews with bank executives to discuss the business market and any problems. The CSSF insists that it must be informed promptly by the banks as soon as a serious problem arises. During the year under review, 195 interviews were conducted between CSSF representatives and bank executives.

H. Sanctions

As in previous years, the CSSF did not have to formally use its right of enforcement and suspension granted by the law on the financial sector. However, following certain events that occurred in two banks, three executive officers were forced to resign.

Moreover, the CSSF filed six complaints with the Public Prosecutor's office for illegal activity in the financial sector.

I. Specific controls

Article 54(2) gives the CSSF the right to ask an independent auditor to conduct a specific audit in a given institution. As in previous years, the CSSF did not formally used this right but it encouraged certain institutions to appoint an auditor themselves to examine a given subject.

13 audits of this type were conducted during 2000, including 9 in connection with Internet banking. The CSSF requests a security audit report covering technical and organisational aspects for each bank launching a transactional site project.



Isabelle LAHR

J. Supervision on a consolidated basis

At 31 December 2000, 30 Luxembourg registered banks (1999: 24) and a Luxembourg registered finance company (1999: 2) were supervised by the CSSF on a consolidated basis.

The requirements for being subject to a consolidated audit, the scope, content and methods of supervision on a consolidated basis are laid down in section II, Chapter 3 of the amended law of 5 April 1993 on the financial sector. The procedures in questions enact Directive 92/30/EEC on the supervision of credit institutions on a consolidated basis. The practicalities of the rules on supervision on a consolidated basis are explained in Circular IML 96/125.

Luxembourg registered credit institutions whose subsidiary is a credit or financial institution or which own a shareholding in such institutions are subject to supervision on a consolidated basis. Groups headed by finance companies and which have banks within their scope of consolidation are also supervised on a consolidated basis.

Luxembourg law requires that for groups audited by a Luxembourg credit institution or Luxembourg financial company, the management of all companies included in the basis of consolidation as well as the central administrative and accounting organisation be set up in Luxembourg to ensure that the finances of the entities concerned match the group's legal structure.

Supervision on a consolidated basis includes an audit of large exposures and verification of capital adequacy to cover exposure to credit, foreign exchange and market risks. Moreover, adequate group organisation in terms of administration, accounting, internal control, internal audit and the group's structure in general must be in place. Further, Luxembourg regulations on combating money laundering and preventing the use of the financial sector for money laundering purposes also apply.



Romain DE BORTOLI

Supervision is conducted on the basis of specific reporting and reports compiled by auditors on the group and the different operating subsidiaries.

Institutions supervised on a consolidated basis

Name	Status
Banca Popolare Commercio e Industria International S.A.	Bank
Banca Popolare di Verona International S.A.	Bank
Banque Continentale du Luxembourg	Bank
Banque de Luxembourg S.A.	Bank
Banque Degroof Luxembourg S.A.	Bank
Banque Générale du Luxembourg S.A.	Bank
Banque Internationale à Luxembourg S.A.	Bank
Banque Populaire du Luxembourg S.A.	Bank
Banque Safra-Luxembourg S.A.	Bank
BHF-BANK International S.A.	Bank
Bikuben Girobank International S.A.	Bank
BNP Paribas Luxembourg	Bank
Caisse Centrale Raiffeisen	Bank
Clearstream International	Finance company
Commerzbank International S.A.	Bank
Credem International (Lux)	Bank
Crédit Agricole Indosuez Luxembourg	Bank
Crédit Européen S.A.	Bank
Danske Bank International S.A.	Bank
Deutsche Bank Luxembourg S.A.	Bank
Deutsche Girozentrale International S.A.	Bank
DG Bank Luxembourg S.A.	Bank
Dresdner Bank Luxembourg S.A.	Bank
Europäische Hypothekenbank S.A.	Bank
Fideuram Bank (Luxembourg) S.A.	Bank
Fortis Bank Luxembourg S.A.	Bank
Kredietbank S.A. Luxembourgeoise	Bank
Landesbank Schleswig-Holstein International S.A.	Bank
Sanpaolo Bank S.A.	Bank
Société Générale Bank & Trust	Bank
West LB International S.A.	Bank

K. Internal audit reports

Pursuant to Circular IML 98/143 on internal control procedures, banks must submit two reports to the CSSF each year, one summary report on the internal audit conducted and one management report on the internal control status. The CSSF was asked to clarify its expectations as to the contents of these reports. It expressed its position at a round table meeting organised on 14 December 2000 by the *Institut des Auditeurs-conseil Internes*. Its main recommendations are summarised below:



Michèle TRIERWEILER

It should be stressed from the outset that these reports must meet three key conditions:

- they must be exhaustive, i.e. they must not deliberately fail to disclose weaknesses, sensitive issues and problems
- they must be honest, i.e. they must not misrepresent the status of the internal control
- they must be intelligible: the language used must not be vague: the reader should not have to read between the lines.

Summary report of the internal audit

The summary report of the internal audit is a report on all audits conducted during the year. It must present the main inadequacies detected, the corrective action decided and the effective follow-up of such action.

This report must enable the CSSF to detect weaknesses in the internal control system. It will also discuss occasional problems that the internal auditor has examined during the year, e.g. fraud, irregularities, etc.

The report must contain the audit plan with mention of assignments planned, completed, not planned and those conducted by an external auditors as well as the approach adopted for establishing the audit plan. For each assignment, day/man resources must be mentioned. The internal auditor must also determine whether the internal audit resources are sufficient to satisfactorily cover all the areas at risk.

The report must contain an inventory of controls performed, findings and the follow-up. This inventory may be presented as a table. It must briefly state the aim of the assignment, the department audited, the nature and length of the work undertaken, the number of recommendations made, accepted and carried out. The report must subsequently indicate the main inadequacies detected and the corrective action taken.



Marc BORDET

Management report on the internal control status

The management report on the internal control status is a summary self assessment of the quality of the entity's organisation compared with standards in force. The following fields should be covered:

- evaluation of the administrative organisation (e.g. organisational flow chart, procedures, reconciliations, internal accounts, security, etc),
- evaluation of risk management and control systems (for each risk: policy pursued and assessment of management and control instruments),
- evaluation of internal audit functions and compliance,
- evaluation of the "group head" function (for banks with a network of branches or subsidiaries).

Finally, the report must list the main weaknesses in the internal control system and the corrective measures taken.

L. The international dimension of banking supervision: co-operation with foreign bank supervisory authorities

Following the introduction of the European passport under the second bank coordination directive, the *Commission de surveillance du secteur financier* has signed a number of Memoranda of Understanding (MOUs) with the competent supervisory authorities of most EU countries with the aim of clarifying the terms of cooperation.

List of Memoranda of Understanding signed

Country	Supervisory authority
Germany	Bundesaufsichtsamt für das Kreditwesen
Belgium	Commission bancaire and financière
Spain	Banco de España
Finland	Rahoitustarkastus (Financial Supervision)
France	Commission Bancaire
Ireland	Central Bank of Ireland
Italy	Banca d'Italia
Norway	Kredittilsynet
Netherlands	De Nederlandsche Bank
Portugal	Banco de Portugal
United Kingdom	Financial Services Authority
Sweden	Finansinspektionen

The above memoranda concern the supervision of credit institutions which conduct cross-border operations by way of the freedom to provide services or through the creation of branches.

Under this cooperation, the CSSF regularly holds annual bilateral meetings with different bank supervisory authorities to exchange prudential information on supervised institutions established in the two countries. The exchange of information also concerns credit institutions which are established in the two countries through a subsidiary and which fall under the supervision on a consolidated basis by one of the supervisory authorities.

In its international cooperation, the CSSF signed a memorandum during the year with the Belgian and French authorities on the supervision of the DEXIA group. Likewise, the CSSF is about to sign a memorandum with the Belgian and Dutch authorities on the supervision of the FORTIS group's banking activities.

The authorities considered that the new structures of these groups, in introducing a decentralised organisation of operational management units and centres of competence, made it necessary to adapt the prudential supervision to the activities of these groups. The key objective of such cooperation between the authorities is to ensure that all the banking activities of these groups are adequately supervised. For this purpose, the authorities are keen to ensure that the different regulations are harmonised to prevent any distortions in treatment within the groups concerned.

This cooperation between authorities is enacted in various ways:

- close consultation between the authorities to coordinate and align their prudential supervision;
- continuous and systematic exchange of information on any significant event likely to impact the group or its main constituent entities;
- regular consultation to update the list of points that the authorities should pay attention to with regard to these groups, to coordinate the drafting of and review the implementation of their control plans and finally to examine the suitability of conducting on-site inspections by the competent authority in close co-operation with the other authorities concerned.

Initial experience in this new form of cooperation reveals that the supervision of cross-border banking groups has gained considerably in efficiency and proves that these groups can be efficiently supervised by national authorities that are organised, through memoranda of understanding, to cover the full range of their activities. This tighter cooperation between national authorities reinforces the CSSF's belief that prudential supervision as currently defined under European legislation is adequate and that there is no need for centralised prudential supervision of cross-border groups within the European Community.



Elisabeth DEMUTH



Claudine WANDERSCHEID

Branches established in the EU as at 31 December 2000

Country		rg branches l in the EU	Branches of established in	
	As at 31/12/1999	As at 31/12/2000	As at 31/12/1999	As at 31/12/2000
Belgium	_	_	1	1
France	1	2	7	6
Germany	1	2	34	31
Ireland	1	2	-	_
Italy	1	1	9	7
Portugal	_	2	2	2
Spain	_	1	_	1
Sweden	1	1	2	2
United				
Kingdom	2	3	5	5
TOTAL	7	14	60	55

Freedom to provide services in the EU as at 31 December 2000

Country		urg banks ces in the EU	EU banks offering services in Luxembourg		
	As at 31/12/1999	As at 31/12/2000	As at 31/12/1999	As at 31/12/2000	
Austria	19	24	4	5	
Belgium	46	48	18	17	
Denmark	20	24	2	3	
Finland	15	20	1	1	
France	40	46	45	50	
Germany	37	40	24	26	
Greece	19	21	_	_	
[Icelande] ¹²	-	2	_	_	
Ireland	18	20	17	19	
Italy	35	38	1	1	
Netherlands	34	38	20	24	
[Norway] ¹²	4	6	3	3	
Portugal	22	25	6	6	
Spain	29	31	3	3	
Sweden	16	18	_	_	
United					
Kingdom	27	31	27	30	
TOTAL					
notifications	381	432	171	188	
TOTAL number of banks concerned	61	66	171	188	

¹² Although Norway and Iceland, members of the European Economic Area, are outside the EU, they have adopted and apply the provisions of the European directive on taking up the business of credit institutions and the conduct of such business.

CHAPTER II

Supervision of undertakings for collective investment (investment funds)¹

- 1. Developments in 2000
- 2. Newly created entities approved in 2000
- 3. Movements in subfunds mainly investing in the "new economy"
- 4. Supervisory practice

¹ Investment funds is understood to mean unincorporated investment funds (FCPs) and incorporated investment funds (Sicavs and Sicafs)



Simone DELCOURT Head of department

1. Developments in 2000

A. Key trends

During 2000, the investment funds sector again grew significantly in terms of the number of investment funds in operation and the volume of net assets managed. 1,785 investment funds were officially registered at 31 December 2000 compared with 1,630 at the end of the previous year (+ 9.5%), the sharpest increase since 1993. Net assets climbed to EUR 874.6 billion (LUF 35,280.7 billion) at the end of the year compared with EUR 734.5 billion (29,630.4 billion) twelve months earlier (+ 19.1%).

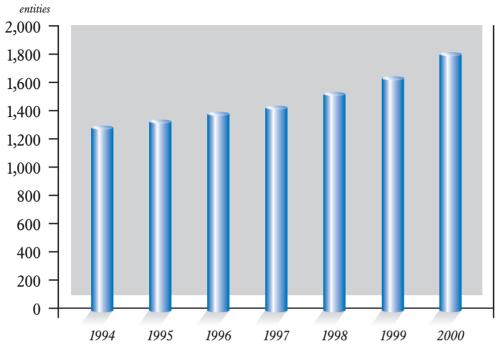
Table 1 – Movements in the number and net assets of investment funds

in billions of EUR

Year	Number of Investment funds	Registrations	With- drawals	Net change	In %	Net assets	Net issues	Change in net assets	In %	Average net assets by fund
1994	1,283	200	92	108	9.2	247.50	23.76	0.42	0.2	0.193
1995	1,329	166	120	46	3.6	261.80	2.04	14.30	5.8	0.197
1996	1,384	182	127	55	4.1	308.61	22.47	46.81	17.9	0.223
1997	1,426	193	151	42	3.0	391.77	50.10	83.16	26.9	0.275
1998	1,521	234	139	95	6.7	486.84	84.08	95.08	24.3	0.320
1999	1,630	265	156	109	7.2	734.52	140.12	247.68	50.9	0.451
2000	1,785	278	123	155	9.5	874.59	168.13	140.07	19.1	0.490

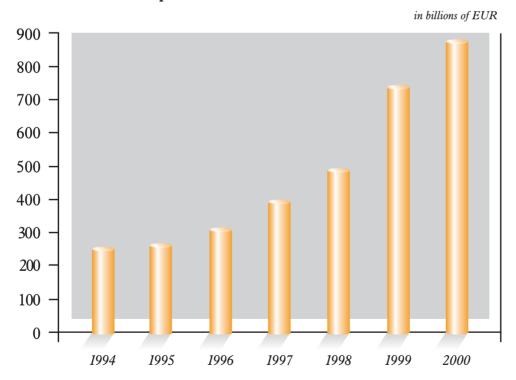
Posting a positive balance of 155 for the year, the number of authorised investment funds rose substantially: an unprecedented figure of 278 new investment funds was registered.

Despite the downturn on stock markets, investment fund net assets increased fairly substantially during the year. This increase is mainly due to a regular inflow of new capital into Luxembourg investment funds. Net issues, i.e. issues less redemptions, were positive each month during the year. Net capital invested totalled EUR 168.1 billion (LUF 6,782.2 billion) for the year.



Graph 1 - Number of investment funds





At 31 December, net assets totalled EUR 874.6 billion (LUF 35,280.7 billion), an increase of EUR 140.1 billion (LUF 5,650.3 billion) or 19.1% over the previous year.

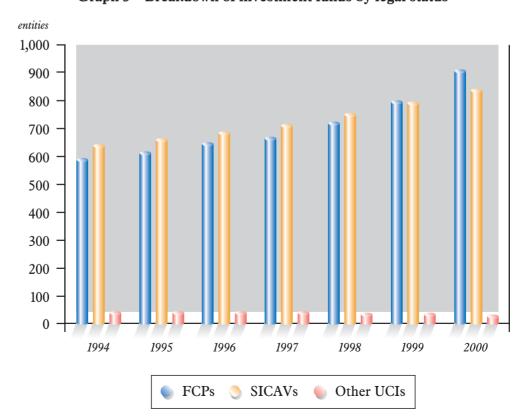
Table 2 - Breakdown of investment funds according to legal status

in billions of EUR

At	FC	Ps	SICAVs		Other investment funds		Total	
year end	Number	Net assets	Number	Net assets	Number	Net assets	Number	Net assets
1994	596	154.1	642	90.1	45	3.2	1,283	247.5
1995	622	164.7	662	94.2	45	2.9	1,329	261.8
1996	656	187.4	688	117.9	40	3.3	1,384	308.6
1997	668	225.0	718	161.1	40	5.7	1,426	391.8
1998	727	270.9	758	210.3	36	5.7	1,521	486.8
1999	800	385.8	795	341.1	35	7.7	1,630	734.5
2000	914	462.8	840	404.0	31	7.8	1,785	874.6

The breakdown in investment fund net assets between fonds communs de placement (FCPs),² sociétés d'investissement à capital variable (Sicavs)³ and sociétés d'investissement à capital fixe (Sicafs) reveals that at 31 December 2000, FCPs were the most prevalent with 914 entities out of a total of 1,785 investment funds in operation, compared with 840 entities operating as Sicavs.

Graph 3 - Breakdown of investment funds by legal status



² Pursuant to the Law of 30 March 1988 on undertakings for collective investment, an FCP means "any jointly-owned mass of assets constituted and managed in accordance with the risk-spreading principle on behalf of individual owners whose liability is limited to the amount of their individual investments and whose rights are represented by units which are placed with the public by means of a public or private offer."

³ The law defines a "société d'investissement à capital variable" as "an investment company which has adopted the form of a 'société anonyme' under Luxembourg law and,

the sole object of which is the investment of capital in assets with the aim of spreading the investment risks and providing investors with returns on the management of their assets, and

the shares of which are to be placed with the public by means of a public or private offer, and

⁻ whose articles of association stipulate that the capital of the company must at all times equal the company's net asset value".

FCP net assets totalled EUR 462.8 billion (LUF 18,668.9 billion) or 52.9% of the total. Sicav assets, which totalled EUR 404 billion (LUF 16,295.8 billion) at yearend, grew at a rate similar to FCP assets in 2000 (+18.4% as against +19.9%).

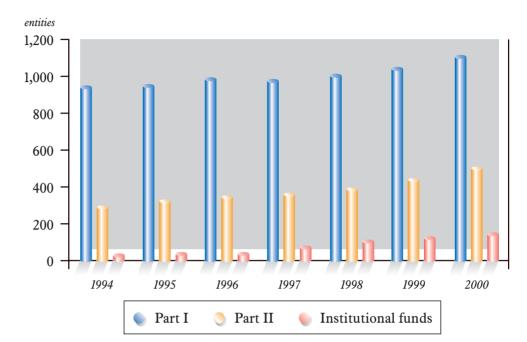
Table 3 – Breakdown of investment funds falling within parts I and II of the law and institutional funds

in billions of EUR

At	Part I		Par	t II	Institutional funds		
year end	Number	Net assets	Number	Net assets	Number	Net assets	
1994	946	165.3	303	80.8	34	1.4	
1995	952	171.9	335	88.1	42	1.9	
1996	988	209.2	353	96.1	43	3.2	
1997	980	280.4	367	102.2	79	9.2	
1998	1,008	360.2	400	111.0	113	15.7	
1999	1,048	564.3	450	137.0	132	33.3	
2000	1,119	682.0	513	153.3	153	39.3	

Table 3 above illustrates the spread of investment funds depending on whether they fall within the scope of part I or part II of the Law of 30 March 1988 or of 19 July 1991.

Investment funds that fall under part I of the law of 30 March 1988 are those which comply with the provisions of the Community Directive on UCITS and which may therefore benefit from the marketing facilities provided. Part II encompasses all other investment funds which pool funds from the public, whereas institutional funds are investment funds whose securities are not intended for placement with the public. In terms of the regulatory provisions and especially the restrictions on investment policy that apply to them, they are nonetheless very similar to the funds subject to part II of the Law of 1988.



Graph 4 – Breakdown of investment funds according to parts I and II of the law and institutional funds

Regarding investment funds subject to the Law of 30 March 1988 the spread between funds subject to part I and those subject to part II remains fairly stable. 62.7% of all investment funds in operation on 31 December 2000 were community UCITS governed by part I of the law, whereas the remaining 28.7% ranked among investment funds which are not directly authorised to be freely marketed in the other EU countries. At the same date, 77.9% and 17.5% of net assets were held in funds governed by parts I and II respectively.

B. Movements in umbrella funds (funds with multiple subfunds)

As in previous years, umbrella funds grew significantly.

This structure, which brings together, within the same legal entity, several subfunds focused on investment in a given currency, territory or economic sector, enables investors to re-focus their investment without having to switch to another investment fund. Within a single umbrella fund, many promoters offer a range of subfunds investing in equities, debt securities, money market paper or occasionally warrants, enabling the investor to benefit from the best possible current yields. The umbrella fund structure also enables promoters to create new subfunds and to manage a collective pool of assets which would not normally be large enough for separate management in a traditionally structured fund. As table 4 below shows, the expansion of umbrella funds continued to the detriment of traditionally structured investment funds both numerically and in terms of the volume of net assets managed during the previous year. The proportion of umbrella funds versus all investment funds rose from 56.0% to 57.6%, while managed net assets rose from 82.3% to 84.5%.



in billions of EUR

A ye en	ar	Total number of invest- ment funds	Number umbrella funds	As a % of the total	Number of subfunds	Average number of subfunds per umbrella fund	Total number of entities	Net assets umbrella funds	As a % of the total	Net assets per subfund
19 19 19 19	94 95 96 97 98 99	1,283 1,329 1,384 1,426 1,521 1,630 1,785	511 573 632 711 797 913 1,028	39.8 43.1 45.7 49.9 52.4 56.0 57.6	2,490 2,841 3,187 3,903 4,454 5,119 6,238	4.87 4.96 5.04 5.49 5.59 5.61 6.07	3,262 3,597 3,939 4,618 5,178 5,836 6,995	151.6 174.4 222.0 296.1 384.3 604.9 739.1	61.3 66.6 71.9 75.6 78.9 82.3 84.5	0.062 0.062 0.069 0.077 0.087 0.119



Irmine GREISCHER



Pierre BODRY

At 31 December 2000, 1,028 investment funds out of a total of 1,785 had introduced a multiple subfund structure. The number of traditionally structured investment funds increased from 717 to 757 (+5.6%), while the number of subfunds in operation rose from 5,119 to 6,238 (+21.9%). A total of 6,995 economic entities were trading, 19.9% more than the previous year.

Since 1994, the number of subfunds has risen from 2,490 to 6,238 (+ 150%), while the total number of investment funds has "only" increased from 1,283 to 1,785 entities (+ 39%) over the same period. The average number of subfunds per organisation was 6.07 at 31 December 2000, a steady increase over previous years. However, this figure conceals a wide diversity between the smallest and largest investment funds.

At 31 December 2000, umbrella fund net assets totalled EUR 739.1 billion (LUF 29,814.1 billion), an increase of EUR 134.2 billion (LUF 35,413.5 billion) or 22.2% compared with the end of the previous year. With EUR 119 million (LUF 4.8 billion) per subfund, average net assets remained on a par with the previous year but still far below traditionally structured investment funds which totalled EUR 179 million (LUF 7.2 billion) per entity at 31 December 2000.



Francis KOEPP



Francis GASCHE

Regarding the valuation currencies used, most entities are denominated in euros (4,103 out of a total of 6,995) followed by the American dollar (1,966) and Swiss franc (253). In asset terms, entities denominated in euros comprise EUR 530.8 billion (LUF 21,414.3 billion) out of a total EUR 874.6 billion (LUF 35,280.7 billion) and exceed entities denominated in dollars (EUR 227.7 billion) and Swiss francs (EUR 61.6 billion).

C. Investment funds' investment policy

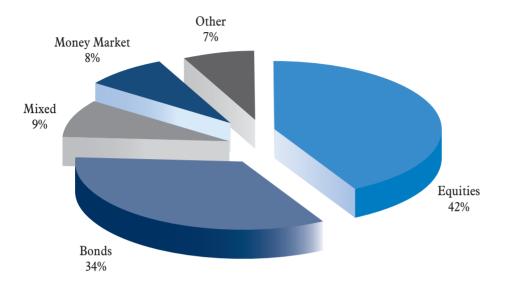
Despite the decline on the major financial markets, investment funds investing in equities again proved popular with investors. The net assets of investment funds invested in equities rose 29.9% to EUR 371.8 billion (LUF 14,998.1 billion) at year-end. Investment funds which pursue a mixed investment policy rose 18.9% to EUR 75.3 billion (LUF 3,037.6 billion). The assets of bond funds increased 8.5% while those of money market and cash funds fell 2.1%, in contrast with the general net asset increase of 19.1%.

In absolute terms, net assets managed by investment funds or investment fund subfunds invested in equities totalled EUR 371.8 billion (LUF 14,998.1 billion) (42% of total net assets), followed by funds invested in bonds (EUR 295.3 billion; LUF 11,913.9 billion or 34%), mixed funds (EUR 75.3 billion; LUF 3,037.6 billion or 9%), money market and cash funds (EUR 70.9 billion; LUF 2,859.6 billion or 8%), and funds invested in other securities (EUR 61.3 billion; LUF 2,471.5 billion or 7%). The latter include funds investing in shares/units of other investment funds (EUR 50 billion; LUF 2,015 billion or 5.7 %). Funds specialised in unlisted securities, real estate funds, funds investing in derivatives or venture capital funds are also included.

Movements in the number of operational entities (i.e. the number of traditionally structured investment funds or subfunds) are noticeably the same as for managed net assets: the number of entities investing in equities rose 27.2% while the number of mixed funds rose 17.9%. Moreover, the number of entities investing their assets in bonds rose 7.1%, while the number of entities investing their assets in money market instruments or liquid assets increased 3.0%.

Funds investing in the Luxembourg economy

Pursuant to the Law of 22 December 1993 on boosting investment in the interests of economic growth (previously the "Rau law"), private individuals enjoy tax relief on investments in investment funds which invest over 75% of their assets in fully taxable resident joint stock companies.



Graph 5 – Net assets of investment funds by investment policy

Resident and non-resident taxpayers who benefit from article 157ter of the LIR Law enjoy relief on taxable income of EUR 1,487 (LUF 60,000) a year, or EUR 2,975 (LUF 120,000) a year in the event of couples filing jointly, for all securities purchased, provided such securities are held until the end of the fourth year of taxation following the year of purchase. These funds have been launched or distributed only by institutions with Luxembourg taxpaying clients, i.e. mainly Luxembourg retail banks.

At the end of 2000, the five funds which met the legal requirements managed assets totalling EUR 701.5 million (LUF 28.3 billion). Compared with 1999, net assets rose by EUR 59.5 million (LUF 2.4 billion) (+ 9.3%) – proof of the popularity of these tax-efficient funds.

D. Movements in investment funds with a guarantee

Faced with the fluctuations inherent in the financial market, guarantee-type investment funds (capital protection funds) aim to offer investors greater security than that offered by traditional collective management products. According to the investment policy pursued by the funds in question, the guarantee ensures that the subscriber is reimbursed either a proportion of the capital invested or is fully reimbursed his initial investment or receives a minimum return on his investment at the end of one or several pre-determined periods.

