COMMISSION de SURVEILLANCE du SECTEUR FINANCIER



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Jean-Nicolas SCHAUS, Director General

The world economy as a whole, and the Luxembourg financial sector in particular, had a difficult year in 2001. Having said that, the Luxembourg financial market withstood the knocks unleashed by the bursting of the "new-economy" bubble, the slump in share prices, the downturn in the economy, the Turkish and Argentine crises, the attacks of 11 September and external pressures on bank secrecy and Luxembourg's role in the fight against money laundering.

Despite the turbulent climate, the CSSF continued to pursue a deliberate and cautious policy of supervision in accordance with regulatory requirements and international standards in order to safeguard the stability of the financial sector as a whole. The turnaround in the economic cycle obviously had a considerable impact on the performance of financial sector professionals. However, it should be noted that the country's wide range of products and services and highly qualified workforce enabled local banks to achieve a record balance sheet total of EUR 720.97 billion.

As the world's second biggest investment fund centre, Luxembourg testifies to the continued importance of UCIs, with the number of active funds up 7% and the volume of net assets under management up 6% to EUR 928.4 billion.

While these results bear witness to the healthy state of the local financial market, the CSSF seeks to do more than just passively observe activities under its supervision. The aim of this report is not just to review the year from a statistical and regulatory viewpoint; it also attempts to demonstrate the exact nature of the CSSF's prudential role using practical examples. With its mission to safeguard the stability of the Luxembourg financial market and defend the public interest, the CSSF ensures the conditions required to practice the financial professions and the professional obligations laid down by law are fulfilled by financial sector professionals. To fulfil the multitude of tasks incumbent upon it, the CSSF also increased its staff numbers in 2001 to 183.

As is always the case at this time of year, questions arise as to future developments. There is no discernible trend, despite signs of a rebound in the economy. There can be no doubt that, having established a sound reputation over the past few decades by virtue of its professionalism, an exceptional ability to adapt to changes in international legislation and the wide range of financial products it has to offer, the Luxembourg financial market will achieve a sound performance in 2002.

Jean-Nicolas SCHAUS Director General

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Arthur PHILIPPE, Director



Charles KIEFFER, Director

CHAPTER I

SUPERVISION OF THE BANKING SECTOR

- 1. Developments in the banking sector in 2001
- 2. Changes in the regulatory framework
- 3. Significant events during the year
- 4. Prudential supervisory practice
- 5. Evaluation of financial stability

1. Developments in the banking sector in 2001

1.1. Characteristics of the Luxembourg banking sector

Luxembourg banking law recognises two types of banking licence, namely licences governing the activities of universal banks, and those governing the activities of banks issuing mortgage bonds.

The universal banks comprise three categories according to legal status and geographical origin:

- banks under the law of Luxembourg;
- branches of banks originating from a Member State of the European Union; and
- branches of banks originating from non-Member States of the European Union.

In addition, there is the special case of the unit formed by the caisses rurales and their central establishment which, according to the law relating to the financial sector, is to be considered as a single credit institution.

1.2. Developments in the number of credit institutions

The number of credit institutions established in Luxembourg significantly declined during 2001, thereby confirming the downward trend observed since the middle of the 1990s. Indeed, the total number of banks amounts to 189 as at 31 December 2001, compared with 202 on the same date in the previous year. The 189 entities comprise 128 subsidiaries and 61 branches. This trend towards increased concentration is mainly due to the strategies of international banking groups. During 2001, two types of merger were observed, namely mergers directly reflecting those taking place at the level of the parent company, and mergers of indirect nature, reflecting concentrations within the scope of Luxembourg consolidation.

Developments in the total number of banks established in Luxembourg





Six credit institutions, of which three were branches, ceased operations in 2001. Among these six institutions in liquidation, three belonged to groups originating from the European Union.

As for the mergers which took place, these concerned nine entities, reducing the number of branches by one entity and the number of subsidiaries by eight entities. Two of these mergers comprised at least one institution of a banking group originating from outside the European Union.

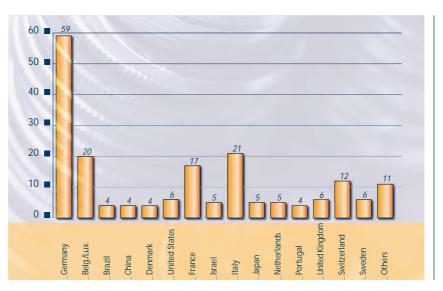
Liquidations/mergers	Date of withdrawal from the official list of credit institutions
Industrial Bank of Korea Europe S.A.	Liquidated on 15.01.01
Bank Labouchere (Luxembourg) S.A.	Merged with Banque Internationale à Luxembourg S.A. on 16.02.2001
Robert Fleming & Co Limited, branch	Liquidated on 28.02.01
SEB Private Bank S.A.	Merged with BfG Bank Luxembourg S.A. through formation of SEB Private Bank Luxembourg S.A. on 08.03.2001
HELABA Luxembourg - Landesbank Hessen-Thüringen International S.A.	Merged with Bayerische Landesbank International S.A. through formation of LBLux S.A. on 01.04.2001
Crédit Commercial de France (Luxembourg) S.A.	Merged with HSBC Republic Bank Luxembourg S.A. on 30.06.2001
Bank2C (formerly Banque MeRich S.A.)	Liquidated on 21.09.01
Dexia Direct Bank	Merged with Dexia Banque Internationale à Luxembourg on 29.10.2001
GZ-Bank International S.A.	Merged with DG Bank Luxembourg S.A. through formation of DZ Bank International S.A. on 22.11.2001
Fortis Bank Luxembourg S.A.	Merged with Banque Générale du Luxembourg S.A. on 27.11.01
Osmanli Bankasi A.S (Ottoman Bank),	Merged with Garanti Bank, Luxembourg branch, Luxembourg branch on 14.12.2001
Bank Handlowy International S.A.	Liquidated on 18.12.01
Banca de la Pequeña y Mediana Empresa (Bankpyme), branch	Liquidated on 31.12.01
Banque Baumann & Cie S.A.	Merged with VP Bank Luxembourg S.A. on 31.12.2001
M.M. Warburg & CO, branch	Liquidated on 31.12.01

Two branches originating from the European Union were opened in 2001.

Name of institution	Shareholders	Date of official registration as a credit institution
Bank Corluy, Luxembourg branch	Bank Corluy Effectenbankiers N.V., Antwerp	10 May 2001
Evli Bank Plc, Luxembourg branch	Evli Bank Plc, Helsinki	11 October 2001

The breakdown of credit institutions according to geographical origin has changed as follows. Banks of German origin are still the highest in number, with 59 entities, now followed by Italian banks, comprising 21 entities; 20 banks originate from Belgium and Luxembourg. Other banks originate from France (17), the Scandinavian countries (14), Switzerland (12), the United Kingdom (6), the United States (6), and Sweden (6).

Geographic origin of banks



1.3. Developments of the local branch networks in Luxembourg

The downward trend in branch networks recorded since the 1990s continued in 2001, as shown below.

	1994	1995	1996	1997	1998	1999	2000	2001
Number of local branches	262	260	254	240	231	226	225	214
Number of banks concerned	11	11	11	11	11	10	9	9

Over the last four years, two credit institutions have relinquished their national branch networks. The reduction in the number of local branches, or indeed their complete disappearance, is one of the phenomena reflecting the general trend towards increased concentration in the sector. In this case, concentration takes place on a more regional level, mainly affecting a specific type of activity, namely retail banking, and is motivated by cost-cutting measures. The services traditionally provided by local branches are being increasingly substituted by technical facilities (ATMs, home banking, phone banking, internet banking, etc.).

	_		_		_			_						
	To	Total	2	Management			Office staff			Technical staff		J	Total workforce	
	Luxemb.	Foreigners	Men	Women	Total	Men	Women	Total	Men	Women	Total	Men	Women	Total
1991	1	•	1957	253	2210	6250	7089	13339	85	311	396	8292	7653	15945
1992	,	1	2030	294	2324	6312	7111	13423	84	312	396	8426	7117	16143
1993	8158	8567	2097	335	2432	6713	7396	14109	89	116	184	8878	7847	16725
1994	8116	9522	2308	384	2692	7086	7700	14786	47	113	160	9441	8197	17638
1995	8170	10113	2533	451	2984	7318	7813	15131	49	119	168	0066	8383	18283
1996	8113	10469	2658	490	3148	7476	7809	15285	48	101	149	10182	8400	18582
1997	8003	11086	2765	547	3312	7631	8013	15644	44	68	133	10440	8649	19089
1998	7829	12005	2900	577	3477	7846	8377	16223	47	87	134	10793	9041	19834
1999	7977	13400	3119	029	3789	8362	8961	17323	34	51	85	11515	6882	21197
2000	7836	15232	3371	783	4154	9030	9801	18831	35	48	83	12436	10632	23068
2001	7716	16140	3579	917	4496	9220	10045	19265	33	62	95	12832	11024	23856

Growth in employment in the banking sector slowed considerably during 2001 (+3.4% as compared with +8.6% in 2000), the total number of employees reaching 23,856 as at 31 December 2001. Growth was more sustained among highly-qualified staff, at 8.2%, representing almost 4,500 jobs. This growth in highly-qualified employees is reflected in profit and loss accounts, with the average cost per employee as at 31 December 2001 amounting to EUR 73,000 per annum, compared with EUR 70,000 on the same date in the previous year (see also Chapter I, point 1.6).

The quota of foreign nationals in the workforce again rose slightly. The proportion of women employed in the sector grew slightly, reaching 46%, the most significant growth being recorded in terms of women in executive positions (+17.1%).

Distribution of the number of employees per bank

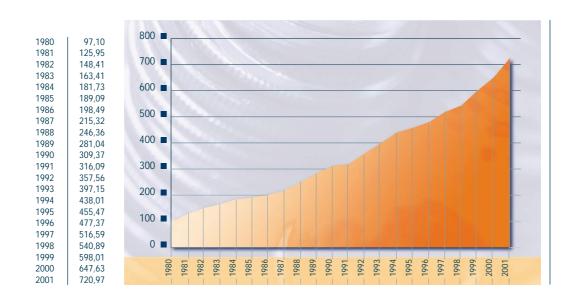
Number of employees	Number of banks				
	2000	2001			
> 1000	4	4			
500 to 1000	3	5			
400 to 500	5	4			
300 to 400	3	4			
200 to 300	11	12			
100 to 200	19	16			
50 to 100	30	26			
< 50	127	118			

The distribution of staff by institution confirms the trend towards increased concentration in the sector. The number of banks employing more than 200 people amounted to 29 entities as at 31 December 2001, i.e. 15.3% of the total number of banks, as compared with 12.9% at the end of 2000.

1.5. Developments in balance sheet totals

Total balance sheets posted by credit institutions grew steadily by 11.3% over 2001, reaching EUR 720,970 million, compared with EUR 647,633 million at the end of 2000.

Developments in balance sheet totals posted by credit institutions - in billions of EUR



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Aggregated balance sheet totals of the Luxembourg financial centre - in millions of EUR

ASSETS	2000	2001¹	LIABILITIES	2000	2001²
Loans and advances to credit institutions	319,449	359,003	Amounts owed to credit institutions	294,122	345,121
Loans and advances to customers	128,476	145,301	Amounts owed to customers	225,715	226,808
Fixed-income securities	142,672	151,682	Debts evidenced by certificates	57,801	70,090
Variable-yield securities	5,628	4,349	Various items	11,335	16,939
Participating interests and shares in affiliated undertakings	7,379	9,973	Permanent shareholders' equity (*)	58,660	62,012
Fixed assets and other assets	44,029	50,662	Of which profit for the year	2,545	2,938
Total	647,633	720,970	Total	647,633	720,970

^(*) Including share capital, reserves, subordinated liabilities and provisions.

Assets

As regards assets, in relative terms, the composition of the balance sheet did not vary very significantly during 2001.

Loans and advances to credit institutions represent 49.8% of the total, compared with 49.3% in 2000. This item, which had already risen by 10% in 2000, continued to grow, reaching a total of EUR 359,003 million (+12.4%).

Qualitative breakdown of interbank assets

	1999	2000	2001
Central and multilateral banks	0.28%	0.29%	0.32%
Banks Zone A ³	97.75%	98.47%	98.71%
Banks Zone B ⁴	1.96%	1.23%	0.96%

This breakdown shows that almost all loans and advances to credit institutions consist of commitments on banks of Zone A, i.e. banks of industrialised countries.

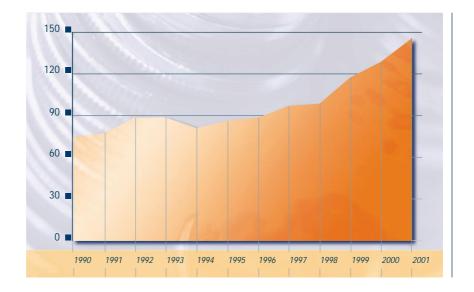
¹ Preliminary figures for the year ending 31.12.2001.

² Preliminary figures for the year ending 31.12.2001.

³ Countries of Zone A: Germany, Saudi Arabia, Australia, Austria, Belgium, Canada, South Korea, Denmark, Spain, United States, Finland, France, Greece, Hungary, Ireland, Iceland, Italy, Japan, Liechtenstein, Luxembourg, Mexico, Norway, New Zealand, Netherlands, Poland, Portugal, United Kingdom, Slovakia, Sweden, Switzerland, Czech Republic, Turkey.

⁴ Countries of Zone B: all countries other than Zone A

Developments in loans and advances to customers - in billions of EUR



The item loans and advances to customers saw a considerable rise of 13.1% and totalled EUR 145,301 million at the end of the year, as against EUR 128,476 million in 2000, which highlights the importance of this activity for the financial centre of Luxembourg alongside investment funds business and private banking operations.

Breakdown of loans and advances to customers

	1999	2000	2001
Public authorities Zone A	5.78%	5.23%	4.63%
Public authorities Zone B	0.66%	0.45%	0.30%
Private customers and financial institutions	93.51%	94.25%	95.02%
of which: legal entities	62.27%	58.64%	54.20%
of which: natural persons	19.23%	19.59%	18.34%
of which: financial institutions	18.50%	21.77%	27.46%
Leasing	0.05%	0.05%	0.05%

Qualitative breakdown of loans and advances to private customers and financial institutions

Loans and advances to private customers and financial institutions	1999	2000	2001
Secured by public authorities Secured by credit institutions Secured by other tangible securities	2.33%	2.46%	2.97%
	18.80%	19.54%	16.52%
	29.49%	27.95%	28.43%

There has been a relative rise in loans and advances to financial institutions, accompanied by a relative decline in loans and advances to legal entities and natural persons. Loans to public authorities are also fairly low. Such commitments generally take the form of securities. Among the commitments on private customers, it is worth noting that the secured portion, which reflects private banking operations, is almost as high as the unsecured portion. The analysis does not take into account personal guarantees. Finally, it is worth noting that a number of credit institutions also continue to operate in the field of corporate loans at an international level.

The portfolio of fixed-income transferable securities grew by a moderate 6.3%, reaching a total of EUR 151,682 million. Repeated reorganisation of the portfolio following changes in interest rates and stock market performance explains this movement.

Qualitative breakdown of fixed-income transferable securities

	1999	2000	2001
Public sector Zone A	27.24%	25.71%	23.99%
Public sector Zone B Credit institutions Zone A	1.42% 52.43%	1.27% 51.58%	0.97% 51.07%
Credit institutions Zone B Other issuers Zone A	1.20% 13.81%	1.19% 15.62%	1.05% 17.61%
Other issuers Zone B	3.89%	4.63%	5.31%

The portfolio of fixed-income transferable securities consists essentially of securities issued by the public sector and by banks of industrialised countries.

The volume of the portfolio of variable-yield transferable securities, i.e. equities, remains marginal, since Luxembourg banks are not very active in own-account trading of such stocks. The downward development of the portfolio is characteristic of the disappointing stock market performance over the year.

On the other hand, the rise in the item Participating interests and shares in affiliated enterprises, which began several years ago, has continued. Since this item is almost entirely reserved for participating interests in banks, its development thus reflects the expansion of some Luxembourg banks at international level.

Liabilities

As regards liabilities, most conspicuous is the stagnation in amounts owed to customers. This item amounts to EUR 226,808 million (compared with EUR 225,715 million in 2000), which represents 31.5% of total liabilities. This stagnation is explained by a fall in deposits from the public sector, the volume of which had been exceptionally high for the year 2000.

Breakdown of amounts owed to customers

	1999	2000	2001
Amounts owed to the public sector Amounts owed to legal entities Amounts owed to natural persons	3.2%	7.4%	6.0%
	62.7%	64.1%	64.0%
	34.1%	28.5%	30.0%

The deposits made by legal entities originate from a wide range of operations, such as business relations with institutional investors, industrial and commercial undertakings, investment funds and structures used in private banking operations.

The amounts owed represented by securities continued to rise (+21.3% compared with 2000), now accounting for 9.7% of liabilities. This increase is in part linked to the activity of banks issuing mortgage bonds, the issuing volume of which is now becoming significant.

Amounts owed to credit institutions, representing 47.9% of liabilities, constitute the principal source of refinancing for banks. This item increased by 17.3% and now amounts to EUR 345,121 million.

Permanent shareholders' equity, made up of core equity capital and subordinated debts, saw a rise of 5.7% (see also Chapter I, point 1.9 relating to developments in own funds and solvency ratio).

1.6. Movements in profit and loss account⁵

Despite a difficult environment, the banking sector achieved a record net result of almost EUR 2,930 million, an increase of 21% on the previous year. This rise was due primarily to a lower net formation of provisions, whereas the operating result only rose slightly by 3%.

Profit and loss account - in millions of EUR

	1999	Relative share	2000	Relative share	2001 ⁶	Relative share
Interest and dividends received Interest paid	35,943 32,664		47,996 44,467		50,987 46,668	
Interest-rate margin	3,279	51%	3,529	47%	4,319	54%
Commission received	2,338	36%	3,035	40%	2,754	35%
Income from financial operations	563	9%	488	6%	402	5%
Other income	255	4%	465	6%	431	5%
Banking income	6,435	100%	7,517	100%	7,906	100%
General administrative expenses	2,627	41%	3,016	40%	3,183	40%
Of which: staff costs	1,444	22%	1,588	21%	1,716	22%
Of which: other administrative expenses	1,183	18%	1,393	19%	1,427	18%
Depreciation	283	4%	306	4%	401	5%
Income before provisions	3,525	55%	4,195	56%	4,322	55%
Creation of provisions	1,095	17%	1,520	20%	1,192	15%
Write-back of provisions	577	9%	767	10%	724	9%
Taxes	977	15%	1,013	13%	924	12%
Result for the financial year	2,030	32%	2,429	32%	2,930	37%

The interest margin rose by 22%, reaching EUR 4,319 million. On the one hand, this increase is explained in part by a growth in volume, total assets having increased by 11%. On the other hand, banks which have formed or acquired a network of subsidiaries abroad over the last few years, are beginning to reap substantial dividends which are serving to increase the interest margin.

In millions of EUR	1999	2000	2001
Dividends received on participating interests	226	433	651

Successive reductions in nominal interest rates during the financial year enabled those banks rescheduling maturities to substantially increase their interest income by short-term refinancing of longer-term assets, principally on the interbank market. The use of derivative instruments in the same context enabled reinforcement of this effect.

⁵ Presentation of the profit and loss account has been modified in order to establish conformity to the form prescribed by the Law on Annual Accounts and Consolidated Accounts of Credit Institutions.

⁶ Provisional figures for the year ending 31.12.2001.

Bearing in mind the state of the stock markets in 2001, it is not surprising to find a reduction in **commission received**, which nevertheless remained within reasonable limits at –9%. This is partly due to the fact that commission is not only linked to the number of transactions, but also to the stock of assets under management.

The differing movements in interest margins and commission received implies a contrasting development in the results of the different banks, depending on which source of revenue predominates.

Income from financial operations, which reflects the banks' trading operations, only contributes in marginal terms to banking income. This activity is not very developed among Luxembourg banks.

In terms of costs, the banks succeeded in controlling their **operating costs**, which rose by 8%. Among the components of this item, staff costs rose by 8%, other administrative expenses by 2%, and depreciation on tangible and intangible assets by 31%.

The cost/income ratio is still favourable, at 45% as against 44% in 2000, compared with the norm of 50% which the major bank groups generally set as a target.

The banks reduced their **creation of provisions** by 22%. Among total provisions, reaching EUR 1,192 million in 2001, general provisions represented EUR 250 million. In 2000, when total provisions were EUR 1,520 million, general provisions represented a sum of EUR 409 million. Disregarding the general provisions formed, the total reduction is only 15%. This reduction does not reflect a less cautious approach to risk prevention, but is rather explained by the presence of a significant stock of provisions created during previous years.

The investigations conducted by the CSSF regarding exposure in sectors at risk following the events of 11 September revealed that such risks are globally limited and could easily be covered by current income.

Structural ratios

	1999	2000	2001
Cost/income ratio	45.2%	44.2%	45.3%
Profit before taxes/assets	0.5%	0.5%	0.5%
Profit before taxes/weighted assets	22.2%	21.6%	23.3%
Profit before taxes/core equity capital	16.1%	16.9%	17.8%
Interest margin/banking income	51.0%	47.0%	54.6%
Income excluding interest/banking income	49.0%	53.0%	45.4%

Movement in certain indicators of profit and loss account per employee

In millions of EUR	1999	2000	2001
Banking income/employee	0.314	0.334	0.333
Staff costs/employee	0.068	0.070	0.073

There has been a rise in banking income per employee over the past three years. The rise in staff costs per employee can be explained basically by a comparatively more sustained growth in executive employees in terms of total employment⁷.

⁷ See also Chapter I, point 1.4, relating to developments in banking sector employment.

1.7. Financial derivatives

Banks in the Luxembourg⁸ financial centre used derivatives totalling EUR 742.4 billion in 2001, as compared with EUR 469.2 billion in 2000. This represents an exceptional growth rate of almost 58%, compared with 2.5% between 1999 and 2000. For the first time, the nominal amount exceeds balance sheet totals of the same sample of banks, reaching a ratio between volume of derivatives and balance sheet totals of 129.32%, as compared with 88.77% in 2000.

Instruments traded over-the-counter still remain the most widely used products (80% of the total in 2001, as compared with 88% in 2000), with a volume amounting to EUR 591 billion. However, instruments traded on regulated markets saw significantly higher growth in 2001 (+160%), reaching a volume of EUR 151.4 billion.