During the year under review, the number of guarantee-type investment funds fell from 85 to 79 entities, while the total number of entities, i.e. the number of traditionally structured investment funds and the number guarantee-type subfunds,

Table 5 – Investment funds' investment policy

in billions of EUR

Position on December 31, 2000	Number of entities	Net assets	Net assets (as % of total)
UCITS subject to part I	1 000	264.00	20.2
- fixed-income transferable securities	1,890	264,00	30.2
 variable yield transferable securities mixed transferable securities 	2,699 721	350.65 67.45	40.1 7.7
- mixed transferable securities	/21	07.43	1.1
UCITS subject to part II ¹			
- fixed-income transferable securities	178	20.80	2.4
 variable yield transferable securities 	144	8.48	1.0
 mixed transferable securities 	65	3.68	0.4
UCITS subject to part II ²			
- venture capital	18	0.41	0.0
- unlisted transferable securities	21	2.7	0.3
leveraged funds	10	2115	0.3
 other open-ended investment funds 	503	40.00	4.6
 money market instruments 	135	62.05	7.1
+ liquid assets			
– cash	136	8,73	1,0
Other investment funds subject to part II			
- real estate	11	3.24	0.4
- futures and/or options	47	1.08	0.1
- other securities	0	0.00	0.0
Institutional funds – fixed-income transferable securities	123	10.53	1.2
 nxed-income transferable securities variable yield transferable securities 	121	12.76	1.5
 – variable yield transferable securities – mixed transferable securities 	64	4.16	0.5
- venture capital	1	0.00	0.0
 unlisted transferable securities 	4	0.12	0.0
– leveraged funds	1	1.00	0.1
– other open-ended investment funds	83	9.95	1.1
– real estate	5	0.28	0.0
futures and/or options	11	0.37	0.0
 money market instruments 	4	0.11	0.0
+ liquid assets			
Total	6,995	874.59	100.0

¹ These are UCITS not governed by part I of the Law dated 30 March 1988 pursuant to article 2 points 1 to 3, i.e. investment funds disallowing any repurchase, not promoted in the EU or only sold to individuals in third-party countries outside the EU.

² These are UCITS not governed by part I of the Law dated 30 March 1988 pursuant to article 2 point 4, i.e. UCITS which fall within one of the categories set by Circular IML 91/75 owing to their investment and borrowing policy.

rose from 116 to 119 entities (see Table 6). In terms of entities, this increase stems from the launch of 19 new entities in 2000 compared with 16 entities for which the guarantee matured and was not extended.

The 119 entities comprised 21 entities guaranteeing investors only a proportion of their invested capital, 74 entities guaranteeing the repayment in full of their invested capital ("money-back guarantee") and 24 entities guaranteeing investors a return on the initial subscription price.

Funds with a money-back guarantee are dominating, but there is also a noticeably large number of funds guaranteeing their investors a minimum return on their initial investment: these funds generally track a stock market index and through the use of derivatives enable investors to participate to some extent in the growth of this index.

In 2000, guarantee-type investment fund net assets fell by EUR 2.8 billion (LUF 113.9 billion) to EUR 14.3 billion (LUF 577 billion), a decrease of 16.5%. It is also worth noting that guarantee-type investment funds created by German promoters alone included 77.7 % of the total net assets of guarantee-type funds.



Pascal BERCHEM

Table 6 - Movements in guarantee-type investment funds

in billions of EUR

At year end	Number of investment fund Number of economic entities		Net assets
1994	37	42	5.15
1995	43	54	5.58
1996	52	67	7.08
1997	70	90	11.47
1998	86	99	15.00
1999	85	116	17.13
2000	79	119	14.30

E. Promoters of Luxembourg investment funds

The breakdown of Luxembourg investment funds according to geographic origin highlights the large number of countries represented in the financial centre.

The main countries actively promoting investment funds in Luxembourg are: Switzerland, Germany, the United States, Italy and Belgium.

³ The table only records entities active on 31 December 2000 and which had submitted a monthly report to the CSSF at this date.

Table 7 – Origin of promoters of Luxembourg investment funds³

in billions of EUR

31/12/ 2000	Net assets	In %	Number of investment funds	In %	Number of entities	In %
СН	218.4	25.0%	213	11.9%	1,037	14.8%
D	152.2	17.4%	580	32.5%	1,065	15.2%
USA	136.2	15.6%	143	8.0%	738	10.6%
I	91.9	10.5%	52	2.9%	488	7.0%
В	78.2	8.9%	124	6.9%	939	13.4%
GB	56.5	6.5%	104	5.8%	535	7.6%
F	50.2	5.7%	192	10.8%	757	10.8%
J	23.9	2.7%	109	6.1%	226	3.2%
S	18.8	2.1%	36	2.0%	179	2.6%
NL	18.3	2.1%	30	1.7%	223	3.2%
Others	29.8	3.4%	202	11.3%	808	11.6%
Total	874.6	100.0%	1,785	100.0%	6,995	100.0%



Angela DE CILLIA



Alain STROCK

F. Marketing of Luxembourg investment funds abroad and foreign investment funds in Luxembourg

Owing to the small size of the domestic market, the vast majority of Luxembourg investment funds are marketed outside Luxembourg. The investment funds governed by part I of the law dated 30 March 1988 are authorised based on a CSSF registration certificate to market their units/shares in other EU countries without having to follow a further approval procedure with the competent authorities.

At 31 December 2000, the CSSF had delivered a total of 2,591 Directive compliance certificates for registered UCITS, an increase of 352 entities compared with 1999 and 557 entities compared with 31 December 1998. The 2,591 certificates issued by the CSSF were intended for 979 different investment funds (1999: 892 investment funds; 1998: 851 investment funds), i.e. 87% of investment funds governed by part I of the Law dated 30 March 1988 requested at least one certificate.

The main target countries in decreasing order are: Germany (671 certificates), Italy (277), France (275), Austria (274), Spain (211), Belgium (197), Great Britain (180), Sweden (140) and the Netherlands (130).

Regarding foreign UCITS marketed in Luxembourg at the end of 2000, of the 154 foreign, community UCITS marketed in Luxembourg under the facilities provided by the Directive, 107 were of German origin, 26 of French origin, 11 of Irish origin,

8 of Belgian origin, 1 of British origin and 1 of Danish origin. In addition, 55 foreign investment funds, 49 of Swiss origin and 6 of German origin, were authorised to market their units/shares in Luxembourg pursuant to article 70 of the Law dated 30 March 1988.

Table 8 - Marketing of foreign investment funds in Luxembourg

in billions of EUR

At year end	1997	1998	1999	2000
Art. 56 Country of origin Germany France Ireland Belgium United Kingdom Denmark	124 3 - 6 -	106 3 6 5 1	106 22 10 8 1	107 26 11 8 1
Subtotal	133	121	148	154
Art. 70 Country of origine Switzerland Germany	5 6	20 6	28 7	49 6
Subtotal	11	26	35	55
Total	144	147	183	209

2. Newly created entities approved in 2000

A. General data

During the year under review, 1,885 new entities were approved. The following table gives the figures of new entities approved over the last four years: the increase is 23% compared with 1999, 32% compared with 1998 and 68% compared with the number of new entities approved in 1997.

	1997	1998	1999	2000
New approved entities	1,121	1,403	1,533	1,885

The term "entity" encompasses traditional investment funds and subfunds of umbrella funds. The number of new "entities" therefore denotes the number of financial vehicles created.

B. Analysis of investment policy

1997	1998	1999	2000
366 (32.7%)	544 (38.8%)	690 (45%)	965 (51.2%)
184 (16.4%)	210 (15%)	159 (10.4%)	148 (7.9%)
368 (32.8%)	523 (37.3%)	496 (32.4%)	411 (21.8%)
62 (5.5%)	31 (2.2%)	17 (1.1%)	25 (1.3%)
115 (10.3%)	83 (5.9%)	147 (9.6%)	320 (17%)
26 (2.3%)	12 (0.9%)	24 (1.6%)	16 (0.9%)
	366 (32.7%) 184 (16.4%) 368 (32.8%) 62 (5.5%) 115 (10.3%)	366 (32.7%) 544 (38.8%) 184 (16.4%) 210 (15%) 368 (32.8%) 523 (37.3%) 62 (5.5%) 31 (2.2%) 115 (10.3%) 83 (5.9%)	366 (32.7%) 544 (38.8%) 690 (45%) 184 (16.4%) 210 (15%) 159 (10.4%) 368 (32.8%) 523 (37.3%) 496 (32.4%) 62 (5.5%) 31 (2.2%) 17 (1.1%) 115 (10.3%) 83 (5.9%) 147 (9.6%)

Regarding the investment policy of the new approved entities, the trend noted in previous years was confirmed in 2000, i.e. investments in variable-yield securities remained the most attractive instrument, while the appeal of fixed-income securities declined. On the other hand, the number of approvals granted to new entities investing in other investment funds doubled. This type of investment is therefore gaining a significant share of the investment fund market.

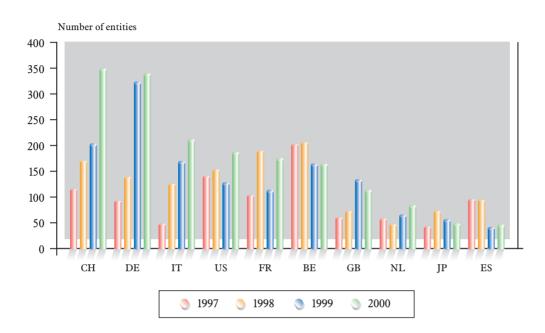
The trend detected in 1999 as regards entities investing in technology, telecommunications, the media, biotechnology and generally securities listed on stock markets such as the Nasdaq, the Neuer Markt, etc. continued and even increased. The number of new approved entities investing in this field almost tripled compared with the previous year.

	1997	1998	1999	2000
«New economy»	16	46	105	286

Investment in money market instruments did not pick up in 2000. The following table summarises the low appeal of this type of instrument.

	1997	1998	1999	2000
Reduced tax entities	57 (5.1%)	45 (3.2%)	32 (2.1%)	49 (2.6%)

C. Origin of promoters



An analysis of the origin of operators promoting newly created entities reveals that:

- first, there was a sharp 70% increase in the number of newly created entities in 2000 by Swiss promoters
- Swiss and German promoters continued, as in the previous year, to head the list, creating over 36% of the total number of new entities during 2000
- Italy again demonstrated its interest in Luxembourg investment funds with a 26% increase
- American and French promoters also expressed their interest in the Luxembourg financial market by establishing 10% and 9% respectively of newly created entities; growth for these two countries compared with 1999 was 48% and 54% respectively
- promoters of Belgian, British, Dutch, Japanese and Spanish origin continued to be well-established in the Luxembourg investment fund industry but did not post any particular increase in terms of the number of newly created entities.

Table summarising the origin of promoters of new entities

	1997	1998	1999	2000
Switzerland	116	170	204	348
Germany	93	139	322	339
Italy	47	126	170	214
United States	141	153	128	189
France	104	191	114	175
Belgium	201	206	166	166
United Kingdom	61	73	134	115
Netherlands	58	47	66	86
Japan	42	74	58	50
Spain	95	95	42	48



Fabio ONTANO



Géraldine OLIVERA

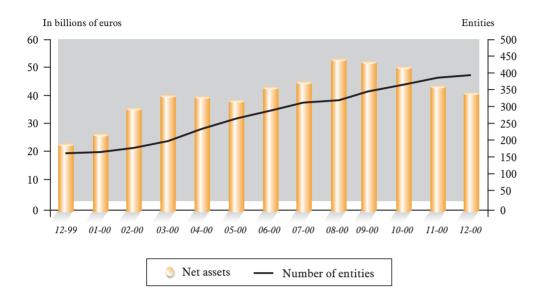
3. Movements in subfunds mainly investing in the "new economy"

In the last two years, the number of subfunds of investment funds investing mainly in the "new economy" has risen substantially. The "new economy" markets encompass companies listed on the new markets, firms producing or distributing new technologies, internet, multimedia and telecommunications companies as well as biotechnology firms.

395 subfunds, for which a monthly report was submitted to us, were active at 31 December 2000 compared with 161 at the end of 1999 (+145). Managed net assets totalled EUR 40.71 billion (LUF 1,642 billion) at the end of 2000 against EUR 22.35 billion (LUF 902 billion) at the end of the previous year (+82%).

Funds investing in the "new economy" grew quickly and proved very volatile The net assets of investment funds in this sector increased significantly from December 1999 to March 2000 to reach an initial peak of EUR 39.8 billion (LUF 1,606 billion) on 31 March 2000. In April and May 2000, net assets levelled off slightly. On 31 August 2000 net assets of funds in this category reached an all-time high of EUR 52.6 billion (LUF 2,122 billion). In step with financial market trends, the net assets of investment funds investing in the "new economy" decreased from September to December due to successive corrections in these markets.

Number of "new economy" entities and net assets in 2000



The soaring stock markets at the end of 1999 and beginning of 2000 and the rise in the dollar positively impacted growth in investment fund net assets invested in this sector during the period under review. The euro and the US dollar were the currencies most commonly used to denominate the capital held in Luxembourg investment funds investing in the "new economy".

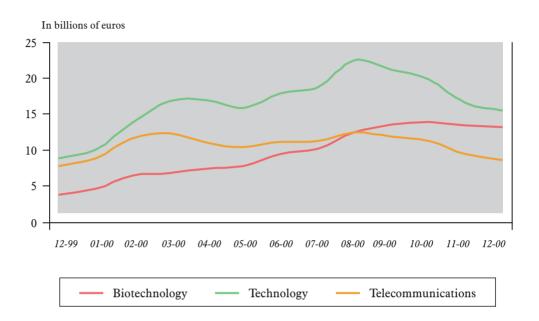
The share of net assets of entities investing mainly in the "new economy" compared with the net assets of all investment funds rose to 4.65% at the end of 2000.

Since the "new economy" comprises more than one sector, we feel it worthwhile to compare net asset growth in its three main segments: biotechnology, technology and telecommunications.



Eric TANSON

Net assets by sector in 2000



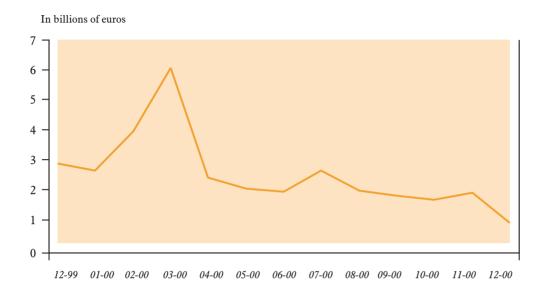


Geneviève PESCATORE

The above graph plots the growth of the relevant segments in the first eight months of the year as well as the price corrections in the technology and telecommunications sectors from the autumn of 2000, which largely spared the biotechnology sector.

Regarding new capital inflows for this type of investment fund, net issues, i.e. issues less redemptions, totalled some EUR 30 billion (LUF 1,210 billion) in 2000. Despite the many stock market corrections, net issues were positive in all months of the year. Moreover, net issues peaked in March before returning to a level similar to that recorded in the autumn of 1999, following financial market adjustments.

Net issues in the "new economy" in 2000



4. Supervisory practice

A. Circular CSSF 2000/8

Circular CSSF 2000/8 adopted in March 2000 concerns the protection of investors in the event of a miscalculation of the NAV and reparation in the case of non-compliance with the investment restrictions governing investment funds. It lays down minimum procedures for professional investment fund managers in Luxembourg to follow in the event of errors in the administration or management of the investment fund for which they are responsible.

The Circular notes that the calculation of the NAV is not an exact science and that the result of the calculation is therefore the closest approximation of the real market value of investment fund assets. So, only those calculation errors that have a major impact on the NAV and whose percentage reaches or exceeds a certain limit, referred to as the materiality or tolerance threshold, need be communicated to the CSSF and corrected in order to safeguard the interests of the investors concerned.





Charles THILGES



Ralph GILLEN



Vic MARBACH

With regard to Luxembourg investment funds, the Circular introduces the concept of materiality and fixes the acceptable tolerance threshold taking into account the degree of inaccuracy implicit in each calculation of the NAV for different types of investment fund. The materiality thresholds are as follows:

– money market funds/cash funds: 0.25% of the NAV - bond funds: 0.50% of the NAV 1.00% of the NAV - equity and other funds: - mixed funds: 0.50% of the NAV

Given that most Luxembourg investment funds are marketed abroad, they must ensure that the defined tolerance thresholds do not clash with regulations in the host countries. When a major error or non-compliance with investment policy is detected, the central administration of the investment funds must inform the promoter, custodian bank, independent auditor and the CSSF.

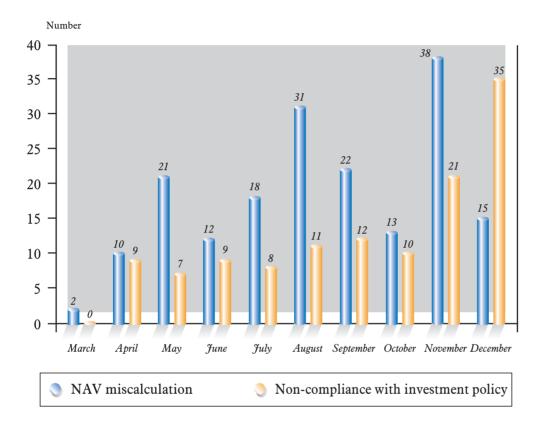
Regarding non-compliance with the investment policy, the central administration may apply methods other than those usually applied to determine the loss suffered, in particular the method to determine the loss in relation to the performance that would have been achieved had the capital been invested in accordance with the investment policy and investment limitations laid down by law or by the prospectus. Moreover, the tolerance thresholds provided in the event of miscalculation of the NAV cannot be applied to losses arising from non-compliance with investment policy suffered by the investment fund.

Statements filed in 2000 on the basis of Circular 2000/8

Since the Circular entered into force on 15 March 2000, the CSSF has registered 304 statements, i.e. 182 miscalculations of the NAV and 122 cases of non-compliance with the investment policy.

The following graph plots the number of errors notified since the Circular was published.

Notified errors



More statements were received in August, November and December than in other months of the year.

The number of statements filed for non-compliance with investment policy increased significantly in November and December. One explanation for this may be that preparatory work begins on the closing of the annual financial statements around this time, and so it may be that at that time the independent auditor or internal auditing department detects breaches of the investment restrictions that were not previously uncovered.

NAV Miscalculations may arise from four causes: pricing errors, booking errors, errors in the calculation of costs and provisions and other errors, for example, in the valuation of swaps or futures.

The following graph plots the different causes of NAV miscalculation recorded since 15 March 2000:

Number 25 20 15 10 5 March April May June July August September October November December Pricing errors Booking errors Error in costs and provisions Other

Reasons for NAV miscalculation

During 2000, NAV miscalculations were due in 25% of cases to pricing errors, in 26% of cases to booking errors and in only 2% of cases to the miscalculation of costs and provisions. Other causes of error in the calculation of the NAV were in the valuation of swaps and futures, which accounted for 10% of such errors.

Practical application of the Circular

Since its introduction, the Circular has had a major impact on the investment fund industry. It has also triggered many questions from operators in the financial sector. Some of these questions are listed below.

1. The Circular stipulates that the central administrations can apply a "de minimis" clause when compensating investors who have suffered loss but does not fix a single lump-sum amount. The reason for this is that most investment funds are marketed abroad and that the transfer costs involved in compensating an investor vary according to the investor's country of residence. Consequently, the

central administration must consider the specific features of each investment fund when applying the "de minimis" clause, depending on the investment fund's distribution network.

2. Regarding the tolerance threshold, frequent requests have been made to clarify the materiality threshold applicable to a given investment fund.

In the case of bond funds for which the materiality threshold defined in the Circular is 0.50%, some market operators considered that this threshold should be raised to 1% for investment funds investing in debt securities associated with higher solvency or volatility risks, such as securities issued by emerging countries. Since the Circular does not take a position on the extent of risks inherent in certain types of debt security, the materiality threshold applicable to bond portfolios is fixed at 0.50% as a general rule.

Regarding mixed funds, the Circular gives no guidelines on the required proportions for the different types of securities (e.g. equities, bonds) or derivatives within the portfolio. Consequently, investment funds for which the investment policy is to invest in bonds and/or equities and/or derivatives should be ranked as mixed funds and a 0.50% tolerance threshold should be applied to them.

3. Another question frequently asked is whether in the event of a miscalculation heavily impacting the NAV, the central administration must follow the procedure to correct a NAV miscalculation described in point 3 of the Circular, even when no investor has suffered loss.

The CSSF deems that where there has been no subscription or redemption application at the time of the miscalculation heavily impacting the NAV, the following procedures apply:

- the investment fund's central administration must immediately inform the promoter, depositor, CSSF, and independent auditor (points 3a and 3d of the Circular);
- the central administration must correct the error that has occurred;
- the independent auditor's involvement described in 3d of the Circular is in this case confined to drafting a certificate in which he certifies that the miscalculation of the NAV has been corrected and that no subscription and/or redemption occurred during the period of the error.
- 4. With specific regard to cases of non-compliance with the investment policy, two issues were frequently discussed:

On the use of the method which determines the loss in respect of the performance that would have been achieved if the capital had been invested in accordance with the investment policy and investment limitations laid down by law or the prospectus, the question is: can an investment fund freely choose the method used to determine the loss in the event of several cases of non-compliance with the investment policy?



Joël GOFFINET



Karin HOFFMANN



Daniel CICCARELLI



Roberto MONTEBRUSCO



Anica
GIEL-MARKOVINOVIC

On this topic the CSSF believes that there must be continuity in the application of the method chosen to ensure fairness among investors. However, it must be noted that few central administrations requested recourse to the above method for determining the loss suffered in the settlement of cases of non-compliance with the investment policy.

Another question frequently asked concerns the method used to determine the result obtained when correcting positions in cases of non-compliance with the investment policy.

As a rule, the majority of investment funds use the "average cost" method to determine the income generated from the sale of a securities position. Some investment funds use only the LIFO (Last In First Out) or FIFO (First In First Out) method.

In cases of non-compliance with the investment policy, the central administrations use the LIFO method because they consider that the result obtained must be determined by referring to the security at the origin of the non-compliance with the investment policy.

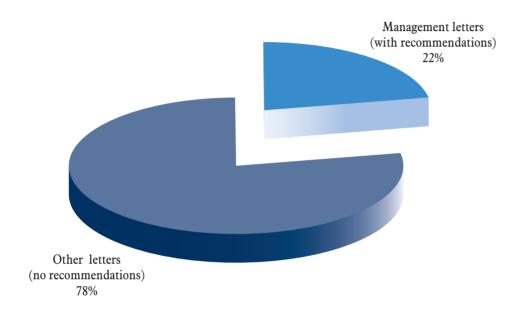
On this point the CSSF believes that the investment fund must decide on the method that it intends to apply and must consistently use the method throughout its trading life. Moreover, once the choice has been made, the investment fund managers must, where necessary, ensure that their IT system allows the use of a different method from the one usually applied to determine the result on sales operations.

B. Management letters

Chapter P of Circular IML 91/75 dated 21 January 1991 states that investment funds must immediately communicate to the CSSF, without being specially requested, the management letters issued by the independent auditor in the context of the audits the latter is contracted to conduct pursuant to article 89 of the Law dated 30 March 1988.

The data for the 1999 financial year is broken down below. The graph summarises the type of letters issued by the independent auditors of all investment funds.

Management letters



A review of the management letters reveals that 78% are management letters which contain *no recommendation*, i.e. the independent auditor has not detected any irregularities in the management of investment funds. 22% are *management letters* in which the independent auditor has noted different irregularities.

The irregularities noted by the independent auditor in the management letters may be broken down into four main categories: overstepping of statutory or regulatory limits, NAV miscalculation, non-compliance with investment policy and problems in the organisation of investment funds.

During 1999, 71% of management letters described various cases in which investment limits were exceeded and 21% in which other types of irregularities where highlighted.

With specific regard to cases of NAV miscalculation, we have listed some 105 errors based on the management letters issued. Since the introduction of Circular CSSF 2000/8, 182 NAV miscalculations have been declared, an increase of 73%. In addition, 182 errors declared were major errors while out of the 105 miscalculations recorded in the management letters, some were not material errors in terms of the materiality thresholds defined in the Circular.

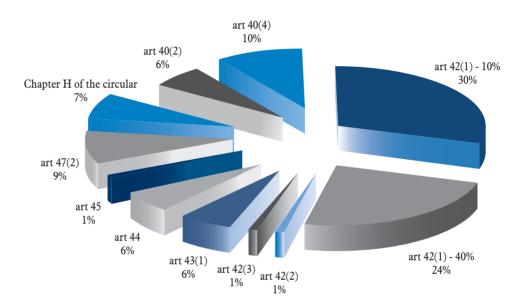


Pierre REDING

The investment funds governed by part I of the Law dated 30 March 1988 accounted for 64.3% of Luxembourg investment funds. In so far as the legal restrictions applicable to them are tighter than those applicable to investment funds governed by part II, it would be useful to analyse the nature of the limits being exceeded by these funds.

The diagram below is a breakdown of the statutory limits most frequently exceeded by investment funds governed by part I of the Law dated 30 March 1988:

Nature of the limits exceeded by investment funds governed by part I



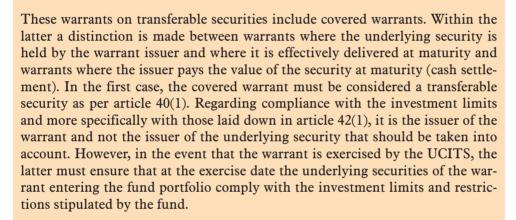
The management letters mainly revealed cases where the statutory limits were exceeded as defined in article 42(1) of the law dated 30 March 1988, i.e. in 54% of cases. This article stipulates that an Undertaking for Collective Investment in Transferable Securities (UCITS) cannot invest more than 10% of its assets in transferable securities of the same issuer and that the total value of transferable securities held by the UCITS of issuers in which it invests more than 5% of its assets must not exceed 40% of the value of the assets of the UCITS.