Use of financial derivatives by credit institutions9

	20	00	20	001
Instrument	in billions of EUR	as a % of total balance sheet	in billions of EUR	as a % of total balance sheet
Interest rate swaps (*)	375.8	71.1%	531.9	92.7%
Future or forward rate agreements	22.6	4.3%	38.1	6.6%
Of which: over the counter	20.8	3.9%	35.3	6.1%
Of which: regulated market	1.9	0.4%	2.8	0.5%
Futures				
(currencies, interest rates, other assets)	6.9	1.3%	5.8	1.0%
Options				
(currencies, interest rates, other assets)	63.9	12.1%	166.6	29.0%
Of which: over the counter	14.4	2.7%	23.8	4.1%
Of which: regulated market	49.5	9.4%	142.8	24.9%

^(*) Also includes cross-currency swaps.

In a period of volatile interest rates, in particular the lower interest rate environment in the second half of 2001, banks made more use of interest-rate derivatives both for hedging and arbitrage purposes. Within the framework of asset-liability management, the use of interest-rate swaps increased by almost 42%, reaching a volume of EUR 531.9 billion, so that this continued to be the most significant derivative in volume terms. Forward rate agreements saw even bigger growth (+69%), with a volume of EUR 38.1 billion.

However, alongside linear instruments, it was mainly options that saw a remarkable increase, reaching a nominal amount equivalent to EUR 166.6 billion. This increase of more than 160% is explained by covered issuing operations for the account of a small number of specialised credit institutions.

⁸ For statistical reasons, the data does not include figures for branches of EU credit institutions.

 $^{^{9}\,}$ Excluding branches of credit institutions originating from a Member State of the European Union.

1.8. Business lines in the banking sector

A description of the structure of banking operations in Luxembourg may be undertaken by quantifying the significance of the various business lines carried out.

Such an analysis contributes, inter alia, to better understanding of the scale and importance of the main business lines currently practised in Luxembourg, and provides input for new thinking on the future development and promotion of the financial industry.

There are five leading activities carried out within banks:

- Financial-management activities, which consist of supplying personalised services such as investment advice, tax planning and domiciliation for customers having a certain minimum of liquidity;
- Commercial banking operations, which consist of providing products and services such as current accounts, savings accounts, loans and finance, payments and credit cards to customers and businesses;
- Operations linked to investment funds, namely asset management, acting as custodian bank, administrative agent, domiciliation agent, paying agent, transfer agent and investment-fund distribution agent;
- Lending operations, which consist of providing products and services such as corporate finance, trade finance, project finance, syndicated loans, documentary credits and the issuing of guarantees;
- **Institutional operations**, which comprise asset-management, interbank, arbitrage, domiciliation and depositary activities (excluding those for investment funds) for the account of institutional investors.

Financial management activities generate approximately one third of the banks' net result. Operations linked to investment funds, lending operations and institutional operations each contribute at an approximately equal level, of 20%. Commercial banking operations represent about 5% of income.

The activity of financial management is also the principal consumer in terms of human resources, with almost 40% of total labour. This is followed by activities linked to investment funds (25%), and commercial banking (20%). As for institutional operations, the percentage of human resources deployed is slightly above 10%. Finally, lending operations use a relatively small proportion of the workforce, since across all players in the banking industry they account for just 5% of employees.

In terms of financial productivity per employee, lending and institutional operations appear to be the most profitable, followed by financial management and investment funds. Commercial banking, employing almost one-fifth of the workforce, achieved a lower level of net income per employee.

1.9. Developments in own funds and in the solvency ratio

1.9.1. Number of banks required to calculate a solvency ratioilité

As at 31 December 2001, the number of banks required to meet a non-consolidated solvency ratio stood at 129, 128 of which were under Luxembourg law and one branch of non-EU origin. Among these banks, 105 carry out limited trading activities, and are therefore authorised to calculate a simplified ratio. Trading activities in the true sense remain confined to a limited number of banks.

Number of banks required	Integrat	ted ratio	Simpli	fied ratio	То	tal
to meet a solvency ratio	2000	2001	2000	2001	2000	2001
Non-consolidated Consolidated	24 13	24 13	117 9	105 14	141 22	129 27 ¹⁰

1.9.2. Developments in the solvency ratio

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

Following a reduction in the capital adequacy ratio during 2000 as a result of sustained lending activity, as well as movements in participating interests, the banks adjusted their capital base during the year under review.

Thus, the solvency ratio itself lies at 12.7%, easily exceeding the minimum threshold of 8% prescribed by the current prudential regulations. Taking into account only core equity capital (Tier 1), the aggregate ratio for the Luxembourg financial market rose from 10% as at 31 December 2000 to a provisional figure of 10.3% at the close of 2001.

Even though the rate of increase for 2000 (+17.3%) has not been reached, the sustained activity in lending operations is reflected by an increased rate of capital requirements to cover the credit risk, at a level of 4.1% for the year 2001. The volumes created by this sector of activity alone consume almost all coverage needs in terms of own funds. Own-fund requirements for coverage of foreign exchange risks and risks linked to the banks' trading portfolios remain marginal, all the more so since these show a net decline of 18.7% and 33.4% respectively compared with the previous year.

Eligible own funds also saw a positive development, which is required for the development of activities. Core capital, which represents 80.5% of total eligible own funds, rose by 6.1%, and additional own funds underwent a rise of 13.4%. Growth in the former is due to the sharp rise in "Silent participations" as well as in the item "Share premium accounts, reserves and profits brought forward", while subordinated liabilities of the type "Lower Tier 2" are responsible for the growth in additional own funds. Finally, following the significant rise in participations in 2000 (+49.7%), which must simply be deducted from eligible own funds, this movement stabilised, which led to a slight fall of 0.2%.

¹⁰ Banks, the participating interests of which are deducted from own funds on an individual basis do not need to calculate a consolidated ratio.

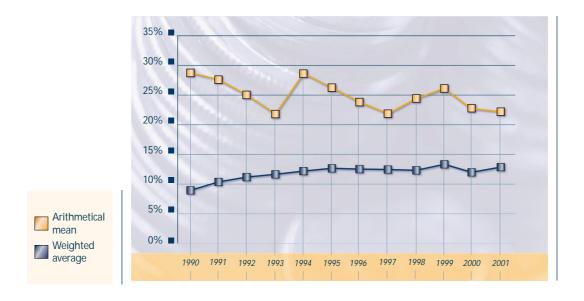
in millions of EUR

Consolidated consolidated (provision) Original own funds before deductions Paid-up capital Silient participation Share premium accounts, reserves and profits brought forward Funds for general banking risks Profits for the financial year Specific consolidation items Items to be deducted from original own funds Own shares Intangible assets Losses brought forward and loss for the financial year Specific consolidation items ORIGINAL OWN FUNDS (TIER 1) Additional own funds before capping Upper TIER 2 Of which: cumulative preference shares with no fixed maturity Of which: subordinated "upper TIER 2" debt instruments Lower TIER 2 TLOWER TIER 2" subordinated debt instruments and cumulative preference shares with fixed maturity ADDITIONAL OWN FUNDS AFTER CAPPING (TIER 2) OWN FUNDS BEFORE DEDUCTIONS (T1+T2+T3) ITEMS TO BE DEDUCTED FROM OWN FUNDS Items of share capital in other credit and financial institutions in which the bank owns a shareholding less than or equal to 10% of their share capital Items of share capital in other credit and financial institutions in which the bank owns a shareholding exceeding 10% of their share capital Items of share capital in other credit and financial institutions in which the bank owns a shareholding exceeding 10% of their share capital Items of share capital in other credit and financial institutions in which the bank owns a shareholding exceeding 10% of their share capital Items of share capital in other credit and financial institutions in which the bank owns a shareholding exceeding 10% of their share capital Items of share capital in other credit and financial institutions in which the bank owns a shareholding exceeding 10% of their share capital Items of share capital in other credit and financial institutions in which the bank owns a shareholding exceeding 10% of their share capital Items of	in millions of EUR		
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Paid-up capital Silent participation Silent participation Share premium accounts, reserves and profits brought forward Profits for the financial year Specific consolidation items Specific co			(provisional)
Paid-up capital Silent participation Silent for general banking risks I,896 I,995 Profits for the financial year Specific consolidation items S55 6 Items to be deducted from original own funds Own shares Intangible assets Losses brought forward and loss for the financial year Specific consolidation items -76 -76 Specific consolidation items -76 -77 ORIGINAL OWN FUNDS (TIER 1) Additional own funds before capping Upper TIER 2 Of which: cumulative preference shares with no fixed maturity 22 Of which: subordinated "upper TIER 2" debt instruments 2,707 2,44 Lower TIER 2" "Lower TIER 2" subordinated debt instruments and cumulative preference shares with fixed maturity 3,548 4,7 ADDITIONAL OWN FUNDS AFTER CAPPING (TIER 2) Super additional own funds before capping OWN FUNDS AFTER CAPPING (TIER 3) OWN FUNDS BEFORE DEDUCTIONS (T1+T2+T3) TIEMS TO BE DEDUCTED FROM OWN FUNDS Items of share capital in other credit and financial institutions in which the bank owns a shareholding exceeding 10% of their share capital Items of share capital in other credit and financial institutions in which the bank owns a shareholding less than or equal to 10% of their share capital Items of share capital in other credit and financial institutions in which the bank owns a shareholding less than or equal to 10% of their share capital Items of share capital Items o	Original complete from the best and the best and	20 574	22.5/7
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Funds for general banking risks Profits for the financial year Specific consolidation items 555 6 **Items to be deducted from original own funds Own shares Intangible assets Losses brought forward and loss for the financial year Specific consolidation items 76 77 **ORIGINAL OWN FUNDS (TIER 1) **Additional own funds before capping Upper TIER 2 Of which: cumulative preference shares with no fixed maturity Of which: subordinated "upper TIER 2" debt instruments Lower TIER 2" subordinated debt instruments and cumulative preference shares with fixed maturity **ADDITIONAL OWN FUNDS AFTER CAPPING (TIER 2) **Super additional own funds before capping OWN FUNDS AFTER CAPPING (TIER 2) **Super additional own funds before capping OWN FUNDS BEFORE DEDUCTIONS (T1+T2+T3) **TO BE DEDUCTED FROM OWN FUNDS Items of share capital in other credit and financial institutions in which the bank owns a shareholding exceeding 10% of their share capital in other credit and financial institutions in which the bank owns a shareholding less than or equal to 10% of their share capital in other credit and financial institutions in which the bank owns a shareholding less than or equal to 10% of their share capital in other credit and financial institutions in which the bank owns a shareholding less than or equal to 10% of their share capital **ELIGIBLE OWN FUNDS **Denominator** **TOTAL CAPITAL ADEQUACY REQUIREMENT** To cover credit risks To cover foreign exchange risks To cover trading portfolio risks **TOTAL CAPITAL ADEQUACY REQUIREMENT** To cover trading portfolio risks **TOTAL CAPITAL ADEQUACY REQUIREMENT** To cover trading portfolio risks **TOTAL CAPITAL ADEQUACY REQUIREMENT** To cover trading portfolio risks **TOTAL CAPITAL ADEQUACY REQUIREMENT** To cover trading portfolio risks **TOTAL CAPITAL ADEQUACY REQUIREMENT** To cover trading portfolio risks **TOTAL CAPITAL ADEQUACY REQUIREMENT** To cover trading portfolio risks **TOTAL CAPITAL ADEQUACY REQUIREMENT** To cover trading portfolio risks **TOTAL CAPITAL ADEQUACY REQUIREMENT	·		2,620
Profits for the financial year Specific consolidation items 555 6 Items to be deducted from original own funds -196 -9 Own shares -4 Intangible assets -89 -4 Intangible assets -89 -4 Intangible assets -89 -4 Intangible assets -76 -76 CORIGINAL OWN FUNDS (TIER 1) 20,375 21,66 Additional own funds before capping Upper TIER 2 3,343 3,1 Of which: cumulative preference shares with no fixed maturity 22 3,00 which: subordinated "upper TIER 2" debt instruments 2,707 2,46 Lower TIER 2 3,548 4,7 "Lower TIER 2" subordinated debt instruments and cumulative preference shares with fixed maturity 3,548 4,7 ADDITIONAL OWN FUNDS AFTER CAPPING (TIER 2) 6,813 7,7 Super additional own funds before capping 0 SUPER ADDITIONAL OWN FUNDS AFTER CAPPING (TIER 3) 0 OWN FUNDS BEFORE DEDUCTIONS (T1+T2+T3) 27,188 29,3 ITEMS TO BE DEDUCTED FROM OWN FUNDS 1 Items of share capital in other credit and financial institutions in which the bank owns a shareholding exceeding 10% of their share capital in other credit and financial institutions in which the bank owns a shareholding less than or equal to 10% of their share capital in other credit and financial institutions in which the bank owns a shareholding less than or equal to 10% of their share capital in other credit and financial institutions in which the bank owns a shareholding less than or equal to 10% of their share capital in other credit and financial institutions in which the bank owns a shareholding less than or equal to 10% of their share capital in other credit and financial institutions in which the bank owns a shareholding less than or equal to 10% of their share capital in other credit and financial institutions in which the bank owns a shareholding less than or equal to 10% of their share capital in other credit and financial institutions in which the bank owns a shareholding less than or equal to 10% of their share capital in other credit and financial institutions in which the bank owns a shareholding less than or equal to 10% of their share capital in other credit and		9,055	10,011
Specific consolidation items Items to be deducted from original own funds	Funds for general banking risks	1,896	1,996
Items to be deducted from original own funds Own shares Intangible assets Losses brought forward and loss for the financial year Specific consolidation items ORIGINAL OWN FUNDS (TIER 1) Additional own funds before capping Upper TIER 2 Of which: cumulative preference shares with no fixed maturity 22 3,343 3,1 Of which: cumulative preference shares with no fixed maturity 22 12.40 Lower TIER 2 13.548 17.77 Lower TIER 2 18.548 17.77 ADDITIONAL OWN FUNDS AFTER CAPPING (TIER 2) Super additional own funds before capping OWN FUNDS BEFORE DEDUCTIONS (T1+T2+T3) OWN FUNDS BEFORE DEDUCTED FROM OWN FUNDS Items of share capital in other credit and financial institutions in which the bank owns a shareholding exceeding 10% of their share capital Items of share capital in other credit and financial institutions in which the bank owns a shareholding exceeding 10% of their share capital Items of share capital in other credit and financial institutions in which the bank owns a shareholding exceeding 10% of their share capital Items of share capital in other credit and financial institutions in which the bank owns a shareholding exceeding 10% of their share capital Items of share capital in other credit and financial institutions in which the bank owns a shareholding less than or equal to 10% of their share capital Items of share capital in other credit and financial institutions In which the bank owns a shareholding less than or equal to 10% of their share capital Items of share capital Items of share capital in other credit and financial institutions In which the bank owns a shareholding exceeding 10% of their share capital Items of share capital in other credit and financial institutions In which the bank owns a shareholding less than or equal to 10% of their share capital Items of share capital It	Profits for the financial year	317	240
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Losses brought forward and loss for the financial year Specific consolidation items 7-6 7-7-7-7-7-7-7-7-7-7-7-7-7-7-7-7-7-		-	-90
Specific consolidation items 7-76 7-76 ORIGINAL OWN FUNDS (TIER 1) 20,375 21,61 Additional own funds before capping 6,891 7,8 Upper TIER 2 3,343 3,1 Of which: cumulative preference shares with no fixed maturity 22 Of which: subordinated "upper TIER 2" debt instruments 2,707 2,41 Lower TIER 2 3,548 4,7 "Lower TIER 2" subordinated debt instruments and cumulative preference shares with fixed maturity 3,548 4,71 ADDITIONAL OWN FUNDS AFTER CAPPING (TIER 2) 6,813 7,71 Super additional own funds before capping 0 SUPER ADDITIONAL OWN FUNDS AFTER CAPPING (TIER 2) 6,813 7,71 Super additional own funds before capping 0 SUPER ADDITIONAL OWN FUNDS (T1+T2+T3) 27,188 29,31 ITEMS TO BE DEDUCTED FROM OWN FUNDS 1 2,504 1 2,51 Items of share capital in other credit and financial institutions in which the bank owns a shareholding exceeding 10% of their share capital in other credit and financial institutions in which the bank owns a shareholding less than or equal to 10% of their share capital in other credit and financial institutions in which the bank owns a shareholding less than or equal to 10% of their share capital in other credit and financial institutions in which the bank owns a shareholding less than or equal to 10% of their share capital in other credit and financial institutions in which the bank owns a shareholding less than or equal to 10% of their share capital in other credit and financial institutions in which the bank owns a shareholding less than or equal to 10% of their share capital in other credit and financial institutions in which the bank owns a shareholding less than or equal to 10% of their share capital in other credit and financial institutions in which the bank owns a shareholding less than or equal to 10% of their share capital in other credit and financial institutions in which the bank owns a shareholding less than or equal to 10% of their share capital in other credit and financial institutions in which the bank owns a shareholding less than or equal to 10% of their share capital in	· ·		-59
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Of which: subordinated "upper TIER 2" debt instruments Lower TIER 2 "Lower TIER 2" subordinated debt instruments and cumulative preference shares with fixed maturity ADDITIONAL OWN FUNDS AFTER CAPPING (TIER 2) Super additional own funds before capping SUPER ADDITIONAL OWN FUNDS AFTER CAPPING (TIER 3) OWN FUNDS BEFORE DEDUCTIONS (T1+T2+T3) ITEMS TO BE DEDUCTED FROM OWN FUNDS Items of share capital in other credit and financial institutions in which the bank owns a shareholding exceeding 10% of their share capital in other credit and financial institutions in which the bank owns a shareholding less than or equal to 10% of their share capital ELIGIBLE OWN FUNDS Denominator TOTAL CAPITAL ADEQUACY REQUIREMENT To cover foreign exchange risks To cover trading portfolio risks 3,548 4,70 3,548 4,70 3,548 4,70 3,548 4,70 3,548 4,70 4,70 6,813 7,71 27,188 29,31 27,188 29,31 27,188 29,31 27,188 29,31 21,504 2,504 2,504 2,504 2,504 2,504 2,504 2,504 2,504 2,504 2,504 2,504 2,505 2,504	• •		22
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"Lower TIER 2" subordinated debt instruments and cumulative preference shares with fixed maturity ADDITIONAL OWN FUNDS AFTER CAPPING (TIER 2) Super additional own funds before capping SUPER ADDITIONAL OWN FUNDS AFTER CAPPING (TIER 3) OWN FUNDS BEFORE DEDUCTIONS (T1+T2+T3) ITEMS TO BE DEDUCTED FROM OWN FUNDS Items of share capital in other credit and financial institutions in which the bank owns a shareholding exceeding 10% of their share capital in other credit and financial institutions in which the bank owns a shareholding less than or equal to 10% of their share capital ELIGIBLE OWN FUNDS Denominator TOTAL CAPITAL ADEQUACY REQUIREMENT To cover credit risks To cover foreign exchange risks To cover trading portfolio risks 3,548 4,70 4,70 6,813 7,71 7,71 27,188 29,31 27,188 27,188 27,188 29,31 27,188 27,188 27,18	• • • • • • • • • • • • • • • • • • • •		
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ADDITIONAL OWN FUNDS AFTER CAPPING (TIER 2) Super additional own funds before capping SUPER ADDITIONAL OWN FUNDS AFTER CAPPING (TIER 3) OWN FUNDS BEFORE DEDUCTIONS (T1+T2+T3) ITEMS TO BE DEDUCTED FROM OWN FUNDS Items of share capital in other credit and financial institutions in which the bank owns a shareholding exceeding 10% of their share capital Items of share capital in other credit and financial institutions in which the bank owns a shareholding less than or equal to 10% of their share capital ELIGIBLE OWN FUNDS Denominator TOTAL CAPITAL ADEQUACY REQUIREMENT To cover credit risks To cover foreign exchange risks To cover trading portfolio risks 310			
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in which the bank owns a shareholding exceeding 10% of their share capital Items of share capital in other credit and financial institutions in which the bank owns a shareholding less than or equal to 10% of their share capital ELIGIBLE OWN FUNDS Denominator Z000 Z00 TOTAL CAPITAL ADEQUACY REQUIREMENT To cover credit risks To cover foreign exchange risks To cover trading portfolio risks 310		2,304	2,300
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Denominator200020TOTAL CAPITAL ADEQUACY REQUIREMENT16,34916,8To cover credit risks15,90416,5To cover foreign exchange risks13410To cover trading portfolio risks31020	ELICIPLE OWN ELINIOS	24 505	26.054
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To cover credit risks15,90416,50To cover foreign exchange risks13410To cover trading portfolio risks31020	Denominator	2000	2001
To cover credit risks15,90416,50To cover foreign exchange risks13410To cover trading portfolio risks31020	TOTAL CAPITAL ADEQUACY REQUIREMENT	16.349	16,872
To cover foreign exchange risks To cover trading portfolio risks 134 11 21 21			16,556
To cover trading portfolio risks 310 20			
			109
	To cover trading portfolio risks	310	207
Ratio 2000 20	Ratio	2000	2001
SOLVENCY RATIO (base 8%) ¹¹ 12.0% 12.7	SOLVENCY RATIO (base 8%) ¹¹	12.0%	12.7%
SOLVENCY RATIO (base 100%) 150.4% 159.2	SOLVENCY RATIO (base 100%)	150.4%	159.2%

¹¹ Eligible own funds/(total capital adequacy requirement * 12.5)

The graph below shows the development of 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.

Developments of the solvency ratio (base 8%) since 1990



1.9.3. Developments of solvency ratio distribution (base 8%)

In non-aggregate terms, improvement in the solvency ratio in the financial centre is essentially expressed in a reduction in the number of banks, the ratio of which is situated within the lower capitalisation bands, i.e. between 8% and 9%, and by an increase in the number of banks with a solvency ratio between 15% and 20%.