The management letters also revealed that the statutory limits set in articles 40(4) and 47(2) are also frequently exceeded in 10% and 9% of cases respectively. Article 40(4) lays down that UCITS can only hold liquid assets on an ancillary basis, while article 47(2) lays down that a UCITS may only borrow up to 10% of its assets and only on a temporary basis.

C. Classification of transferable securities

A question has been raised concerning the investment limits laid down in article 42(1) of the Law dated 30 March 1988 on Undertakings for Collective Investment, in particular the limits applicable to warrants held by investment funds.

This topic fits into the question of how different types of warrants available on the market should be classified. For example, only warrants which give the right to acquire new transferable securities are eligible instruments under article 40(1) of the Law dated 30 March 1988 provided they are admitted to official listing on a securities exchange or negotiated on a regulated market that is operating regularly and is recognised and open to the public. These warrants are generally classified as warrants on transferable securities.



In the second case the covered warrant gives rise to a cash settlement at maturity and should be considered as a technique and instrument as defined in chapter H. (Point I.1.) of Circular IML 91/75.

Warrants on stock market indices should be considered as derivatives that the UCITS may use for efficient portfolio management in accordance with the article 41(1) of the Law dated 30 March 1988 and with chapter H.I. of the aforementioned Circular.

Warrants on foreign currencies should also be considered as derivatives that the UCITS may use to hedge foreign exchange risks in connection with the management of its assets in accordance with article 41(2) of the Law of 30 March 1988 and with chapter H.II. of Circular 91/75.

Regarding a UCITS that invests in the warrants, equities and bonds of the same issuer and in the light of the above explanations on the classification of warrants, the percentages with regard to the net assets of the different securities issued by the same issuer must be aggregated. The aggregate percentage must comply with article 42(1) which stipulates that the UCITS must not invest over 10% of its assets in the transferable securities of the same issuer.



Alain KIRSCH



Géraldine APPENZELLER



Guy MORLAK



Michèle WILHELM



Claude WAGNER



Marc DECKER

D. Securities lending

A question has been raised concerning the possible form of the guarantee provided for loans of securities provided by a Luxembourg investment fund governed by part I of the Law dated 30 March 1988.

In this connection, the CSSF has no objection to the fact that the guarantee issued to a Luxembourg investment fund subject to part I of the law dated 30 March 1988 in the context of securities lending transactions takes the form of shares listed on an EU stock exchange and enjoying the highest rating. However, the criteria below must be met.

A securities loan must be backed by appropriate guarantees covering the risk of default on the part of the borrower and which must at least equal the total value of borrowed securities during the entire life of the contract. The securities received must be entered in an escrow account in the name of the investment fund until the expiry date of the loan contract. If an investment fund uses this facility the investment fund concerned must inform the CSSF providing explanations on the way in which it has arranged to track the value of the guarantees throughout the life of the contract. Where necessary, the section on securities lending in the prospectus must be amended.

E. Maturity of securities or debt instruments that may be classified as money market instruments

Pursuant to article 108 of the Law dated 30 March 1988 as amended by the Law of 24 December, the subscription tax rate is decreased to LUF 0.01 for every LUF 100 for funds that only invest in money market paper and deposits with credit institutions. A regulation issued by the Grand Duchy of Luxembourg lays down the criteria to be met by the money market instruments.

The grand ducal decree dated 24 December 1996 included in Article 108 of the Law dated 30 March 1988 states that "money market instruments as defined in article 108, para. 2 of the Law dated 30 March 1988 on undertakings for collective investment means all securities and debt instruments, whether or not they resemble transferable securities, including bonds, certificates of deposit, savings bonds and all other similar instruments, provided that when they are acquired by the undertaking in question their initial or residual term does not exceed twelve months or that pursuant to the issuance requirements governing these securities, their interest rate is adjusted at least once a year in the light of market conditions."

The CSSF recommends reference to the average residual period of instruments to determine whether or not they should be considered as money market instruments. In this regard, article 108 concerns:

- UCIs that invest only in securities and debt instruments whose initial or residual term does not exceed twelve months at their acquisition date by the UCI, and
- UCIs that invest only in securities and debt instruments whose average residual maturity does not exceed twelve months.



CHAPTER III

Supervision of pension funds

- 1. Review of the first pension funds
- 2. Future developments: a European context marked by the recent draft pension funds directive
- 3. Fine-tuning the Luxembourg legal framework
- 4. Principles underlying the prudential approach

The Sepcav is based on a corporate structure in which affiliate members and beneficiaries are shareholders who receive a capital sum upon their retirement. The Assep is based on a partnership structure in which the rights of affiliate members and beneficiaries take the form of a right to future claims which are paid either in the form of a capital sum, or an annuity and where applicable, incidental benefits upon retirement.

1. Review of the first pension funds

2000 was marked by the approval of the first Luxembourg pension funds subject to the Law of 8 June 1999. Three pension funds were approved, one Assep and two Sepcavs¹. The profiles of the fund promoters were varied:

- one multinational launching a fund for its expatriate staff worldwide;
- an insurance company of a country outside the EU creating a pension scheme for senior executives and to be offered to other companies in the Middle East;
- and an audit company creating a Sepcav initially intended for its Luxembourg partners and managers.

Table of pension funds subject to CSSF supervision

Pension savings associations (Assep)

THE UNILEVER INTERNATIONAL PENSION PLAN, 400, route d'Esch, L-1014 Luxembourg

Pension savings companies with variable capital (Sepcav)

APF INTERNATIONAL, c/o Barnett Waddingham SA, 16, avenue Grand-Duc Jean, L-1842 Howald

KPMG-LOMBARD INTERNATIONAL PENSION SCHEME, Airport Center, 2, route de Trèves, L-2633 Senningerberg

At present, several applications for approval are being processed and a certain number of other applications are under preparation with service providers. Almost all these projects concern international groups with operating entities in Luxembourg. Starting out from their Luxembourg base, these groups intend to later expand their pension schemes to foreign entities and external companies. Contacts with companies reveal a clear need and heavy demand for new pension and savings products for businesses. While the multinationals are mainly interested in how to deploy Europe-wide instruments, SMEs are more attracted by a pension fund with defined contributions, very often multiple employer funds, offering the employer the benefit of a pre-defined contribution and the scheme member the prospect of a real return on his investment.

Since the law creating the Sepcav and Assep does not prescribe how these pension funds operate in terms of social and prudential structures, or in terms of the representation and running of the different bodies, it enables them to adjust to the foreign regulations of the contributor's country of origin: this is essential, at least in the current phase of harmonising European regulations, with a view to attracting foreign pension undertakings.



Christiane CAMPILL

Contacts between the CSSF and fund promoters concerned make it clear that the Sepcav's and Assep's appeal stems from the following combination of factors:

- > regarding the management of pension fund assets, the absence of quantitative standards in investment policy and the possibility of providing multiple asset managers as well as the possibility to have access to "pooling" structures;
- > the possibility of creating pension funds with several employers but not necessarily through an umbrella-type pension fund,
- > the provision of the law on the working and composition of administrative bodies, particularly as regards the representation of contributors,
- > the flexibility that the Assep provides in adjusting its commitment when the pension fund is created and during its life.

On the other hand, the law protects the rights of beneficiaries and safeguards future claims:

- > Defined benefit schemes must be fully financed at all times. The provisions set aside for current and future benefits must be covered at all times by the value of the assets less any liabilities towards third parties.
- > The pension rules must clearly define the rights of the beneficiaries and provide for regular information to be sent to the beneficiaries as to their rights.
- > Prudential supervision by a supervisory authority with extensive experience in the financial sector is a further safeguard.

The prospect of receiving a European passport in the mid-term is an additional strength of Luxembourg pension funds.



Marc PAULY

Didier BERGAMO

2. Future developments: a European context marked by the recent draft pension funds directive

A new impetus is spreading within the European Union to tackle pensions, including company pensions. The European Council meeting in Lisbon made company pension institutions within the single market a priority objective.

In October 2000 the European Commission submitted a draft directive aimed at bringing about a minimum alignment between prudential standards, mutual recognition of supervisory authorities and the introduction of a European passport based on the principle of the freedom to provide services. The text of the draft directive reassures the CSSF that the Sepcavs and Asseps will be able to comply with future European legislation without too much difficulty. From a formal standpoint, the legislative amendments that would result from adopting the draft directive in its present form could be easily transferred into the Law of 8 June 1999, albeit partly through a Grand Ducal regulation or CSSF Circular. Such amendments would have no major impact on existing vehicles pending the completion of the single market.

3. Fine-tuning the Luxembourg legal framework

At the beginning of 2000 Grand Ducal regulations were enacted regulating access to the profession of foreign asset manager and foreign liability manager. The main import of these Grand Ducal regulations dated 4 February 2000 was described in the previous CSSF annual report.

In October 2000 the Luxembourg government tabled bill n° 4703 amending certain provisions of the Law of 8 June 1999 to explain and clarify them. The amendments mainly concern the criteria and procedures for approving asset and liability managers and provisions on the publication of the articles of association and rules of pension funds and respective amendments thereto. They also introduce in the text of the bill a definition of the legal mission performed by the liability manager. Other changes are more technical such as allowing for an initial outlay of assets by contributors to enable adequate risk spreading once the fund is formed. Moreover, certain changes are aimed at laying a legal basis for the subsequent adoption of the European directive – currently under review in the Council of Ministers – under national law.

Finally, for the sake of consistency, it is proposed to align certain legal provisions with those of the Law of 30 March 1988 on Undertakings for Collective Investment. These provisions concern the qualifications of independent auditors, the separation of assets within umbrella-type pension funds and the procedure to be followed in the event of liquidation.

4. Principles underlying the prudential approach

The flexibility written into the Law of 8 June 1999 gives the CSSF considerable leeway in the way it conducts its prudential supervisory mission. The CSSF has decided to apply this flexibility in so far as it does not clash with the concern for security, which must prevail over any other consideration. The absence of uniformly applicable rules requires the CSSF to monitor each pension fund almost on an individual basis. Security, financial solvency, profitability and liquidity are objectives that all pension funds must pursue. The attainment of these objectives mainly depends on several key factors: a prudent investment policy and financing plan, and the employer's sound financial status.

Based on the above principles, the approach and requirements of the CSSF are as follows:

a) investment policy

The law does not lay down constraints or quantitative limits in respect of the investment policy and refers to the "collective investment of assets in accordance with the risk spreading principle". However, it has made allowance for the possibility of introducing restrictions on investment identical to those applicable to UCITS under a Grand Ducal regulation. Pending the outcome of the work of the European Commission, the CSSF applies what is commonly called the "prudent man principle". This entails determining on a case by case basis whether the proposed investment policy meets the prudence and risk spreading principles and whether it takes sufficient account of the type and maturity structure of the pension fund commitments.

Pension funds differ fundamentally from investment funds in that they can take a long-term perspective since the possibilities of early withdrawal of funds are strictly limited by the law and the articles of association, and in so far as cash flows on the liabilities side can be planned long in advance. The law enables a pension fund to invest all its assets in an asset-accumulation vehicle (such as a UCITS) provided the latter meets the investment policy that the pension fund



Karin FRANTZ



Sandy BETTINELLI

has set. In practice, the CSSF observes that pension fund promoters tend to align the framing of their investment policy to what is generally applicable in the UCITS sector.

b) financing plan

The calibre of the financing plan is crucial to ensure that the defined benefit scheme (Assep) is able to honour the commitments it has undertaken. In contrast under defined contribution schemes, the financing plan consists of the method used to calculate the contributions together with a forecast of their probable volume and a forecast of the net assets of the pension fund over a five-year period. In simple terms, under defined benefit schemes, the financing plan involves determining the amount of contributions needed using actuarial computations to finance current and future benefits within the pension fund. The law requires that pension fund commitments are fully covered at all times. In other words the provisions for present and future benefits must be covered at all times by the value of the net assets in the pension fund. This constraint has been included in its present form in the draft directive.

c) solvency of the contributing employer

The primary aim of a compound financing scheme such as a pension fund is to protect the acquired rights of the scheme member from the employer's insolvency. However, the employer's solvency remains a necessary condition for the continuous accumulation of rights until retirement, and often essential to sustain the instrument. The CSSF therefore attaches great importance to the quality and financial soundness of the contributing employer.

CHAPTER IV

Supervision of other financial sector professionals (FSPs)

- 1. Movements in financial sector professionals (FSPs) in 2000
- 2. FSPs subject to permanent supervision by the CSSF
- 3. FSPs not subject to permanent supervision by the CSSF
- 4. Freedom of establishment and freedom to provide services for FSPs

1. Movements in financial sector professionals (FSPs) in 2000

The table below highlights the variation in the number of other financial sector professionals.¹

Categories ²	1993	1994	1995	1996	1997	1998	1999	2000
Investment firms:								
Commission agents						4	7	10
(Brokers and Commission agents)	16	15	14	14	14	/	/	/
Private Portfolio Managers	27	31	33	36	34	37	38	46
Professionals acting for their own account	15	17	18	18	20	15	17	14
Distributors of investment fund units/shares	11	14	19	20	18	22	25	35
Underwriters						1	2	4
(Underwriters and market makers)	3	3	3	3	3	/	/	/
FSPs other than investment firms:								
Financial advisors	6	7	6	6	7	9	10	9
Brokers						10	8	7
Market makers						1	2	2
Professional custodians of securities or other financial instruments	3	3	3	3	3	1	1	3
Company domiciliation agents							1	14
Total ²	66	74	78	82	80	83	90	113

¹ FSPs not subject to the ongoing supervision of the CSSF are not included in the tables below.

 $^{^{\}scriptscriptstyle 2}$ The same entity may be included under several categories.

The increase in the number of financial sector professionals (FSPs) from 90 to 113 is explained by the increase in the number of company domiciliation agents (13 new entities), distributors of investment fund units/shares (10 new entities) and private portfolio managers (8 new entities). Following the Law dated 31 May 1999, thirteen companies operating as domiciliation agents applied for incorporation to comply with the legal requirements. The increase in the number of distributors of investment fund units/shares is closely correlated with the spectacular growth in Luxembourg's investment fund industry.



Danièle BERNA-OST Head of department

Other financial sector professionals by geographic origin

	1994	1995	1996	1997	1998	1999	2000
Belgium	26	26	29	27	25	24	21
France	11	9	11	10	10	10	11
United Kingdom	7	8	9	10	9	8	8
Switzerland	8	6	5	6	4	4	7
Luxembourg	7	8	8	11	12	17	22
Germany	4	8	6	6	6	7	11
United States	4	5	6	3	4	3	4
Other	7	8	8	7	13	17	29
Total	74	78	82	80	83	90	113

Total assets and net result of other financial sector professionals

Categories	In EU	In EUR Total assets		[In]	In EUR Net result	
	1998	1999	2000	1998	1999	2000
Investment firms						
Commission agents	15,108,615	18,389,700	42,094,395	3,013,394	1,661,187	8,387,660
Private portfolio managers	175,043,071	546,155,533	988,282,637	21,186,964	109,011,443	219,283,859
Professionals acting for their own account	106,296,991	176,986,025	176,087,734	11,898,641	25,111,056	31,968,754
Distributors of investment fund shares/units	225,647,064	314,064,828	595,893,541	31,125,263	39,271,095	68,552,349
Underwriters	7,451,679	14,826,461	63,293,414	176,748	1,097,104	4,220,147
FSPs other than investment firms						
Advisors	189,181,183	300,897,745	5,057,732	23,173,582	64,326,247	1,191,401
Brokers	77,082,739	64,524,440	67,301,524	13,551,843	13,877,143	17,274,554
Domiciliation agents		/	20,493,379	/	/	2,733,162
Market makers	7,451,679	14,826,461	17,608,959	176,748	1,097,104	1,908,936
Depositors	184,722	297,536,840	643,093,339	23,150,033	63,569,555	133,963,542
Total	634,679,560	1,216,504,853	2,109,615,042	79,883,688	217,237,068	428,904,231

Comment on the table: since the same company may operate in several sectors, the total does not reflect the arithmetic sum total of headings under the different FSP categories. For financial sector professionals authorised to conduct business as defined in articles 24a to 24c, 25 and 26 of the amended Law of 5 April 1993, total assets are recorded only once in the total in the category for which the capital requirements are the most stringent. If outside of the above-mentioned categories, the professional conducts additional business as covered in articles 24d, 24e, 27 and 28 of the aforesaid Law, total assets are aggregated for each category but are not included in the grand total to avoid counting them twice.

At 31 December 2000, total assets posted by FSPs established in Luxembourg amounted to EUR 2,109 million (LUF 85.1 billion) compared with EUR 1,216 million (LUF 49.1 billion) a year earlier, representing a substantial increase of 73%.

FSP net results also rose significantly to total EUR 428 million (LUF 17.3 billion) compared with EUR 217 million (LUF 8.8 million) in 1999, an increase of 97%.

However, a review of the figures in the table reveals that total assets and net results posted by all FSPs fluctuate considerably. The main reason for this is the heavy concentration of activities and results around a handful of professionals. For example, at 31 December 2000, only 18 companies had total assets exceeding EUR 15 million, whereas there were only nine FSPs whose total assets exceeded EUR 30 million.

Financial advisors

The newly formed company Clearstream International S.A. did not adopt the status of financial advisor (previously Cedel International accounted for 99% of total assets posted by financial advisors) but opted for the status of "professional custodian of securities and other financial instruments". Consequently, total assets posted by financial advisors has decreased.

Private portfolio managers

Total assets and profits posted by private portfolio managers rose sharply. This increase is closely related to the performances of Dexia Asset Management Luxembourg S.A. (shortened to Dexiam Luxembourg) and its branch in

Switzerland and to the growing number of private portfolio managers, up from 38 to 46 entities over a one-year period.

The CSSF's position in cases where a private portfolio manager reinvests its own profits

The CSSF holds that the reinvestment by a private portfolio manager of its own profits does not qualify as trading activity as defined in Article 24 C) (1) of the amended Law of 5 April 1993 on the financial sector and is not, therefore, subject to approval in its capacity as a professional acting for its own account. Profit here denotes the total profits brought forward from previous financial years as well as the profit posted in the current financial year.

Distributors of investment fund units/shares

Total assets posted by distributors almost doubled during the period 31 December 1999 – 31 December 2000, while the number of distributors increased from 25 to 35 entities. New entities distributing investment fund units/shares originated from major banking groups or institutions in general which aim to benefit from the expansion of the investment fund sector.

Professionals acting for their own account

The income posted by this category of FSP was maintained despite:

- the conversion of Puilaetco (Luxembourg) S.A. and Kaupthing Luxembourg S.A. into banks
- the change in the object of the Groupe Indosuez Funds Investment Services (Luxembourg) S.A. whereby it no longer falls within the scope of the amended Law of 5 April 1993
- the merger between Comptoir d'Agents de Change du Benelux S.A., abridged to Codalux S.A, and the private portfolio manager Degroof, Conseil (Luxembourg) S.A., Codalux being absorbed.

2. FSPs subject to permanent supervision by the CSSF

During 2000, the number of FSPs subject to permanent supervision by the *Commission de surveillance du secteur financier* increased from 90 to 113. 31 new entities were approved in 2000, while 8 establishments dropped their FSP status. The figures only include FSPs subject to prudential supervision by the CSSF, i.e.

- Luxembourg-registered FSPs,
- Branches of investment firms originating from third-party countries outside the EU,

• branches of FSPs other than investment firms originating from an EU member state or a third-party country outside the EU.

Branches established in Luxembourg by investment firms originating from another EU member state fall under the supervision of their country of origin.

Company domiciliation agents in Luxembourg

Since the enactment of the Law dated 31 May 1999 governing the domiciliation of companies, only members of one of the following regulated professions are qualified to conduct this activity: a credit institution or other financial sector and insurance sector professional, lawyer, auditor or chartered accountant. Approval to operate as a company domiciliation agent is subject to producing proof of university qualifications in law, economic or business management studies as well as capital totalling LUF fifteen million (EUR 372,000). Since the enactment of this law, 14 companies have been approved as company domiciliation agents, ABN AMRO Trust Company (Luxembourg) S.A., Euroskandic S.A., F. van Lanschot Trust Company (Luxembourg) S.A., Fiducenter S.A., Fidupar S.A., Gesfo S.A., International Corporate Activities S.A., Luxembourg International Consulting S.A., Luxembourg Management Company Group S.A., Madame Evelyne Jastrow, Rabobank Trust Company (Luxembourg) S.A., V Trust Group (Luxembourg) S.A., LCF Rothschild Conseil and BBL Trust Services Luxembourg.

The shareholders of half of the domiciliation agents are banks, of which three are of Dutch origin.

A. Luxembourg registered FSPs approved in 2000:

Investment firms:

- 3 companies approved as commission agent and distributor of investment fund units/shares:
 - Attrax S.A.
 - Bisys Fund Services (Luxembourg) S.A.
 - Crédit Lyonnais International Fund Services S.A.
- 7 private portfolio managers:
 - Eureka Investments S.A.
 - Fidessa Asset Management Luxembourg S.A.
 - Fuchs & Associés Finance Luxembourg S.A.
 - ING Private Capital Management S.A.
 - Key Asset Management S.A.
 - Premium Select Lux S.A.
 - SP Asset Management Luxembourg S.A.

- 2 companies approved as private portfolio manager and distributor of investment fund units/shares:
 - Carlson Asset Management Luxembourg S.A.
 - Vontobel Luxembourg S.A.
- 1 professional acting for its own account which extended its status during the year to underwriter and professional custodian of securities or other financial instruments:
 - Europäisches Wertpapieremissions- und Handelshaus S.A.
- 1 distributor of investment fund units/shares authorised to receive and make payments:
 - Frontrunner Management Company S.A.
- 2 distributors of investment fund units/shares not authorised to receive or make payments:
 - BNP Paribas Fund Administration S.A.
 - Investlife Asset Distribution S.A.

FSPs other than investment firms:

- 2 financial advisors:
 - Family Office Luxembourg S.A.
 - Timing Consult S.A.
- 1 professional custodian of securities or other financial instruments:
 - New Cedel International S.A. has become Clearstream International S.A.

On 7 October 1999, the Cedel and Deutsche Börse AG group signed an agreement to pool their securities liquidation, settlement and custody activities to form Europe's largest company offering such services, with effect from 1 January 2000. Technically, the merger was achieved through the contribution on the part of Cedel International and Deutsche Börse AG of their subsidiaries and/or their securities liquidation, settlement and custody activities to the newly created legal entity: NEW CEDEL INTERNATIONAL S.A.

Cedel International which until that moment had the status of financial sector professional (financial advisor and professional custodian of securities and other financial instruments) consequently renounced its status: the shareholding of New Cedel International S.A. is evenly divided between Cedel International and Deutsche Börse AG. The purpose of the new entity extends beyond the holding of investments. While the management of the liquidation and settlement of market securities will solely be performed by CedelBank and Deutsche Clearing AG, the development and fine-tuning of new securities products has been entrusted to New Cedel International S.A.

New Cedel International was formed on 28 October 1999. On 24 December 1999 it was authorised to act as a professional custodian of securities or other financial instruments in accordance with Article 28 of the amended Law of 5 April 1993 on the financial sector, with effect from 1 January 2000. On 25 February 2000, New Cedel International S.A. changed its name to CLEARSTREAM INTERNATIONAL S.A.

- 12 company domiciliation agents:
- ABN AMRO Trust Company (Luxembourg) S.A.
- Euroskandic S.A.
- F. van Lanschot Trust Company (Luxembourg) S.A.
- Fiducenter S.A.
- Fidupar S.A.
- Gesfo S.A.
- International Corporate Activities S.A.
- Luxembourg International Consulting S.A.
- Luxembourg Management Company Group S.A.
- Madame Evelyne Fastrow
- Rabobank Trust Company (Luxembourg) S.A.
- V Trust Group (Luxembourg) S.A.

Fulfilment of the legal requirement to provide proof of sufficient credit standing by a non institutional shareholder

In 1999, the CSSF eased its FSP shareholder requirements by allowing individuals to promote a FSP under certain conditions. The difficulty met by non institutional shareholders of a FSP in complying with the legal requirement to provide proof of sufficient credit standing (Article 21 of the amended Law of 5 April 1993), led the CSSF to accept these shareholders, provided the following general principles are upheld:

- The shareholders must on request supply two bank guarantees issued by two distinct credit institutions.
- The two bank guarantees must cover a total amount slightly exceeding the minimum share capital required by law for the FSP category concerned.
- The bank guarantee must be issued in favour of the FSP.
- The irrevocable undertaking given by the two credit institutions must be valid for a period of 3 years and the wording of the bank guarantee must formally state that it is intended to allow the CSSF to verify the FSP's credit standing.

B. The eight entities which dropped their FSP status:

- 2 companies dropped their FSP status to become credit institutions:
 - Kaupthing Luxembourg S.A.
 - Puilaetco (Luxembourg) S.A.
- 1 company went into voluntary liquidation in order to subsequently register as the branch of a foreign investment firm.
 - Assets & Equities S.A.



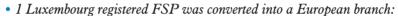
Denise LOSCH



- 3 companies dropped their FSP status:
 - Cedel International
 - Groupe Indosuez Funds Investment Services (Luxembourg) S.A.
 - Tradition Eurobond S.A.
- 1 company went into voluntary liquidation:
 - Van Doorn Trust International (Luxembourg) S.A.
- 1 company merged with a financial sector company:
 - Comptoir d'Agents de Change du Benelux S.A., shortened to Codalux S.A., was absorbed by the private portfolio manager Degroof Conseil (Luxembourg) S.A.



In 2000, the number of branches established in Luxembourg by investment firms originating from another EU member state increased from two to four.



- Assets & Equities S.A., Bruxelles, Luxembourg branch
- 1 new European branch was established in Luxembourg:
 - PFPC International Limited, Dublin, Luxembourg branch



Martine SIMON

D. During the year different FSP companies switched category

- BBL Trust Services Luxembourg dropped its private portfolio manager status to become a domiciliation agent.
- Degroof, Thierry & Associés S.A. added to its existing status of private portfolio manager that of distributor of investment fund units/shares not authorised to accept or make payments.
- Eurinvest Partners S.A. added to its existing status of private portfolio manager that of distributor of investment fund units/shares not authorised to accept or make payments.
- Foyer Asset Management S.A. added to its existing status of professional acting for its own account, those of distributor of investment fund units/shares authorised to accept or make payments, underwriter and professional custodian of securities and other financial instruments.
- Schumann-Lavédrine Finance S.A. is now classified as a private portfolio manager since it adopted this status in 2000 and which pursuant to Article 24B of the amended Law of 5 April 1993 allows it to also act as financial advisor, broker and commission agent.