	Number	as % of total	
Ratio	2000	2001	2001
<8%	0	0	0.0%
8%-9%	10	2	1.6%
9%-10%	9	13	10.1%
10%-11%	16	12	9.3%
11%-12%	9	6	4.7%
12%-13%	10	11	8.5%
13%-14%	9	11	8.5%
14%-15%	8	5	3.9%
15%-20%	22	25	19.4%
>20%	48	44	34.1%
Total	141	129	100.0%

1.10. International expansion of Luxembourg banks in 2001

The expansion of Luxembourg banks on an international level continued in 2001, thus reflecting a move towards internationalisation in the banking groups concerned. Besides the opening of 4 branches, 11 subsidiaries within the financial sector were either formed or acquired during 2001. This diversification has an impact on the Commission in so far as the scope of consolidated supervision must be extended to these subsidiaries.

Name of bank	Entity formed or acquired
The Bank of New York Luxembourg S.A.	Opening of a branch in Brussels
Svenska Handelsbanken S.A	Opening of a branch in Geneva
SEB Private Bank S.A.	Opening of a branch in London
Dexia Banque Internationale à Luxembourg S.A.	Acquisition of 85% of Kempen & Co. N.V. in the Netherlands
Dexia Banque Internationale à Luxembourg S.A.	Acquisition of Financière Opale in France
Dexia Banque Internationale à Luxembourg S.A.	Acquisition of Ely Fund Managers Ltd in the UK
Banque Générale du Luxembourg S.A.	Acquisition of Banque MeesPierson Gonet (Suisse) S.A.
Banque Générale du Luxembourg S.A.	Acquisition of MeesPierson (Channel Islands) Ltd. in Guernsey
Banque Générale du Luxembourg S.A.	Acquisition of MeesPierson Trust in Liechtenstein
Crédit Européen S.A.	Acquisition of ING Banque Bruxelles Lambert (Suisse) S.A.
Crédit Européen S.A.	Acquisition of ING Baring Private Bank (Suisse) S.A.
Banque Populaire du Luxembourg S.A.	Acquisition of a 25% participating interest in the capital of Banca Popolare di Roma in Italy
Crédit Agricole Indosuez Luxembourg	Opening of a branch in Dublin
Banque de Luxembourg S.A.	Acquisition of a 49.99% participating interest in the capital of Fund Market France
Sanpaolo Bank S.A.	Formation of SP Private Banking S.A. in Switzerland

Branches established in the EU as at 31 December 2001

Country	Luxembourg branches established in the EU	Branches of EU banks established in Luxembourg
Germany Belgium Spain Finland France Ireland Italy	1 1 1 0 1 3	29 2 0 1 6 0
Portugal United Kingdom Sweden	2 3 1	2 5 2
TOTAL	14	54

Freedom to provide services in the EU as at 31 December 2001

Pays	Luxembourg banks providing services in the EU	EU banks providing services in Luxembourg
Germany	41	26
Austria	24	5
Belgium	47	18
Denmark	24	6
Spain	36	4
Finland	21	2
France	47	55
Greece	22	0
Ireland	20	22
[Iceland] ¹²	4	0
Italy	40	1
[Liechtenstein] ¹²	1	0
Netherlands	38	25
[Norway] ¹²	8	3
Portugal	25	6
United Kingdom	34	39
Sweden	19	1
TOTAL notifications	451	213
TOTAL number of banks	64	213

¹² Although Iceland, Liechtenstein and Norway, members of the European Economic Area, are not members of the EU, these countries have implemented and apply the European Directive on the taking up and pursuit of the business of credit institutions.

1.11. Banks issuing mortgage bonds

The principal activity of banks issuing mortgage bonds consists of granting loans guaranteed by real estate rights and/or loans to public organisations and issuing on this basis debt securities guaranteed by the claims resulting from these loans. These debt securities are known as mortgage bonds and their bearers benefit from a preferential claim on the loans which form their cover assets. These cover assets may not be seized by the personal creditors of the issuer other than the bearers of the mortgage bond.

Two years after the issue of the first public sector mortgage bonds, the market for Luxembourg mortgage bonds has continued its positive development. Indeed, as at 31 December 2001, the balance sheet total of the three banks issuing mortgage bonds totalled EUR 19.1 billion and the total volume of public sector mortgage bonds issued by these three banks reached EUR 11.3 billion, compared with EUR 5.7 billion at the close of the financial year 2000.

Issues of mortgage bonds are guaranteed by ordinary cover assets and by substitute cover assets. As at 31 December 2001, cover assets totalled EUR 14 billion, meaning that the mortgage bonds in circulation benefit from total over-collateralisation of EUR 2.7 billion. The ordinary cover assets of municipal bonds for the three banks in question break down as follows:

- claims on or guarantees from public organisations: EUR 3.9 billion
- bonds issued by public organisations: EUR 6.8 billion
- municipal bonds of other issuers: EUR 2.7 billion
- derivatives transactions: EUR 496 million

Besides these ordinary cover assets, the banks used substitute cover assets (other loans to credit institutions) amounting to EUR 25 million as at 31 December 2001.

Due to the faultless quality of investments of specialised banks and the scale of over-collateralisation in relation to the mortgage bonds issued, public sector mortgage bonds continue to receive an AAA rating from the rating agency Standard & Poor's. Indeed, the banks issuing mortgage bonds limit their investments by only including assets with a minimum AA rating as cover assets.

Although the Law of 21 November 1997 allows banks issuing mortgage bonds to issue both public sector mortgage bonds and mortgage debentures, the Luxembourg banks continued to limit their principal activities during the financial year 2001 to the issue of public sector mortgage bonds guaranteed by sovereign borrowers.

The first mortgage debentures will probably be issued during the course of 2002. In this context, the CSSF has just issued a Circular 01/42, addressed to banks issuing mortgage debentures and aimed at laying down the basic principles to determine the estimated realisable value of real estate which, up to 60% of the value, may serve as a guarantee for the mortgage debentures issued by a bank. Besides these basic principles, each bank wishing to issue mortgage debentures is required to establish detailed rules relating to valuation of property and all such rules must be submitted to the CSSF for approval.

¹³ see Chapter I, point 2.5.

2. Developments in the regulatory framework¹⁴

2.1. Circular CSSF 01/26 relating to the Law of 12 January 2001

This Circular gives notice of entry into force of the Law of 12 January 2001 transposing Directive 98/26/EC on settlement finality in payment and securities settlement systems in the amended Law of 5 April 1993 relating to the Financial Sector.

In accordance with the Law, the systems approved by the Treasury and Budget Minister, and in which no national central bank of the ESCB (European System of Central Banks) participates, are subject to the prudential supervision of the CSSF.

The Law requires in particular that Luxembourg operators of Luxembourg systems obtain approval as "other financial sector professionals" unless they are members of the ESCB or are already approved as credit institutions or financial sector professionals.

2.2. Circular CSSF 01/27 fixing the external audit guidelines in practice

This Circular contributes towards enhancing the prudential supervision of the CSSF and establishes the basis for a new relationship between external auditors and the CSSF. In fact, the Circular pursues a dual objective. On the one hand, it updates Circular IML 89/60 relating to the practical rules governing auditing of the annual financial statements of credit institutions by external auditors, which it revokes, and on the other hand, it takes account of the broadening of the statutory function of external auditors following transposition of Directive 95/26/EC commonly known as the "post-BCCI Directive", which requires external auditors to notify the control authority of any situations necessitating specific intervention or monitoring.

Regarding the first aspect, an audit report must be prepared with effect from the end of 2001 according to a harmonised standard form covering in detail all aspects of a bank's operations. This form is to be used and submitted by all banks, not only on paper, but also in electronic form, which enables the CSSF to process information more efficiently.

The accounts must be audited according to the working recommendations of the *Institut des Réviseurs d'Entreprises*, which applies the International Standards on Auditing (ISAs) and, where appropriate, the new international standard ISAE (International Standard on Assurance Engagements), published by the IFAC (International Federation of Accountants).

With regard to the second aspect, namely the notification function, the external auditor must notify the CSSF of any relevant information in terms of prudential supervision and/or any information likely to require urgent action by the CSSF which comes to his attention during the audit. The auditor's task is henceforth not only one of short-term prevention as is the case for certification of financial statements, but also medium and long-term prevention, which is the objective of prudential inspection. The external auditor is thus explicitly called upon to contribute to prudential inspection. Circular CSSF 01/27 sets out the practical procedures involved in the notification function and gives specific examples of its application.

 $^{^{\}rm 14}$ The Circulars in full are available on the CSSF website, at www.cssf.lu.

2.3. Circular CSSF 01/30 relating to tables E 1.1, "Simplified statement of assets and liabilities" and E 2.1 "Simplified profit and loss account", and updating of table B 1.5 "Liquidity ratio"

CSSF circular 01/30 dated 28 June 2001 aims to supplement the reporting of bank branches originating from the European Community. In particular, it introduces a simplified balance sheet and profit and loss account which branches of EU origin may draw up in place of the full balance sheet and profit and loss account required of credit institutions under Luxembourg law and of branches of non-EU origin.

2.4. Circular CSSF 01/32 relating to the disclosure of information on financial instruments

Circular CSSF 01/32 relating to the disclosure of information on financial instruments dated 11 July 2001, transposes into Luxembourg legislation the principles of the European Commission's recommendation 2000/408/EC dated 23 June 2000.

Information on financial instruments as defined in the Circular must in principle be supplied either in the management report or in the notes to the financial statements as well as, where relevant, to the consolidated financial statements, which are to be drawn up by credit institutions governed by Luxembourg law.

The Circular requires publication of qualitative information relating to the methods and systems used for the management of the risks inherent to such instruments, as well as the related accounting methods. Quantitative information regarding the level of operations of such instruments, as well as the credit risk and the related market risks, must also be provided.

The provisions of the Circular must be applied for the first time in preparing annual financial statements - and consolidated statements where required - for the 2001 financial year. An internal study based on annual reports for 2000 has shown that the majority of institutions in Luxembourg will need to make considerable efforts in order to fall into line with the terms of the Circular.

Qualitative information

Objectives/strategies and description of risk management

- Description of main characteristics of risk management system
- · Methods for evaluating and measuring risks
- · Limits (details of existence, description)
- Description of nature of exposure to risks incurred
- · Description of method of risk management
- · Information on trading transactions
- Information on hedging transactions
- · Information on complex or high-risk financial instruments
- Information on the use of guarantees and/or compensation agreements

Accounting methods applicable to financial instruments

Quantitative information

Analysis of financial instruments

Information on primary financial instruments (book value)

- · Breakdown of instruments according to instrument type
- · Breakdown of instruments according to maturity
- · Breakdown of instruments into listed and unlisted instruments
- Breakdown of instruments into trading and non-trading instruments
- · Breakdown according to economic sector
- Breakdown according to geographical region (countries/groups of countries)

Information on fair value for trading elements

(Where applicable, information on fair value for non-trading elements)

(Where applicable, information on mean values for non-trading elements)

Information on financial derivatives (notional value)

- Breakdown of instruments according to risk category (interest rate, etc.)
- Breakdown according to type of instrument (futures, options, etc.)
- Breakdown of instruments according to maturity
- · Breakdown of instruments into listed and unlisted instruments
- Breakdown of instruments into trading and non-trading instruments

Information on fair value for trading elements

Information on mean fair value for trading elements

(Where applicable, information on fair value for non-trading elements)

(Where applicable, information on mean values for non-trading elements)

Information on credit risk (may be supplied within the framework of the analysis)

Information on credit risk for primary instruments

Information on credit risk for derivatives

- · Breakdown according to degree of solvency
- Information on effects of compensation
- Information on replacement cost or other risk measures
- Information on net exposure

Information on significant concentrations of credit risks

- · Breakdown according to economic sector
- Breakdown according to geographical region (countries/groups of countries)

Information on market risk

Information on VaR, or other measure enabling market risk to be identified

- Breakdown of this information according to risk category (foreign exchange, interest rate, price)
- Information on potential effects on future income of variations in rate/price
- · Breakdown of fair values of trading instruments

2.5. Circular CSSF 01/42 relating to mortgage bank real estate valuation rules

This Circular is applicable to Luxembourg mortgage banks and aims to set out the basic principles in matters of determining the realizable value of real estate.

Each Luxembourg mortgage bank wishing to issue mortgage debentures is required to draw up property valuation rules. Based on Article 12-5(5) of the amended Law of 5 April 1993 relating to the financial sector, estimation of the value of a real estate must be undertaken in a true, fair and conservative manner and may only take into account the long-term characteristics of a real estate and the long-term income which it is likely to produce for any owner making normal use thereof.

The Circular provides that the estimated realizable value of an asset is set on the basis of two different calculation methods ("Zwei-Säulen-Methode"), thus favouring objectivity and transparency. The value of an asset is determined on the one hand by calculating the intrinsic value ("Sachwert"), taking into account the lasting characteristics of the asset and, on the other hand, by calculating the net income value ("Ertragswert"), taking into account the lasting income from the asset.

The Circular also stipulates that mortgage banks are required to appoint at least one independent and experienced real estate expert who shall propose an estimated realizable value for the asset, applying the detailed valuation rules set by the bank.

3. Significant events during the year

3.1. Planned reform to capital adequacy

In 2001, the work of the Basel Committee focused on the finalisation of the new provision for capital adequacy, commenced in June 1999.¹⁵.

The New Accord lays down approaches which are both more exhaustive and more precise in terms of risk sensitivity than the Accord of 1988, while preserving the global level of regulatory capital. The New Accord rests on three pillars: minimum capital requirements, Supervisory Review Process and market discipline.

With regard to credit risk, a differentiation based on debtor quality has been incorporated. Two principal options are available:

- Standardised approach (based on external ratings of debtors by recognised rating agencies), intended for less sophisticated banks;
- Internal ratings based approach (IRB) for more advanced banks. The latter comprises two variants, "foundation" and "advanced".

The new provision introduces more precise risk-sensitive treatment in terms of techniques of credit risk mitigating, both in the standardised approach and in the IRB approach.

In addition, the Committee has established a capital requirement for operational risk. Three approaches have been determined (in order of increasing complexity): the basic indicator approach, the standardised approach, and the internal measurement approach. The first approach uses only one indicator of operational risk for all the activities of an institution. The second allocates indicators to different business lines. In the third approach, the internal loss data are used to estimate the required capital.

These approaches, both for credit risk and operational risk, enable a reduction in capital requirements where the applied method is more sophisticated. The New Accord thus creates a structure based on graduated incentives enabling a reduction in capital requirements.

¹⁵ The second consultative document and its supporting documents, published in January 2001, have already been presented in the CSSF annual report for 2000. Since then, the following documents relating to the New Accord have been published by the Basel Committee:

Working paper on IRB treatment of expected losses and future margin income (July 2001)

[•] Working paper on risk sensitive approaches for equity exposures in the banking book for IRB banks (August 2001)

[•] Working paper on the regulatory treatment of operational risk (September 2001)

[•] Working paper on pillar 3 – market discipline (September 2001)

[•] Working paper on the IRB approach to specialised lending exposures (October 2001)

[•] Working paper on the treatment of asset securitisations (October 2001)

[•] Results of the second quantitative impact study (November 2001)

[•] Potential modifications to the Committee's proposals (November 2001)

3.1.1. New developments

Not all aspects of the new regulatory framework are featured in detail in the second consultative document dated January 2001. As the working groups of the Committee advanced their work, between August and December 2001, the Committee published working documents presenting the new developments. These publications result from the wish of the Committee to maintain an ongoing dialogue with the industry. For instance, the treatment of securitisation in the IRB approach, which was not included in the consultation document, was the subject of a working document published in October 2001.

Following about 250 comments received by the end of the consultation period, as well as the results of the quantitative impact study undertaken in 2001, the Committee decided to take into account the industry's criticisms on several points. This has led in particular to a reduction in capital requirements compared with that obtained if the initial proposals had been retained, and which would have been significantly higher than those calculated under the current Accord. As a first measure, the Committee decided to flatten the weight function for the "corporate" portfolio in order to take into account the specific features of small and medium-sized businesses. In addition, the "w" factor, intended to take account of residual risks when credit risk mitigating techniques are applied, has been removed from the first pillar of the New Accord; it will be replaced by requirements in the second pillar. Furthermore, the calibration of the requirement for operational risk has been amended from 20% to 12% of the total requirement.

Among the new significant developments, the following in particular may be noted:

- For repo-style transactions, portfolio approaches are envisaged.
- Specific treatment for retail commitments has been introduced in the IRB approach; in the standardised approach, preferential weighting for such commitments could be incorporated. Inclusion of small and medium-sized businesses in this category is being discussed.
- Detailed proposals for treatment of securitisation in the IRB approach as well as synthetic securitisation have been devised. Work on this subject is still ongoing.
- In the IRB approach, detailed proposals have been devised for the areas of equity (in the banking book) and specialised lending (including project finance).
- For treatment of the operational risk, a variety of advanced measurement approaches will be recognised. Banks operating using an advanced approach will be able to partially take into account insurance policies as methods for operational risk mitigating.

The Committee had planned to publish a third consultative document beginning 2002, the finalisation of the New Accord being scheduled for mid 2002. However, the agenda has changed in so far as the Committee will publish an outline of these new proposals, including in the areas in which these are not yet definitive. A new impact study will be based on this outline, and the results of this study will be incorporated in the third consultative document.

3.1.2. Impact on Luxembourg banks

The New Accord will be transposed into European Union law by a new Capital Adequacy Directive which will take effect at the same time and apply to all credit institutions and investment firms in the European Union. The new directive will adhere very closely to the New Accord, while taking into account certain European specificities in order to avoid creating any competitive inequalities between Member States, as well as to avoid disadvantaging small and medium-sized businesses.

In some European countries, small banks have already begun to set up joint databases enabling them to meet the qualifying criteria for the IRB approach. The standardised approach with regard to credit risk is not considered very attractive; not only is it more conservative but, due to the fact that use of external ratings is not very widespread in Europe, it would allocate a weighting of 100% to almost all corporate debtors.

The CSSF is not yet in a position to evaluate the impact of the new rules in terms of capital adequacy, since the information provided by Luxembourg banks is insufficient. It is all the more important for the purpose of evaluating the impact on the financial centre, that credit institutions participate in the next quantitative evaluation QIS 3, which will take place in 2002. Information technology systems and risk management systems will certainly be very much engaged, in particular if implementation of advanced methods is planned. On the other hand, it should be noted that adoption of the most simple approaches (standardised approach for credit risk and basic indicator approach for operational risk) will entail an increase in requirements compared with current levels; added to this is the duty to disclose information on the approaches chosen. It is worth noting that institutions wishing to operate under the IRB approach from 2005 onwards, the date planned for implementation of the New Accord, are already required to begin setting up the necessary databases. The credibility of Luxembourg as a financial centre will be judged not least by its degree of readiness and participation in the more advanced approaches provided for under the New Accord.

In September 2001, the CSSF had sent to all credit institutions under Luxembourg law a circular letter containing a questionnaire on the main options planned within the framework of the first pillar of the New Accord on the basis of the consultative document dated January 2001. The detailed results of this survey were published in the January 2002 edition of the CSSF Newsletter. It should be pointed out that most of the banks questioned will follow the approach adopted by their parent establishment. The survey has revealed that a significant number of Luxembourg banks plan to use the more sophisticated and risk sensitive approaches from the outset, or to move on to using more advanced approaches at a later stage. Thus, 27% of banks plan to use the IRB approach, of which one third will apply the advanced approach.

3.2. The Clearstream case

In February 2001, the press (mainly in France) published a series of articles accusing Clearstream of laundering criminal funds. These articles were based on the content of a book called "Révélation\$", published a few days later, and containing a whole range of allegations against Clearstream, including in particular the charge of keeping unpublished accounts, the use of Clearstream to carry out money laundering operations, and the existence of double accounting. The allegations were formulated in a vague manner and were not based on any tangible or reliable evidence.

The Public Prosecutor at the Luxembourg District Court instituted a preliminary investigation on 26 February 2001 in order to verify whether Clearstream had committed any violations of Luxembourg criminal law or the anti-money laundering provisions. The CSSF has followed the development of the Clearstream case closely and actively and assessed it from a prudential perspective.

In response to a question from a Luxembourg weekly newspaper, the Director General of the CSSF declared on 1 March 2001 that the supervisory authority had not noted any anomalies pointing to the existence of money laundering operations via parallel financial channels.

On 7 March 2001, the CSSF asked Clearstream to appoint an external auditor to examine the allegations made in the book "Révélation\$". For its part, Clearstream had already asked its legal advisors, Freshfields Bruckhaus Deringer, to appoint KPMG Forensic & Investigative Services to conduct audit work covering all the allegations. The CSSF accepted this choice. Clearstream also instituted legal action, in particular against the authors and publisher of the book.

The audit and verification work led to preparation by KPMG and Freshfields of an interim report dated 25 March 2001 and a status report dated 5 June 2001. Following these two reports, Clearstream decided to engage Deloitte & Touche and Andersen to undertake additional verification work. This work led to two new reports, the first prepared by Deloitte & Touche dated 4 September 2001, and the second prepared by Andersen dated 16 November 2001.

The four reports did not show any evidence supporting the allegations contained in the book "Révélation\$". According to a statement released by the Public Prosecutor's Office on 9 July 2001, the research undertaken following the institution of the judicial investigation revealed neither the scenario of systematic manipulation described by one witness cited in the book, nor failure to present a full set of accounts. The statement also indicated that the investigation would continue on isolated, non systemic facts, which however, were not relevant in terms of prudential supervision.

4. Prudential supervisory practice

4.1. Objectives of supervisory practice

Supervision of banks aims at the following:

- Ensuring the security of the public's savings by monitoring the solvency and prudent management of individual banks;
- Ensuring financial stability and proper functioning of the banking system as a whole;
- Protecting the reputation of the financial sector by censuring ethically unacceptable conduct.

In order to fulfil these objectives of public interest, the Commission monitors application by credit institutions of the laws and regulations relating to the financial sector.

4.2. Monitoring of quantitative standards

Quantitative standards, designed to ensure financial stability and risk spreading by credit institutions, relate to:

- Evidence of minimum equity capital;
- A maximum ratio between own funds on the one hand and risk exposure on the other;
- Limiting the concentration of risks on a single debtor or a group of associated debtors;
- Liquidity ratio; and

- Limiting qualified participating interests.

In 2001, the CSSF did not have to intervene in any instances for violation of capital ratio. It intervened on six occasions with regard to non-compliance of liquidity ratios, and on fourteen occasions with regard to overstepping limits on large risks. These breaches often resulted from difficulties in interpreting regulations, and all were rapidly regularised.

4.3. Monitoring of qualitative standards

In order to evaluate the quality of a bank's organisation, the Commission relies to a large extent on the analytical reports prepared by external auditors. The content of the reports for the 2000 financial year, analysed by the CSSF during 2001, was defined by Circular IML 89/60. With effect from the financial year 2001, these reports will be prepared according to the new format as defined in Circular CSSF 01/27. During the year under review, 127 analytical reports on Luxembourg credit institutions were analysed.

Within the framework of supervision on a consolidated basis, the CSSF requires the preparation of analytical reports for subsidiaries of credit institutions, whether these are banks or other enterprises in the financial sector, either in Luxembourg or abroad. 74 analytical reports of subsidiaries were analysed during the year under review.

Management letters prepared by external auditors for the attention of the banks' management constitute an important source of information on the quality of the organisation of credit institutions. In these reports, the external auditors point out weaknesses they have found in the internal control system during their assignment and which they deem fit to notify the banks. During 2001, the CSSF analysed 91 management letters.

The CSSF also takes into account internal audit work when evaluating the quality of the organisation and risk management by analysing the summary report which the internal auditor must prepare each year. The CSSF thus analysed 127 summary reports. In 2001, the CSSF also requested 72 specific internal audit reports in order to obtain more detailed information on particular subjects.

All these reports are processed according to a methodology described in the CSSF's internal procedures. The reaction of the CSSF depends on the seriousness of the problem raised and whether it is repetitive in nature. This reaction varies from simple monitoring of the problem on the basis of reports, through preparation of deficiency letters (lettres d'observation), to convening of the bank's management or on-site inspection undertaken by agents of the CSSF. Where necessary, the CSSF may use its formal powers of injunction and suspension.

During 2001, the CSSF sent 101 deficiency letters to banks based on shortcomings in terms of organisation.

4.4. Combating money laundering

The Commission pays special attention to the compliance by credit institutions with their professional duties in matters of money laundering offences. The annual report compiled by the external auditors must cover compliance with the legal obligations and enforcement of internal procedures to prevent money laundering. In 2001, the Commission took action against 44 banks due to shortcomings detected by the external auditor. Most of the interventions related to incomplete documentation on the opening of accounts. In these instances, the Commission asked the credit institutions to block the accounts concerned until receipt of all the required documentation. A few cases of inadequately trained staff were also observed, as well as instances where there was no system to detect irregular operations.

The law requires that banks with branches or subsidiaries abroad ensure that these comply with their professional duties under Luxembourg law, in addition to the standards of the host country. The internal audit of the Luxembourg bank must periodically verify compliance with these requirements. The CSSF took action on two occasions due to the non-compliance with Luxembourg rules by subsidiaries abroad.

Within the framework of establishing the on-site inspection programme for the year 2002, the CSSF decided to focus on money laundering issues. During inspections, particular attention will be paid to implementation of Circular CSSF 01/40 specifying the extent of professional duties in matters of combating money laundering.

According to current rules, the banks are under a duty to declare suspect operations both to the Public Prosecutor's Office and to the CSSF in order for the latter to perform its function of prudential supervision. The majority of statements received by the CSSF in 2001 related to measures taken against the Taliban in Afghanistan following the attacks of 11 September. However, a considerable number of declarations were made on the basis of the prudential principle (homonyms of persons, entities and organisations entered on lists distributed by the European Commission, the US authorities and the Public Prosecutor's Office, divergent spelling of names liable to lead to confusion, etc.). In a series of cases, the CSSF asked for additional explanations from the banks in order to verify if the internal procedures in place, particularly when entering in relation with new customers, were adequate, or if they were being rigorously observed.

The complete regulatory arsenal relating to money laundering is set out at point 6 of Chapter IX, "Banking and financial legislation and regulations".

4.5. On-site inspections

In 2001, the CSSF continued its efforts in terms of on-site inspections. 35 inspections were undertaken, as compared with 37 in 2000. These related principally to internet banking, prevention of money laundering, lending activities and the "group leader" function, and were undertaken within the framework of a programme set up at the start of the year based on evaluation of the risk areas of the various credit institutions.

During 2001, the CSSF also set up standard inspection procedures for the various functions to be controlled, which should simplify the work of its agents.

4.6. Interviews

The CSSF regularly conducts interviews with bank executives to discuss the business market and any problems. It also requires prompt notification by the banks if a serious problem arises.

In 2001, 175 interviews were conducted between CSSF representatives and bank executives.

4.7. Sanctions

As in previous years, the Commission did not have to formally use its right of injunction and suspension held under the law on the financial sector. However, following certain events which occurred at three banks, four executives were led to resign.

Moreover, the Commission filed five complaints with the Public Prosecutor's Office for illegal banking activities.

4.8. Specific controls

Article 54 (2) gives the Commission the right to ask an external auditor to conduct a specific audit in a given institution. The CSSF invited some banks to appoint an external auditor themselves to audit a specific area. Four controls of this type took place at banks during 2001.

4.9. Internal audit reports

In accordance with Circular IML 98/143 on internal control, banks must submit two reports to the CSSF each year: one summary report on the internal audit, and one management report on the internal control status.

- The summary report of the internal audit takes into account 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 must also raise occasional problems which the
 internal auditor has examined during the year, such as fraud, irregularities, etc.
- The management report on the status of internal controls constitutes a summary selfassessment of the quality of the entity's organisation compared with the standards in force.

4.10. Supervision on a consolidated basis

As at 31 December 2001, 29 banks under Luxembourg law¹⁶ (compared with 30 at the end of 2000), as well as one Luxembourg-incorporated finance company¹⁷ (idem 31.12.2000) were supervised by the Commission on a consolidated basis. In total, 43 foreign credit institutions and 53 foreign investment firms are included in this consolidated supervision of Luxembourg credit institutions.

Breakdown by country of incorporation of subsidiaries included within supervision on a consolidated basis

Country of incorporation	Number of subsidiaries
Switzerland	21
France	20
Channel Islands	9
United Kingdom	9
Spain	7
Netherlands	6
Ireland	4
Germany	3
Monaco	3
Belgium	2
Hong Kong	2
Italy	2
Singapore	2
Austria	1
Australia	1
Bahamas	1
Cayman Islands	1
Denmark	1
Japan	1
TOTAL	96
	I and the second

The high number of subsidiaries established in Switzerland is due in particular to the special role of Switzerland and Luxembourg as private banking centres. With the aim of creating synergies, several banking groups decided to attach their Swiss presence to their Luxembourg subsidiary, making the latter a centre of private banking for the entire group.

The conditions governing submission to a consolidated supervision, 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 question implement Directive 92/30/EEC on the supervision of credit institutions on a consolidated basis. The practical application of the rules on supervision on a consolidated basis are explained in Circular IML 96/125.

¹⁶ Banca Popolare Commercio e Industria International S.A.; Banca Popolare di Verona International S.A.; Banque Continentale du Luxembourg; Banque de Luxembourg S.A.; Banque Degroof Luxembourg S.A.; Banque Générale du Luxembourg S.A.; Banque Populaire du Luxembourg S.A.; Banque Raiffeisen; Banque Safra-Luxembourg S.A.; BHF-BANK International S.A.; BNP Paribas Luxembourg; Commerzbank International S.A.; Credem International (Lux); Crédit Agricole Indosuez Luxembourg; Crédit Européen S.A.; Danske Bank International S.A.; Deutsche Bank Luxembourg S.A.; DekaBank Deutsche Girozentrale Luxembourg S.A.; Dexia Banque Internationale à Luxembourg S.A.; DZ Bank Luxembourg S.A.; Dresdner Bank Luxembourg S.A.; Europäische Hypothekenbank S.A.; Fideuram Bank (Luxembourg) S.A.; John Deere Bank S.A.; Kredietbank S.A. Luxembourgeoise; Landesbank Schleswig-Holstein International S.A.; Sanpaolo Bank S.A.; Société Générale Bank & Trust; West LB International S.A.

¹⁷ Clearstream International

Consolidated supervision is performed using specific reporting, as well as on the basis of reports to be prepared by the external auditors and covering the group and the various operating subsidiaries. Until now, the CSSF has not yet itself undertaken on-site inspections at foreign subsidiaries of Luxembourg banks. However, it does intend to do so in the near future.

The Commission also investigates indirect participations of banks subject to its consolidated supervision in accordance with the terms of Circular IML 96/125.

4.11. Specific problems: fraud and malfunctioning

As in previous years, some banks were exposed to fraudulent activities of employees or malfunctioning of the organisation which led to financial losses. The present section describes typical cases in order to enable the banks to draw organisational lessons. These cases illustrate how compliance with certain essential organisational rules enables prevention of such events, or at least makes them less likely to happen.

- 1. Fraudulent activities in relation to cash transactions and processing of mail domiciled at the bank.
 - In certain instances, bank employees withdrew cash from customer accounts by placing
 false signatures. These situations arose because the account managers were able to
 make cash withdrawals on behalf of the customer but without the customer being
 physically present.
 - Fraudulent operations took place on accounts of some customers whose mail was generally held at the bank ("hold mail"). Using such manipulations, the customer's account manager was able to conceal losses on the accounts of customers within the framework of asset management undertaken for such customers. Specifically, the mail containing the account extracts and produced by an ad hoc service of the bank could be intercepted by the customer's account manager, who swapped the correct extracts for falsified extracts which showed an incorrect (more favourable) statement of the assets lodged with the bank.

In both cases, fraud was possible due to non-compliance of the principle of separation of tasks. On the basis of this principle, tasks and responsibilities must be assigned so as to ensure that a single person does not assume incompatible duties, whatever its hierarchical position in the bank. Banks are reminded that, on the basis of the provisions of Circular IML 96/126, each bank is under a duty to apply this principle and, using a reciprocal control environment, to guard against a person being able to commit errors and irregularities which might not be uncovered.

Similarly, Circular IML 98/143 regarding internal control insists on the duty of setting up internal control mechanisms within institutions, such controls being intended to guard against execution errors and fraud and to enable their rapid detection. Alongside daily controls and ongoing regular critical controls, each bank must ensure that risk operations, including cash transactions and handling of domiciled mail, are subject to regular controls undertaken by the bank's internal auditor.

In the two scenarios set out above, application of these principles means that the banks must:

 Be organised in such manner that cash transactions are effected directly and exclusively between the cashier and the customer (whose physical presence is required), without the involvement of the account manager;

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• Implement a system ensuring that a person other than the customer's account manager hands held mail to the customer when he attends at the bank. In addition, the preparation, issuing, printing and holding of mail must clearly be undertaken in a department which is independent of the customer's account management department.

Finally, the CSSF takes the view that the banks must take legal action in cases of fraud perpetrated by bank employees. Despite the publicity generated by legal action, it would be improper for such acts not to have consequences for their perpetrators.

2. Following the detection of fraudulent operations, the CSSF requires that the "four eyes control" principle be applied systematically with regard to all account opening and closure transactions, as well as with regard to all account entries made. This means that banking procedures must provide that all account records made by a person must compulsorily be validated by a second employee of the bank.

In addition, banks must attach particular importance to handling of internal accounts by their employees. Indeed, regular failure to verify movements on internal accounts has favoured the commitment and hence the concealment of fraud perpetrated by bank employees.

It should be stressed that, on the basis of Circulars IML 96/126 and IML 98/143 referred to above, the opening, use and closure of such accounts must be governed by precise procedures which include provision for monitoring account movements and regular evidence of balances, whereby it is the duty of the internal auditor of the bank to verify on a regular basis that such procedures exist and are being observed.

- 3. Following malfunctions detected at several banks, the CSSF requires that private banking operations may not be effected by simple banking agencies set up for retail banking. Among the typical characteristics of private banking, particular mention should be made of contact with wealthy customers processing complex and often riskier operations, discretionary management presupposing advanced knowledge of the financial markets, and held mail carrying a particular responsibility. Such business relations must be handled in specialised centres equipped and organised in such a manner as to create a maximum of quality and control.
- 4. In the context of Lombard loans (margin lending), one customer effected significant forward transactions leading to considerable losses which he was not in a position to sustain financially. The losses suffered through these operations ultimately had to be borne by the bank, since the guarantee held by the bank in the form of financial assets of the customer had become insufficient and that the customer was not able to provide any additional guarantees. The bank's control systems failed to detect this risk due to both technical and human failings. Forward operations were not included in the lists of customer commitments which are regularly compared with customer assets. On the other hand, the people who should have reviewed forward operations did not notify this customer's alarming situation to the general management.

This case illustrates the importance of a sound system for monitoring customer commitments in relation to available guarantees. Such a system must not only include advances but also all other commitments: guarantees, forward operations, etc. It must be particularly effective when the bank authorises its customers to effect leverage credit operations.

5. Another customer lodged bearer securities with a bank, then requested and obtained a loan secured by the same securities. It subsequently emerged that these were forgeries and that the bank had fallen victim to a confidence trick. The bank should not have accepted securities as a guarantee without authenticating them and the holder's right of disposal had been clearly established.

6. A bank opened an account for a foreign management company of an investment fund. The money which the company placed in this account served as guarantee for a loan granted to another company of the depositor's group. It subsequently emerged that part of the money which the management company had placed in fact belonged to the investment fund, i.e. to the investors, and should not have been pledged as guarantee.

The banks must treat accounts opened by professionals with caution if they are likely to receive funds not belonging to them. The funds placed in such accounts may only serve as a guarantee if the bank is certain that they do not belong to third parties.

The above problem was exacerbated by the fact that those in charge at the bank did not pay the necessary attention to a key document, received when the account was opened, for the simple reason that this document was written in a language not used in Luxembourg. The only person at the bank who understood this language did not realise the significance of the information contained in the document in question.

7. Some institutions occasionally transported funds in cash (between Luxembourg and abroad) or collected cash from some of their private customers. The CSSF strongly recommends that banks refrain from such practices, not only in light of the physical risks involved, but also of the risk of fraud to which the banks expose themselves and the risk of contravening foreign law.

4.12. Canvassing of customers

For several years now, the Commission has been concerned by cases of customer canvassing practised by employees to the detriment of their former employer.

The rules to be observed in such instances of specific competitive situations were set out by the CSSF in Circular 2000/15 relating to the rules of conduct in the financial sector:

- The professional must refrain from removing or attempting to remove customers from a
 competitor by using dishonest or unfair methods. The professional is, in particular, not
 permitted to try to receive and use confidential data on the customers 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 an account
 manager changes employer, since both the professional and the employee in question may on
 this basis, and according to the circumstances, each be held liable under both criminal and civil
 law.
- The professional reputation of persons concerned under the terms of Articles 7 and 9 of the Law of 5 April 1993 on the financial sector may be challenged by the Commission if such practices are detected.

The starting point for the CSSF's approach is that the goodwill of a bank belongs to the latter and not to the employees, whatever the professional and sometimes private relationship which may exist between the employees and their customers.

The experience gathered in processing the various complaints referred to the CSSF shows that certain rules must be observed both when a bank hires a new employee and when a bank takes its leave of a manager.

If a bank is recruiting a new manager who previously worked for a competitor, it is essential for the bank to ensure that it draws the manager's attention to the regulatory provisions in matters of canvassing, preferably in writing. The bank must make it clear that all contact with customers of the former employer is prohibited. Consequently, it must monitor new customer

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account requests and do everything within its power to verify that these are not the result of canvassing undertaken by the newly recruited manager. Obviously, the terms of remuneration must not be designed so as to encourage such canvassing.

If a manager is about to leave a bank, the bank must immediately take measures to take care of the customers affected. In order not to leave such customers without a contact at the bank, a new manager must be named and introduce himself as such.

The former manager must not inform customers of his departure on his own initiative, either before or after leaving the bank. It must be presumed that when a manager who has left a bank contacts a customer of his former employer, he is not doing so as a private individual but as an employee of his former bank. To the extent that the business relationship only exists as such between the bank and the customer, the manager may not agree on a personal basis with a customer to contact him once he is in his new job.

Clearly, a manager who leaves a bank is not allowed to take with him any information files (address lists, telephone lists) relating to the customers of his former employer. This ban applies to all media: listing paper, diskettes, information recorded in a notebook, numbers recorded in a mobile phone, etc.

With regard in particular to use of a mobile phone for contact between a manager and customers, the CSSF strongly recommends to banks that account managers are prohibited from using their personal mobile phones. In fact, it is preferable that each manager should use only the mobile phone provided to him by his employer for the purpose of contacting customers. Thus, when the manager leaves the bank, he is obliged to return the mobile phone to his former employer.

CSSF's experience shows, moreover, that in some cases, if an account manager changes employer it is often subsequent to unprofessional or even fraudulent conduct. It is therefore vital for the new employer to obtain detailed information on the career history of the manager at the time of recruitment, particularly requesting, if possible, a reference from the former employer. It is also important that the former employer takes the required legal measures in relation to managers having engaged in fraudulent conduct.

4.13. International co-operation in matters of banking supervision

The CSSF has concluded memoranda of understanding with the banking supervisory authorities of most Member States of the European Economic Area¹⁸ with a view to specify terms of cooperation. These memoranda concern in particular the control of credit institutions involved in cross-border operations by way of the freedom to provide services or through the creation of branches.

In addition, in accordance with the legal provisions in force, the CSSF co-operates and exchanges information on an informal basis with a number of its counterpart authorities.

In 2001, the CSSF held eight bilateral meetings with various banking supervisory authorities in order to exchange prudential information on institutions under supervision having a presence in both countries.

¹⁸ Namely Germany, Belgium, Spain, Finland, France, Ireland, Italy, Norway, the Netherlands, Portugal, the United Kinadom and Sweden.

Alongside the consultations required under European Directives, the CSSF informs the relevant authorities of all significant facts relating to supervision. In particular, it consults the relevant authorities regarding the acquisition of significant participating interests and restructuring of share ownership. In 2001, the CSSF sent 460 letters to foreign authorities in the context of international co-operation.

In 2000, the CSSF signed a memorandum of understanding with the Belgian and French authorities relating to supervision of the DEXIA Group. In 2001, a similar agreement, this time relating to supervision of the banking activities of the Fortis Group, was signed between the CSSF and the Belgian and Dutch authorities.

The authorities considered that the new structures of these groups, in introducing a decentralised organisation of operational management units and centres of competence, made an adaptation of the prudential supervision to the activities of these groups necessary. The key objective of such cooperation between authorities is to ensure that all banking activities of these groups are adequately supervised. To this end, the authorities are particularly keen to ensure that the various sets of regulations are applied in a harmonised manner in order to avoid any unbalanced treatment within the groups.

The cooperation between authorities is enacted on several levels:

- close consultation between the authorities to co-ordinate 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 for the principal purpose of updating the list of points requiring the
 attention of the authorities within these groups, drafting of control plans and, finally,
 examining the appropriateness of inspections to be made on-site by the competent
 authority in close cooperation with the other relevant authorities.

The CSSF takes the view that this new form of co-operation substantially improves the effectiveness of supervision of cross-border banking groups and it is convinced that these can be supervised thoroughly by national authorities collaborating via memoranda of understanding so as to cover all dimensions of a group's activities. This underlines the belief of the CSSF that there is no need for centralised supervision of cross-border groups at EU level.

5. Evaluation of financial stability

Stress tests in the economic and financial environment, beyond analysis of risk positions per se, also provide valuable insight into the risk management of Luxembourg credit institutions. In 2001, the CSSF used this method in order to evaluate the effects of two major stress events on the financial stability of the financial center. It intends to continue to expand and converge such risk measures.

5.1. Stress tests applied to exposure to high-risk sectors/high-risk countries

Monitoring of certain sectors which are more specifically affected by an unfavourable economic climate as well as by the direct and indirect consequences of the tragic events of 11 September 2001 is undertaken on the basis of the new quarterly reporting of exposure across high-risk sectors as determined by the circular letter dated 29 November 2001. The sectors covered are telecommunications, media and technology, transport, aviation, tourism and leisure, as well as insurance. Twenty "systemic" credit institutions, selected on the basis of their balance sheet totals, and comprising the majority of risk positions of the financial market, were asked to provide quarterly reporting. The sample survey covers 60% of the balance sheet total and 74% of equity capital of the Luxembourg financial center at the end of 2001.

Monitoring exposures to high-risk countries is undertaken on the basis of the banks' annual reporting of breakdown of value adjustments.

The CSSF applies the same methodology to evaluation of exposure to high-risk sectors and exposure to high-risk countries. The analysis is undertaken from two perspectives.

In a purely quantitative view, the gross amounts, as well as the use of credit risk mitigation techniques, are the subjects of an analysis which provides an overall view of the exposure of Luxembourg credit institutions.

From a more qualitative angle, the development of stress scenarios applied to the banks' most significant risk exposures detects any risk concentration. These simulations, jointly with other instruments of prudential supervision, enable the CSSF to efficiently identify the potential weaknesses in risk positions of credit institutions.

5.1.1. Methodological aspects

The working hypotheses applied both to risk positions and counterparty default probabilities, as well as losses in the event of default, are deliberately conservative. The same is true with regard to the hypothesis of perfect correlation between individual defaults. The aggregate data is thus analysed according to the following formula:

		Estimated credit loss = Σ_i NRP _i * PD _i * RL _i
where:		
NRP	=	Net risk position
PD	=	Probability of default
RL	=	Rate of loss

Risk positions are considered net of collateral and guarantees. The latter must satisfy strict conditions of eligibility covering aspects both of quality and liquidity. In certain instances, haircuts are applied to the residual non-collateralised risk. Specific provisions may for their part be deductible from the risk position.

The **probability** of default is modelled on historical default probabilities linked to ratings awarded by recognised rating agencies. An upward adjustment of the probability of default constitutes the actual stress effect of the simulation.

The rate of non-recovery is considered to lie at 50%. This rate of non-recovery is in line with the working hypotheses of the Basel Committee. The resulting recovery rate is lower than the historical average, according to publications by rating agencies.

The anticipated credit loss thus calculated is then set against the capital buffer of each credit institution. On a hypothetical basis, the current result and general provisions previously constituted are the first to be absorbed. Beyond this, regulatory capital is impacted, leading to a lowering of the solvency ratio of the credit institution following the simulation. Easing of the more conservative hypotheses then enables a more sophisticated analysis of the impact in capital terms in order to confirm the presence or absence of any potential weaknesses in a credit institution.