3. FSPs not subject to permanent supervision by the CSSF

For FSPs not subject to permanent supervision, the role of the CSSF is confined to ensuring the application of the general provisions relating to the authorisation of other Luxembourg-registered financial sector professionals, as laid down in articles 13 to 22 of the amended law of 5 April 1993 on the financial sector.

This applies to:

- Credit activities, leasing with purchase option activities, factoring and "bond lending" activities;
- FSPs which collect third-party receivables;
- FSPs which perform cash-exchange operations.

FSPs authorised under general provisions

In 2000, three new FSPs authorised to conduct all financial sector activities under section 1 of chapter 2 of part I of the amended Law of 5 April 1993 on the financial sector, excluding the FSP categories also mentioned in the same chapter, were approved.

- Paragon Mortgages (N° 3) S.A., a subsidiary of Britain's The Paragon Group of Companies Plc; this company is authorised to conduct credit business.
- Paragon Mortgages (N° 4) S.A., a subsidiary of Britain's The Paragon Group of Companies Plc; this company is authorised to conduct credit business.
- Lehman Brothers (Luxembourg) S.A., a subsidiary of America's Lehman Brothers Holdings Inc.; this company is authorised to conduct "stock lending".

4. Freedom of establishment and freedom to provide services for FSPs

• Freedom of establishment

Up to the present, three Luxembourg-registered investment firms have established a branch in another EU country in accordance with the freedom of establishment principle. These firms are Fleming Fund Management (Luxembourg) s. à r. l. which established a branch in Sweden, Creutz & Partners, Global Asset Management S.A. which established a branch in Germany and Le Foyer, Ottaviani & Associés S.A. which established a branch in Belgium.

• Freedom to provide services

In 2000, six Luxembourg-registered investment firms requested authorisation permitting them to offer services freely in one or more EU countries.

The Luxembourg CSSF received 107 requests to freely supply services from investment firms located in other EU countries. Notifications mainly came from the British authorities followed by the Austrian and Dutch authorities.



CHAPTER V

Supervision of securities markets

- 1. Supervision of stock exchanges
- 2. Monitoring of information published by companies admitted to official listing on the Luxembourg Stock Exchange
- 3. Supervision of securities markets: the TAF project
- 4. Surveys conducted by the CSSF in its supervision of securities markets



Karin WEIRICH



Malou HOFFMANN

Pursuant to the Law of 23 December 1998 on the supervision of securities markets, the CSSF has stepped up its monitoring of stock exchanges, public offerings and its investigations into insider trading. The entry into force from 1 January 2000 of the obligation to disclose transactions on financial assets (the TAF project) created the conditions of transparency needed to supervise the markets.

1. Supervision of stock exchanges

Establishing a stock exchange in Luxembourg is subject to the granting of a concession under a Grand Ducal regulation. The only stock exchange currently granted such a concession is the Société de la Bourse de Luxembourg. The CSSF monitors the proper functioning of the market in financial assets and the relevant regulations. It also attends the meetings held by the Board of directors of the Stock exchange authorities.

A. The Luxembourg stock exchange in a context of mergers

Following the ambitious project to merge the Frankfurt and London stock exchanges into a single entity with the participation of the Nasdaq and the attempted hostile take-over bid from Sweden's OM for the London Stock Exchange, the only successful instance of closer stock exchange co-operation to be noted in an eventful 2000 was the alliance of the Paris, Brussels and Amsterdam stock exchanges to form Euronext. In this process of European stock exchange consolidation, the Luxembourg Stock Exchange, after due reflection, decided to maintain its independence, at least in the short term, in view of the specific features of the Luxembourg financial market, preferring to prioritise a strategic agreement rather than a merger.

Against this background, on 16 November 2000 the Luxembourg Stock Exchange signed an agreement with Euronext on cross-membership and cross-access, which replaced the cross-membership agreement signed by the Benelux stock exchanges on 14 December 1998. Members of the Luxembourg Stock Exchange will therefore have access to Euronext's single trading platform while Euronext members will have access to the trading platform of the Luxembourg Stock Exchange. When the agreement was signed, the Luxembourg Stock Exchange comprised 101 members, 36 of which were cross members from the Benelux exchanges.

B. High volume of admissions

During the year under review the Luxembourg Stock Exchange admitted 5,750 new securities to its official price list, increasing the number of listed securities to 19,690. Its market share of listed international debt securities rose to 65%. Over one year, securities listings increased by 15.5%. The number of total securities listed at 31 December 2000 breaks down as follows: 13,679 bonds, 297 stocks and shares, 1,089 warrants and 4,625 investment funds. The volume of transactions rose 12.8% compared with 1999 to total EUR 2,820 million, while the number of transactions

climbed 4.1%. Equity trading was noticeably greater than in the previous year, with Luxembourg equities representing 46.9% of the total in volume terms.

Five new flotations of Luxembourg companies were authorised in 2000: BGL Investment Partners S.A., Le Foyer Compagnie Luxembourgeoise S.A., Upspretta Icelandic Capital Venture S.A., Ventos S.A. and Yeoman International Holdings S.A.

Carole EICHER

C. Public Offerings

Any person wishing to make a public offering of transferable securities or to apply for the admission of these securities to official listing on the Luxembourg stock exchange shall notify the *Société de la Bourse de Luxembourg* which shall immediately inform the *Commission de surveillance du secteur financier*. The *Société de la Bourse de Luxembourg*, under the supervision of the CSSF, is in charge examining the prospectus pursuant to the Grand Ducal regulation of 28 December 1990 on the requirements for the drafting, scrutiny and distribution of the prospectus to be published when transferable securities are offered to the public, or of listing particulars to be published for the admission of transferable securities to official stock exchange listing.

The CSSF has tightened its supervision of prospectuses for the offer of transferable securities to the public in Luxembourg. While these prospectuses are being scrutinised by the Société de la Bourse de Luxembourg, the CSSF receives a copy of the files so that it can handle specific details in relation to the offer. This procedure was introduced in the interests of better investor protection.

In recent years the confirmed interest among investors for transferable securities has led to an increased supply of innovative products available to the general public, e.g. bond issues whose income and/or reimbursement are linked to equities, bonds, indices or other underlying assets. To ensure that private investors are aware of the specific risks inherent in such financial instruments, the description of investment risks requires special attention. Short of a legal or regulatory definition of a public offer of securities, the CSSF assesses the private or public character of offers on a pragmatic basis. It has always deemed that an offer of securities for subscription or sale is public when it is announced in the press. Moreover, the placing at bank counters of issue prospectuses for securities is considered as constituting a public offer, as is information conveyed through circulars or leaflets.

Co-operation with foreign authorities on prospectuses has led to a growing number of cross-border offers for which the different authorities coordinate to monitor information communicated to the public while ensuring the highest standards through mutual recognition. During the year, the CSSF cooperated with almost all the authorities in the European Economic Area, especially with the Belgian Commission bancaire et financière owing to a large number of public offers or public

offers of exchange involving both countries and concerning shares, investment fund units/shares or derivatives such as reverse convertible notes.

2. Monitoring of information published by companies admitted to official listing on the Luxembourg Stock Exchange

A. Monitoring of financial reporting

The Law of 23 December 1998 on the supervision of securities markets lays down the principle of monitoring the disclosure of information by companies admitted to official listing on the Luxembourg Stock Exchange.

The CSSF verifies all financial data submitted to it, in particular the annual and half-yearly reports published by these companies. As part of this mission, the CSSF had to take action in connection with several companies which did not meet the deadlines on the publication of their financial reports or whose interim financial reports were not compiled in accordance with the regulations in force.

B. Reporting of major holdings

The CSSF systematically verifies compliance with the Law of 4 December 1992 on reporting requirements linked to the acquisition or disposal of a major holding.

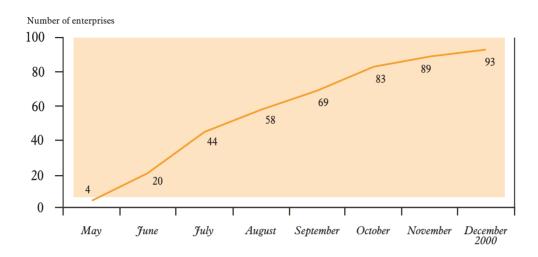
The CSSF noted that the statutory provisions on the reporting of acquisitions and disposals of major shareholdings were not always met. It took action as appropriate.

3. Supervision of securities markets: the TAF project

The TAF project (reporting of transactions on financial assets) derives from the Investment Services Directive 93/22/EEC. This Directive sets standards on the supervision of stock markets by the Supervisors of the different EU member states. These standards were incorporated into Luxembourg legislation through the Law on the supervision of securities markets dated 23 December 1998 and by the Grand Ducal regulation of 23 December 1999 which lays down the terms for the application of this law. 2000 was devoted to the technical and practical implementation of the TAF project.

A. Expansion phase

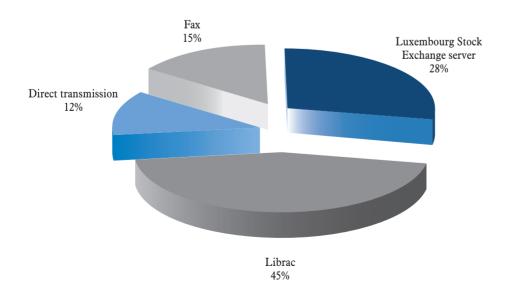
Movements in the number of connections



The above graph records investment firms which report their transactions electronically.

B. Breakdown by method of transmission

The following pie chart breaks down the different transmission methods and frequencies of use.



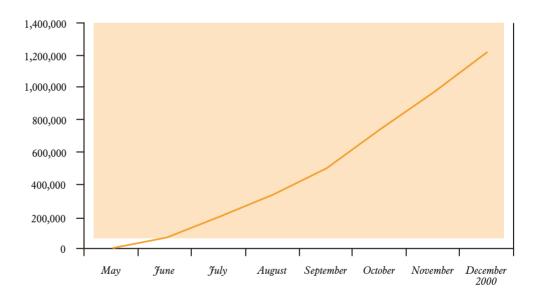
The following electronic transmission methods are used:

- direct connection to the CSSF,
- use of the Luxembourg Stock Exchange server (SBL),
- use of the Librac (Luxembourg Interbank Reporting and Communication) network.

Taking into account non-electronic transmissions (fax), the number of reporting firms totalled 109.

C. Movements in the number of trades reported

On 5 December 2000 the CSSF's central system processed its one millionth trade reporting. A total of some 1,219,000 trades were reported during the year.



D. Origin of trades

The CSSF receives reports on all trades made on the Luxembourg Stock Exchange as well as reports on trades made off-exchange or on another stock exchange. Of all the transactions in 2000, 6% were traded on the Luxembourg Stock exchange.

E. Breakdown of trades by type of instrument

Type of instrument	Number of disclosures
Equities	69.7%
Debt securities	24.6%
Futures	0.8%
Options	1.1%
Warrants	3.5%
Bond warrants	0.3%

All the above data enable the "securities markets" department to monitor trends on the European market and especially on the Luxembourg market. The main purpose of supervising securities markets is to prevent and detect breaches of financial and stock exchange laws and regulations.

4. Surveys conducted by the CSSF in its supervision of securities markets

A distinction should be made between surveys conducted into breaches of stock exchange regulations and investigations into non-compliance with the financial sector rules of conduct laid down in Circular CSSF 2000/15 dated 2 August 2000.

A. Surveys into breaches of stock exchange regulations

The CSSF is the administrative authority qualified to monitor the implementation of the provisions laid down in the Law of 3 May 1991 on insider trading. The aim here is twofold: to ensure fair and equal treatment of investors and ensure protection against the illegal use of insider information.

In its supervision of securities markets, the CSSF either initiates enquiries itself or conducts them in response to a request for assistance from a foreign administrative authority under the terms of an international cooperation agreement.

Enquiries initiated by the CSSF

In the course of 2000, the CSSF initiated an enquiry into a possible breach of the Law of 3 May 1991 on insider trading. Based on the evidence and information received by the CSSF during its investigation, the CSSF decided to file the case with the State Prosecutor under Article 6 paragraph (2) of the said Law. A judicial investigation against persons suspected of illegal insider trading was immediately launched.

In a previous case submitted in 1999 to the State Prosecutor in the same context, the preliminary enquiry conducted by the State Prosecutor failed to uncover sufficient evidence against the suspects to justify the launch of a judicial investigation.

Enquiries conducted by the CSSF on the request of a foreign administrative authority

The number of requests for assistance from foreign authorities in 2000 was slightly higher than in the previous year. In the year under review, the CSSF processed 39 applications for enquiries into illegal insider trading (versus 34 in 1999) of which three were filed by government administrations outside the European Economic Area.

Moreover, the CSSF received requests for assistance from foreign authorities in connection with the manipulation of share prices and fraudulent public offers for transferable securities. The CSSF replied to all requests within its legal competence.

B. Enquiries into non-compliance with the rules of conduct of the financial sector

On 2 August 2000 the CSSF distributed Circular 2000/15 on the rules of conduct of the financial sector to financial sector professions. This Circular aims to explain the principles formulated in Article 37 of the Law of 5 April 1993 on the financial sector

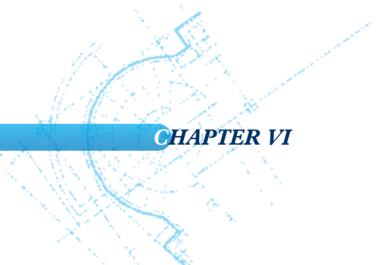
A fair number of these rules seeks to ensure that financial sector professionals act loyally and fairly, in the best interests of their clients and with a view to ensuring the integrity of the market. Principle 1.7. – often quoted by the CSSF concerning non-compliance by financial sector professionals with these rules is worded as follows:

"The professional shall refrain from all actions likely to undermine the transparency of the market and the smooth functioning of market activities. He shall not manipulate the market alone or with others for his own benefit or for the benefit of a third-party through any act or series of acts, failure to disclose information or the distribution of misinformation or rumours through misleading practices or by any other means, without prejudice to the right of intervention by professionals to ensure the good performance of the issuance of securities or to stabilise security prices".

On several occasions the CSSF approached financial institutions which are members of the Société de la Bourse de Luxembourg S.A. to make them aware of their obligations in upholding ethical standards so that they adhere to the abovementioned principles.

In particular, the CSSF took action on so-called compensation operations in connection with which the CSSF began a review to reconsider such operations within their regulatory context.

The system for reporting trades carried out by investment firms proved to be an effective tool during the year. It enabled the enquiry team to obtain the tangible real-time information needed to conduct its investigations. During the year the CSSF also received two requests for assistance on non-compliance with the rules of conduct from state administrations within the European Economic Area. The CSSF responded within the scope of its legal competence.



Customer complaints

Analysis of customer complaints handled during 2000

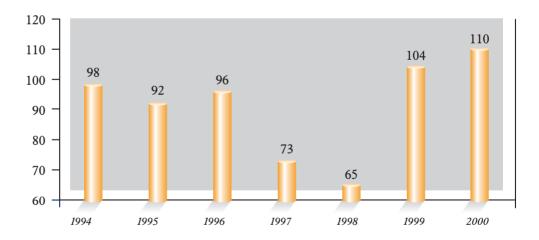
Analysis of customer complaints handled during 2000

The Law confers on the CSSF the task of mediating between customers and the institutions it supervises. Under the terms of article 58 of the amended law of 5 April 1993 on the financial sector, the CSSF "is competent to receive complaints from clients of the persons subject to its supervision and to take action vis-à-vis these persons with a view to reaching an amicable settlement of the dispute."

This analysis shows the complaints lodged with the CSSF against banks and other financial sector professionals and handled by its litigation unit.

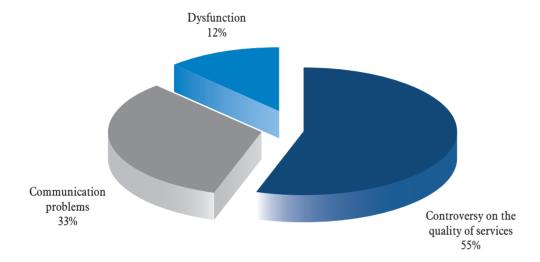
Among the 110 complaints received by the Commission in 2000, 102 concerned banks and 8 concerned other financial sector professionals. 108 were from private persons and 2 from legal entities.

Number of complaints



The total number of banks that were the subject of complaints is stable compared with the period previously studied, numbering 38 against 40 in 1999. A classification of complaints by subject is shown in the diagram below, it being understood that a single complaint may cover several subjects.

Classification of complaints by subject



For the year under review, certain cases drew our particular attention:

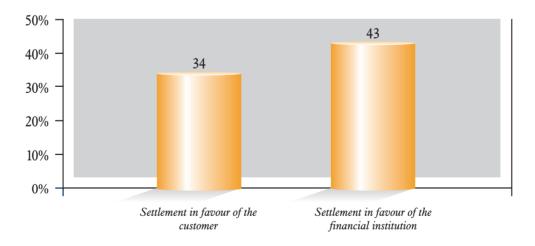
The problem of orders given by telephone, already examined in the previous year, has become particularly acute insofar as the use of telephone and fax were at the centre of cases of embezzlement, whose victims were certain banks and a number of customers of Argentinian nationality. Basically, the scenario varied from case to case but followed an identical plan. Managers received orders from persons presenting themselves as the Argentinian holders of accounts that were either dormant or of limited activity. These orders required the transfer of considerable sums to foreign accounts. Whatever the precautions taken by each of the banks to check the identity of the customer, and in spite of the fact that every bank required a confirmatory fax, each bank subsequently received a complaint from the account holder, denying that he or she had given the transfer order and requiring the immediate restitution by the bank of the amount transferred. Faced with an increase in cases of this type, the CSSF judged it necessary to write to the ABBL advising it to warn its members and reminding them of the precautions to be taken. We note here that special supervision must be implemented for dormant accounts. The execution of a transfer order received for this sort of account must be authorised by a senior manager. Wherever possible the bank should try to contact the customer to verify the order in question, and in any case, given the impossibility of verifying the signature on a fax, it would be prudent for the bank to require confirmation of the order by letter.

During the year under review, there was also a resurgence of complaints based more or less directly on the departure of a manager who then tries, often by exerting pressure, to persuade the customers in his care to follow him to his new employer. The problem occurs in two different forms:

- 1) The customer who does not wish to leave the financial organisation in question complains of being solicited against his will by his former manager and complains that the latter is using confidential data concerning the customer, to which he had access during his period of employment.
- 2) The customer who wishes to follow his manager to the new employer complains that the financial organisation is unnecessarily delaying the transfer of his assets.

Here we consider it helpful to recall that on this point financial sector professionals are required to adhere to the principles set out in circular CSSF 2000/15.

Results of mediation by the CSSF



77 of the complaints received during the period under review were settled; in 34 cases, the dispute was settled in favour of the customer. 33 files are still under review. We must point out that financial sector professionals do not always comply with the considered opinion of the CSSF.

Thus, in the following case:

The manager of a company, wishing to ensure before delivering his goods abroad that payment would be made, asked the advice of his local bank. The bank recommended obtaining confirmation of the transfer of funds from the buyer's bank. The customer took this advice and presented the document to his bank for verification. On receipt of which, the customer made the delivery, only to find that the document received was a forgery. The bank refused to indemnify him, on the grounds that the bank was in no way obliged to provide such service, which was free of charge. Now, while recognising that banks are only obliged to provide general information and advice, and in no way obliged to provide free legal assistance, we consider that, insofar as the bank agrees to provide such assistance, it engages its responsibility and must acquit itself thereof taking all necessary precautions. Although it agreed to make a gesture in this affair, the bank nevertheless refused to fully indemnify the customer.



François HENTGEN

Anne CONRATH

European co-operation in out-of-court mechanisms for redress: public launch of a Cross-Border Out-of-Court Complaints Network for Financial Services

Two meetings were held in 2000 to discuss the Memorandum of Agreement intended to facilitate co-operation between the different out-of-court settlement schemes.

A meeting of the national out-of-court bodies responsible for the settlement of disputes in the financial sector was held in Brussels on 31 January 2001 under the aegis of the European Commission marking the launch of a Cross-border Out-of-Court Network for the settlement of disputes between consumers and providers of financial services.

The initiative taken by the European Commission aims to establish a database of the out-of-court settlement bodies for disputes in the different member states in order to assist consumers in effectively exercising their rights in day-to-day affairs. The Commission is of the opinion that this database will furthermore help to promote the networking and effective collaboration of these bodies with a view to resolving cross-border disputes. On 31 January 2001, 36 bodies were party to the Memorandum of Agreement.

For Luxembourg, the CSSF and the insurance ombudsman established and managed jointly by the Association des compagnies d'assurances (ACA) and the Union luxembourgeoise des consommateurs (ULC) will participate in this cross-border network.

CHAPTER VII

International cooperation: the part played by the CSSF in international groups

- 1. Cooperation within European Institutions
- 2. Multilateral cooperation



Romain STROCK

The law of 23 December 1998 creating the Commission de surveillance du secteur financier (CSSF) appointed it to follow and participate in the negotiations concerning problems involving the financial sector, at both European community and international levels. In accordance therewith, the Commission participates in the work of the following bodies:

1. Cooperation within European Institutions

1.1. Groups attached to the European Commission

A. The Banking Advisory Committee

The Banking Advisory Committee was established by article 11 of the first banking coordination directive (Directive 77/780/EEC). It consists of decision makers of the highest level in the banking supervisory and regulatory authorities of each member state. The committee's mission is to assist the European Commission in the proper implementation of directives and in the preparation of new proposals for directives. In addition to this consultative function, the BAC assumes as part of the executive power of the Commission a regulatory role in the comitology procedure. The committee is not authorised to examine specific problems concerning individual credit institutions.

During 2000, the committee was consulted by the European Commission about a report on financial conglomerates issued by the mixed technical group. On the basis of this report the European Commission will submit a proposal for a directive concerning the supervision of financial conglomerates. During 2000 the committee did not find itself called upon to exercise its role as regulatory body in matters of comitology. As in the past, it was kept informed as to the evolution of supervisory systems and the legislative framework of countries in the process of becoming members of the European Union.

In the course of its general thinking on a review of the regulations concerning own funds, begun in 1998 parallel to the work in progress undertaken by the Basel Committee on Banking supervision, the committee looked closely at the question of choosing the most appropriate legislative approach with regard to capital adequacy, and also at the question of supervisory convergence. The European Commission submitted a second consultative document to the committee for discussion, bearing on a possible revision to the capital adequacy framework. The final document, based on the work of the Basel Committee on banking control and entitled "Second Consultative Document on Review of Regulatory Capital Requirements for Credit Institutions and Investment Firms in the European Union" has been open to public consultation since 5 February 2001. This document concentrates more on particular European Union concerns, specifically the inclu-

sion of investment firms in the field of application of the new regulatory capital framework, and the application of this new framework to all credit institutions and investment firms, irrespective of their size.

The Committee continued to follow the evolution of the banking sector's solvency and profitability in Member states, on the basis of annual reports prepared by the contact group. Additionally, the Committee examined the report developed by the same group on banking difficulties and risk provisioning. As in the past, the Committee closely followed the work in progress in other international groupings that was likely to have an effect on the European banking sector. The Committee was thus kept informed of the work on financial stability being conducted under the aegis of the Committee for Economic and Financial affairs.

B. High Level Securities Supervisors' Committee

Created in 1985 and consisting of the most senior officials of securities supervisors, the Committee meets at regular intervals in its role as consultative committee to the European Commission's Economic and Financial Affairs Directorate General. In particular, the Committee examines the concrete problems encountered during the application of directives and assists the European Commission in defining the directions to be followed with a view to ensuring the optimum development of securities markets in the EU.

During 2000 the Committee examined specific questions concerning the supervision of financial conglomerates and the revision of liquidity ratios. In addition the committee held discussions on the opportunity for modernising the investment services directive and the drafting of a new directive on stock exchange offences other than insider trading.

C. The contact group

The contact group created in 1972 is the source and origin of informal co-operation within the community. The group includes senior representatives of the banking supervisory authorities of the member states. A gathering appreciated for the informal exchanges concerning the situation of individual credit institutions, particularly in case of problems, the group follows the development of national regulations, discusses practical aspects of the prudential supervision of credit institutions and conducts comparative general studies.

During its three meetings in 2000, the contact group broached a considerable number of subjects of particular relevance to the prudential supervision of credit institutions. The group examined those areas in which supervisory convergence in the

practices of the relevant authorities would be particularly desirable. Those practices in connection with the supervisory review should be mentioned in this context.

In accordance with the mandate given by the Banking Advisory Committee the contact group has drafted a document setting out the common principles allowing a uniform application of supervisory review practices at community level. This work has not yet been finished and discussions in this area will continue throughout 2001. Other areas examined by the contact group in the context of convergence in banking supervision bear on provisioning, liquidity risk and cross-border provision of banking services via the Internet.

During its meetings the group also discussed the situations of individual credit institutions, and practical problems bearing on the supervision of certain complex groups and contacts with the authorities of third countries. Various studies were undertaken: a comparative study of the methods used to supervise liquidity risk, another on the rules of conduct in the various member states, and the annual study on the solvency and profitability of credit institutions within the European Economic Area.

D. The Working Group on the Interpretation and Application of the Banking Directives (GTIAD)

The group can be consulted on technical matters by the Banking Advisory Committee and the European Commission; its mission is to examine such questions of interpretation that may arise in the course of the transposition of community directives or their implementation.

The group met three times during 2000. Views were exchanged in particular on questions related to the solvency ratio and own funds directives. The GTIAD discussed the applicability of the 10% preferential weighting allowed for mortgage bonds, by virtue of the transitional provisions of article 63 paragraph 2 of Directive 2000/12/EC. It also examined the question of the freedom to provide services, within the EU, by a branch established in a non-member country by a credit institution based in a member state.

Throughout the year the GTIAD followed the work carried out by a working group established after the first report by the European Commission concerning the application of Directive 89/299/EEC on the own funds of credit institutions. The working group's mission was to re-examine the own funds directive with a view to limiting competition distortions and strengthening the European banking system.

The study focussed on the admissibility of certain hybrid capital instruments in a specific category of capital. Early in 2001 an initial interim report was made to the Banking Advisory Committee.

E. The *ad hoc* group of bodies responsible for receiving consumer complaints about financial services

During a meeting held on 31 January 2001 at the European Commission in Brussels, attended by the national out-of-court bodies for the settlement of disputes in the financial sector, a Cross-border Out-of-Court Network for the settlement of disputes between consumers and providers of financial services was launched (cf. Chapter VI - customer complaints).



Jean-Marc GOY

F. The *ad hoc* group concerned with the application of the directive on cross-border credit transfers and the directive on settlement finality in payment and securities settlement systems

The *ad hoc* group met twice during 2000 and is closely following the progress made in the adoption of Directive 97/5/EC on cross-border credit transfers and Directive 98/26/EC on settlement finality in payment securities settlement systems under the national laws of member states. The group examined questions of interpretation that have arisen during the implementation of the said directives.

1.2. Groups operating at European Union Council level

The CSSF is a participating member of groups working on proposals for directives concerning financial services. The groups of government experts meeting at Council level play an important role in the Community legislative process, since they put the text of the consensus into shape, forwarding only political difficulties to the Permanent Representatives Committee and the Council of Ministers of Finance.

The groups are presided over by a representative of the member state acting as president of the Council. The office of president was thus filled by Portugal during the first half of 2000 and by France during the second half. The list of directives under negotiation at Council level and a brief description thereof can be found in chapter VIII.

1.3. The Banking Supervision Committee of the European Central Bank

The Banking Supervision Committee of the European Central Bank, which succeeded the subcommittee on banking supervision following the creation of the European Central Bank on 1 July 1998, is a committee composed of representatives of the banking supervisory authorities and the central banks of the member states. The missions concerning prudential supervision conferred by the Treaty and the statutes of the European Central Bank to the ECBS (European Central Banking System) are carried out by the Banking Supervision Committee on behalf of the ECBS.

Apart from its consultative role concerning proposals for directives and the various draft laws by member states affecting matters within its competence, the Banking Supervision Committee has developed, jointly with the committee on payment and securities settlement systems, a multilateral Memorandum of Understanding (MoU), setting out the guidelines for cooperation between banking supervision authorities and the authorities responsible for the supervision of payment systems. Such an agreement is motivated in particular by concerns for financial stability within the new institutional context created by the euro. The practical aspects concerning the introduction of euro notes and coins in 2002 were, in addition, the subject of exchanges of views throughout the year.

The Banking Supervision Committee also examined the question of the role it should play in matters of supervisory convergence. It was thus agreed that its priorities should remain within the strict bounds of its competence, i.e. the study of convergence purely on the level of macro-prudential and structural changes in the financial sector.

2. Multilateral cooperation

2.1. The Basel Committee on Banking Supervision

During 2000 the Basel Committee concentrated its work on finalising a new capital adequacy framework, begun in June 1999. Taking account of the results of the initial consultative proposal, the Committee presented three general documents, "Overview of the new Basel Capital Accord", "The new Basel Capital", "The new Basel Capital Accord: an explanatory note" setting out more concrete proposals and inviting the interested parties to make known their comments by 31 May 2001. Seven supporting documents ("The standardised approach to credit risk", "The internal ratings based approach", "Asset securitisation", "Operational risk", "Pillar 2: Supervisory review process", "Principles for the management and

supervision of interest rate risk", "Pillar 3: Market discipline", "Criteria in defining exceptional treatment of commercial real estate lending") are also part of this second consultative package. The Committee envisages that the new agreement will be published in its final form around the end of 2001 and implemented in 2004.

Although the new framework is primarily focused on major international banks, its basic principles are intended to be suitable for application to banks of varying levels of complexity and sophistication. The provisions offer a range of options from simple to advanced methodologies for the measurement of both credit risk and operational risk in determining capital levels.

The new agreement provides a flexible structure in which banks, subject to supervisory review, will adopt approaches that best fit their level of sophistication and their risk profile. The framework also expressly builds in rewards for stronger and more accurate risk measurement.

In general terms, the framework intends to provide approaches that are both more comprehensive and more sensitive to risk than the 1988 Accord, while maintaining the overall level of regulatory capital. Capital requirements that are more in line with underlying risks will allow banks to manage their businesses more effectively. The Committee believes that the benefits of a regime in which capital is aligned more closely to risk significantly exceed the costs, since it should result in a safer, sounder and more efficient banking system.



Guy HAAS

The new Accord is based on the following three pillars:

First pillar: minimum capital requirement

The first pillar sets out minimum capital requirements. The new framework maintains the current definition of capital and the minimum requirement of 8% of capital to risk-weighted assets. To ensure that risks within the entire banking group are considered, the new Accord will be extended on a consolidated basis to holding companies of banking groups.

The revision of the 1988 Accord focuses primarily on improving the measurement of risk, that is to say the calculation of the denominator of the capital ratio. The credit risk measurement methods are more elaborate in the new Accord. The new framework proposes, for the first time, a measure for operational risk, while the market risk measure remains unchanged.

a) Credit risk

As regards credit risk, two major options are being proposed: the standardised approach, and the internal rating based (IRB) approach. There are two variants of the IRB approach, foundation and advanced. The use of the IRB approach will be

subject to approval by the supervisor, based on the standards established by the Committee.

Conceptually, the standardised approach is identical to the approach in the 1988 Accord, but is more risk sensitive. The bank allocates a risk-weight to each of its assets and off-balance sheet positions, and produces a sum of risk-weighted values. At present the risk-weights are fixed according to the broad category of borrower (sovereigns, banks or corporates). The new Accord intends to refine these categories by reference to rating provided by an external credit assessment institution (such as a rating agency).

Under the internal rating based approach, banks will be able to use their internal estimates of borrowers creditworthiness to assess credit risk in their portfolios, subject to strict methodological and disclosure standards. Distinct analytical frameworks will be provided for different types of exposure, for example corporate and retail lending.

Under the IRB approach, an institution estimates each borrower's creditworthiness and the results are translated into estimates of a potential future loss, which serves as the basis of minimum capital requirements. The framework allows for two methodologies, the foundation approach and the advanced approach, for corporate, sovereign and bank exposures. In the foundation approach, the financial institution estimates the probability of default associated with each borrower, and the supervisor supplies the other data. In the advanced approach, an institution with a sufficiently developed internal capital allocation process will be permitted to supply other data as well. Under both approaches, the range of risk weights will be far greater than those in the standardised approach, resulting in greater risk sensitivity.

The new framework introduces more risk sensitive approaches to the credit risk mitigation techniques, such as guarantees (real and personal), credit derivatives, netting and securitisation, under both the standardised and the IRB approach.

b) Operational risk

The 1988 Accord set a capital requirement solely in terms of credit risk, even if the overall requirement (i.e. the 8% minimum ratio) was also intended to cover other risks too. In 1996, market risk exposures were removed and given separate capital charges. In its attempt to introduce greater credit risk sensitivity, the Committee consulted the industry regarding the implementation of a suitable capital charge for operational risk (for example, the risk of loss from computer failures, poor documentation or fraud). The major banks now allocate 20% or more of their internal capital to operational risk.

Work in this field is still in progress, but three approaches (in order of increasing sophistication: basic indicator, standardised and internal measurement) have been identified. The first approach uses one indicator of operational risk for all the activities of an institution. The second allocates different indicators to different business lines. In the third approach, the internal loss data are used in the estimation

of the required capital. On the basis of work completed to date, the Committee expects operational risk to constitute some 20% of the overall capital requirements under the new framework.

Second pillar: supervisory review process

The supervisory review process requires supervisors to ensure that each institution has sound internal procedures in place to assess its capital adequacy on the basis of a thorough evaluation of the risks to which it is exposed. The new framework stresses the importance of bank management developing an internal capital assessment process and setting targets for capital that are commensurate with the particular risk profile of their institution and its control environment. Supervisors will be responsible for judging whether banks are succeeding in correctly assessing their capital adequacy needs relative to their risks. They will subsequently subject this internal process to a supervisory review and could, where necessary, be led to impose modifications.

Third pillar: market discipline

Market discipline, the third pillar of the new framework, will be reinforced by enhanced disclosure by banks. Effective disclosure is essential to ensure that market participants better understand banks' risk profiles and the adequacy of their capital positions relative to these risks. The new framework sets out disclosure requirements and recommendations in several areas, in particular the calculation of capital adequacy and methods of risk assessment.



Davy REINARD



Marie-Anne VOLTAIRE

Other work undertaken by the Basel Committee

The Basel Committee has in addition published a number of documents:

- the report "Banks' Interactions with Highly Leveraged Institutions: implications of the Basel Committee's Sound Practices paper" (January 2000) is based on a study into the response by banks to the recommendations formulated in January 1999 by the Committee in its paper, "Sound Practices for Banks' Interactions with Highly Leveraged Institutions"; these recommendations were the consequence of the default of the LTCM hedge fund in September 1998; the report concludes that by and large banks seem to have considerably reduced their exposures to such institutions;
- the document "Sound Practices for Managing Liquidity in Banking Organisations" (February 2000) presents an array of sound practices for ensuring good liquidity management;
- the report "Basel Committee review of international accounting standards" (April 2000) presents the findings and conclusions of the Committee on its review of International Accounting Standards;
- the consultation document "Internal audit in banking organisations and the relationship of the supervisory authorities with internal and external auditors" (July 2000) underlines the importance of the internal audit function in credit institutions and relationship between the banks' supervisors, internal auditors and external auditors; the audit function has an important role to play in a bank's internal capital assessment process; effectively, the auditors' work in this respect could provide additional support for the supervisory authorities in their prudential supervision of capital adequacy;
- the document "Principles for the Management of Credit Risk", (September 2000) establishes the principles to be applied to all activities where credit risk is present, and which should be used by supervisors in assessing a bank's credit risk management system;
- the document "Supervisory Guidance for Managing Settlement Risk in Foreign Exchange Transactions" (September 2000) provides the broad outlines for banking supervisors to follow in their control of procedures for managing settlement risk in foreign exchange transactions;
- the report entitled "EBG's phase I report on risk management issues and cross-border supervisory considerations arising from e-banking developments", published in October 2000 by the Electronic Banking Group (EBG), lists and assesses the major risks associated with e-banking and concludes that they fall into the following risk categories: legal, operational, cross-border, strategic, reputation, credit, market and liquidity;
- the document entitled "Customer due diligence for banks" (January 2001) is intended to guide banks and supervisory authorities in their rules of conduct regarding the identification and monitoring of their customers.

2.2. The XXVth Annual Conference of the IOSCO

The regulatory authorities of the financial and futures markets met in Sydney from 14 to 19 May 2000 on the occasion of the XXVth annual conference of the International Organisation of Securities Commissions (IOSCO).

The theme of the conference was "Global Markets - Global Regulation" and the conference provided an opportunity for participants to discuss the regulatory challenges posed by today's rapidly expanding markets; challenges characterised by changing market structures, market alliances, the new economy and technological advances. The implementation of the working programme of the IOSCO, in particular the objectives and principles of financial regulation, aimed at producing a concerted response to these challenges, thereby reinforcing the protection of investors, confidence in the markets and financial stability in the world.

The annual conference in Sydney was marked by the announcement of a specific result of particular importance to the international financial community. After nearly ten years' work in conjunction with the International Accounting Standards Committee, the members of the IOSCO approved a resolution recommending the use of 30 IASC standards for cross-border offerings and listings. This decision makes an essential contribution to raising the quality of financial reporting worldwide. Effectively, the use of harmonised accounting standards will enable economic players to conduct their international strategies on the basis of a single set of accounts.

IOSCO Task Forces

Task Force no. 1

The objective of Task Force no. 1 is to promulgate international norms for information, offering multinational issuers a reference framework for their prospectuses with a view to facilitating offerings and listings in several countries. Since the annual accounts are an integral part of any prospectus, it is clear that Task Force no. 1 can make a valuable contribution to internationally recognised accounting standards.

During the year IOSCO Task Force no. 1 finalised its analysis of accounting standards developed by the IASC. The final report is at the base of the IOSCO's decision to recommend that its members permit the use of these standards by multinational issuers wishing to obtain a listing in several countries.

In addition, the Task Force has begun a comparable process with regard to a review of International Standards on Auditing. Subject to acceptance of the project by the IOSCO Technical Committee, the review as such will begin during the second half of 2001. Parallel to the examination of developments in the fields of international accounting and auditing, the Task Force has carried out a comparative study of the

state of implementation of the International Disclosure Standards developed by the IOSCO.

Task Force no. 5

In 2000, the task force finalised the three documents "Principles and Best Practice Standards on Infrastructure for Decision Making for CIS Operators", "Delegation of functions" and "Conflicts of interests of CIS operators". In addition, the Task Force developed a document entitled "The role of investor education in the regulation of CIS and CIS operators" and has continued its work on a study aimed at simplified prospectuses. Finally, the group has begun to consider thoughts on the setting up of common criteria in the area of investment fund risk assessment.

2.3. FESCO and FESCO Working groups

Officially instituted by a charter that was adopted in December 1997, FESCO ("Forum of European Securities Commissions") assembles seventeen Statutory Securities Commissions of the European Economic Area. The fundamental objective of cooperation of supervisors within FESCO is to work towards the construction of a single European market for financial services in support of the actions taken in this field by the European Community. In broader terms the objective is to assure investor protection, and the efficiency, integrity and transparency of markets, together with the global security of the financial system.

At the beginning of 2000, FESCO opened a public web site at <u>www.europefesco.org</u> where the documents referred to below are available.

Under the European Commission's action plan for financial services, FESCO has developed concrete proposals for European directives in various priority areas, in particular cross-border public offerings. The goal aimed at by the document "A European Passport for Issuers" is to provide an issuer with a European passport that will enable it to make a public offering or apply for listing on a regulated market in all the member states of the European Economic Area by simple notification and based on a single prospectus approved by the authorities of the issuer's member state of origin. To this end, the prospectus could be separated into two documents: a Registration Document registered with the authority of the member state of origin and valid for one year, containing the information about the issuer, and an operational memorandum Securities Note describing the securities involved and the terms and conditions of the offer.

Similarly in response to the call from the European Commission, the **Market Abuse** group published a document setting out proposals for the creation of a harmonised European regulatory framework to fight against market abuses. This innovative document, itself entitled "**Market Abuse**", initially establishes the notion of market abuse and proceeds to advocate greater convergence of administrative powers to investigate and sanction.

In close collaboration with this group, continuing the work that resulted in the establishment in 1999 of common rules of conduct for participants in an offering, the **Primary Markets Practices** group published a consultative document in September 2000, entitled "**Stabilisation and Allotment – A European Supervisory Approach**". This document sets out a harmonised regulatory treatment of price stabilisation practices in the context of an offering of transferable securities, and a European code on the allotment of equity issues during a public share offering.

After establishing standards for regulated markets, FESCO continued its work on market controls by studying the effects of the emergence of alternative trading systems (ATS). A report has been published identifying the risks and advantages associated with alternative trading systems and listing their legislative treatment. The group will concentrate its future work on developing common standards for alternative trading systems operated by investment firms.

At the beginning of the year the **Investor Protection** group reached agreement on the document "Categorisation of Investors for the Purpose of Conduct of **Business Rules**" which provides criteria and procedures to implement appropriate differentiation between categories of investors. This categorisation procedure allows account to be taken of the principle established by the Investment Services Directive concerning, i.e. that the different categories of investor have different needs with regard to their protection and the application of rules of conduct.

The consultative paper "Standards and Rules for Harmonising Core Conduct of Business Rules for Investor Protection" (December 2000) established common standards for rules of conduct governing relations between an investment company and a client with the aim of ensuring adequate and complete protection for the investor throughout the investment cycle.

Finally, the FESCO work plan led to the creation of a new group entitled "Expert Group on Accounting" and responsible for harmonising the implementation of the International Accounting Standards at European level for the accounts of listed companies with the aim of promoting high disclosure standards and reinforcing coordination in this matter between the various market supervisory authorities.

FESCOPOL

FESCO has set up a network of senior officials of each Authority. Named FESCOPOL, this network is responsible for facilitating exchanges of information and co-ordinating the organisation of investigations into breaches of stock exchange rules.

FESCOPOL met three times during 2000 and has continued to draft and standardise of requests for information in such a way as to satisfy both the requesting authority in its need for information and the responding authority in its deployment of resources for gathering the necessary information. Furthermore, since FESCO's member regulators are not always the competent authority for launching investigations into breaches of stock exchange rules, FESCOPOL is looking into whether it can accept these regulators as members of FESCOPOL.

2.4. Informal groups

The enlarged informal contact group "Undertakings for Collective Investment"

The CSSF took part in the annual meeting of the enlarged informal contact group "Undertakings for Collective Investment" that was held from 4 to 6 October 2000 in Amsterdam. The aim of this contact group is to institute regular, multinational focus on problems arising with regard to the regulation and supervision of undertakings for collective investment. The group brings together the Supervisors of 26 different jurisdictions.

CHAPTER VIII

Banking and financial regulations and legislation

- 1. List of proposals for directives under discussion at Council level
- 2. List of directives adopted by the European Parliament and the Council but not yet implemented under national legislation
- 3. Other draft laws submitted
- 4. Laws passed in 2000
- 5. Regulations concerning stock exchange activities
- 6. Circulars issued in 2000
- 7. Circulars in force (as of 21 March 2001)



Isabelle GOUBIN

1. List of proposals for directives under discussion at Council level

The CSSF participates in the groups examing the following proposals for directives:

A. Proposal for a directive concerning the distance marketing of consumer financial services

On 19 November 1998 the European Commission submitted proposals for a directive concerning the distance marketing of consumer financial services to the Council.

The scope ratione personae of the proposal includes all financial services providers. Its objective is to define a harmonised legal framework to cover the conclusion of financial service contracts at a distance, so as to establish an appropriate level of consumer protection in all member states and thereby encourage cross-border sales of financial products and services. To this effect the proposal introduces the obligation for suppliers of financial services to inform the consumer of the essential elements of the contract. Since 1998 this directive has been one of the priority legislative proposals in the European Commission's financial services action plan. There is no progress to report in the discussions.

B. The amended proposal for a directive concerning the reorganisation and winding-up of credit institutions

During its meeting on 8 May 2000, the Ecofin Council adopted a common position with regard to the proposal for a directive concerning the reorganisation and winding-up of credit institutions. The discussions, which had been suspended in 1996, were restarted under the Finnish presidency of the Council during the second half of 1999, and resulted in a compromise text that was forwarded to the European Parliament. The compromise text takes into account the numerous directives adopted since 1985 concerning credit institutions, of which the latest, Directive 98/26/EC, concerns settlement finality.

The directive is the natural continuation of the first and second banking coordination directives. Whereas these directives dealt with taking up and pursuit of banking business, this amended proposal refers to the measures to be taken in the event of solvency problems concerning a bank, and in particular to cooperation between supervisory authorities in the Community at times of crisis. Like the framework directives, this amended proposal maintains the principle of the supervisory and jurisdictional competence of the authorities at the site of the registered office and the application of measures drawn up by the home Member State. The section on re-organisation establishes the exclusive competence of the prudential or legal authorities of the home Member State. The measures taken by the authorities in the home country produce their effects on the territory of the host country. The sec-

tion on winding-up affirms the principle of the unity and universality of bank-ruptcy. The directive aims at organising the winding-up of credit institutions by confirming the exclusive competence of the jurisdictions of the home country of the credit institution (application of *lex fori*), and by enabling decisions taken by these jurisdictions to be of full effect in other member states. It is not possible for secondary liquidation procedures to be opened in host member states, even if such procedures have only territorial effect. The application of the bankruptcy law of the country of the registered office as a matter of principle has the merit of assuring equal treatment for all the creditors of the defaulting institution.

Finally the directive institutes procedures for the exchange of information between the authorities of the member states concerned, and clearly determines the legislation to be applied in certain specific cases, e.g. with regard to the transactions carried out and the procedures applicable within a regulated market.



Marc WEITZEL

C. Proposal for a directive on the activities of institutions for occupational retirement provision

On 11 October 2000 the European Commission submitted a proposal for a directive on the need for minimum harmonisation of supervisory standards for institutions for occupational retirement provision (IORPs), mutual recognition of supervisory authorities and the introduction of a European passport operating on the principle of the freedom to provide services (cf. chapter III, supervision of pension funds).

D. Proposal for a directive amending Directive 85/611/EEC with a view to regulating management companies and simplified prospectuses

The proposal focuses on the introduction of the following principles:

- the alignment of regulations covering management companies with the rules applicable to other financial service operators (banks, investment firms, insurance companies), in such a way as to enable them to create branches in other member states and operate everywhere within the EU in accordance with the freedom to provide services;
- the possibility for management companies to provide portfolio management services for individual customers (private persons or institutional investors such as pension funds) and certain specific non-core services linked to the core service;
- the introduction of simplified prospectuses.

Discussions concerning the proposal continued during 2000. They focused on fundamental points such as the capital requirements applicable to management companies, the delegation of management functions and the application of equivalent operating conditions for undertakings for collective investment and investment firms.

E. Proposal for a directive amending Directive 85/611/EEC concerning certain UCITS

The proposal envisages the extension of the European passport to undertakings for collective investment that invest in financial assets other than transferable securities, such as shares in other UCIs ("funds of funds"), money market instruments and bank deposits as well as UCITS tracking a stock exchange index. It also aims at greater flexibility in the rules for using derivative instruments. Discussions at the level of the group "Economics questions/UCITS" continued in 2000. A political agreement at Council level concerning this proposal was obtained on 17 October 2000. Adoption of the directive is expected in 2001.

2. List of directives adopted by the European Parliament and the Council but not yet implemented under national legislation

The list below sets out the directives adopted by the European Parliament and the Council and which are the subject of a draft law placed before the Chamber of Deputies, or a preliminary draft under discussion in committees operating within the Commission de surveillance du secteur financier or still in course of being adopted via the CSSF.

Directive 2000/28/EC of the European Parliament and of the Council of 18 September 2000 amending Directive 2000/12/EC relating to the taking up and pursuit of the business of credit institutions, and Directive 2000/46/EC of the European Parliament and of the Council of 18 September 2000 on the taking up, pursuit of and prudential supervision of the business of electronic money institutions

The two directives, the provisions of which must be adopted under Luxembourg law on 27 April 2002 at the latest, are designed to specify the rules concerning the taking up and pursuit of the business of electronic money institutions in the European Community. Electronic money means prepaid cards and money stored on an electronic device, where the value stored electronically is accepted as means of payment by businesses other than the issuing institution. The relevant legislative framework is defined in the two complementary directives.

• The first directive modifies the definition of "credit institution" appearing in the consolidated directive 2000/12/EC on banking so as to include therein the business of an electronic money institution. This change has two consequences: first it subjects the electronic money institutions to a European Community prudential supervisory regime applicable to banks and grants them a European passport; secondly it subjects these institutions to the minimum reserve requirements of the European Central Bank.

• The second directive is designed to adapt the supervisory regime applicable to banks with regard to the special character of electronic money institutions. Electronic money institutions are subject to less onerous requirements for initial capital and ongoing own funds. They must have honourable and competent managers and may exercise a limited list of ancillary activities. The directive specifies rules limiting the investment possibilities open to electronic money institutions; the funds received in return for the electronic money issued can only be invested in liquid, low-risk assets. The Directive also envisages the possibility, under certain conditions, for member states to exclude electronic money institutions of reduced size from the field of application.

3. Other draft laws submitted

Draft law no. 4588 amending the law of 23 December 1998 creating a supervisory commission for the financial sector. This draft law proposes a number of amendments to the provisions of the law of 23 December 1998 concerning personnel by allowing wider derogations from the general status of civil servant.

Draft law no. **4695 concerning the circulation of securities and other financial instruments**. This draft law proposes broadening the scope of application of the Grand Ducal regulation of 17 February 1971 concerning the circulation of transferable securities to include a new definition of securities and of custodians. In addition it proposes increasing the attraction of the Luxembourg financial centre for foreign depositors by relaxing the rules for the constitution and realisation of pledges.

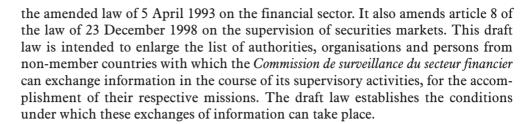
Draft law no. **4696 concerns the transfer of title as collateral** and amends and completes the laws of 21 December 1994 concerning repurchase operations by credit institutions, of 5 April 1993 on the financial sector, and of 21 June 1984 on futures markets in which credit institutions operate. The object of the draft law is to ensure the validity and enforceability in respect of third parties of transfers of title as collateral for securities, in particular in cases of bankruptcy. The creditor will thus be able to realise his collateral by way of contractual compensation notwithstanding any composition or restructuring. In order to maintain the coherence of legal texts applicable to the financial centre, the draft law also proposes adapting the provisions, in particular those dealing with compensation, contained in the amended law of 5 April 1993 on the financial sector.

Draft law no. 4703 amends certain provisions of the law of 8 June 1999 creating pension funds in the form of pension savings companies with variable capital (Sepcav) and pension savings associations (Assep). (cf. chapter III, supervision of pension funds).

Draft law no. 4708 brings into force the provisions of article 1 of Directive 98/33/EC which amends Directives 77/780/EEC, 89/647/EEC and 93/6/EEC in



Danielle MANDER



Draft law no. 4721 proposes the introduction of a new regulation for **fiduciary contracts**. While the primary objective of this draft law is to authorise the ratification of the Convention concerning the law applicable to trusts and their recognition, it also aims at reforming the current legal provisions governing fiduciary contracts agreed with credit institutions on the basis of the Grand Ducal regulation of 19 July 1983. The proposed reform acts firstly to harmonise the trust and the fiduciary instrument and secondly proposes to adapt the fiduciary contract regime by enlarging the list of professionals able to act as fiduciaries.