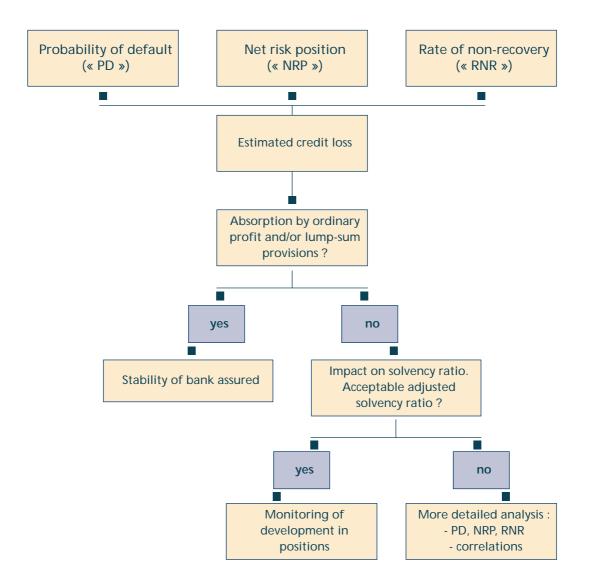
5.1.2. Results of simulations

Globally, the results of the simulations on the basis of the data supplied by the twenty systemic credit institutions of the Luxembourg financial center lead to the conclusion that these institutions do not reveal any significant weaknesses with regard to exposure to so-called "high-risk" sectors.

Even assuming the impact of a stressful event across all high-risk sectors or across all high-risk countries, none of the twenty credit institutions would have to bear the loss of all their equity.

In all cases, the impact on solvency ratio may be considered as minor. Indeed, provisions alone absorb a large part of the impact. Thus, assuming the impact of a simultaneous stressful event across high-risk sectors, only four of the twenty credit institutions record a solvency ratio below 8%. The relative significance of commitments in the telecommunications sector is the main reason. Assuming a stressful event across high-risk countries, all the banks analysed maintain a solvency ratio above 8%. Finally, it should be noted that a crisis scenario in an isolated sector, country or region clearly produces lesser effects.

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5.2. Systemic risk following from interbank exposures of Luxembourg credit institutions

5.2.1. Presumption of systemic risk

The aggregate balance sheet of Luxembourg credit institutions reveals a significant concentration in terms of interbank assets and liabilities. Some 50% of balance sheet activity concerns transactions between bank counterparties. The extent of such sectoral exposures gives rise to a presumption of systemic risk. Indeed, based on the sums committed and its intertwined structure, the interbank market comprises a potential risk of contagion, where the default of one counterparty in the interbank market risks causing a whole series of defaults.

The objective of this study is to quantify the potential of contagion in the Luxembourg interbank market.

5.2.2. Modelling and sampling

Interbank risks are assessed by means of a simulation exercise, the main lines of which are set out in the diagram below.

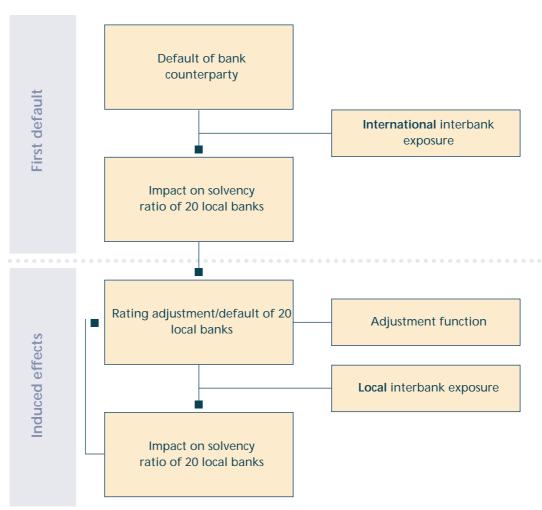
At the start of the modelling process, a default by one of the main counterparties in the interbank market is postulated. Selection of such counterparties is based on the banks' quarterly prudential report on concentration risk, which includes interbank assets and liabilities in both balance and off-balance sheets. Guided by considerations of representativeness and manageability, 24 bank counterparties, all of them being major European banking groups, have been retained. After this, an assessment is made of the impact of this first default on the solvency of Luxembourg banks. In this context, only the twenty most significant local banks in balance sheet terms are considered.

It is assumed that the first default corresponds to a 100% loss of the commitments held by a local bank in relation to the defaulting counterparty. Each local bank thus sees a reduction in own funds equal to the sum of its interbank commitments to the defaulting group. Following this, an adjustment is postulated in the rating of each of the twenty Luxembourg banks based on the amount of their equity affected by the first instance of default. This rating adjustment creates induced effects ("contagion" effects), on the basis of the successive provisions which the local banks form based on the successive reduction in the credit ratings granted on the local interbank market to local bank counterparties. In this context, it is assumed that the own funds of a local bank, due to its exposure to another local bank having rating X, are reduced by an amount equal to the expected loss, i.e.

probability of default of a counterparty rated X * estimated loss in the event of default * exposure

These contagion effects may potentially generate multiple defaults to the extent that the payment default of a local bank endangers the solvency of its lending banks, which in turn risk destabilising the lending banks' own counterparties.

Illustration of the simulation exercise



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5.2.3. Solvency and interbank risks

The subsequent figures summarize the simulation results given an assumed recovery rate of 50% and a rating adjustment function as defined in the table below.

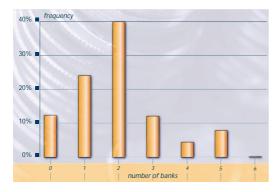
Solvency Probability of default [11%, +∞) 0.04% [10%, 11%) 0.19% [9%, 10%) 1.40% [8%, 9%) 6.60% [7%, 8%) 25.35% [6%, 7%) 100.00% [0%, 6%) 100.00%		
[10%, 11%) 0.19% [9%, 10%) 1.40% [8%, 9%) 6.60% [7%, 8%) 25.35% [6%, 7%) 100.00%	Solvency	Probability of default
	[10%, 11%) [9%, 10%) [8%, 9%) [7%, 8%) [6%, 7%)	0.19% 1.40% 6.60% 25.35% 100.00%

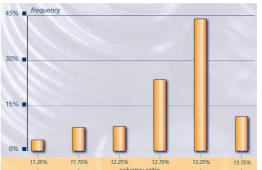
This table shows the default probability based on the bank's rating as identified by its solvency ratio. Thus, for a solvency ratio below 6%, default is assumed to be the sure event.

The illustrations below detail the impact of interbank payment default scenarios on the own funds of the major local banks.

Results of interbank simulation

Distribution of number of undercapitalisations Distribution of average solvency ratio





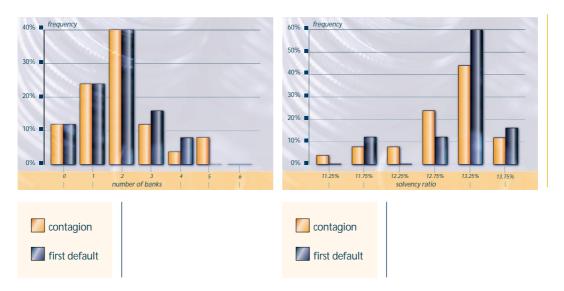
The graph on the left associates frequency of scenarios to the number of banks becoming undercapitalised, i.e. where their solvency ratio falls below the regulatory threshold of 8%. Thus, in 10 scenarios out of 24, i.e. 40% of cases, exactly two local banks were under-capitalised. Furthermore, there is no scenario which endangers the capitalisation of more than five local banks at once.

The graph on the right takes into account the amount of interbank commitments. It shows the distribution of the average solvency ratio across all 24 scenarios. In 11 scenarios, i.e. 44% of observations, this aggregate ratio lies between 12.75% and 13.25%.

The following illustrations contrast the results of the simulations with and without induced effects. They allow an assessment of the relative importance of the sole contagion effects.

Interbank simulations with and without contagion

Distribution of number of undercapitalisations Distribution of average solvency ratio



Taking into account induced effects at the local level only marginally modifies the impact on own funds due to a single initial default. Thus, the graph on the left only shows a slight flattening out in the distribution of undercapitalisations. As for the aggregate solvency ratio, the average drops by 0.2%, with a standard deviation up by 0.06%.

Finally, it is noteworthy that the robustness of our results are underscored by a sensitivity analysis in relation to the parameters (recovery rate and adjustment function).

5.2.4. Evaluation

Across all 24 scenarios, the aggregate solvency ratio for the twenty local banks remains high. Indeed, it never falls below 11.17%. However, this average figure does mask significant disparities. On average, for each scenario, we find two banks in a position of undercapitalisation, one of which loses all of its own funds.

In view of the sums committed – average interbank exposure amounts to some 500% of average own funds – these results appear comforting. Moreover, they are also encouraging in terms of the local systemic risk, since the effect of the first default largely outweighs local contagion effects.

However, it is important to put these results into perspective. First of all, we are working with equally probable, independent and partial scenarios which use as their basic hypothesis default on the sole interbank market of just one of the major international banking groups. Moreover, the task remains to assess the reliability over time of the conclusions reached, by re-running the exercise over several separate periods.

SUPERVISION OF UNDERTAKINGS FOR COLLECTIVE INVESTMENT (INVESTMENT FUNDS)

- 1. Developments in 2001
- 2. Newly created entities approved in 2001
- 3. Analysis of issues and redemptions over the past two years
- 4. Movements in investment funds investing principally in other investment funds
- 5. Prudential supervisory practice
- 6. Performance analysis for 2001

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1. Developments in 2001

1.1. Key trends

In 2001, the investment funds sector saw fairly significant growth compared with previous years in terms of the number of investment funds in operation. However, compared with earlier years, net assets only rose moderately. 1,908 investment funds were officially registered as at 31 December 2001, compared with 1,785 at the end of the previous year (+6.9%), and net assets managed rose to EUR 928.4 billion at the end of the year, compared with EUR 874.6 billion twelve months earlier (+6.2%).

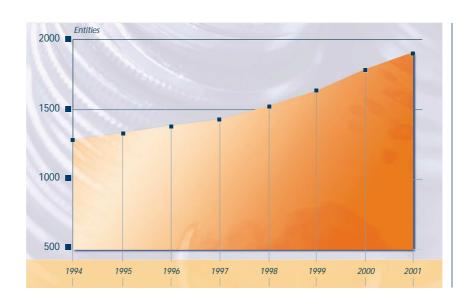
Movement in the number and net assets of investment funds

in billions of EUR

Year	No. of investment funds	Regis- trations	With- drawals	Net change	In %	Net assets	Net issues	Change in net assets	In %	Average net assets by fund
1994 1995 1996 1997 1998 1999 2000 2001	1,283 1,329 1,384 1,426 1,521 1,630 1,785 1,908	200 166 182 193 234 265 278 299	92 120 127 151 139 156 123	108 46 55 42 95 109 155	9.2 3.6 4.1 3.0 6.7 7.2 9.5 6.9	247.5 261.8 308.6 391.8 486.8 734.5 874.6	23.8 2.0 22.5 50.1 84.1 140.1 168.1 121.7	0.4 14.3 46.8 83.2 95.0 247.7 140.1 53.8	0.2 5.8 17.9 27.0 24.2 50.9 19.1 6.2	0.193 0.197 0.223 0.275 0.320 0.451 0.490 0.487

The number of new investment funds officially registered in 2001 was 299, which represents an unprecedented level. The number of withdrawals (176) however also reached a new record.

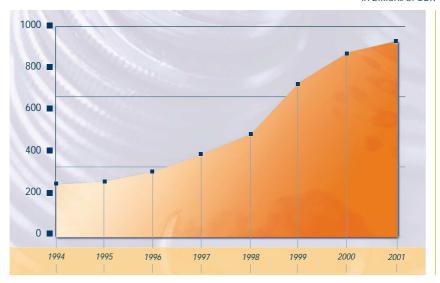
Number of investment funds



Despite the decline in the stock markets, net assets of investment funds developed positively during 2001. This was due exclusively to a regular flow of new capital into Luxembourg investment funds. Net issues were thus positive throughout all twelve months of the year.

Investment fund net assets

in hillions of FUR



The breakdown of investment fund net assets across fonds communs de placement (FCPs), sociétés d'investissement à capital variable (Sicavs) and sociétés d'investissement à capital fixe (Sicafs) reveals that, as at 31 December 2001, FCPs were the most prevalent, with 994 entities out of a total of 1,908 investment funds in operation, compared with 885 entities operating as Sicavs.

Breakdown of investment funds by legal status

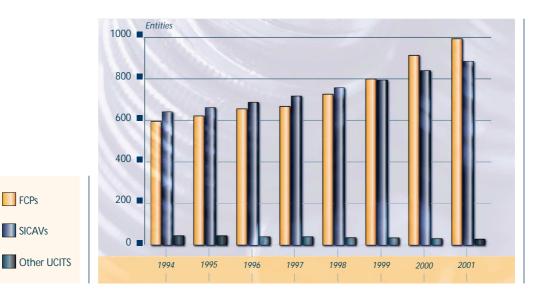
in billions of EUR

							III DI	IIIOIIS OI LUK
At	FC	CPs .	SIC	AVS	Other investment funds		Total	
year	Number	Net	Number	Net	Number	Net	Number	Net
end		assets		assets		assets		assets
1994	596	154.1	642	90.2	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	270.8	758	210.3	36	5.7	1,521	486.8
1999	800	385.8	795	341.0	35	7.7	1,630	734.5
2000	914	462.8	840	404.0	31	7.8	1,785	874.6
2001	994	482.1	885	441.5	29	4.8	1,908	928.4
	1			l				l

FCP net assets totalled EUR 482.1 billion, i.e. 51.9% of the total, at the end of 2001. However, Sicav assets, which totalled EUR 441.5 billion at the end of the year, saw a rate of growth higher than that of FCPs in 2001 (+9.3% as against +4.2%).

Supervision of undertakings for collective investment

Breakdown of investment funds by legal statuts



The following table 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 as amended or the Law of 19 July 1991 relating to investment funds reserved for institutional investors.

Breakdown of investment funds falling within Parts I and II of the Law and institutional funds

in billions of EUR

	1					I DIIIIOIIS OI LOR
At	Pa	rt I	P	Part II	Institutio	nal funds
year	Number	Net	Number	Net	Number	Net
end		assets		assets		Assets
1994	946	165.3	303	80.8	34	1.4
1995	952	171.9	335	88.1	42	1.8
1996	988	209.2	353	96.2	43	3.2
1997	980	280.4	367	102.2	79	9.2
1998	1,008	360.2	400	111.0	113	15.6
1999	1,048	564.2	450	137.0	132	33.3
2000	1,119	682.0	513	153.3	153	39.3
2001	1,196	708.6	577	178.2	135	41.6
			l			

Investment funds that fall under Part I of the Law of 30 March 1988 as amended 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.

With regard to institutional funds, the number of investment funds fell by 11.8%, while net assets grew by 5.9%. It should be noted in this context that the Law of 17 July 2000 modifying certain provisions of the Law of 30 March 1988 relating to investment funds now allows the creation of subfunds and classes of shares reserved to one or several institutional investors in terms of investment funds falling within the scope of the 1988 Law.

Breakdown of investment funds falling within Parts I and II of the Law and institutional funds



With regard to investment funds subject to the Law of 30 March 1988 as amended, the spread between funds subject to Part I and those subject to Part II still remains fairly stable. 62.7% of all investment funds in operation as at 31 December 2001 were Community UCITS governed by Part I of the Law, and 30.2% were other investment funds not directly admitted to free marketing in the other EU countries. As at the same date, 76.3% and 19.2% of net assets were held in funds governed by Parts I and II respectively.

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

As in previous years, umbrella funds saw sustained growth in 2001.

This structure, which brings together under the same legal entity several subfunds centered on investment in a given currency, geographical region or economic sector, enables investors to refocus 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 outlook for available returns. The structure of umbrella funds 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 the following table shows, the expansion of umbrella funds has continued, to the detriment of traditionally structured investment funds, both numerically and in terms of net assets managed during the previous year. The proportion of umbrella funds in relation to total investment funds rose from 57.6% to 59.2%, and that of net assets managed from 84.5% to 85.9% during 2001.

Supervision of undertakings for collective investment

Umbrella funds

in billions of EUR

At year end	Total number of invest- ment funds	Number of umbrella funds	As a % of the total	Number of subfunds	Average no. of subfunds per umbrella fund	Total number of entities	Net assets umbrella funds	As a % of the total	Net assets per subfund
1994	1,283	511	39.8	2,490	4.87	3,262	151.6	61.3	0.061
1995	1,329	573	43.1	2,841	4.96	3,597	174.4	66.6	0.061
1996	1,384	632	45.7	3,187	5.04	3,939	222.0	71.9	0.070
1997	1,426	711	49.9	3,903	5.49	4,618	296.1	75.6	0.076
1998	1,521	797	52.4	4,454	5.59	5,178	384.3	78.9	0.086
1999	1,630	913	56.0	5,119	5.61	5,836	604.9	82.4	0.118
2000	1,785	1,028	57.6	6,238	6.07	6,995	739.1	84.5	0.118
2001	1,908	1,129	59.2	6,740	5.97	7,519	797.8	85.9	0.118

As at 31 December 2001, 1,129 investment funds out of a total of 1,908 had adopted a multiple subfund structure. During the year under review, the number of traditionally structured investment funds increased from 757 to 779 (+2.9%), while the number of subfunds in operation rose from 6,238 to 6,740 (+8.0%). Therefore, as at 31 December 2001, a total of 7,519 economic entities were trading, i.e. 7.5% more than at the close of the previous year.

Since the end of 1994, the number of subfunds has risen from 2,490 to 6,740 (+170.7%), while the total number of investment funds has increased from 1,283 to 1,908 entities (+48.7%) over the same period. The average number of subfunds per undertaking was 5.97 as at 31 December 2001, slightly down compared with the record figure of 6.07 for the year 2000. However, this figure conceals a wide diversity between the smallest and largest investment funds.

As at 31 December 2001, umbrella fund net assets totalled EUR 797.8 billion, i.e. an increase of 58.7 billion or 7.9% compared with the previous year-end. With EUR 0.118 billion per subfund, average net assets remained on a par with the two previous years, but still far below those of traditionally structured investment funds, which totalled EUR 0.168 billion per entity as at 31 December 2001.

1.3. Valuation currencies used

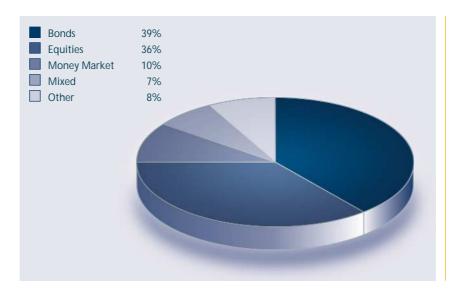
With regard to the valuation currencies used, most entities (4,734 out of a total of 7,519) are denominated in euros (or "in" currencies), followed by the US dollar (1,959) and the Swiss franc (254). In terms of assets, the entities denominated in euros (or "in" currencies) comprise EUR 552.7 billion of a total EUR 928.4 billion, ahead of entities expressed in dollars (EUR 259.9 billion) and Swiss francs (EUR 62.7 billion).

1.4. Investment funds' investment policy

The net assets of investment funds invested in bonds increased by 22.1% compared with the end of 2000, while money market and cash funds saw an even greater rise, at 29.1%. On the other hand, assets of funds investing in equities dropped by 9.3%, while funds investing in mixed transferable securities fell by 8.3% in terms of net assets.

In absolute terms, net assets managed by investment funds or investment fund subfunds invested in bonds reached EUR 360.7 billion (i.e. 38.9% of total net assets), followed by funds invested in equities (EUR 337.3 billion or 36.3%), money market and cash funds (EUR 91.5 billion or 9.9%), funds invested in other securities (EUR 69.9 billion or 7.5%) and mixed funds (EUR 69.0 billion or 7.4%). Funds invested in other securities include in particular funds investing in shares/units of other investment funds (EUR 62.8 billion or 6.8%). Funds specialised in unlisted securities, real estate funds, funds investing in derivatives or venture capital funds are also included.

Net assets of investment funds by investment policy



Movements in the number of active entities during 2001 show reverse trends from those recorded in terms of the level of net assets: the number of entities investing in equities increased by 10.7% during the year, while the number for mixed funds rose by 3.9%. On the other hand, the number of entities investing their assets in bonds fell by 1.8% and the number of entities investing their assets in money market instruments or cash was down by 4.0%, mainly due to the merger of entities following the disappearance of the "in" currencies in favour of the euro.

Supervision of undertakings for collective investment

Investment funds' investment policy

in billions of EUR

	I		in billions of EUR
Situation as at 31 December 2001	Number	Net	Net assets
	of entities	assets	(as a % of total)
UCITS subject to Part I			
- Fixed-income transferable securities	1 057	328.184	35.3
	1,857		
- Variable-yield transferable securities	3,020	318.184	34.3
- Mixed transferable securities	769	62.196	6.7
UCITS subject to Part II ¹			
 Fixed-income transferable securities 	175	19.678	2.1
- Variable-yield transferable securities	145	6.111	0.7
- Mixed transferable securities	67	4.056	0.4
- White transferable securities	07	4.030	0.4
UCITS subject to Part II ²			
- Venture capital	22	0.669	0.1
 Unlisted transferable securities 	23	2.486	0.3
- Leveraged funds	8	1.420	0.2
- Other open-ended investment funds	713	51.309	5.5
- Money market instruments	126	83.077	8.9
+ liquid assets	120	03.077	0.7
•	104	0.000	0.0
- Cash	134	8.098	0.9
Other investment funds subject to Part II			
- Real estate	7	0.469	0.1
- Futures and/or options	48	0.825	0.1
·			_
- Other securities	0	0.000	0.0
Institutional funds			
 Fixed-income transferable securities 	120	12.819	1.4
 Variable-yield transferable securities 	115	12.962	1.4
- Mixed transferable securities	47	2.801	0.3
- Venture capital	0	0.000	0.0
- Unlisted transferable securities	2	0.015	0.0
- Leveraged funds	1	0.979	0.0
•			
- Other open-ended investment funds	111	11.534	1.2
- Real estate	3	0.146	0.0
- Futures and/or options	2	0.045	0.0
 Money market instruments 	4	0.372	0.0
+ liquid assets			
Total	7,519	928.447	100.0
iotai	7,517	720.447	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. UCITS 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.

1.5. 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 2001, the number of guarantee-type investment funds fell from 79 to 74 entities, and the number of guarantee-type entities fell from 119 to 115. In terms of entities, this fall is explained by the fact that the guarantee given matured for 21 entities, while only 17 new entities were launched in 2001.

As at 31 December 2001, the 115 entities comprise 21 entities guaranteeing investors only a proportion of their invested capital, 71 entities guaranteeing repayment in full of their invested capital ("money-back guarantee"), and 23 entities offering their investors a return on the initial subscription price.

Funds with a money-back guarantee dominate, but there is also a noticeably large number of funds guaranteeing their investors a 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.

The net assets of guarantee-type investment funds increased by EUR 2.79 billion, reaching EUR 17.09 billion in 2001, i.e. an increase of 19.5%. It is also worth noting that guarantee-type investment funds created by German promoters alone included 88.4% of the total net assets of guarantee-type funds.

Movements in guarantee-type investment funds

in billions of EUR

			III DIIIIOIII OI EOIL
At year end	Number of investment funds	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
2001	74	115	17.09

1.6. 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, the United States, Germany, Italy and Belgium. Significantly, the United States has overtaken Germany in terms of net assets managed.

Supervision of undertakings for collective investment

Origin of promoters of Luxembourg investment funds³

					/	n billions of EUR
Country	Net assets	In %	Number of	In %	Number of	In %
			investment		entities	
			funds			
Switzerland	236.7	25.5%	242	12.7%	1,191	15.8%
United States	166.0	17.9%	135	7.1%	723	9.6%
Germany	154.9	16.7%	688	36.1%	1,255	16.7%
Italy	98.0	10.6%	58	3.0%	623	8.3%
Belgium	80.8	8.7%	123	6.4%	953	12.7%
United Kingdom	56.6	6.1%	104	5.5%	540	7.2%
France	47.6	5.1%	180	9.4%	750	10.0%
Japan	20.6	2.2%	90	4.7%	191	2.5%
Netherlands	16.2	1.7%	36	1.9%	220	2.9%
Sweden	15.9	1.7%	37	1.9%	181	2.4%
Others	35.1	3.8%	215	11.3%	892	11.9%
Total	928.4	100.0%	1,908	100.0%	7,519	100.0%
			,		,	

1.7. 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 2001, the CSSF had delivered a total of 2,790 Directive compliance certificates for registered UCITS, an increase of 199 entities compared with December 2000, and 551 entities compared with 31 December 1999. The 2,790 certificates issued by the CSSF were intended for 997 different investment funds (2000: 979 investment funds; 1999: 892 investment funds), which means that 89% of investment funds falling within Part I of the Law of 30 March 1988 as amended had requested at least one certificate.

The main target countries in decreasing order are: Germany (691 certificates), Austria (303), Italy (298), France (289), Spain (224), Belgium (207), United Kingdom (192), Sweden (157) and the Netherlands (149).

Regarding foreign UCITS marketed in Luxembourg at the end of 2001, 166 foreign Community UCITS (112 of German origin, 27 of French origin, 15 of Irish origin, 9 of Belgian origin, 2 of British origin and 1 of Danish origin) took advantage of the marketing facilities provided by the Directive to offer their units/shares in Luxembourg.

Finally, it is worth noting that, as at 31 December 2001, 55 foreign investment funds, representing 49 of Swiss origin, 5 of German origin and 1 of Belgian origin, were authorised to market their units/shares in Luxembourg on the basis of Article 70 of the Law of 1988.

³ The table only sets out entities actually operating as at 31 December 2001.

Marketing of foreign investment funds in Luxembourg

At year end	1998	1999	2000	2001
Art. 56 - Country of origin Germany France Ireland Belgium United Kingdom Denmark	106 3 6 5 1	106 22 10 8 1	107 26 11 8 1	112 27 15 9 2 1
Subtotal	121	148	154	166
Art. 70 - Country of origin Switzerland Germany Belgium	20 6 -	28 7 -	49 6 -	49 5 1
Subtotal	26	35	55	55
Total	147	183	209	221

2. Newly created entities approved in 2001

2.1. General data

Although the number of new investment funds officially registered in 2001 rose by 7.5% compared with 2000, this is not the case with regard to new approved entities⁴. During 2001, 1,497 new entities were approved, compared with 1,885 in 2000.

The decline in the stock markets from 2000 onwards inevitably made the financial world to take a generally cautious approach. The following table shows the figures for new entities approved over the course of the last four years. Compared with previous years, the fall during 2001 was 20.58% in relation to 2000 and 2.35% in relation to 1999. A slight increase of 6.70% can be seen compared with 1998.

	1998	1999	2000	2001
New approved entities of which: launched in the same year	1,403	1,533	1,885	1,497
	<i>722</i>	<i>989</i>	<i>1,297</i>	<i>1,020</i>

When an entity is approved during the course of a year, this does not necessarily mean that it has actually been launched. Indeed, to 31 December 2001, 1,020 entities of the 1,497 entities approved over the year were active, i.e. 68% of the total number of entities approved. Compared with the previous years, the percentage was practically the same for 2000 and 1999. However, in 1998, only 51% of the entities approved actually began operating in the same year.

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

Supervision of undertakings for collective investment

	Number of		Number of er	ntities launched	
	entities approved	1998	1999	2000	2001
Approved in 1998 Approved in 1999 Approved in 2000 Approved in 2001	1,403 1,533 1,885 1,497	722 (51%)	845 (60%) 989 (65%)	864 (62%) 1,170 (76%) 1,297 (69%)	869 (62%) 1,186 (77%) 1,483 (79%) 1,020 (68%)

The table shows the number of active entities as at 31 December of the year in question, followed by the percentage calculated based on the total number of entities approved. Referring to this percentage, it becomes clear that it is important to await the following year before determining a final figure for entities approved and operational. Finally, the figures show that, as a general rule, almost 80% of approved entities are actually launched.

2.2. Analysis of investment policy of new entities

		1998 1999			2000	2001		
	Number	As a % of						
	of entities	the total						
Equities	544	38.77%	690	45.01%	965	51.19%	658	43.95%
Mixed	210	14.97%	159	10.37%	148	7.85%	146	9.75%
Bonds	523	37.28%	496	32.35%	411	21.80%	360	24.05%
Money market	31	2.21%	17	1.11%	25	1.33%	19	1.27%
Fund of Funds	83	5.92%	147	9.59%	320	16.98%	281	18.77%
Futures	7	0.50%	16	1.04%	5	0.27%	19	1.27%
Other	5	0.35%	8	0.53%	11	0.58%	14	0.94%
Total	1,403	100.00%	1,533	100.00%	1,885	100.00%	1,497	100.00%

The investment policy of the new approved entities reflects general market trends. The proportion of entities investing in equities fell slightly compared with the previous year. On the other hand, investment in fixed-income transferable securities rose again. Similarly, investment in securities of other investment funds increased during the year under review.

The year 2000 was an exceptional one in terms of approval granted to entities investing in the "new economy", i.e. the technology, telecommunications, media, biotechnology sectors and, generally, securities listed on markets such as the Nasdaq, Neuer Markt, etc.. This trend did not continue through 2001, however, and the number of newly-approved entities investing in this area fell back to 1999 levels.

	1998	1999	2000	2001
Number of entities investing in the «new economy»	46	105	286	108

Existing entities investing in money market instruments appear to cover all possible needs (with the introduction of the euro, the various entities denominated in "in" currencies became redundant), such that the number of new money market entities is on the decline.

	1998	1999	2000	2001
Number of entities benefiting from reduced tax	45	32	49	30

2.3. Origin of promoters of new entities

An analysis of the origin of promoters of newly created entities reveals that:

- The most staunch promoters are of German, Swiss and Italian origin. Since 1999, the promoters from these three countries were behind almost half of the new approved entities in 2001.
- For Belgian promoters, the Luxembourg investment fund sector still appears profitable.
- French and British promoters (originators of 10% and 7.5% respectively of the new approved entities) were able to maintain their position.
- US promoters, for their part, appear to be changing their approach to involvement in the Luxembourg financial market. The proportion of new entities approved, while still exceeding 10% in 2000, fell back to 6% in 2001.
- Promoters of Dutch, Spanish and Japanese origin tend to give the impression of adopting a "wait-and-see" approach. The proportion of new entities created by promoters from these countries fell sharply.
- Promoters of Austrian origin, for their part, appear to have discovered Luxembourg as a financial centre for the creation of new entities, despite 2001 having been an undeniably difficult year.

Origin of the promoters of new entities

	1998	1999	2000	2001
Germany	139	322	339	264
Switzerland	170	204	348	259
Italy	126	170	214	217
Belgium	206	166	166	169
France	191	114	175	147
United Kingdom	73	134	115	111
United States	153	128	189	92
Netherlands	47	66	86	31
Austria	5	5	15	29
Spain	95	42	48	18
Japan	74	58	50	13

3. Analysis of issues and redemptions over the past two years

3.1. In terms of investment policy

The table below sets out the quarterly flow of subscriptions and redemptions for the past two years, presented by main investment policies:

- 1 Fixed-income transferable securities (bonds)
- 2 Variable-yield transferable securities (equities)
- 3 Mixed transferable securities
- 4 Money market instruments and cash
- 5 Other

in millions of EUR

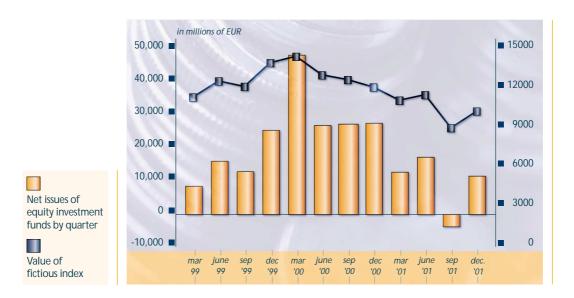
	1st q	uarter 2	2000	2nd q	2nd quarter 2000 3rd quarter 2000		4th quarter 2000			totals					
Pol.	Subs.	Red.	Issue	Subs.	Red.	Issue	Subs.	Red.	Issue	Subs.	Red.	Issue	Subs.	Red.	Issue
1	43,160	41,407	1,753	42,304	39,562	2,742	39,442	35,608	3,834	43,875	44,337	-462	168,781	160,914	7,867
2	92,494	44,325	48,169	60,766	33,834	26,932	60,685	33,341	27,344	62,954	35,361	27,593	276,899	146,861	130,038
3	8,971	6,041	2,930	9,022	3,728	5,294	6,293	3,595	2,698	5,248	3,833	1,415	29,534	17,197	12,337
4	21,267	22,415	-1,148	17,240	19,024	-1,784	15,282	17,751	-2,469	18,571	19,700	-1,129	72,360	78,890	-6,530
5	17,950	10,450	7,500	15,316	9,018	6,298	13,283	7,895	5,388	15,024	9,796	5,228	61,573	37,159	24,414
Total	183,842	124,638	59,204	144,648	105,166	39,482	134,985	98,190	36,795	145,672	113,027	32,645	609,147	441,021	168,126

	1st q	uarter 2	2001	2nd quarter 2001 3rd q		3rd qu	arter 2	rter 2001 4th q		4th quarter 2001		totals			
Pol.	Subs.	Red.	Issue	Subs.	Red.	Issue	Subs.	Red.	Issue	Subs.	Red.	Issue	Subs.	Red.	Issue
1	57,799	45,208	12,591	55,141	47,593	7,548	71,995	50,486	21,509	88,998	77,338	11,660	273,933	220,625	53,308
2	53,224	40,416	12,808	59,343	41,996	17,347	44,927	48,626	-3,699	48,770	37,163	11,607	206,264	168,201	38,063
3	4,291	4,062	229	3,708	4,286	-578	2,974	4,202	-1,228	5,948	4,191	1,757	16,921	16,741	180
4	21,785	19,316	2,469	22,488	19,036	3,452	22,210	17,708	4,502	27,319	20,491	6,828	93,802	76,551	17,251
5	15,017	11,817	3,200	16,246	8,848	7,398	12,969	12,938	31	15,336	13,100	2,236	59,568	46,703	12,865
Total	152,116	120,819	31,297	156,926	121,759	35,167	155,075	133,960	21,115	186,371	152,283	34,088	650,488	528,821	121,667

From the point of view of investment policy, the focus of investors has changed over the past two years, the year 2000 having been characterised as an equity period. Indeed, almost all net issues, i.e. over EUR 130 billion, are attributable to investment funds investing mainly in equities, even right up to the end of the year, when most of the stock markets had already experienced considerable falls. The other categories of investment funds saw more or less moderate movements, and money market investment funds indeed saw negative movement in net issues.

While the first quarter of 2001 was still marked by a more or less balanced spread across all investment policies, interest in bond investment funds among investors grew ever greater over the course of the year. Money market investment funds also saw positive movement, while interest in equity funds diminished. Only 31.3% of total net issues (EUR 38.063 billion) is attributable to this category of investment for the year 2001, while the proportion of net issues relating to bond funds was 43.8% (EUR 53.308 billion).

Investor interest in equity investment funds thus reflects developments in the stock markets over the past two years. The slump in the financial markets has led investors to give preference to money market or bond funds. The following illustration demonstrates the link between variations in net issues of equity investment funds on the one hand and stock-market performance on the other (fictitious index consisting of the DOW JONES and the DAX, each 50%).



3.2. In terms of legal status and scope of legal application

In 2000, net issues were recorded almost exclusively for investment funds falling within Part I of the Law of 30 March 1988 as amended (Community investment funds), while the year 2001 was characterised by a relaunch of money market investment funds as well as by continued interest in funds of funds, investment funds falling within the scope of Part II of the Law. The negative figures for *sociétés d'investissement à capital fixe* (Sicafs) is due principally to the increased number of liquidations of this type of company.

2000	FCP	SICAV	SICAF	en millions d'EUR TOTAL
Part I Part II Institut. Funds	68,808 11,558 5,704	81,063 823 -241	371 43 -3	150,242 12,424 5,460
TOTAL	86,070	81,645	411	168,126
2001	FCP	SICAV	SICAF	TOTAL
Part I Part II Institut. Funds	30,792 20,668 2,285	60,877 8,423 1,466	-117 -2,549 -178	91,552 26,542 3,573
TOTAL	53,745	70,766	-2,844	121,667

Overall, 2001 saw a fall in net issues of 27.6% compared with the previous year, which had been a record year in net issue terms. However, interest in investment funds still remains high. Indeed, the last time that Luxembourg investment funds saw negative net issues was back in June 1996.

4. Movement in investment funds investing principally in other investment funds; funds of funds

Investment funds known as funds of funds are investment funds whose main investment policy provides for placement of the majority of net assets in other investment funds. Their portfolios therefore consist principally, if not exclusively, of shares of Sicavs or units in *fonds communs de placement* (FCPs) in Luxembourg or other countries.

Given that investment funds falling within Part I of the Law of 30 March 1988 as amended may only invest up to 5% of their net assets in other open-ended investment funds, funds of funds come under either Part II of the 1988 Law or are subject to the Law of 19 July 1991 relating to funds reserved to institutional investors.

During the past three years, the number of investment fund subfunds investing mainly in other funds has risen sharply. As at 31 December 2001, 802 entities were operational, compared with 213 at the start of 1999. The rate of increase, at 376% in terms of entities (investment funds and investment fund subfunds) has been spectacular.

It is worth noting that the share of net assets of entities investing mainly in investment funds known as funds of funds compared with the net assets of all investment undertakings rose from 1.8% in December 1998 to 6.8% at the end of 2001.

The attractions of this type of investment fund are numerous: they ensure an additional level of diversification and provide access to funds which may otherwise be hard to reach. However, this generally also entails a doubling of charges, as well as the existence of additional risks (possible restrictions on the repayment of investments in other investment funds, lower degree of protection for investors, particularly if investments may be made in investment funds not subject to supervision, etc.).

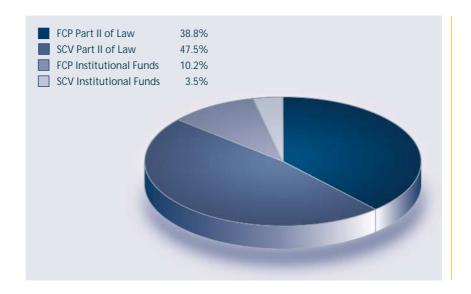
Generally, the CSSF does not permit structures consisting of funds of funds of funds due to their lack of transparency and excessive charges.

In view of the growing number of funds falling within this category, it would be useful to make a statistical analysis of funds of funds .

4.1. Legal status of funds of funds

As at 31 December 2001, 86.3% of investment funds known as funds of funds (692 entities) came under Part II of the 1988 Law, while 13.7% (110 entities) were subject to the Law of 19 July 1991. An additional distinction according to the legal status of the investment fund in question, fonds commun de placement (FCP) or société d'investissement (SCV) is shown in the following graph.

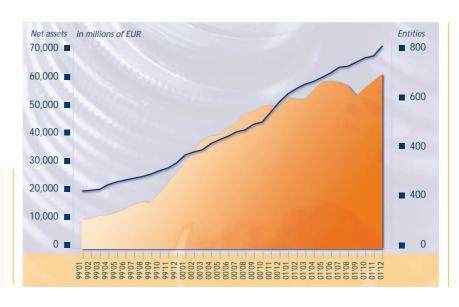
Breakdown of «funds of funds» according to governing laws and legal status

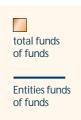


4.2. Movement in the number of entities and net assets of funds of funds

Net assets of funds of funds rose considerably from January 1999 to March 2000. Soaring stock markets at the end of 1999 and beginning of 2000, as well as the rise in the US dollar, had positive effects. During April and May 2000, net assets were relatively stable, but thereafter rose again to reach a peak on 30 June 2001 of EUR 59.3 billion. Following the events of 11 September in the United States and the dramatic slump in the financial markets, net assets fell back somewhat. More recently, an upward trend appears to be setting in once more.

Movement in the number of entities and net assets of «funds of funds»





Supervision of undertakings for collective investment

4.3. Movement in net issues of funds of funds

With regard to the inflow of new capital for this type of investment fund, net issues (i.e. issues less redemptions) totalled approximately EUR 17.5 billion for the year 2001. Despite numerous stock market corrections, net issues remained positive through the period under review, having reached a peak during March 2000 and remaining relatively high thereafter. Redemptions reached their highest point in September 2001, following the attacks on the World Trade Centre. The switchback form shown in the graph below from November 2000 to July 2001 was principally due to variations in institutional fund issues.

Movement in issues, redemptions and net issues of «funds of funds»



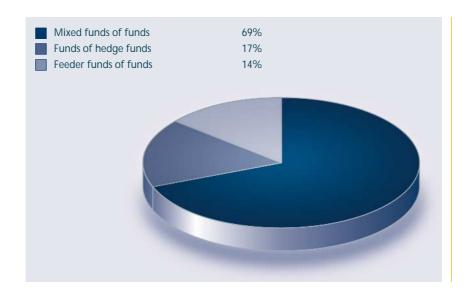
4.4. Categorisation of funds of funds according to specific investment policy

The funds of funds may be classified according to three specific policies:

- 1. Those which invest in other investment funds employing a risk spreading policy (mixed fund of funds);
- 2. Those which invest in one or a very limited number of investment funds (maximum of 3) (feeder type fund of funds); and
- 3. Those which invest in funds investing in hedge funds (fund of hedge funds).

As at 31 December 2001, the category mixed funds of funds was in the lead in terms of net assets, at 69%. It was followed by funds of hedge funds and feeder type funds of funds, with respectively 17% and 14% of net assets.

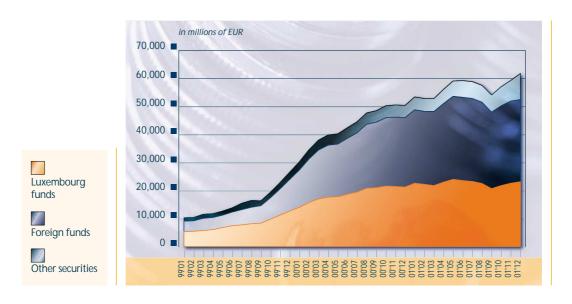
Distribution of net assets of funds of funds with a specific investment policy



4.5. Nationality of investment funds acquired by funds of funds

As at 31 December 2001, the percentage of net assets of funds of funds invested in Luxembourg funds was around of 37%, while the figure for foreign funds was 48%. The remaining 15% were invested in other securities (cash, equities, bonds, derivatives, etc.).

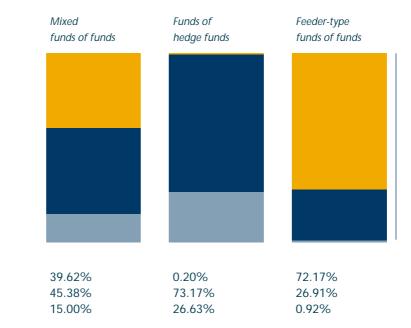
Movement and distribution of net assets of «funds of funds»



4.6. Distribution of net assets of funds of funds according to nationality of investment funds acquired and specific investment policy

As at 31 December 2001, the share of assets of investment funds in the funds of hedge funds category investing in Luxembourg funds was almost nil, while in the category feeder fund funds of funds , the Luxembourg funds were the best represented.

Distribution of net assets of fund of fund investment funds according to specific investment policy and investment product



5. Prudential supervisory practice

5.1. Prudential supervision

Luxembourg funds

■ Foreign funds

Other

5.1.1. Standards to be observed by investment funds

One of the basic functions of the CSSF when supervising investment funds is to ensure application of the laws and regulations relating to investment funds. The aim of supervision is to ensure adequate protection of investors as well as stability and security in the investment fund sector.

5.1.2. Instruments of prudential supervisory practice

The permanent supervision of the CSSF aims to ensure that investment funds subject to its control observe all legislative, regulatory and contractual provisions relating to the organisation and functioning of investment funds, as well as the distribution, investment and sale of their securities. This supervision is based in particular on:

• Examination of the periodic financial information which investment funds must submit to the CSSF on a monthly and annual basis;

- Analysis of annual and half-yearly reports which investment funds must publish for their investors;
- Analysis of the management letters issued by the independent auditor, which must be communicated immediately to the CSSF;
- Analysis of the statements made on the basis of the Circular relating to protection of investors in the event of an error in calculation of net asset value (NAV) and reparation in the case of non-compliance with the investment restrictions applicable to investment funds;
- On-site inspections effected by agents of the CSSF.

5.1.3. Auditing

· Auditing of monthly financial reports

The periodic financial reports of investment funds are forwarded electronically to the CSSF. The number of investment fund entities required to transmit their financial reports to the Commission on a monthly basis amounts on average to 7,320 files. However, during the course of 2001, the Commission received a total of 101,600 files, i.e. an average of just over 8,400 files per month. The difference between the number of files actually transmitted and the number of files, which should have been transmitted, is due to the fact that a single file may be transmitted several times following faults or irregularities discovered by the Commission upon analysis.