Michel HEINTZ

4. Laws passed in 2000

A. Law of 22 June 2000 amending certain provisions specific to banks issuing mortgage bonds in the law of 5 April 1993 on the financial sector

The law reinforces the protection of bearers of mortgage bonds in the event of the collective liquidation of the issuing bank (cf. Chapter I.4, Supervision of banks)

B. Law of 27 July 2000 implementing the provisions of Directive 97/9/EC concerning investor compensation schemes in the amended law of 5 April 1993 concerning the financial sector

The law completes the provisions instituted by the law of 11 June 1997 introducing a legal framework for a guarantee scheme for cash deposits (cf. Chapter I.4, Supervision of banks)

C. Law of 17 July 2000 amending certain provisions of the law of 30 March 1988 on undertakings for collective investment

The law introduces technical changes concerning the liquidation status of investment funds by establishing the legal validity of share redemption even after the

event leading to liquidation of the investment fund has occurred, provided equal treatment of all shareholders can be assured. In addition the law proceeds to a more substantial amendment of article 89, concerning the conditions applicable to an investment fund auditor. Furthermore, article 111 introduces a provision whereby, in the absence of stipulations to the contrary in the investment fund's Articles, the assets of a given subfund may only be offset against the debts, undertakings and obligations of that specific subfund. Finally, by virtue of the provisions contained in article 108, a subfund reserved for institutional investors and created within an investment fund subject to the law of 30 March 1988 may benefit from the reduced rate of subscription tax of 0.01% which would apply had it been created as an institutional fund under the law of 19 July 1991.



Pascale FELTEN-ENDERS

D. Law of 15 December 2000 on postal services and postal financial services

The law subjects the business of the *Postes et Télécommunications*, insofar as it provides postal financial services, to the regime of authorisation and supervision governing the financial sector. The law confers competence on the *Commission de surveillance du secteur financier* to exercise prudential supervision over the financial service activities of the *Postes et Télécommunications*. This supervision is concerned more particularly with verifying compliance with the legal and regulatory provisions, namely, the conditions of authorisation, quantitative and qualitative prudential standards, and professional obligations in particular concerning the prevention of money laundering and rules of conduct.



Iwona MASTALSKA

E. Law of 12 January 2001 implementing the provisions of Directive 98/26/EC on settlement finality in payment and securities settlement systems in the amended law of 5 April 1993 and completing the law of 23 December 1998 creating a supervisory commission for the financial sector

The law, as its title implies, consists of two sections; a first section bringing the European directive into force under national law, and a second section, corollary to the first, that completes the law of 23 December 1998 creating a supervisory commission for the financial sector. First of all the law introduces a new category of financial sector professional, i.e., the profession of operator of payment or securities settlement systems. The law establishes the principle of the irrevocability of transfer orders introduced into a system and accepted by it. A transfer order accepted by the system cannot, therefore, be revoked, cannot be the object of a demurrer and the assets necessary to its execution cannot be seized, either by the parties in dispute or by a third party. This does not rule out the possibility of bringing of proceedings for repayment or restitution concerning a transaction contested for undue or fraudulent payment. But such proceedings cannot be brought against the payment or settlement system; they must be brought outside the system, between the

principal, the beneficiary and any interested third party. Furthermore the law eliminates the retroactive effect of the "zero-hour rule", as found in Luxembourg bankruptcy law. This rule carries back the effects of the decision to begin insolvency proceedings to the first hour of the day that insolvency is pronounced. Abolition of the zero-hour rule means that even in the event of insolvency proceedings against a participant in the system, transfer orders and clearing produce their legal effects between parties and can be enforced in respect of third parties on condition that the transfer orders were introduced into the system before the moment at which the proceedings were opened. For this reason the law requires the operating rules of a system to fix precisely the moment at which a transfer order can no longer be revoked by a participant in the system or by a third party.

Additionally the law provides that in the event of insolvency proceedings being brought against a foreign participant in the system, the rights and obligations inherent by virtue of its participation in the system shall be determined in accordance with the legislation of the country whose law is applicable to the system. Finally, the law introduces an optional regime of authorisation and prudential supervision of payment and securities settlement systems. However, only systems that have been officially authorised and that are subject to supervision by the CSSF are entitled to benefit from the legal protection provided for in the law. To obtain such authorisation, the systems must have an operator authorised to exercise his profession in Luxembourg. As the CSSF is competent for the prudential supervision of the activities of financial sector professionals, it was necessary to complete the law of 23 December 1998 creating the said commission so that the CSSF was given powers to supervise the new profession of systems operator in addition to the systems themselves.

5. Regulations concerning stock exchange activities

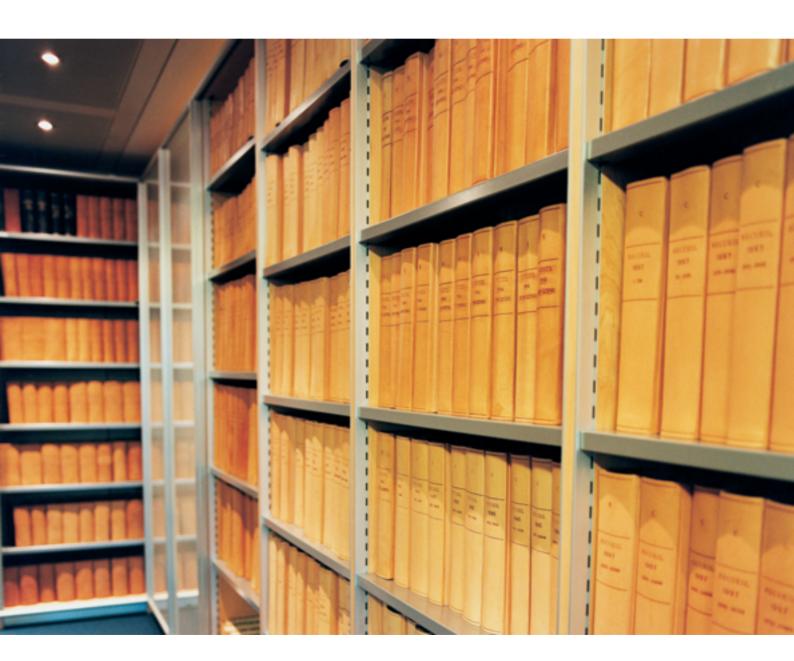
The ministerial ruling of 16 February 2000 approved an amendment to the internal regulations of the *Société de Bourse de Luxembourg* allowing credit institutions or financial institutions from non-member states of the European Economic Area to execute orders for officially listed financial instruments and assets in addition to trading such securities for their own account.

6. Circulars issued in 2000

During 2000, 16 circulars were issued by the CSSF. In particular the following should be noted:

- Circular 2000/10 specifying capital ratios in application of article 56 of the amended law of 5 April 1993 on the financial sector
- Circular 2000/15 specifying the rules of conduct for the financial sector

- Circular 2000/21 completing circulars IML 94/112 and BCL 98/153 on combating money laundering and the prevention of the use of the financial sector for the purposes of money laundering
- The CSSF also issued a circular letter with a view to taking a census of financial services on Internet.



7. Circulars in force (as at 21 March 2001)

A. Circulars issued by the Commissariat au Contrôle des Banques

Number	Date	Object
B 83/6	16.03.1983	Participating interest held by credit institutions

B. Circulars issued by the Institut Monétaire Luxembourgeois

Number	Date	Object
84/18	19.07.1984	Futures markets (law of 21 June 1984)
86/32	18.03.1986	Control of the annual accounts of credit institutions
88/49	08.06.1988	New legal provisions concerning controls carried out by auditors
89/60	14.12.1989	New legal provisions on the audits conducted by auditors of the annual accounts of credit institutions
91/75	21.01.1991	Revision and recasting of rules governing Luxembourg undertakings covered by the law of 30 March 1988 on undertakings for collective investment
91/78	17.09.1991	Terms of application of article 60 of the amended law of 27 November 1984, regulating private portfolio managers
92/85	19.06.1992	New compilation of instructions to banks
92/86	03.07.1992	Law of 17 June 1992 concerning the accounts of credit institutions
92/87	21.10.1992	Reporting to be supplied by other financial sector professionals
92/88	30.11.1992	Certain periodic data to be supplied by credit institutions under Luxembourg law and by branches of banks originating from a country outside the EEC
93/92	03.03.1993	Computerised transmission of periodic data
93/94	30.04.1993	Entry into force for banks of the law of 5 April 1993 on the financial sector
93/95	04.05.1993	Entry into force for other financial sector professionals of the law of 5 April 1993 on the financial sector
93/99	21.07.1993	Provisions for Luxembourg credit institutions wishing to exercise banking activities in other EEC countries through the establishment of branches or under the freedom to provide services

Number	Date	Object
93/100	21.07.1993	Provisions for credit institutions of Community origin exercising banking activities in Luxembourg through branches or under the freedom to provide services
93/101	15.10.1993	Rules concerning the organisation and internal control of the market activity of credit institutions
93/102	15.10.1993	Rules concerning the organisation and internal control of the activities of brokers or commission agents exercised by other financial sector professionals
93/104	13.12.1993	Definition of a liquidity ratio to be observed by credit institutions
93/105	13.12.1993	Introduction of table 4.5. "Shareholder Composition"
94/109	08.03.1994	Allocation of responsibilities for the establishment of equipment for transmitting computerised data to the IML
94/112	25.11.1994	Measures to combat money laundering and prevention of the use of the financial sector for the purposes of money laundering
94/113	07.12.1994	Explanation of various questions on accounting - treatment of premiums and discounts on transferable securities, repurchase agreements, spot and forward transactions, and definition of "multilateral development banks"
		A complement to the Compilation of instructions to banks
95/116	20.02.1995	Entry into force of:
		- the law of 21 December 1994 amending certain legal provisions concerning the transfer of claims and pledging
		- the law of 21 December 1994 concerning repurchase agreements transacted by credit institutions
95/118	05.04.1995	Treatment of customer complaints
95/119	21.06.1995	Rules for the management of risks linked to derivatives transactions
95/120	28.07.1995	Central administration
96/123	10.01.1996	Staff numbers (new table S 2.9.)
96/124	10.01.1996	Staff numbers (new table S 2.9. for other financial sector professionals)
96/125	30.01.1996	Supervision of credit institutions on a consolidated basis
96/126	11.04.1996	Administrative and accounting organisation

Number	Date	Object
96/129	19.07.1996	The law of 9 May 1996 on the netting of claims in the financial sector
96/130	29.11.1996	Calculation of a simplified ratio in application of circular IML 96/127
97/134	17.03.1997	Provision for the cost of migration to the euro for banking systems
97/135	12.06.1997	Transmission of supervisory data and statistics by telecommunications media
97/136	13.06.1997	Financial information for the IML and Statec
97/137	31.07.1997	Updating the Compilation of instructions for banks Report 1.4.: integrated ratio / simplified ratio Report 3.2.: Details of calculation of the overall capital requirement
97/138	25.09.1997	New collection of statistical data with a view to the Economic and Monetary Union
98/142	01.04.1998	Financial data to be supplied periodically to the IML
98/143	01.04.1998	Internal control
98/144	10.04.1998	New collection of statistical data from undertakings for collective investment in money market paper with a view to the Economic and Monetary Union
98/146	14.05.1998	Updating the Compilation of instructions for banks: Report 6.4.: consolidated integrated ratio / consolidated simplified ratio Report 7.3.: Details of calculation of the consolidated overall capital requirement
98/147	14.05.1998	Provisions for EC investment firms exercising their activities in Luxembourg through branches or under the freedom to provide services
98/148	14.05.1998	Provisions for Luxembourg investment firms wishing to exercise their business in other EC countries through the establishment of branches or under the freedom to provide services
98/149	29.05.1998	Update of the Compilation of instructions to banks: Table S 1.2.: Simplified monthly statistical balance sheet
Circular letter	13.08.1998	Update of references in table B 1.5. for branches of European Community origin

C. Circulars issued by the Central Bank of Luxembourg (up to 31 December 1998)

Number	Date	Object
98/151	24.09.1998	Accounting aspects of switching to the euro
98/152	06.11.1998	Introduction of a minimum reserve system
98/153	24.11.1998	Complement to circular IML 94/112 concerning measures to combat money laundering and prevention of the use of the financial sector for the purposes of money laundering
98/155	09.12.1998	Minimum reserve requirements

D. Circulars issued by the Stock Exchange Commission

Number	Date	Object
90/1	13.12.1990	Conditions for drafting, scrutiny and distribution of the prospectus to be published when transferable securities are offered to the public, or of listing particulars, to be published for the admission of transferable securities to official stock exchange listing
91/2	01.07.1991	Law of 3 May 1991 on insider trading
91/3	17.07.1991	Admission to official listing on the Luxembourg stock exchange of foreign undertakings for collective investment (UCIs)
93/4	04.01.1993	Law of 4 December 1992 on reporting requirements concerning the acquisition or disposal of major holdings in a listed company
94/5	30.06.1994	Publication of forecasts in the admission prospectus for an official listing
98/6	24.09.1998	Information to be included in the prospectus for a public offering or for admission to official listing of certain debt issues whose income and/or redemption is/are linked to underlying shares
98/7	15.10.1998	Information to be shown in the prospectus for a public offering or for admission to official listing of certain categories of warrants, bonds, or issue programmes

E. Circulars issued by the Commission de surveillance du secteur financier

Number	Date	Object
99/1	12.01.1999	Creation of the Commission de Surveillance du Secteur Financier (list of circulars in force appended)
99/2	20.05.1999	Entry into force of three new laws dated 29 April 1999
99/4	29.07.1999	Entry into force of the law of 8 June 1999 creating pension funds in the form of pension savings companies with variable capital (Sepcav) and pension savings associations (Assep)
99/7	27.12.1999	Declarations to be sent to the Commission de Surveillance du Secteur Financier in accordance with articles 5 and 6 of the law of 23 December 1998 on the supervision of securities markets
2000/8	15.03.2000	Protection of investors in the event of error in the calculation of the NAV and compensation for non-compliance with the investment restrictions applicable to UCIs
2000/10	23.03.2000	Definition of capital ratios pursuant to article 56 of the amended law of 5 April 1993 on the financial sector (application to credit institutions)
2000/12	31.03.2000	Definition of capital ratios pursuant to article 56 of the amended law of 5 April 1993 on the financial sector (application to investment firms)
2000/13	06.06.2000	Sanctions against Yugoslavia and Afghanistan
2000/14	27.07.2000	Adoption of the law of 17 July 2000 amending certain provisions of the law of 30 March 1988 on UCIs
2000/15	02.08.2000	Rules of conduct for the financial sector
2000/16	23.08.2000	Complement to circular IML 94/112 concerning measures to combat money laundering and prevention of the use of the financial sector for the purposes of money laundering
2000/17	13.09.2000	Entry into force of the law of 27 July 2000 bringing into force the provisions of Directive 97/9/EC concerning investor compensation schemes under the amended law of 5 April 1993 on the financial sector
2000/18	20.10.2000	Bank accounts of the State of Luxembourg
Circular letter	23.11.2000	Publication of annual and consolidated accounts - analytical report to be established according to circular IML 89/60

Number	Date	Object
2000/19	27.11.2000	Appointment of those in charge of certain functions
2000/20	30.11.2000	Maintenance of the capital freeze concerning Mr Milosevic
Circular letter	01.12.2000	Census of financial services on the Internet
2000/21	11.12.2000	Complement to circulars IML 94/112 and BCL 98/153 on measures to combat money laundering and prevention of the use of the financial sector for the purposes of money laundering
2000/22	20.12.2000	Supervision of investment firms on a consolidated basis carried out by the <i>Commission de Surveillance du Secteur Financier</i> (CSSF)
2000/23	22.12.2000	Breakdown of value adjustments made by credit institutions as of 31 December 2000
2001/24	16.03.2001	Statistics on guaranteed deposits as of 31 December 2000
2001/25	16.03.2001	Sanctions against the Taliban in Afghanistan
2001/26	21.03.2001	Law of 12 January 2001 bringing into force the provisions of Directive 8/26/EC on settlement finality of payment and securities settlement systems under the amended law of 5 April 1993 and completing the law of 23 December 1998 creating a supervisory commission for the financial sector (CSSF)

CHAPTER IX

Specific studies

- 1. Analysis of the performance of Luxembourg investment funds during 2000
- 2. The provision of financial services by Internet



Nico BARTHELS

1. Analysis of the performance of Luxembourg investment funds during 2000

Introduction

In its mission to provide supervision of investment funds (UCIs), the CSSF uses, among other approaches, statistical methods to select those funds and subfunds whose financial data require more detailed examination. The method used is based on the global evolution of the sector, subdivided into categories of investment policy. Within each category of investment policy, the funds/subfunds whose performance varies too much against the average performance of the category are closely analysed to find the reasons for such deviations in performance. Evidently the CSSF cannot make public the individual data for the funds/subfunds concerned, but it appears useful to publish the general overview of the analysis for 2000 in this annual report.

Summary of the methodology employed:

- Population included: All active units/shares at the beginning and end of the period concerned, with the exception of some fifty units/shares in funds/subfunds whose net asset value (NAV) is kept constant through daily distributions, current reporting being insufficient to measure their performance.
- Reference currency: net asset values and distributions are converted into euro at exchange rate.
- Standard deviation and variance: calculated on real performance.
- Performance: not annualised when provided over 6 months.
- Distribution: distribution effected is attributed half to net asset value at the beginning of the period and half to net asset value at the end of the period.
- Data source: monthly table O1.1
- Categories of investment policy:
- Fixed income transferable securities
- Variable yield transferable securities
- Mixed transferable securities
- Money market instruments and cash
- Other open-ended funds
- Speculative policies (venture capital, unlisted securities, Leveraged funds, Futures and/or options)
- Real estate

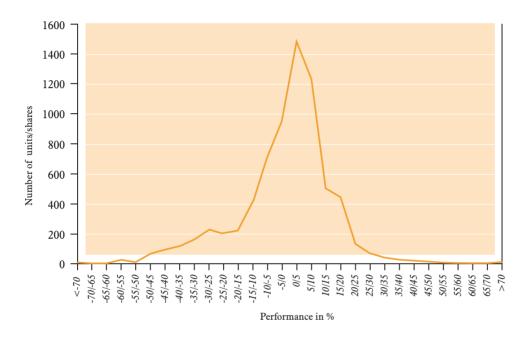


Results of the analysis for 2000

A. General

1. All funds

Distribution of performance returned by Luxembourg UCIs



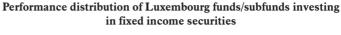


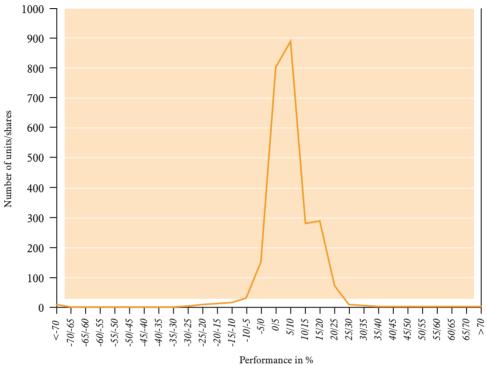
Claude STEINBACH

The funds/subfunds that invested in the area of health in general and biotechnology in particular performed best, while the funds/subfunds with the worst performances were those that invested in Internet shares and Asian capital market securities.

Up to 30 June 2000 the average performance of investment funds was still +2.99%. It was the second half of 2000 that was particularly disappointing as regards NAV development. Other significant data for the first half of 2000 are: Standard deviation 8.44; variance 71.2; best performance +120.59% and worst performance -56.71%.

2. Funds/subfunds investing in fixed income transferable securities



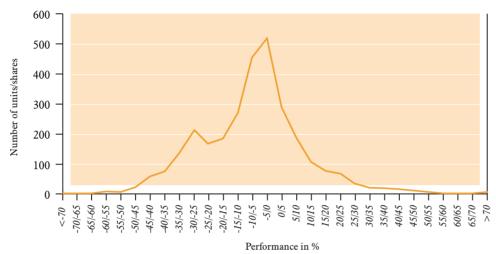


A fund/subfund that is supposed to invest in fixed income securities that loses 95% in a year calls for an immediate and detailed analysis. It turned out that there was a mass redemption for this particular UCI. After a redemption of that sort, fixed overheads or inaccuracies in the assessment of provisions often cause a large drop in NAV. In such cases, the CSSF verifies whether the shares remaining in circulation are exclusively held by the promoter. As for the fund showing the best performance of funds/subfunds investing in fixed income transferable securities, its investment policy is to acquire high yield bonds. Movements in the EUR/USD exchange rate also helped to improve its performance.

Note that up to 30 June 2000 the average performance of funds investing in fixed income transferable securities was +3.28%. The development of NAV during the second half of 2000 among funds in this category continued at the same rate and is in keeping with the investment policy. Other significant data for the first half of 2000 are: standard deviation 3.82; variance 14.6; best performance +34.53% and worst performance -54.75%.

3. Funds/subfunds investing in variable yield transferable securities

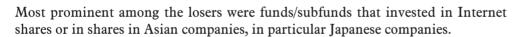
Performance distribution of Luxembourg fund/subfunds investing in variable yield transferable securities





Danielle NEUMANN

The sectors that performed best during 2000 were the health sector in general and biotechnology in particular, together with American small caps and Swiss shares. Among the best performers we also note two subfunds investing in shares issued by Chinese companies.



Note that up to 30 June 2000 the average performance of funds investing in variable yield transferable securities was +2.80%. It was the second half of 2000 that was particularly disappointing for funds in this category. The other significant data for the first half of 2000 are: standard deviation 11.05; variance 122.1; best performance +120.53% and worst performance -41.97%.

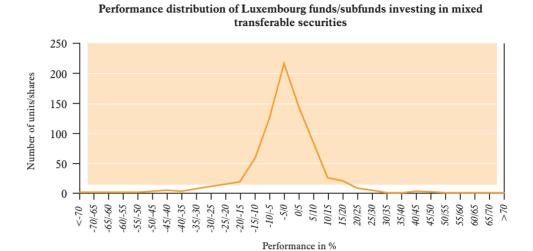


Claude KRIER



Josiane LAUX

4. Funds/subfunds investing in mixed transferable securities

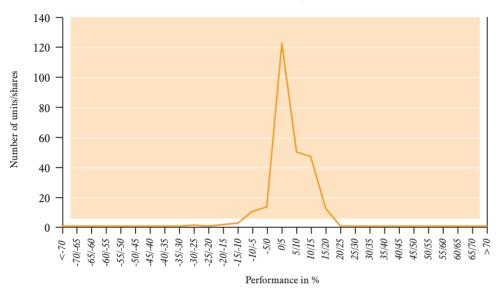


As this category of fund/subfund consists of a mixture of the two preceding categories, it is not surprising to find that the key figures for this category (average performance, standard deviation and variance) fall between the corresponding figures for the other two categories.

Note that up to 30 June 2000 the average performance of funds investing in mixed transferable assets was +2.15%. The other significant data for the first half of 2000 are: standard deviation 7.56; variance 57.2; best performance +100.00% and worst performance -56.71%.

5. Funds/subfunds investing in money market instruments and cash

Performance distribution of funds/subfunds investing in money market instruments and/or cash





Adrienne ANDRE-ZIMMER



Suzanne WAGNER

The positive deviations in performance observed are due above all to movements in the EUR/USD exchange rate. (In this analysis, performances are measured in euro).

As of 30 June 2000 the average performance of funds investing in money market instruments and/or cash was +2.69%. NAV development of funds in this category during the second half of 2000 is completely in line with the investment policy followed. The other significant data for the first half of 2000 are: standard deviation 3.97; variance 15.8; best performance +12.60% and worst performance -27.57%.

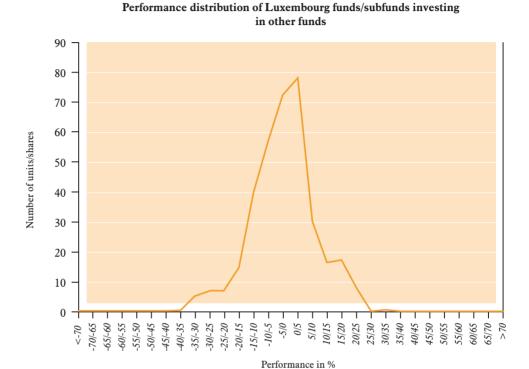


Dominique HERR



Claudine THIELEN

6. Funds/subfunds investing in other investment funds



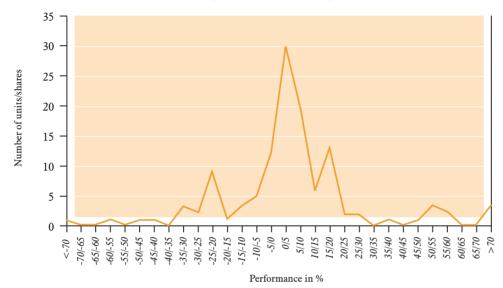
The fact that these funds/subfunds benefit from a double risk distribution seems to prevent extreme variations in NAV. Future analyses should seek to ascertain whether this is a one-off effect or if the double risk spreading continues to produce the same result.

Note that up to 30 June 2000 the average performance of funds investing in other UCIs was +3.09%. NAV development in funds in this category during the second half of 2000 is explained by the fact that funds in this category generally invest in equity funds. The other significant data for the first half of 2000 are: standard deviation 5.81; variance 33.8; best performance +41.40% and worst performance -25.96%.



7. Funds/subfunds with speculative investment policies

Performance distribution of Luxembourg funds/subfunds with a speculative investment policy



Marie-Louise BARITUSSIO

Nathalie REISDORFF

This category of funds/subfunds is by definition subject to more extreme values.

Note that up to 30 June 2000 the average performance of funds with a speculative investment policy was +6.53%. The other significant data for the first half of 2000 are: standard deviation 18.21; variance 331.5; best performance +120.59% and worst performance -29.43%.