· Auditing of half-yearly and annual reports

In accordance with Article 85(2) of the 1988 Law, investment funds must publish an annual report and a half-yearly report within the time limits laid down by statute. While a large proportion of financial reports were prepared in accordance with the applicable rules, some required intervention on the part of the Commission due to the following factors:

- The publication deadline was not met;
- The financial report revealed non-compliance with the fund's investment policy;
- The financial report did not contain all the required information.
- · On-site inspections

During the year 2001, the Commission carried out two on-site inspections. One of these inspections was aimed at verifying the structure of the central administration and custodian bank functions within a credit institution. The other was conducted in relation to legislation governing money laundering. The Commission intends to intensify its efforts in terms of on-site inspections.

Sanctions

The CSSF had to make formal use of the right of injunction in relation to two establishments which did not meet the requirements of proper administrative organisation applicable to investment funds.

· Specific audits

Article 89(3) gives the Commission the right to request an independent auditor to undertake a specific audit covering one or more aspects of the operations and functioning of an investment fund. In 2001, two audits of this type took place, one of which looked at the organisation of the central administration and custodian bank functions, while the second was aimed at examining a possible conflict of interest between an investment fund and its executive officers.

The Commission has regular meetings with investment fund promoters. The aim of these is to discuss new products or future plans, as well as any problems encountered by the investment fund. During 2001, 126 meetings took place between representatives of the Commission and those of investment funds.

5.2. Circular CSSF 2000/8

5.2.1. Statements made in 2001 on the basis of Circular CSSF 2000/8

Supervision of undertakings for collective investment

In 2001, the CSSF recorded 652 statements, consisting of 376 cases of miscalculation of NAV and 276 instances of non-compliance with investment rules. Of the latter, there were only 9 instances of non-compliance with investment policy.

210 cases of miscalculation of NAV out of the 376 cases reported cannot yet be classified since further information is still awaited. With regard to cases of non-compliance, only 71 cases out of the 276 reported cannot yet be classified for the same reasons.

The following graph sets out the statements made during 2001.

Notified errors



NAV
miscalculation
Non-compliance
with investment
rules

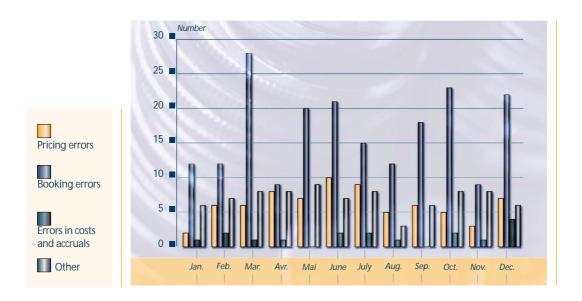
There was a higher number of statements during the months of February, March, July, October and December.

With regard, more particularly, to statements made in relation to non-compliance with investment rules, a significant increase in number was observed for the months of February and November. One explanation of this phenomenon may lie in the fact that work on preparing and completing annual financial statements commences at around this time, and so this is when the independent auditor will detect breaches of investment restrictions not previously uncovered.

NAV miscalculation errors may be due to four different causes: pricing errors, booking errors, errors in the calculation of costs and accruals, and other errors, for example, in the valuation of swaps or futures.

The following graph plots the different causes of NAV miscalculation recorded during 2001:

Reasons for NAV miscalculation



During 2001, NAV miscalculations were due in 20% of cases to pricing errors, in 53% of cases to booking errors, and in only 5% of cases to the miscalculation of costs and accruals. Among the other causes of error were problems linked to securities operations, representing 11% of cases reported, and errors in the valuation of swaps and futures, representing 2% of NAV miscalculations.

It should be noted that statements made during 2001 do not relate exclusively to errors and instances of non-compliance occurring during the year itself. They may also relate to errors or non-compliance detected in 2001 but which relate to errors or non-compliance occurring before the start of the year, as the graph below illustrates.

Declarations made during 2001



It can be seen that 28% of statements made during 2001 related to errors or non-compliance occurring in 2000, and 56% of statements related to errors or non-compliance which actually arose in 2001.

With regard to statements relating to errors or non-compliance occurring during 2000, 43% of those relating to miscalculation of NAV were made during the first three months of 2001. Non-compliance accounts for 63% of statements, and this can be explained by the fact that work on completing annual financial statements begins at around this time, and this is when the independent auditor is likely to detect NAV miscalculations or non-compliance with investment restrictions not previously uncovered.

5.2.2. Compensation paid or to be paid in accordance with Circular CSSF 2000/8

The table below sets out compensation either notified and paid or undergoing processing in accordance with Circular CSSF 2000/8 for statements made in 2001. It should be noted that this table is not complete since the exact amount of compensation to be paid has in some cases not yet been notified.

	,		Compensation following non-compliance with investment rules	
	Investors	Investment fund/subfund	Investors	Investment fund/subfund
EUR USD JPY GBP CHF Other currencies *	4,885,805.81 1,608,672.80 7,955,357.00 93,834.31 21,291.31 58,237.07	6,758,577.45 2,781,301.95 1,879,218.00 380,457.75 32,894.68 4,737.19	11,300.70 162,881.15 - - -	217,088.42 754,762.00 2,854,878.00 - - - 3,368.74
Total (in EUR **)	7,006,927.80	10,582,937.73	196,119.82	1,101,630.44

^{*} converted in EUR at the exchange rate applying on 31 December 2001

With regard to the 276 instances of non-compliance with investment rules, 155 were regularised resulting in a profit, while 49 regularisations led to a loss. In 72 instances of non-compliance, the amount realised in the context of regularising operations has not yet been communicated.

5.2.3. Practical application of the Circular

In this context, one significant decision should be reported:

With regard to the procedure for regularising a voluntary overrun of a position in bonds, the question was raised as to whether accrued interest received and payable could be taken into account in determining the outcome of regularisation.

It was held that, in the context of the regularisation procedure, the result realised on an overrun position may be determined by adding to the proceeds of sale (which are equal to the difference between the realisation value and the acquisition value) the total accrued interest received, whether or not payable. This means that, where a capital loss is realised on the bond position in question, account may be taken of income which has accumulated and been collected on this position during the offending period.

^{**} rate of exchange as at 31 December 2001

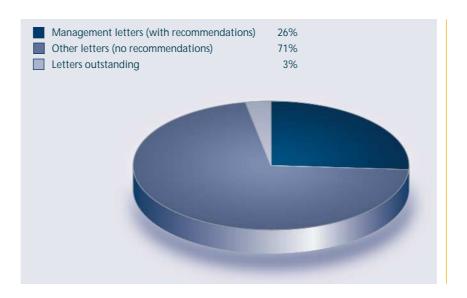
However, it will also be necessary to verify whether, during the offending period, any unrealised capital losses on this bond position were offset at any time by accrued interest, both payable and non-payable, on such securities.

5.3. Management letters

Chapter P of Circular IML 91/75 dated 21 January 1991 states that investment funds must automatically and immediately communicate to the CSSF the management letters issued by independent auditors in the context of the audits which the latter are obliged to undertake pursuant to Article 89 of the Law of 30 March 1988 as amended.

The analysis below sets out data for the year 2000, since this is almost complete and thus more pertinent. The graph enables analysis of the type of letter issued by independent auditors across all investment funds.

Analysis of management letters



A review of the management letters reveals that 71% are management letters which contain *no recommendation*, i.e. the independent auditor has not detected any irregularities in the management of the investment funds. 26% are management letters with recommendations by which the independent auditors have reported irregularities of various types.

However, 3% of management letters are still outstanding. In order to ensure receipt of management letters within the time limits allowed, at the start of 2002 the CSSF imposed more restrictive measures requiring investment funds to observe the time limits set for transmitting management letters.

With regard to management letters with recommendations, the irregularities determined by independent auditors may be broken down into four principal categories: overstepping of statutory or regulatory limits, NAV miscalculation, non-compliance with investment policy and problems in the organisation of investment funds.

During the course of 2000, 66% of management letters described instances of exceeding investment limits whilst 34% of irregularities come under the other aforementioned categories.

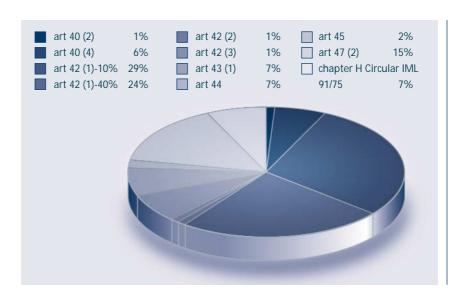
On this subject, it should be noted that, even though Circular CSSF 2000/8 came into force in March 2000, some major errors or instances of non-compliance considered "active" were reported in management letters when, in some cases, they had been the subject of a statement in accordance with the Circular.

Moreover, numerous instances of overstepping investment limits reported in management letters could be considered as "passive." With regard to NAV miscalculations, some did not exceed the materiality thresholds laid down in the Circular.

Investment funds governed by Part I of the Law of 30 March 1988 as amended represented 62.7% of Luxembourg investment funds. In so far as statutory restrictions applying to them are tighter than those applicable to investment funds falling within the scope of Part II, it may be useful to analyse the nature of the limits which they exceed.

The following diagram sets out a breakdown of the statutory limits most frequently exceeded by investment funds governed by Part I of the Law dated 30 March 1988 as amended.

Nature of 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 1988 Law, i.e. in 53% 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 revealed that the limit set by Article 47(2) is also frequently exceeded, i.e. in 15% of instances. Indeed, Article 47(2) stipulates that a UCITS may only borrow up to 10% of its assets, and that this may only be on a temporary basis.

Compared with 1999, there has been an increase of 6% in cases of overstepping the limit set by Article 47(2), and falls of 5% and 4% respectively in cases of exceeding the limits fixed by Articles 40(2) and 40(4). With regard to the other limits, the percentage of cases recorded has remained constant.

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5.4. Suspension of NAV calculation

5.4.1. Introduction

On the basis of the Law of 30 March 1988 as amended relating to Undertakings for Collective Investment, investment funds may temporarily suspend calculation of NAV, and thus also issues and redemptions, according to the procedures, terms and conditions provided by their instruments of incorporation.

Calculation of NAV and of issues and redemptions may be suspended in particular:

- If one or several stock exchanges or markets providing the valuation basis for a significant proportion of the assets of the investment fund are closed for periods other than public holidays, or when transactions thereon are suspended or subject to restrictions;
- If the political, economic, military, monetary or social circumstances or any event of force majeure make it impossible to access investment fund assets;
- If exchange rate restrictions or restrictions on movement of capital make it impossible for transactions to be effected on behalf of the investment fund.

An investment fund which has decided to suspend issues and redemptions must immediately inform the CSSF accordingly. The CSSF also requires that the investment fund forwards the following documents:

- A copy of the suspension decision by the Board of Directors of the investment company or the management company;
- Draft notice to shareholders or unit-holders informing them of the suspension;
- As appropriate, a copy of the letter addressed to the supervisors of the other countries where the shares or units are sold.

Before giving its consent, the CSSF verifies conformity of suspension with the fund's instruments of incorporation. Consent is thus only given if the instance of suspension notified by the investment fund is explicitly mentioned in its articles of association or management rules. It is imperative for the notice addressed to shareholders or unit-holders to contain a description of the suspension procedures and, where appropriate, procedures for terminating suspension. The CSSF also requires that the notice contains a reference to the article of the instrument of incorporation on which the suspension decision is based.

Apart from the exceptional case of 11 September 2001, in 2001 the CSSF was informed of 18 suspensions by investment funds. These suspensions were declared in particular following a typhoon which led to the closure of the Taiwan Stock Exchange, and following the suspension of listing for "B" shares on the stock markets of Shenzen and Shanghai.

5.4.2. 11 September 2001

One of the effects of the terrorist attacks of 11 September 2001 and the collapse of the World Trade Centre was the closure of the New York Stock Exchange (NYSE) between 11 and 14 September 2001. This closure, combined with plummeting market prices, in particular on the European markets, lay behind a whole series of suspensions of NAV calculation by Luxembourg investment funds.

The following table reveals the extent of the suspensions:

Date	Number	In % (*)
11.09.2001	356	4.81%
12.09.2001 13.09.2001	3,510 3,092	47.43% 41.78%
14.09.2001	2,617	35.36%
17.09.2001 18.09.2001	1,972 271	26.65% 3.66%

(*) out of a total of 7,400 entities (investment funds/subfunds) active as at 11 September 2001

The maximum number of suspensions was obviously reached on the day after the attacks, with almost half operational entities affected. Following the improvement of listing conditions in US dollars and normalisation of the European markets, the number of suspensions gradually decreased in the period leading up to 17 September, when the NYSE re-opened.

The 356 entities which had already suspended NAV calculation on 11 September 2001 were those which calculate their NAV on the basis of prices obtained on the same day.

Only entities known as funds of funds were still maintaining suspension of the NAV calculation by 18 September 2001.

In view of the large number of investment funds affected by the suspensions, and since it was impossible for the press to publish all the notices requested by the investment funds in question, the CSSF published two press releases on its website www.cssf.lu, which were principally intended to take the place of individual notices from each investment fund.

In addition, and in close collaboration with the ALFI (Association Luxembourgeoise des Fonds d'Investissement), several recommendations were drawn up and notified by the Association to its members.

Finally, the CSSF asked the investment funds in question also to inform the supervisors of the countries where they were registered of their decision to suspend NAV calculation.

5.5. Investment restrictions

A question arose on the subject of the investment restrictions set out in Article 42 of the Law of 30 March 1988 as amended relating to Undertakings for Collective Investment, and more specifically where invested in PERLES and OPALS structured notes.

In order to determine the investment restrictions to be applied by investment funds falling within Part I of the Law where investments are made in such securities, it is necessary to make a distinction between structured notes having one or several equities as their underlying instrument, and those issued with the aim of replicating a stock-exchange index.

a) Where the underlying instrument of the "structured note" consists of one or several equities

- The structured notes must be transferable securities officially listed on a stock exchange or traded on a regulated market, operating regularly, recognised and open to the public;
- The UCITS may not invest more than 10% of its net assets in securities of the same underlying issuer (the securities held directly in the portfolio and the underlying securities of the structured notes are taken into consideration jointly); and

- The UCITS may not hold an exposure of more than 10% of its net assets to a single direct issuer of structured notes (by way of analogy, this limit is cumulative within the limit of 10% of net assets per issuer, in accordance with Article 42(1) of the Law of 30 March 1988 as amended; moreover, the total value of transferable securities held by the UCITS in issuers in which it places more than 5% of its assets may not exceed 40% of the value of the total assets of the UCITS).

b) Where the underlying instrument consists of a recognised and officially-published stock-exchange index

- The structured notes must be transferable securities officially listed on a stock exchange or traded on a regulated market, operating regularly, recognised and open to the public;
- The UCITS may not hold an exposure of more than 10% of its net assets to a single direct issuer of structured notes of which the underlying instrument is a stock-exchange index (this restriction is cumulative with the limit of 10% of net assets per issuer, in accordance with Article 42(1) of the Law of 30 March 1988 as amended). In such instance, the investment restrictions only apply to the issuer of the structured note, provided that the underlying stock-exchange index is an index consisting of sufficiently diversified transferable securities that is recognised and officially published. If this is not the case, the investment limits stated at a) above will apply.

In both cases a) and b):

- The issuers of structured notes must be prime financial institutions;
- Redemption at maturity may be effected either by physical delivery of the underlying securities, or payment of the value of the security (cash settlement);
- In the case of physical delivery of the securities at maturity, the UCITS must ensure that the percentage of securities held in the securities portfolio is such that, once the underlying securities are returned to the portfolio, the UCITS does not exceed any of the statutory or other limits, save where the derogation contained in Article 46 of the Law of 30 March 1988 as amended applies.

Finally, in the case of PERLES and OPALS not listed or traded on another regulated market, operating regularly, recognised and open to the public, the provisions of Article 40(2)a) apply.

5.6. Voluntary liquidation

Under the terms of Article 81 of the Law of 30 March 1988 as amended, investment funds in voluntary liquidation remain subject to the supervision of the regulatory authority.

During 2001, 176 registered investment funds were withdrawn from the official list of investment funds due to commencement of liquidation proceedings. Among these 176 funds, 138 were liquidated and 38 disappeared as a result of merger by take-over.

Withdrawal of an investment fund from the list within the context of voluntary liquidation takes place in principle once the CSSF is in receipt of the following documents:

- Notarised deed relating to commencement of liquidation of the investment company or a decision signed by the management company and the custodian relating to the winding up of the FCP;

- Audit report and management letter covering the period from the start of the last financial year to the date of commencement of liquidation, even where the financial year has not yet ended.

The same documents must be submitted in the case of liquidation of an investment fund where all shares pass into single ownership.

Before an investment fund can be liquidated, the following documents must be produced: liquidator's report, decision to complete the liquidation and, if any proceeds of liquidation remain, confirmation of payment of such proceeds to the *Caisse de Consignation*.

6. Performance analysis for 2001

The performance distribution for Luxembourg investment funds/subfunds based on investment policy is covered in the second annual analysis undertaken by the CSSF. Performance of investment funds/subfunds is measured within each category of investment policy, identifying any investment funds or subfunds whose performance varies excessively in terms of average performance of the category to which they belong.

6.1. Methodology applied

- Basis of analysis: 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 euros at historical rates.
- Standard deviation and variance: Calculated on real performance.
- Performance: Not annualised when provided over six months.
- Distribution: Distributions are attributed half to the net asset value at the beginning of the period and half to the 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 investment funds
 - Speculative policies
 - (venture capital, unlisted transferable securities, leveraged funds, futures and/or options)
 - Real estate

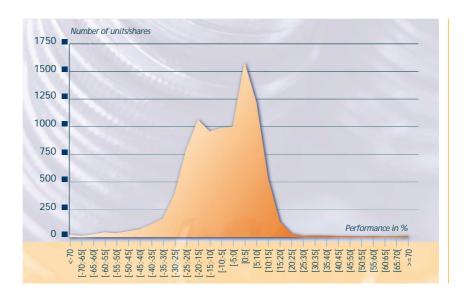
6.2. Results of analysis for 2001

1. All funds

Across the 9,174 types of units/shares taken into account for this category of investment fund/subfund, 5,653 units/shares (62%) closed the year down compared with 31 December 2000, while 3,521 (38%) appreciated in value.

Among those who came out on top were investment funds/subfunds which invest their assets in Russian, Chinese or Korean securities, as well as those investing in securities of companies operating in the raw material and precious metals sector, which achieved the best performance, while the ones that fell in value included primarily investment funds/subfunds which invest in the new economies, particularly in the German "Neuer Markt" securities.

Performance distribution of Luxembourg investment funds



	2001	1st half 2001	2000
Average performance	-7.05%	-1.06%	-0.61%
Best performance	+94.92%	+159.81%	+183.41%
Worst performance	-93.71%	-65.63%	-95.47%
Standard deviation	14.83	10.86	15.92
Variance	219.9	117.9	253.4

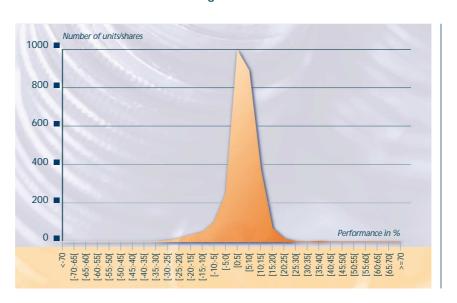
2. . Funds/subfunds investing in fixed-income transferable securities

Across the 2,821 types of units/shares taken into account for this category of investment fund/subfund, 2,365 units/shares (84%) closed the year up compared with 31 December 2000, while 465 (16%) depreciated in value.

The investment funds/subfunds which performed best were those investing in securities issued by eastern European issuers and/or in securities denominated in US dollars, owing to the appreciation of the US dollar compared with the euro during the period under consideration.

The worst performances were seen among investment funds/subfunds which invested a large proportion of their assets in securities from issuers of lesser quality (high-yield-type securities). Some of these issuers, in particular in the telecommunications sector, were not able to honour their debts during the year under review. Similarly, investment funds/subfunds which invested in securities denominated in South African rand suffered from the significant fall in the rand compared with the euro.

Performance distribution of funds/subfunds investing in fixed-income transferable securities



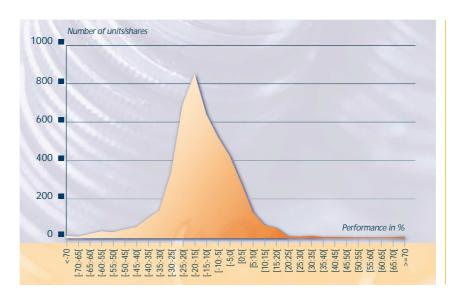
	2001	1st half 2001	2000
Average performance	+4.45%	+4.42%	+6.87%
Best performance	+36.90%	+28.60%	+45.91%
Worst performance	-30.24%	-27.66%	-95.47%
Standard deviation	6.72	6.06	7.47
Variance	45.1	36.7	55.8

3. Funds/subfunds investing in variable-yield transferable securities

Across the 4,444 types of units/shares taken into account for this category of investment fund/subfund, 3,885 units/shares (87%) closed the year down compared with 31 December 2000, while 559 (13%) appreciated in value.

As mentioned above, it was primarily the investment funds/subfunds investing in Russian, Chinese or Korean securities which achieved the best performances, while the worst performances were seen among investment funds/subfunds which invested in the "new economy".

Performance distribution of funds/subfunds investing in variable-yield transferable securities



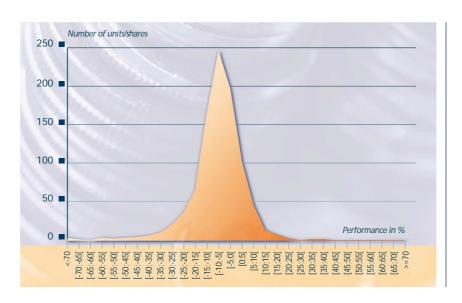
	2001	1st half 2001	2000
Average performance Best performance Worst performance Standard deviation	-14.85% +90.05% -77.62% 14.58	-4.71% +159.81% -62.39% 12.49	-7.19% +141.31% -80.70% 18.84
Variance	212.5	156.0	355.0

4. Funds/subfunds investing in mixed transferable securities

Across the 926 types of units/shares taken into account for this category of investment fund/subfund, 756 units/shares (82%) closed the year down compared with 31 December 2000, while 170 (18%) appreciated in value.