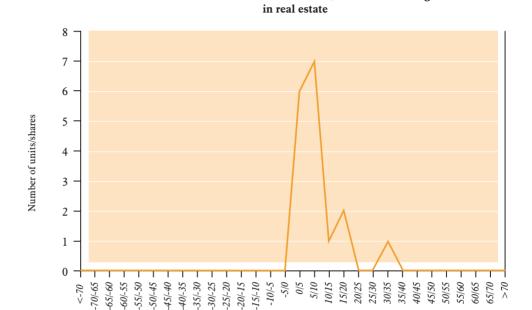


Isabelle SCHMIT



Nicole GROSBUSCH

8. Funds/subfunds investing in real estate



Performance distribution of funds/subfunds investing

In the domain of real estate funds, it is important to understand the way valuations are made. The CSSF asks promoters of funds/subfunds whose NAV has increased markedly to provide detailed explanations of these valuations and their evolution.

Performance in %

Note that up to 30 June 2000 the average performance of funds investing in real estate was +4.77%. The other significant data for the first half of 2000 are: standard deviation 5.01; variance 25.1; best performance +18.50% and worst performance -0.64%.

Recapitulation

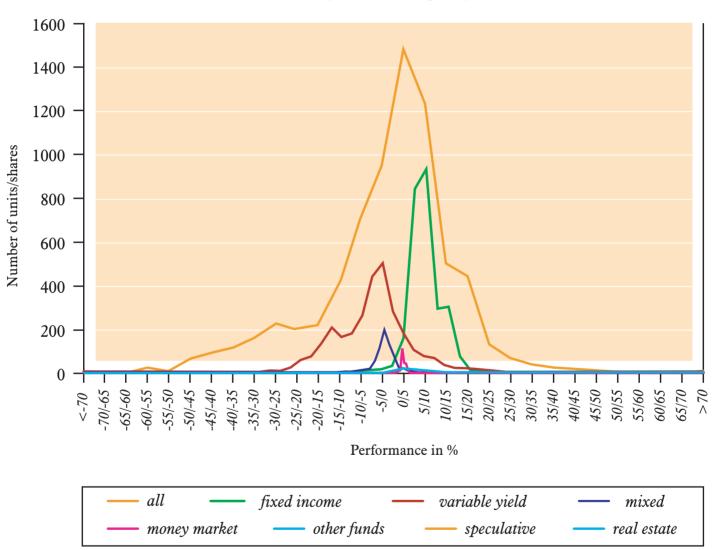
Comparison of key figures:

	average performance	standard deviation	variance	best performance	worst performance
All funds	-0.61%	15.92	253.4	+183.41%	-95.47%
Fixed income	+6.87%	7.47	55.8	+45.91%	-95.47%
Variable yield	-7.19%	18.84	355.0	+141.31%	-80.70%
Mixed	-3.05%	12.23	149.6	+93.02%	-76.14%
Money market	+5.31%	6.37	40.6	+18.76%	-27.50%
Other funds	-2.35%	11.03	121.6	+34.00%	-37.28%
Speculative	+5.62%	29.73	883.6	+183.41%	-74.25%
Real estate	+8.25%	7.89	62.2	+30.53%	0.00%

As might be expected on theoretical grounds, real data show that the standard deviation and the variance (which measures the spread around an average) are lowest for low-risk funds/subfunds (Money market instruments, fixed income transferable securities), at a medium level for funds with average risk (mixed transferable securities, other funds) and highest for those funds that invest mainly in equities, or follow a speculative policy.

The graph below illustrates this situation, with narrow curves for the low-risk funds/subfunds (the performances of the different funds/subfunds are close) and wider curves for funds/subfunds with higher risk (performances more widely spread).

Comparison of performance distribution of Luxembourg funds/subfunds by investment policy

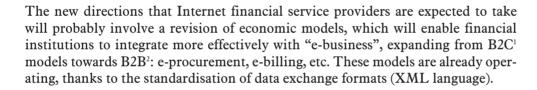


2. The provision of financial services by Internet

Introduction

Originally, the term "e-banking" did not apply to financial services provided over the Internet, but to activities such as "home-banking", "fax-banking" and "phone banking", none of which passed through Internet. It is only since the worldwide promotion of "e-commerce", "e-business" and "net economy" that "e-banking" has become synonymous with "banking services via Internet".

Today, the offer of financial services by Internet is an increasingly large part of the net economy by comparison with the commercialisation of other goods and services, but this offer remains for the most part limited to traditional banking services such as transfers, account consultation and the sale or purchase of transferable securities. The latter, often known as "e-brokerage" or "e-trading", has been extremely successful during the past three years, but the fall in market prices during 2000 has greatly slowed its expansion.



For the entire financial sector worldwide, the provision of financial services via the Internet has become inevitable, not only on account of the potential business that this represents, but also because the public widely views the use of the Internet as a mark of modernity and worldwide accessibility.

Like other supervisory authorities, the CSSF has closely followed Internet activity developments in the financial sector, and analyses its impact constantly with a view to adapting the framework within which prudential supervision is exercised. The CSSF is a member of a working group on banking supervision that reports to the Basel Committee on Banking Supervision, the Electronic Banking Group (EBG), which is responsible for analysing the consequence of the provision of banking services by electronic means, principally over the Internet³.

During 2000 the CSSF also carried out a number of controls on Internet sites, both operational and in preparation. These controls were not only concerned with all the usual prudential aspects, principally those linked to operational risk (organisation of processes and tasks under the "Vieraugenprinzip" principle, together with procedural descriptions), but also with the security aspects (encryption, authentication and electronic signatures, confidentiality, proof mechanisms, attempts at intrusion of institutional networks, etc.).



David HAGEN

- B2C: business to consumer: transactions between professionals and individual consumers.
- ² B2B: business to business: transactions between professionals.

³ Cf. Chapter on international cooperation.



Constant BACKES

The consequences for prudential supervision

The complexity of the Internet is not merely technical. Of course technical knowledge helps to identify risks, mainly risks linked to system security, but the Internet also modifies economic models, both through global accessibility and through the rapidity of communication that it provides. The typology of certain risks is thereby modified, as for example systemic risk and reputation risk, which are increasing, and certain operational risks that are being transformed (for example, fewer manual operations and checks, but more automatic processing).

The consequences for prudential supervision can be charted along two lines representing the identification of risks and their control.

The risks themselves are identified according to four aspects:

- 1. The speed of change. The development of services offered on Internet is very rapid and the constant flow of new technical possibilities (for example, voice and image transmission or the use of XML to give dynamic definitions of transmitted data), fosters this evolution. The speed with which an institution is capable of offering or modifying its products offered over the Internet has become crucial in terms of global presence and the acquisition of market share. Unfortunately the speed of change is often inconsistent with the maintenance or improvement of quality levels. It is fundamental for the entire financial community to work according to prudential principles that are at least equivalent to the standards of today.
- 2. The automation of processing. The installation of "Straight-through processing" (STP) changes the way financial transactions are processed. The Internet allows disintermediation, which results in the transfer of responsibility for data input to the client. The data processing applications of an STP system must include a substitute for human expertise, which in the past has often enabled complex errors in client requests to be identified. In addition, the installation of an STP system is often accompanied by greater processing capacity that makes exhaustive human checking impossible. The result is a greater need for confidence in the quality and integrity of computer programs. STP also accelerates the unwinding of transactions, in particular those concerning transferable securities, which contributes to an increase in systemic risk.
- 3. The open character of the network. The Internet is accessible by everyone and each piece of hardware that connects to it can only communicate because it uses standard protocols. In consequence, the Internet is wide open to ill-intentioned users who know the formats and protocols for data exchange, making the network very insecure. It is now important for financial institutions and subsequently for Internet clients to install tools specially designed to protect their data on the Internet, and to check the reliability of these tools. This implementation of security precautions engenders a supplementary cost, part of which is recurrent.
- 4. The absence of geographical frontiers. The Internet is a virtual space in which frontiers are no longer geographic. It is impossible for an institution connected to the Internet to restrict its communications by technical means to certain countries, which implies that the institution can neither prevent an individual



based in a given country from consulting its products and services, nor restrict the transactions of a client who moves around the world.

From these considerations, the supervisory authorities working in the EBG have retained three essential principles:

- The Internet is by definition transnational,
- The Internet is principally a new distribution channel, at least in non-cooperative operating models⁴,
- The existing legal framework remains applicable, even if it must eventually be extended to cover certain aspects specific to the Internet.
- ⁴ Cooperative model means complex models with at least three actors, each contributing part of the supply of data and processing, in such a manner that theoretically none of the actors has complete insight into the data being processed. This is the case with certain B2B models operated as a network using XML (e.g. client, supplier, bank).

The classification of risks currently used by the CSSF with reference to e-banking is as follows:

- Financial risks
- Operational risks
- Legal risks
- Development risks
- Reputation risks

Insofar as Internet is considered to be a supplementary distribution channel, financial risks fall under the general heading of supervision of the institution's activities, since there is theoretically no change in the activity itself nor in the services. Country risks will nevertheless be taken into account because of the potential modifications of volume generated by Internet from certain geographical regions that are more accessible.

In order to cover the analysis of the risks listed above and attempt to reduce them, the CSSF evaluates sites and projects under the following aspects:

- > Strategic vision and understanding of the consequences, including the target clientele, the products and services offered, the volumes expected and the break-even threshold,
- > The operating model, also describing how Internet services will be integrated within the organisation and existing information technology applications,
- > The technical architecture, also describing the physical aspects of network protection (firewalls and tools for detecting intrusions),
- > The legal aspects, including potential outsourcing contracts, contracts or agreements with clients, and disclaimer clauses published on the site,

- 5 "Management shall ensure the establishment of an organisation manual containing at least a set of procedures concerning administrative organisation..."
- > The organisation and separation of tasks in relation to Internet activity, including the organisation of acceptance and implementation tests for IT applications,
- > The procedures for describing the tasks to be carried out within this activity, in accordance with circular IML 96/126⁵,
- > The internal and external audit, taking account of the extent and regularity of such missions,
- > Outsourcing and the degree of intervention by outside companies, including mechanisms assuring the independence of the institution in the event of default by one or more contracting parties,
- > The security of the site, including security within applications, encryption and client authentication tools (electronic signatures), proof mechanisms and checks on intrusion and modification of site contents,
- > Plans for continuity and crisis management, including delays in returning to normal.

Some questions raised by the evolution of provision of services by Internet

Supervisory authorities have to face a number of problems concerning the Internet, in particular those linked to cross-border aspects and transaction security.

The European legal framework tries to resolve these problems by drafting directives whose provisions must be enacted under the national legislation of member states. Among these directives, two have a direct impact on the provision of financial services over the Internet, Directive 1999/93/EC concerning electronic signatures, and the directive under discussion, on the provision of financial services at a distance.

Electronic signatures

The provisions of Directive 1999/93/EC were implemented in Luxembourg law in the law of 14 August 2000 concerning services in the information society. This law follows the principles described, that is, the principle of the recognition of electronic signatures as identification of a natural person, the principle of advanced digital signatures and qualified certificates, and the principle of free accreditation of certification authorities. A growing number of financial institutions uses electronic signatures as a proof mechanism for transactions passed over the Internet. The CSSF encourages financial institutions to use electronic signatures on condition that the attribution of encrypted elements (electronic keys) and certificates is carried out in a professional and secure manner. Financial institutions that use electronic signatures are currently their own certification authorities. The CSSF will nevertheless analyse the consequences of using certificates issued by a third party certification authority on behalf of clients of financial institutions.

⁶ The role of the certification authority is to issue electronic certificates guaranteeing the attribution of each certificate to a given signatory.

Cross-border provision of financial services on the Internet

The directive currently under discussion should settle a great many legal questions within the European Union, but it cannot settle the international legal problems that go beyond the limits of the EU, and in particular the problem of soliciting and providing financial services without a physical presence in the host country. At present, the legal framework for the provision of financial services (with the exception of the freedom to provide services within the EU) is based on the physical presence of the financial institution in the country in which the services are provided. Supervisory cooperation between the home country of a financial institution and the host country (branch or subsidiary) is efficient and functions thanks to shared competencies. With the arrival of the Internet, this legal framework has become inadequate and the financial institutions protect themselves as well as they can with the aid of specific clauses (disclaimer clauses) that provide contractual limits to the jurisdictions within which the activity is possible or refused. The CSSF is participating within the EBG in the definition of a new framework allowing cooperation to be maintained between supervisory authorities so that supervision continues in a coordinated fashion.



Pascale DAMSCHEN

Outsourcing the development and use of Internet platforms

The technology implemented by financial institutions for the provision of their services and products over the Internet is not only very specific, requiring specialised staff who are not easily found, but also requires serious investment both in human resources and equipment. As a result, financial institutions established in Luxembourg have almost all had recourse to solutions developed either by external suppliers or by the parent company or other members of their group. The principal positive consequence of this move towards outsourcing is that the institutions concerned have rapidly become operational with complex and secure products, at a lower cost than would have been required by internal development. However, development risk is thereby increased: less control of the applications and dependence on the supplier are the most evident disadvantages.

The acquisition of software for providing financial services over the Internet is only the first step in a new trend, the pooling of resources. This trend came to light during 2000, when financial institutions began to consider pooling the operational aspects of Internet use, that is to say supervision of network elements and intrusion coupled with the shared use by several establishments of a single architecture (hardware and software). This approach is also suggested by certain suppliers, who see therein an opportunity to engage in continuing operational activities instead of being confined to the role of software supplier and provider of maintenance services. The solutions under consideration are difficult to bring to fruition in the current regulatory context⁷, in particular because it is technically difficult to dissociate the functional aspects of service provision from the security aspects (client authentication, confidentiality of data) to ensure that the subcontractor can play the simple role of technical agent with no view of clients' transactions.



Claude BERNARD

Circular IML 96/126 provides for outsourcing only under specified conditions

Outsourcing through a limited number of suppliers, at development or operational level, might give rise to risk in the event of the default of a supplier or his applications. A weakness in the security system or an operating error has a direct impact on all the institutions using the services of the subcontractor. Outsourcing in cascade is more and more frequent in the Internet field, with the principal subcontractor coordinating other suppliers of services (software, hosting, security, etc.), who are highly specialised but possibly less aware of the constraints of professional financial activity.

Aggregators

Aggregators are companies operating Internet sites whose principal service is to consolidate client data held by different establishments present on the Web. Typically, an aggregator consolidates data at the client's request, from bank accounts, securities portfolios, mileage accumulated with airline companies, timeshare weeks etc., providing the client company with a synthesis of its assets.

Aggregators first appeared in the United States, and are beginning to offer their services in Europe. These companies are seldom professionals in the financial sector, although the majority of information they collect is of a financial nature. The Luxembourg financial institutions will probably be confronted with this phenomenon and its consequences: loss of direct contact with the client, undisclosed aggregation (since the client is not obliged to inform the bank that it is using these services). In the United States the aggregators are already evolving: because they have more information than the banks about their clients, they are in a position to offer global assessments on the positioning of each financial institution aggregated: behaviour patterns of the client by asset type, percentage of assets managed by each bank, etc. These new services are usually negotiated with the financial institutions which collaborate by providing a data feed to the aggregator, covering the assets of the bank's own clients: the information is no longer collected on the basis of a wild search8, but comes from the financial institution, which provides the data in predefined form, like the stock exchange prices offered by financial information providers. The final stage in the transformation of aggregators is reached when they provide aggregation software to financial institutions, who themselves become aggregators.

The impact of aggregation on the Luxembourg financial sector is still not fully known, but the consequences on a prudential level are important, especially if the aggregation is carried out on a wild-search basis. Financial institutions may suffer reputation loss as a result of poor quality aggregation. Aggregators without banking experience may equally be less sensitive to data confidentiality, and those financial institutions that do not specify exactly their clients' responsibilities in terms of powers of attorney and third party authorisations, may be exposed to legal risks in the event of litigation.

Wild aggregation is carried out by "screen-scrapping". The aggregator obtains data by using the client's identification and password, searching for information by its position on the screen. If the screen presentation is changed and the aggregator does not adapt its software accordingly, the results collected can be inaccurate.

Conclusions

In its prudential supervisory activities, the CSSF takes account of the evolution of risk arising from financial activities carried out over the Internet for each institution it examines.

Given that the Internet cannot itself be supervised, it follows that supervision of the use made of it by actors in the financial sector must be all the closer. Faced with the consequences cited above, the CSSF has created reflection groups to examine the different aspects of the provision of financial services on the Internet. The aim is to prepare adaptations to the regulatory framework that specify the risk management recommendations being developed by the Basel Committee on Banking Supervision, so that healthy expansion of the financial sector in this area is facilitated.



Sandra WAGNER

Principal results of the census on 31 December 2000

The CSSF carried out a census of financial services available on the Internet from financial institutions established in Luxembourg at 31 December 2000. The questionnaire was sent to all the financial institutions for which the CSSF is the supervisory authority, that is to say credit institutions (banks) and other financial sector professionals (FSPs), including branches of foreign institutions in Luxembourg and foreign branches of Luxembourg institutions. The census was not established by sampling, but covered the totality of financial institutions in operation at the end of the year 2000.

The questionnaire distinguished between sites operational on 31 December 2000 and projects due to come on line during 2001. It had 48 questions grouped in three chapters:

- A) Internet Site/Internet Strategy
- B) SECURITY/MAINTENANCE
- C) CLIENT AUTHENTICATION/CONFIDENTIAL DATA

Certain of these questions were not understood in the same way by all respondents, and have been either excluded from the analysis or commented separately.

The questionnaire distinguished between three types of site:

- Information sites, which give an overview of the company and its products, together with other general information of a public nature.
- Consultative sites, which require user authentication that allows access to personal information, such as, for example, consultation of accounts or portfolios.
- Transactional sites which allow the user, after authentication, to carry out banking operations (transfers or transactions on transferable securities).

The designation "credit institutions" in the sense of the coordinated text of the law of 5 April 1993 is here covered by the term "banks".



Paul HERLING

- The communication with the private site is secured by another agreement (HTTPS).
- ¹¹ Business to Business, as opposed to Business to Consumer (B2C).
- ¹² The nature of the site evolves from informative to consultative or transactional

Number of sites

Out of 202 banks, 77 (38%) reported their presence on the Internet.

Out of 113 FSPs, 34 (30%) have a site on the Internet.

Among the 202 banks, 13 have either a second site (8 sites), or a second site in preparation for 2001 (5 projects). As regards other financial sector professionals (FSPs), two have a projected second site.

In the majority of these cases, the second site is consultative and/or transactional, and is complementary to an existing informational site. This desire on the part of one and the same bank to have two distinct sites stems in part from the imperative need for confidentiality, separating clients from the visiting public¹⁰, and in part from a commercial and/or legal wish to set apart the services and products offered.

It is interesting to note that all 77 bank sites are at least informative, whereas two FSP sites are consultative and/or transactional, but not informative. This leads one to suppose that these sites are clearly oriented towards B2B¹¹ services, for which public information is not strictly necessary.

Among the 125 banks that do not yet have a site, 27 have a project under way. As previously indicated, out of the 77 banks that do already have a site, 5 envisage modifying the nature of the site¹² or a serious re-appraisal of the services on offer. Among the 113 FSP recorded, 12 have a project under way.

Breakdown of sites by type

Existing sites

Out of the 85 operational bank sites (85 sites for 77 banks, given that some banks have more than one site),

- All are at least informative,
- 24 are consultative (24 sites for 20 banks),
- 15 are transactional (15 sites for 11 banks).

A more detailed analysis shows the combinations of site types, and gives the following results:

- 14 sites are informative, consultative and transactional,
- 10 sites are informative and consultative, but not transactional,
- 60 sites are solely informative,
- 1 site is informative and transactional, without being consultative.

As regards the FSPs, 33 sites are informative and one site is not. This site is oriented B2B, as are two others which are both informative and transactional, without being consultative. Among the total 34 sites, 11 are consultative and 12 are transactional.

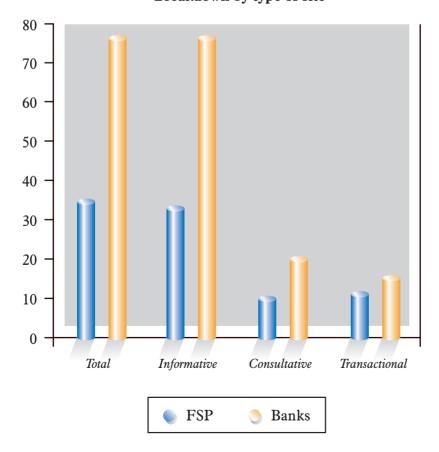
The combinations of FSP sites by type show that:

- 9 sites are informative, consultative and transactional,
- 1 site is informative and consultative, but not transactional,
- 21 sites are solely informative,
- 2 sites are informative and transactional, without being consultative,
- 1 site is consultative and transactional, without being informative.



Guy WAGENER

Breakdown by type of site



¹³ By "new" should be understood institutions not yet having an Internet site.

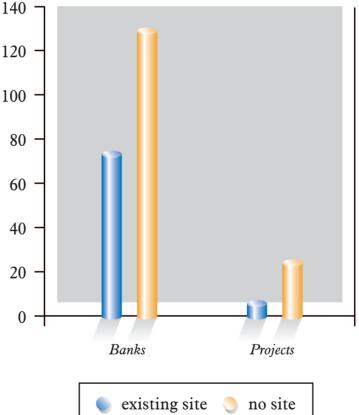
Projected sites

Of the 32 projects for bank sites now under way (27 new projects¹³, 5 projects for site modification), 24 new projects and 4 modification projects are transactional. This shows that the current trend of new bank sites is strongly oriented towards transactional services from their inauguration, whereas originally banks seemed to have a more progressive approach, evolving from an informative or consultative site to begin with, to a transactional site some quarters later. It is probable that this evolution is not solely due to increased confidence in this distribution channel, but at least in equal part to the increased availability of software products that allow transactions to be managed reliably and securely.



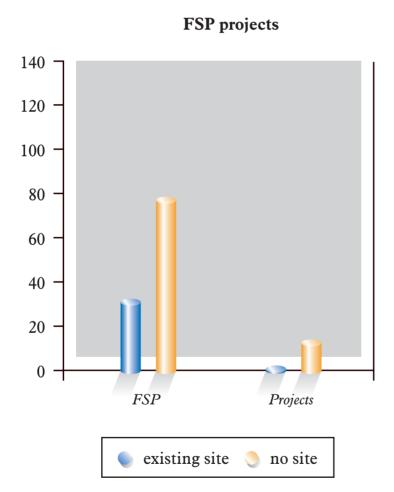
Marc KOHL

Bank projects



Of the 12 FSP projects under way, all aim at an informative site, 5 of them lead to a site that is also consultative and only one is intended to result in a transactional site.

By comparing the nature of existing and projected sites, we can observe that banks are offering more and more transactional services (transfers, securities transactions), while FSPs are not following this trend. A tentative explanation could be found in the fact that the concept of "credit institution" is more precise than the concept of FSP, which covers a wider range of activities (including some that are strongly based on personal contact with clients). It is equally possible that this is a delay phenomenon arising from differences in the priorities of banks and other financial sector professionals.





Edouard LAUER

¹⁴ Defensive: supplementary distribution channel, not the priority channel; offensive: virtual bank, major distribution channel or principal strategy.

Limits on financial transactions

Of the 15 transactional banking sites, 10 apply limits to Internet transactions and 5 do not.

For the FSPs, 7 sites out of 11 apply transaction limits.

The trend is confirmed by projected sites, with 11 bank projects that plan limits and 3 that do not. The only FSP transactional site project does not envisage limits.

Responses to the questionnaire showed a difference in the interpretation of this question; the concept of "limit" was most frequently taken to mean, either a nominal financial limit per transaction (the transaction cannot exceed a predetermined sum), or a functional limit (amount of transaction cannot exceed the available balance), or a combination of the two. The level of reliability of analyses of these answers is consequently reduced.

Defensive or offensive approach

The answers received must be treated with caution, particularly because the notion of "defensive" and "offensive" is subject to interpretation¹⁴. It appears nevertheless that the banks have evaluated their site strategies as follows:

- Defensive
- 80 sites, of which 11 sites are consultative and transactional, 8 sites consultative but not transactional, one site transactional but not consultative and 60 sites solely informative.
- Offensive
- 5 sites, of which 3 sites are both consultative and transactional, and 2 sites are consultative but not transactional.

For the FSPs, the results were as follows:

- Defensive
- 30 sites, of which 5 sites are consultative and transactional, one site consultative but not transactional, 2 sites transactional but not consultative, and 22 sites solely informative.
- Offensive
- 4 sites, all consultative and transactional.

The clearly defensive trend is also apparent in the site projects, with 28 defensive bank sites as against 4 offensive sites; among the FSPs, all 12 Internet site projects are considered "defensive strategy".



Jean-Jacques DUHR

Target clientele

The question "Is your site aimed at a specific clientele?" produced 45 "Yes" and 40 "No" answers for bank sites. For FSP sites, the answers were 17 "Yes" and 17 "No".

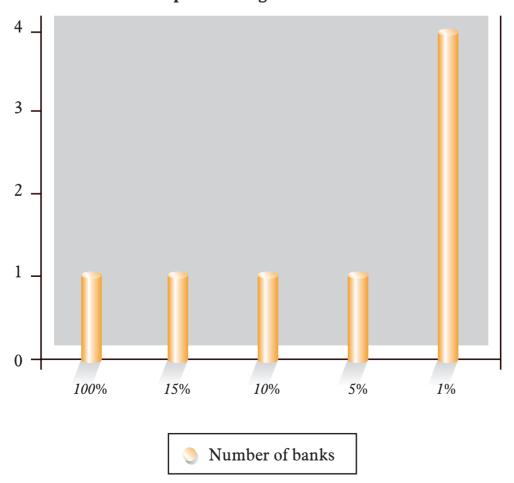
Reading the comments appended to the answers showed clearly that there were two different interpretations of this question. Certain institutions considered the clientele targeted by the site to be specifically different from their usual clients, while others considered that their usual clientele was de facto specifically different from clients using traditional financial activities (for example, private banking, funds, custodian, etc.).

Only 8 banks and 5 PFS found it possible to evaluate the number of new clients obtained through the site.

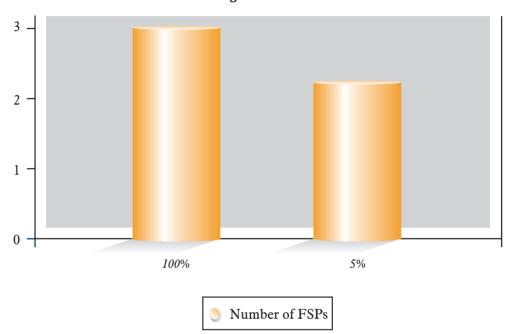


Guy FRANTZEN

Percentage of new clients obtained through the site, compared with global client bases



Percentage of new clients obtained through the site, compared with global client bases





Karin PROTH

The single bank and the three FSPs showing 100% are by definition institutions using the Internet as their sole distribution channel for financial products and services (known as "virtual banks" or "virtual FSPs")

Subcontracting creation of sites

Out of 77 banks, 62 (80.5%) made use of external companies for the creation of their Internet sites. In numbers of sites, this amounts to 70 sites out of a total of 85 that were created with external assistance (82.3%). During interviews and *in situ* checks, the CSSF had in fact observed that financial institutions under its supervision had very largely turned to partially or fully packaged solutions from external suppliers.



Budgets for the creation of Internet bank sites¹⁵

The distribution is as follows:

Table 1.

Euro	€	Informative sites	Consultative sites	Transactional sites
From 0	to 999,999	38	6	4
From 1,000,000	to 1,999,999	0	1	4
From 2,000,000	to 2,999,999	0	1	0
From 3,000,000	to 3,999,999	0	0	1
From 4,000,000	to 4,999,999	0	0	1
From 5,000,000	to 5,999,999	0	0	1
From 6,000,000	to 6,999,999	1	0	1
Over	7,000,000	0	0	1

The budgets for informative sites all fall, with one exception, below one million euros. These sites do not require any special features (no user authentication, no sophisticated double interfaces with banking applications, etc.).

Table 1 shows no clear budgetary trend for transactional sites over the range of expenditure between one and seven million euros. This is probably the result of the different strategies followed by the banks and the degree of integration of web applications with banking applications. In fact the ratio between the cost of a simple informative site and the cost of a transactional site can be seen to vary between 5 and 35. (200,000 compared to 1,000,000 or to 7,000,000).

As regards FSPs, 15 gave figures for their site creation budget. Table 2 is based on a non-linear scale that is more representative of the sample.

Table 2.

Euro			€	Number of sites
From	0	to	20,000	10
From	20,001	to	1,000,000	2
From 1	,000,001	to	4,000,000	3

¹⁵ Out of 202 banks (85 sites), 23 banks (25 sites) were not able to give the costs for implementation of their Internet site. The response rate in terms of the number of sites is thus only 70.6%.



Carine SCHILTZ



Joao Pedro ALMEIDA

Conclusions from the census

The elements shown here will be reproduced in greater detail in a fuller document that will shortly be available on our web site at www.cssf.lu.

The results from chapters B) SECURITY/MAINTENANCE and C) CLIENT AUTHENTICATION/CONFIDENTIAL DATA of the questionnaire are mixed as regards the awareness of senior financial institution managers of the consequences for security, in particular with regard to purely informative sites; here, 44 banks out of 77 have not yet included Internet aspects in their risk analysis. (18 FSPs out of 34 are in the same situation). Reputation risk, in the event of the site being attacked and its contents modified, is important and underestimated.

However, financial institutions offering consultative and financial transaction services have in the great majority of cases taken account of security aspects, both at the technical level of interconnection with the bank's systems, and at the operational and legal level. The CSSF has confirmation of these facts from observation in the field.

CHAPTER X

Organisation of the CSSF

- 1. Personnel
- 2. Information Technology department
- 3. Staff members



Nico BARTHELS, Francis KOEPP, Simone DELCOURT, Marc WILHELMUS and Claude SIMON have been honoured for twenty years of good and loyal service.

1. Personnel

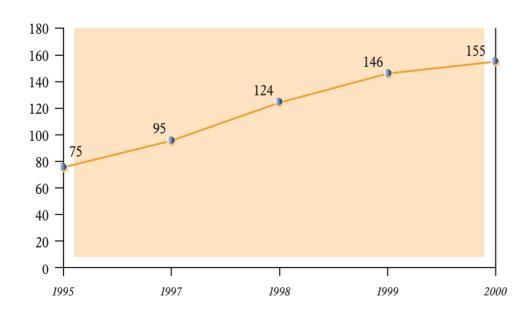
At 31 December 2000, the Commission had a total staff of 155 (including those on maternity leave or unpaid leave), compared with 146 at the beginning of the year. The number of staff responsible for prudential supervision, including administrative and technical support functions, has been steadily increasing for a number of years.

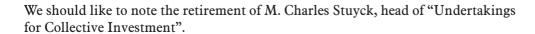
This development stems from:

- the growing complexity of supervisory tasks,
- the development of banking and financial groups based in Luxembourg,
- the degree of sophistication of the financial markets,
- the multiplication of tasks at international level,
- the strong growth enjoyed by the investment fund industry, and
- the new responsibilities attributed to the Commission, i.e. supervision of securities markets, prudential supervision of domiciliation agents, pension funds and postal financial services.

The year under review was especially marked by the recruitment of IT specialists.

Movements in staff numbers







Edmond JUNGERS Head of department



Georges BECHTOLD



Jean-Luc FRANCK
Head of department

2. Information Technology department

Two prominent features should be pointed out: first, the number of IT personnel has been increased, and second all the data processing systems required for the proper functioning of the CSSF have been installed.

The department consists of 12 people. They can call on assistance from the systems security manager, and from the general supervision and methods unit with regard to project management and the study of user needs.

The Development team is concerned with the study, development and maintenance of specific applications for the needs of the CSSF. The Database manager runs the various data bases (SQL Server, Sybase, Oracle) and coordinates development and exploitation in this field. The Systems and Operating team ensures the proper functioning of applications systems (Windows NT, AIX, VMS, Linux). A User Helpdesk has been set up to provide assistance. A Dataflow team has been created to check the format and content of reporting files arriving from supervised entities before they are entered into the databases.

Following installation of the Linkworks mail and document management system at the end of 1999, two major IT projects were initiated during 2000: the start of the new daily reporting system for transactions involving financial assets (TAF) and the installation of the FRC (Financial Reporting and Controlling) system, for periodic reporting from banks and UCIs, a copy of the reports sent to the BCL.

The TAF reporting system was set up in close collaboration with a steering committee consisting of software providers and the principal banks in Luxembourg.

In August 2000, the CSSF set up the infrastructure necessary for the receipt, storage and analysis of the periodic reports from the banks and investment funds. The FRC (Financial Reporting and Controlling) system, until then shared between the CSSF and the BCL, was duplicated, and the CSSF took charge of checking the format and content of supervisory files. In order to ensure the security of transferred reporting files, a public key infrastructure was installed to guarantee the confidentiality and integrity of transmitted data, authentication of the sender and non-repudiation. At the end of the year, the project for direct file transfers to the CSSF was well under way, with an initial transfer from the banks scheduled for January 2001 and the first file transfers from investment funds for March 2001.

Finally, the CSSF opened its Internet site www.cssf.lu during the year, with good public response. Via this web site, the CSSF provides useful information about the financial sector, such as the laws, circulars, statistics and official lists of the entities supervised, and the CSSF's own publications, in particular the annual report, press releases and the monthly newsletter. The CSSF is committed to regular updates of the site contents. An extension of the site is planned to cover all aspects of legally required reporting.

3. Staff organisation

Management

Managing director Jean-Nicolas Schaus

Directors Arthur Philippe, Charles Kieffer

Staff

Executive secretaries Marcelle Michels, Monique Reisdorffer,

Joëlle Deloos, Anne Sauer-Mayer

Internal audit Marie-Anne Voltaire

Managing director's advisors Isabelle Goubin, Marc Weitzel

Customer complaints François Hentgen, Anne Conrath

General secretariat Danielle Mander, Pascale Felten-Enders,

Michel Heintz, Iwona Mastalska

General supervisory methods Pascale Damschen, Joëlle Martiny,

Davy Reinard, David Hagen,

Claude Bernard

Systems security Constant Backes



Marcelle MICHELS



Monique REISDORFFER

Department for Supervision of Banks

Head of department Claude Simon
Deputy head of department Frank Bisdorff

• Division 1

Head of division Marc Wilhelmus

Marco Bausch, Jean Ley,

Françoise Daleiden, Martine Wagner, Jean-Louis Beckers, Romain de Bortoli,

Michèle Trierweiler

• Division 2

Head of division Ed. Englaro

Joan De Ron, Nico Gaspard, Patrick Wagner, Claudine Tock,

Isabelle Lahr, Claude Moes, Steve Polfer



Joëlle DELOOS

• Division 3

Head of division Jean-Paul Steffen

Jean Mersch, Marguy Mehling, Alain Weis, Luc Eicher, Christina Pinto, Marc Bordet

• International affairs division

Head of division Romain Strock

Guy Haas

• Attachés Danièle Kamphaus-Goedert,

Christian Schalk, Claude Reiser,

Jean-François Hein

• Secretaries Elisabeth Demuth, Claudine Wanderscheid

Department for Supervision of Undertakings for Collective Investment

Head of department Simone Delcourt

Deputy head of department Irmine Greischer

• Cell 1 Alain Strock, Fabio Ontano, Eric Tanson,

Angela de Cillia

• Cell 2 Jean-Marc Goy, Geneviève Pescatore,

Géraldine Olivera

• Permanent supervision of UCIs

Head of division Pierre Bodry

Section 1

Head of section Charles Thilges

Marc Siebenaler, Nicole Grosbusch, Francis Lippert, René Schott, Dominique Herr, Claude Wagner,

Isabelle Schmit

Section 2

Head of section Vic Marbach

Martine Kerger, Géraldine Appenzeller,

Guy Morlak, Marc Decker,

Carlo Pletschette

Section 3

Head of section Ralph Gillen

Joël Goffinet, Marc Racké,

Karin Hoffmann, Roberto Montebrusco,

Luc Ricciardi

• Data management division

Head of division Nico Barthels

Statistics and analysis section

Head of section Claude Steinbach

Adrienne André-Zimmer,

Marie-Louise Baritussio, Claude Krier,

Suzanne Wagner, Josiane Laux

Identification section

Head of section Jolanda Bos

Danielle Neumann, Claudine Thielen

• Instructions division

Head of division Francis Koepp

Section 1

Head of section Francis Gasché

Anica Giel-Markovinovic, Daniel Ciccarelli,

Pierre Reding, Pascal Berchem,

Alain Kirsch

Section 2

Head of section Nadine Pleger

> Pascale Schmit, Nathalie Reisdorff, Michèle Wilhelm, Evelyne Pierrard

• Pension funds division

Head of division Christiane Campill

Marc Pauly, Didier Bergamo

Secretaries Danièle Christophory, Karin Frantz,

Sandy Bettinelli

Department for Supervision of Investment activities

Danièle Berna-Ost Head of department



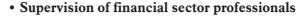
Fernand ROLLER



Raoul DOMINGUES



René KREMER



Head of division Sonny Bisdorff-Letsch

Denise Losch, Dany Kamphaus, Mylène Hengen, Claudia Miotto, Sylvie Mamer, Anne Marson, Martine Simon, Brigitte Jacoby

Secretary Emilie Lauterbour

• Supervision of securities markets

Head of division Françoise Kauthen

Benoît Juncker, Pierre van de Berg, Karin Weirich, Malou Hoffmann

Secretary Carole Eicher



Head of service Edmond Jungers

• Human resources and general management

Head of division Georges Bechtold

Fernand Roller, Raul Domingues

• Budget operations

Head of division René Kremer

· Accounting and financial management

Head of division Guy Lindé

• Financial controller Jean-Paul Weber

• Secretary Milena Calzettoni

IT Department

Head of department Jean-Luc Franck

• Analysis and development

evelopment Paul Herling, Marc Kohl, Guy Wagener



Guy LINDE

• Database management Sandra Wagner

• Operating systems Jean-Jacques Duhr, Guy Frantzen,

Edouard Lauer, Jean-François Burnotte

• Dataflow management Joao Pedro Almeida, Karin Proth,

Carine Schiltz

Internal committees

Prudential supervision consultative committee

President: Jean Guill

Members: Philippe de Broqueville, Rafik Fischer,

> Jean Fuchs, Michel Maquil, Paul Meyers, Arthur Philippe, Jean-Nicolas Schaus,

Lucien Thiel

Pascale Felten-Enders Secretary:

Market activities committee

President: Arthur Philippe

Members: Serge de Cillia, Ernst Krause, Adrien Ney,

> Fernand Reiners, Jean-Nicolas Schaus, Claude Schon, Claude Simon, Jean Thill,

Klaus-Michael Vogel

Secretary: Isabelle Goubin

Other Financial sector professionals committee

President: Jean-Nicolas Schaus

Members: Danièle Berna-Ost, Freddy Brausch,

Jean Brucher, Jean Fuchs, Irmine Greischer,

Marc-Hubert Henry, Charles Kieffer, Didier Mouget, Jacques Peters,

Carl Scharffenorth

Secretary: Dany Kamphaus

Banks committee

President: Arthur Philippe Members: Ernest Cravatte, Jean-Claude Finck,

Isabelle Goubin, Pierre Krier,

Jean-Noël Lequeue, Jacques Mangen,

Paul Mousel, Adrien Ney,

Jean-Nicolas Schaus, Claude Simon, Lucien Thiel, Etienne Verwilghen,

Henri Wagner

Secretary: Martine Wagner

Banking accounting committee

President: Arthur Philippe

Members: André-Marie Crelot, Eric Damotte,

Serge de Cillia, Doris Engel, Norbert Goffinet, Isabelle Goubin, Jean-Paul Isekin, Carlo Lessel, Bernard Lhoest, Vafa Moayed,

Roland Nockels, Jean-Nicolas Schaus, Thomas Schiffler, Claude Simon,

Alain Weber

Secretary: Danièle Kamphaus-Goedert

Internal controls committee

President: Jean-Nicolas Schaus

Members: Adelin Blaise, Bernard Caby, Luc Caytan,

Paul Gaspar, Isabelle Goubin, Kenneth Hay,

Jean-Noël Lequeue, Thierry Lopez, Arthur Philippe, Jean-Jacques Rommes,

Alex Schmitz, Claude Simon, Marie-Anne Voltaire, Yves Wagner,

Jean Wirtz

Secretary: Danielle Mander

Pension funds committee

President: Jean-Nicolas Schaus

Members: Freddy Brausch, Christiane Campill,

Simone Delcourt, Jacques Elvinger, Rafik Fischer, Irmine Greischer, Fernand Grulms, Claude Kremer, Jacques Mahaux, Olivier Mortelmans, Arthur Philippe, Jean-Jacques Rommes,

Jean-Paul Wictor, Claude Wirion

Secretary: Geneviève Pescatore

Information technology committee

President: Arthur Philippe

Members: Nico Barthels, Paul Felten,

Jean-Luc Franck, David Hagen, Marc Hemmerling, Etienne Jung, Dominique Lalin, Claude Melde, Joseph Mertz, Alain Picquet,

Olivier Pemmers, François Schwartz,

Alain Tayenne

Secretary: Pascale Damschen

Legal committee

President: Jean-Nicolas Schaus

Members: Maria Dennewald, Philippe Dupont,

Marc Elvinger, André Hoffmann, Jean-Luc Kamphaus, Jacques Loesch,

André Lutgen, Yves Prussen,

Jean-Jacques Rommes, Alex Schmitt,

Marc Weitzel

Secretary: Irmine Greischer

Mortgage bonds committee

President: Jean-Nicolas Schaus

Members: Janine Biver, Reinolf Dibus, Thomas Feld,

Jean-Philippe Gachet, Jean-François Hein,

Thomas Krämer, Arthur Philippe,

Jean-Jacques Rommes, Raymond Schadeck, Christof M. Schörnig, Claude Simon,

Romain Strock

Secretary: Michèle Trierweiler

Transferable securities markets committee

President: Charles Kieffer

Members: Danièle Berna-Ost, Daniel Dax,

Serge de Cillia,

Fernand de Jamblinne de Meux, Jean-Paul Dekerk, Mark Dunstan, Axel Forster, Giovanni Giallombardo,

Irmine Greischer, Jean Hoss,

Françoise Kauthen, Claude Kremer, Gilles Reiter, Jean-Nicolas Schaus,

Richard Schneider

Secretary: Benoît Juncker

Undertakings for collective investment committee

President: Jean-Nicolas Schaus

Members: Freddy Brausch, Marie-Jeanne Chèvremont,

Simone Delcourt, Jacques Delvaux, Jacques Elvinger, Jean-Claude Finck, Rafik Fischer, Jean-Michel Gelhay, Irmine Greischer, Manuel Hauser, Marc-Hubert Henry, Robert Hoffmann, Claude Kremer, Jean-Jacques Rommes,

Henri Servais, Yves Stein, Eric van de Kerkhove,

Patrick Weydert, Julien Zimmer,

Patrick Zurstrassen

Secretary: Jean-Marc Goy

External auditors

Price waterhouse Coopers

Contact telephone numbers

Commission de Surveillance du Secteur Financier

110, route d'Arlon

L-2991 Luxembourg Switchboard: 26 25 1 -1

Fax: 26 25 1 - 601

e-mail: direction@cssf.lu banques@cssf.lu opc@cssf.lu psf@cssf.lu

informatique@cssf.lu

Management

- 26 25 1 -201 SCHAUS Jean-Nicolas, managing director
 - -202 PHILIPPE Arthur, director
 - -200 KIEFFER Charles, director
 - -203 MICHELS Marcelle, secrétaire de direction
 - -204 REISDORFFER Monique, secrétaire de direction
 - -205 DELOOS Joëlle, secrétaire de direction
 - -206 SAUER-MAYER Anne, secrétaire de direction

Internal audit

26 25 1 -366 VOLTAIRE Marie-Anne, attaché

Managing Director's advisors

- 26 25 1 -207 GOUBIN Isabelle, conseiller de direction 1^{re} classe
 - -209 WEITZEL Marc, conseiller de direction 1^{re} classe

Customer complaints

- 26 25 1 -234 CONRATH Anne, advisor
 - -226 HENTGEN François, advisor

General Secretariat

- 26 25 1 -297 MANDER Danielle, conseiller de direction 1^{re} classe
 - -355 FELTEN-ENDERS Pascale, attaché
 - -301 HEINTZ Michel, employé
 - -237 MASTALSKA Iwona, employé

Systems security

26 25 1 -420 BACKES Constant, employé

General supervisory methods

- 26 25 1 -353 DAMSCHEN Pascale, attaché
 - -352 MARTINY Joëlle, attaché
 - -302 REINARD Davy, attaché
 - -421 BERNARD Claude, employé
 - -395 HAGEN David, employé

Department for Supervision of Banks

- 26 25 1 -222 SIMON Claude, premier conseiller de direction
 - -235 BISDORFF Frank, conseiller de direction 1^{re} classe
 - -229 ENGLARO Ed., conseiller de direction 1^{re} classe
 - -219 GASPARD Nico, conseiller de direction 1^{re} classe
 - -217 KAMPHAUS-GOEDERT Danièle, conseiller de direction 1^{re} classe
 - -258 STEFFEN Jean-Paul, conseiller de direction 1^{re} classe
 - -213 WILHELMUS Marc, conseiller de direction 1^{re} classe
 - -218 BAUSCH Marco, conseiller de direction
 - -265 BORDET Marc, attaché
 - -224 DE RON Joan, conseiller de direction
 - -294 LEY Jean, conseiller de direction
 - -214 MEHLING Marguy, conseiller de direction
 - -233 MERSCH Jean, conseiller de direction
 - -312 REISER Claude, attaché 1er en rang
 - -315 STROCK Romain, attaché 1^{er} en rang
 - -310 WAGNER Patrick, attaché 1er en rang
 - -262 BECKERS Jean-Louis, attaché
 - -354 DALEIDEN Françoise, attaché
 - -215 DE BORTOLI Romain, attaché
 - -349 EICHER Luc, attaché
 - -307 HAAS Guy, attaché
 - -324 LAHR Isabelle, attaché
 - -328 MOES Claude, attaché
 - -279 PINTO Christina, attaché
 - -261 SCHALK Christian, attaché
 - -290 TOCK Claudine, attaché
 - -367 TRIERWEILER Michèle, attaché
 - -351 WAGNER Martine, attaché
 - -309 WEIS Alain, attaché
 - -313 HEIN Jean-François, employé
 - -371 POLFER Steve, employé
 - -292 DEMUTH Elisabeth, secrétaire
 - -221 WANDERSCHEID Claudine, secrétaire

Department for Supervision of UCI

- 26 25 1 -210 DELCOURT Simone, premier conseiller de direction
 - -242 GREISCHER Irmine, conseiller de direction 1^{re} classe
 - -240 BODRY Pierre, conseiller de direction 1^{re} classe
 - -223 CAMPILL Christiane, conseiller de direction
 - -343 BERCHEM Pascal, attaché

- -381 DE CILLIA Angela, attaché
- -342 GOY Jean-Marc, attaché
- -380 OLIVERA Géraldine, attaché
- -379 ONTANO Fabio, attaché
- -344 PAULY Marc, attaché
- -334 PESCATORE Geneviève, attaché
- -320 STEINBACH Claude, attaché
- -321 STROCK Alain, attaché
- -345 TANSON Eric, attaché
- -249 BARTHELS Nico, inspecteur principal 1er en rang
- -245 KOEPP Francis, inspecteur principal 1er en rang
- -227 BOS Jolanda, inspecteur
- -289 GIEL-MARKOVINOVIC Anica, inspecteur
- -246 KERGER Martine, inspecteur
- -269 THILGES Charles, inspecteur
- -254 GOFFINET Joël, chef de bureau
- -220 ANDRE-ZIMMER Adrienne, chef de bureau adjoint
- -247 GILLEN Ralph, chef de bureau adjoint
- -253 GROSBUSCH Nicole, chef de bureau adjoint
- -283 MARBACH Vic, chef de bureau adjoint
- -243 NEUMANN Danielle, chef de bureau adjoint
- -305 PLEGER Nadine, chef de bureau adjoint
- -278 SCHMIT Pascale, chef de bureau adjoint
- -284 SIEBENALER Marc, chef de bureau adjoint
- -322 CICCARELLI Daniel, rédacteur principal
- -241 GASCHE Francis, rédacteur principal
- -337 APPENZELLER Géraldine, rédacteur
- -383 BARITUSSIO Marie-Louise, rédacteur
- -387 DECKER Marc, rédacteur
- -244 HERR Dominique, rédacteur
- -338 HOFFMANN Karin, rédacteur
- -364 KIRSCH Alain, rédacteur
- -384 KRIER Claude, rédacteur
- -382 LAUX Josiane, rédacteur
- -256 LIPPERT Francis, rédacteur
- -340 MONTEBRUSCO Roberto, rédacteur
- -331 MORLAK Guy, rédacteur
- -378 PLETSCHETTE Carlo, rédacteur
- -330 RACKE Marc, rédacteur
- -341 REDING Pierre, rédacteur
- -335 REISDORFF Nathalie, rédacteur
- -346 RICCIARDI Luc, rédacteur
- -339 SCHOTT René, rédacteur
- -385 THIELEN Claudine, rédacteur
- -282 WAGNER Claude, rédacteur
- -333 WAGNER Suzanne, rédacteur
- -336 WILHELM Michèle, rédacteur
- -306 BERGAMO Didier, employé
- -347 HERTGES Joëlle, employé
- -281 PIERRARD Evelyne, employé

- -270 SCHMIT Isabelle, employé
- -236 CHRISTOPHORY Danièle, secrétaire
- -332 FRANTZ Karin, secrétaire
- -251 BETTINELLI Sandy, secrétaire

Department for Supervision of Investment Activities

- 26 25 1 -230 BERNA-OST Danièle, conseiller de direction 1^{re} classe
 - -231 BISDORFF-LETSCH Sonny, conseiller de direction 1^{re} classe
 - -212 LOSCH Denise, conseiller de direction
 - -311 HENGEN Mylène, attaché 1er en rang
 - -238 JUNCKER Benoît, attaché 1er rang
 - -296 KAMPHAUS Dany, attaché 1er en rang
 - -208 MIOTTO Claudia, inspecteur
 - -285 MAMER Sylvie, chef de bureau adjoint
 - -267 MARSON Anne, chef de bureau adjoint
 - -286 SIMON Martine, rédacteur
 - -358 HOFFMANN Malou, employé
 - -356 JACOBY Brigitte, employé
 - -232 KAUTHEN Françoise, employé
 - -392 VAN DE BERG Pierre, employé
 - -391 WEIRICH Karin, employé
 - -274 LAUTERBOUR Emilie, secrétaire
 - -276 EICHER Carole, secrétaire

Administration and Finance

- 26 25 1 -255 JUNGERS Edmond, conseiller de direction 1^{re} classe
 - -259 BECHTOLD Georges, inspecteur principal
 - -248 KREMER René, inspecteur
 - -287 LINDE Guy, inspecteur
 - -252 WEBER Jean-Paul, employé
 - -264 ROLLER Fernand, premier huissier principal
 - -266 CLEMENT Paul, chauffeur
 - -265 DOMINGUES Raul, chauffeur
 - -257 CALZETTONI Milena, secrétaire

Information Technology department

- 26 25 1 -401 FRANCK Jean-Luc, employé
 - -402 WAGNER Sandra, employé
 - -415 ALMEIDA Joao Pedro, employé
 - -407 BURNOTTE Jean-François, employé
 - -405 DUHR Jean-Jacques, employé
 - -409 FRANTZEN Guy, employé
 - -403 HERLING Paul, employé
 - -410 KOHL Marc, employé
 - -406 LAUER Edouard, employé
 - -417 PROTH Karin, employé
 - -416 SCHILTZ Carine, employé
 - -411 WAGENER Guy, employé