In this category, it is clear that the performance of investment funds/subfunds which have a high exposure to the equity risk also have greater variations in performance. This is particularly the case with regard to one investment fund/subfund whose investment policy included acquisition of all types of transferable securities (equities, bonds, convertible bonds, warrants, *Optionsscheine*, etc.) and which also in practice pursued a very aggressive policy (mainly with *Optionsscheine*). From the time of its launch in April 2000, the net asset value of this fund fell from EUR 100.00 to EUR 0.89 at the end of September 2001. The question arising in such scenarios is whether the description provided in the prospectus is sufficiently explicit for the subscriber, given the investment policy actually followed.

Performance distribution of investment funds/subfunds investing in mixed transferable securities



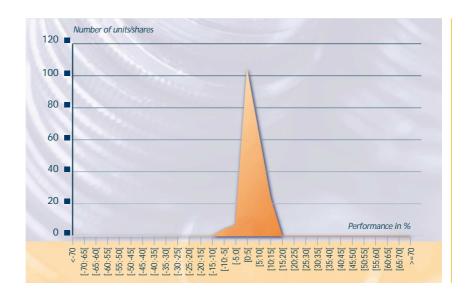
	2001	1st half 2001	2000
Average performance	-7.87%	-2.41%	-3.05%
Best performance	+35.42%	+27.88%	+93.02%
Worst performance	-93.71%	-65.63%	-76.14%
Standard deviation	11.25	8.67	12.23
Variance	126.6	75.2	149.6

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

Across the 203 types of units/shares taken into account for this category of investment fund/subfund, 192 units/shares (95%) finished the year up compared with 31 December 2000, while 11 (5%) depreciated in value.

As with investment funds/subfunds investing in fixed-income securities, the appreciation of some currencies, including the US dollar, meant that in terms of performance measured in euros, the net asset value of the investment funds/subfunds investing in money market instruments denominated in these currencies rose more than that of investment funds/subfunds investing in securities denominated in euro. At the other end of the scale, investment funds/subfunds investing in securities denominated in Japanese yen generally closed the year at a lower level due to the depreciation of the yen against the euro.

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



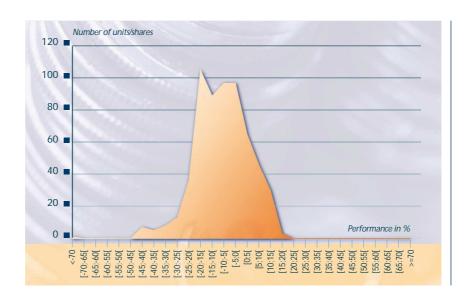
	2001	1st half 2001	2000
Average performance Best performance	+5.37% +14.53%	+3.79% +14.95%	+5.31% +18.76%
Worst performance	-7.25%	-15.59%	-27.50%
Standard deviation	3.57	5.41	6.37
Variance	12.7	29.8	40.6

6. Funds/subfunds investing in other investment funds

Across the 602 types of units/shares taken into account for this category of investment fund/subfund, 458 units/shares (76%) closed the year down compared with 31 December 2000, while 144 (24%) appreciated in value.

Those which achieved the best performance were almost exclusively funds of hedge funds, while classic funds of funds followed the general downward trend of the markets.

Performance distribution of investment funds/subfunds investing in other funds



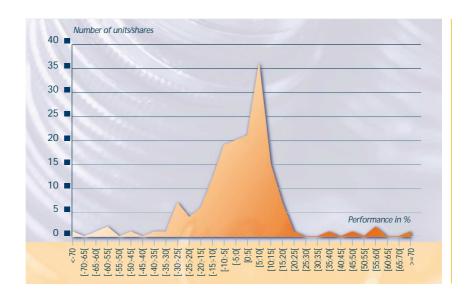
	2001	1st half 2001	2000
Average performance Best performance	-8.16%	-2.64%	-2.35%
	+18.74%	+19.24%	+34.00%
Worst performance	-77.26%	-40.80%	-37.38%
Standard deviation	11.60	8.33	11.03
Variance	134.6	69.4	121.6

7. Funds/subfunds with speculative investment policies

Across the 160 types of units/shares taken into account for this category of investment fund/subfund, 85 units/shares (53%) closed the year up compared with 31 December 2000, while 75 (47%) depreciated in value.

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

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

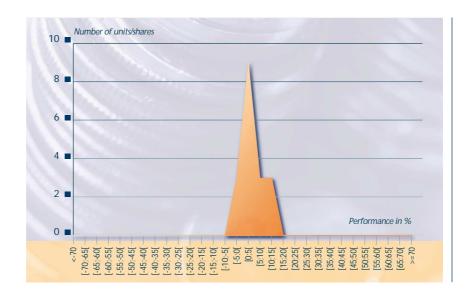


	2001	1st half 2001	2000
Average performance	-6.02%	+2.91%	+5.62%
Best performance	+94.92%	+72.00%	+183.41%
Worst performance	-80.52%	-64.26%	-74.25%
Standard deviation	15.73	13.95	29.73
Variance	247.4	194.7	883.6

8 . Funds/subfunds investing in real estate

Across the 18 types of units/shares taken into account for this category of investment fund/subfund, 15 units/shares (83%) closed the year up compared with 31 December 2000, while 3 (17%) depreciated in value.

Performance distribution of investment funds/subfunds investing in real estate



	2001	1st half 2001	2000
Average performance	+1.19%	+3.13%	+8.25%
Best performance	+14.92%	+9.73%	+30.53%
Worst performance	-3.63%	0.00%	0.00%
Standard deviation	3.32	2.73	7.89
Variance	11.0	7.44	62.2

6.3. Summary of key figures

Investment	average	standard	variance	best	worst
policy	performance	deviation		performance	performance
All investment funds	-7.05%	14.83	219.9	+94.92%	-93.71%
Fixed-income Variable-yield Mixed Money market	+4.45% -14.85% -7.87%	6.72 14.58 11.25	45.1 212.5 126.6	+36.90% +90.05% +35.42%	-30.24% -77.62% -93.71%
instruments Other funds Speculative funds Real estate	+5.37%	3.57	12.7	+14.53%	-7.25%
	-8.16%	11.60	134.6	+18.74%	-77.26%
	-6.02%	15.73	247.4	+94.92%	-80.52%
	+1.19%	3.32	11.0	+14.92%	-3.63%

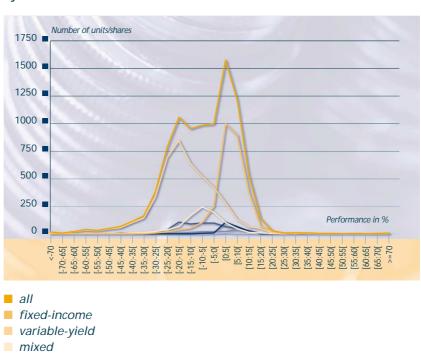
As might be expected on theoretical grounds. real data show that the standard deviation and the variance (which measures the spread around an average) are lowest for low-risk funds/subfunds (money market instruments, fixed-income transferable securities), at a medium level for funds with average risk (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, i.e. narrow curves for low-risk investment funds/subfunds (the performances of the different funds/subfunds are close), and wider curves for investment funds/subfunds with higher risk (performances more widely spread).

Comparison of the distribution of performances of investment funds/subfunds by investment policy

money market

other investment fundsspeculative fundsreal estate



CHAPTER III

SUPERVISION OF PENSION FUNDS

- 1. Developments in the pension funds sector in 2001
- 2. Developments in the legal framework
- 3. Prudential supervisory practice

1. Developments in the pension funds sector in 2001

1.1. Pension funds

In 2001 the CSSF approved two new pension funds subject to the Law of 8 June 1999 as amended. The two funds, Dexia Pension Fund and Prime Pension, BGL Assep B, were established in the legal form of pension savings associations (Assep).

Dexia Pension Fund is an umbrella-type Assep set up by the Dexia Group. The first subfund is reserved for the Group's Luxembourg employees.

Prime Pension, BGL Assep B is an Assep that accepts existing pension commitments covering executive officers of Banque Générale du Luxembourg S.A.

The approval of these two new funds raises the total number of pension funds subject to the Law of 8 June 1999 as amended to five - three Asseps and two Sepcavs as at 31 December 2001.

While the number of funds approved in 2001 was low, the outlook for 2002 is favourable. Half a dozen applications for approval are currently being processed and a certain number of other applications are under preparation with professionals in the sector.

List of pension funds subject to CSSF supervision

Pension savings associations (Assep)

DEXIA PENSION FUND 69, route d'Esch, L-2953 Luxembourg

PRIME PENSION, BGL ASSEP B 50, avenue J.F. Kennedy, L-2951 Luxembourg

THE UNILEVER INTERNATIONAL PENSION PLAN 5, rue Plaetis, L-2338 Luxembourg

Pension savings companies with variable capital (Sepcav)

APF INTERNATIONAL
16, avenue Grand-Duc Jean, L-1842 Howald

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

1.2. Liability managers

Since the Law of 1 August 2001 was passed, amending Article 45 (12) of the Law of 8 June 1999, the CSSF now publishes a list of professionals in the Mémorial at least once each end-year that are authorised to act as liability managers within the meaning of the Law of 8 June 1999 as amended.

At 31 December 2001 the number of authorised liability managers amounted to seven.

The liability manager's legal mission is to assess the commitments of the Assep and to periodically determine the acquired rights of the beneficiaries. The manager is responsible for determining the level of technical provisions to be established with different maturities, based on appropriate assumptions and actuarial techniques, while taking account of the characteristics of the undertaking and the beneficiary population. When pension funds are set up the liability manager establishes the financing plan, which must be brought up to date at least once per year according to the development of the assets and commitments of the Assep, but also occasionally when significant events and unforeseen circumstances so require.

In addition to his legal mission the liability manager may also accept contractual missions, such as preparing the accounts of the Assep, drafting the annual report, or ensuring the duty to provide beneficiaries with information.

Official list of professionals approved to act as liability managers for pension funds subject to the Law of 8 June 1999 as amended

ACTUALUX S.A.

5, place de la Gare, L-1616 Luxembourg

BARNETT WADDINGHAM S.A.

16, avenue Grand-Duc Jean, L-1842 Howald

DEXIA INSURANCE & PENSIONS SERVICES S.A.

2, rue Nicolas Bové, L-1253 Luxembourg

ESOFAC INTERNATIONAL S.A.

37, rue Michel Engels, L-1465 Luxembourg

LA LUXEMBOURGEOISE-VIE S.A.

51, avenue de la Gare, L-1611 Luxembourg

LE FOYER VIE Compagnie Luxembourgeoise d'Assurances S.A.

6, rue Albert Borschette, L-1246 Luxembourg

WILLIAM M. MERCER S.A.

68, boulevard du Souverain, B-1170 Bruxelles

2. Developments in the legal framework

The Law of 1 August 2001 amended 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).

Some of these amendments are innovative and are therefore of particular interest. They relate to the incorporation papers, the contributor's contribution and the managers of the pension fund.

The new Law thus confirms that the pension rules are an integral part of the articles of association, but specifies that while it is compulsory to publish the articles, it is not obligatory to publish the pension rules. These rules do not need to be filed with the registry nor published in the *Mémorial*. The Law now requires the articles of association of the pension fund to specify how the pension rules can be amended. The authority to amend the pension rules may be delegated to the Board of Directors of the pension fund. From now on these same pension rules must contain a description of the principles governing the distribution of a possible surplus if the pension fund is liquidated.

In order to effectively manage a pension fund as soon as it is formed, the Law of 1 August 2001 authorises the employer to provide the Sepcav and the Assep respectively with an initial subscription. However, the amount of the subscription is restricted in terms of volume – for Sepcavs to the minimum share capital and for Asseps to the minimum amount of technical provisions. Contrary to the Sepcav, where it is compulsory to repurchase shares representing the subscription as contributions are paid, in the case of Asseps it is not necessary to pay off the subscription, which may thus represent a kind of safety margin.

The new Law specifically states that foreign asset managers be subject in their country of origin to prudential supervision carried out by a supervisory authority acting in the interests of the beneficiaries. As far as liability management is concerned, the Law describes the missions of the liability manager and the nature of delegating the management of the fund's liabilities. Details are also provided on the content of the minimum financing plan which the pension fund must submit to the CSSF. The depository bank is given the additional mission of supervising the prompt payment of contributions by contributors.

The purpose of other amendments is to clarify the provisions of the Law of 8 June 1999 or to align the pension funds system with the system for UCls.

The Law also specifies that the investment of the shareholders of a Sepcav is restricted to the capitalised value of the contributions paid by the contributor in their favour. While the principle of the "sealing" of the subfunds is confirmed, the option to depart from this by statutory provision and to allow the joint liability of the subfunds towards third party creditors has been introduced. In order to align the Assep and Sepcav systems, a second threshold has been set for triggering the liquidation procedure for Asseps. A quorum for attendance at the General Meeting has also been introduced for valid deliberations to be held on dissolving the pension fund. This applies at the two trigger points. In order to protect beneficiaries it is clearly laid down that a pension fund cannot grant credits or act as guarantor on behalf of third parties.

Following the example of UCIs, the external auditors of a pension fund must provide evidence of appropriate professional experience, i.e. in-depth professional experience in the financial field and a sufficiently strong structure to ensure that a pension fund is properly supervised.

The supervisory authority now has the option to establish rules on the scope of the auditors' mandate and on the content of the audit report of the pension fund's annual accounting statements. At the pension fund's expense the supervisory authority may have an independent auditor carry out a special audit on certain ad hoc aspects of the activity and operations of a pension fund.

In terms of taxation both Asseps and Sepcavs are now required to provide the Luxembourg tax authority with the register of beneficiaries showing the names and addresses of affiliated members and beneficiaries, their total rights at the financial year end and payments made during the financial year.

Finally, changes in terminology have been made concerning in particular the notion of 'contributing company', which has been replaced by 'non-beneficiary contributor' so as to allow groups of individuals which are not in the legal form of a commercial company to pay contributions into a pension fund.

3. Prudential supervisory practice

Since pension funds are a relatively recent innovation they continue to raise many questions in the financial sector. We will outline some of the questions which may be of more general interest.

Decisions of principle or interpretations of the law have now been adopted on the following points in particular:

Withdrawal from a pension fund other than in cases of death or retirement

In response to a question raised on the conditions available for withdrawing from a pension fund, it was accepted that the Law of 8 June 1999 as amended allows early withdrawals under the specific circumstances stated in the pension rules, such as a change of employer or the member's disability. It is also possible to withdraw from the pension fund before retirement in the cases laid down in Article 13 of the Law of 8 June 1999 relating to supplementary pension schemes, as well as those set out in the national social security law of the member's State.

Option of providing for a qualifying period in a Sepcav

The question was raised as to the acceptability of a qualifying period within a Sepcav during which the member does not yet have acquired rights, and as to how shares of the Sepcav are repurchased if the member withdraws from the Sepcav before the end of the probationary period.

The CSSF may accept the existence of a qualifying period within a Sepcav on condition that the Sepcav's pension rules provide the necessary details of the probationary period.

As far as the means of repurchasing the shares of the Sepcav are concerned, under Article 8 (1) of the Law, the pension rules must provide for the Sepcav to repurchase and cancel the shares of the member if the latter withdraws before the end of the qualifying period. Since the member may freely access the proceeds of the repurchase, the pension rules may provide for the member to waive the right to the proceeds in favour of the contributor if he leaves the company before the end of the probationary period.

Allocation of an operating surplus

In defined contribution schemes an operating surplus will basically arise from redundant contributions following the withdrawal of members before the end of the qualifying period. In defined benefit schemes it may also arise from unexpected developments in the economic situation or in demographic or actuarial figures, or from a particularly favourable yield from the pension fund's assets.

The different legal nature of Sepcavs and Asseps is crucial to the treatment of an operating surplus.

Supervision of pension funds

In the event of a repurchase of shares following the withdrawal of the member before acquired rights are earned, the legal nature of Sepcavs prohibits them from retaining the proceeds of the repurchase in the company's accounts and recording a debt vis-à-vis the employer under liabilities. Surplus contributions that have become redundant must be returned to the employer.

In certain circumstances the legal nature of Asseps, on the other hand, allows employers' contributions acknowledged as surplus to be retained in the balance sheet. The treatment of such surpluses depends on the provisions of the pension rules. Surpluses may remain in the pension fund if the pension rules provide for them to be absorbed either by reducing the future level of the employer's contributions or by increasing members' rights and benefits. If, on the other hand, the pension rules entitle the contributor to recover the capitalised value of the contributions acknowledged as surplus, the surpluses must be reimbursed to the employer. The object of a pension fund does not allow it to use and make a profit from parts of the assets of the contributing employer.

Reporting

The CSSF requires pension funds to provide a certain amount of financial information on a quarterly basis. A hard copy of this information is forwarded to the CSSF no later than the 20th of the month following the end of quarter date. The choice of format is left to the pension fund, which may therefore use internal documents established for reporting or for internal audit purposes.

This financial information must include a statement of assets, particularly the breakdown and particulars of the securities portfolio, information on transactions concerning derivatives and information on the population of members (number of members, structure by age group) and on the financial flows of benefits and contributions. On the year end date, the quarterly reporting is supplemented by a draft balance sheet and profit and loss account.

Financing a defined benefit pension fund

In requiring each pension fund to establish sufficient technical provisions to cover all its commitments, Article 62 (1) sets out the principle that pension funds must establish technical provisions for all the types of commitments made and that these provisions must be of sufficient amounts. The result is that an actuarial computation technique appropriate to the commitments must be chosen, and prudential actuarial and economic assumptions and mortality tables for calculating the technical provisions must be accepted.

In general it is considered appropriate to use methods that include salary forecasts to finance pension payment undertakings. The use of a prospective method which takes account of future salary increases is therefore generally recommended. The use of a retrospective method of calculation may be deemed acceptable if the technical provisions arising out of this method do not prove to be lower than the result of a sufficiently prudential prospective method.

Paragraph (2) of the above-mentioned Article introduces a standard of minimum financing. This means that the acquired rights of members and beneficiaries should be fully financed. Net assets must be at least equivalent to the technical provisions established for current and future benefits because of past services. If a case of under-funding arises, however, the supervisory authority should immediately be informed and an adjustment plan must be submitted

Multiple employer pension funds

The Law allows the existence of umbrella-type pension funds or pension funds that cover several employers within the same fund.

In this context different cases are possible:

- to open several subfunds for an employer, each subfund pursuing a different investment policy (life-cycle);
- to create subfunds per employer (distinguishing them by the circle of beneficiaries);
- to include several employers within a subfund.

The option of combining several employers within the same subfund is easier to implement for defined contribution schemes. In defined benefit schemes, the combining of several employers or undertakings within a subfund is in principle to be avoided due to the joint liability that prevails within a subfund. An exception to this principle can be considered for companies belonging to the same group, on condition that the group is able to demonstrate a high rate of solvency.

Whatever the case, the pension rules of a multiple employer fund should clearly stipulate how the assets of the fund are to be divided, particularly any surplus, on the one hand in general (if a contributor wishes to withdraw from the fund, for example), but also in the special cases such as liquidation of the fund or the insolvency of one of the employers.

The pension rules of a multiple employer fund may be presented in such a way as to show a general part that applies to the pension fund as a whole plus specific rules relating to the details of the pension undertaking for each employer. These specific pension rules are an integral part of the pension rules of the fund.

CHAPTER IV

SUPERVISION OF OTHER FINANCIAL SECTOR PROFESSIONALS

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- Developments in 2001 of other financial sector professionals (FSP)
 subject to permanent supervision by the CSSF
- 2. FSPs not subject to permanent supervision by the CSSF
- 3. Prudential supervisory practice
- 4. Company domiciliation agents

1. Developments in 2001 of other financial sector professionals (FSP) subject to the permanent supervision of the CSSF

This section and the published official statistics only examine FSPs subject to the prudential supervision of the CSSF, i.e.:

- Luxembourg-registered FSPs (activities conducted by these establishments in another EU Member State, either by means of the establishment of a branch or by free provision of services, are also subject to the prudential supervision of the CSSF);
- branches of investment firms originating from countries outside the EU,
- branches of FSPs other than investment firms originating from an EU Member State or from a country outside the EU.

Branches established in Luxembourg by investment firms originating from another EU Member State fall under the supervision of their home Member State.

FSPs not subject to the permanent supervision of the CSSF are dealt with afterwards in a second section.

1.1. Movements in other financial sector professionals

The year was marked by a significant increase in the number of FSPs subject to the permanent supervision of the CSSF, the figure rising from 113 at the end of 2000 to 145 at 31 December 2001. A total of 36 new companies were approved in 2001, while four FSPs renounced their status during the same period.

Movements in the number of FSPs

Categories	1993	1994	1995	1996	1997	1998	1999	2000	2001
Investment firms									
Commission agents						4	7	10	14
(Brokers and commission agents)	16	15	14	14	14	,	,	/	/
Private portfolio managers	27	31	33	36	34	37	38	46	51
Professionals acting for their own account	15	17	18	18	20	15	17	14	17
Distributors of investment fund units/shares	11	14	19	20	18	22	25	35	43
Underwriters						1	2	4	4
(Underwriters and market makers)	3	3	3	3	3	1	/	1	/
FSPs other than investment firms					_	_		_	
Financial advisors	6	7	6	6	7	9	10	9	10
Brokers						10	8	7	6
Market makers						1	2	2	2
Professional custodians of securities or other financial instruments	3	3	3	3	3	1	1	3	4
Company domiciliation agents							1	14	32
Institutions authorised to conduct all									
the FSP activities permitted by Article 28 of									
the Law of 15 December 2000 on postal									
services and financial postal services									1
Total ¹	66	74	78	82	80	83	90	113	145

¹ The total in the table is not equal to the arithmetic sum of all the categories mentioned because an institution may be included in several categories.

Note on FSPs registred on the official list:

Like the official table of FSPs posted on the CSSF Internet site, this table, under the company domiciliation agent heading, only includes companies that have been approved exclusively as company domiciliation agents under Article 28-1 of the amended Law of 5 April 1993 on the financial sector. Entities authorised to exercise, in addition to the status of domiciliation agents, another FSP activity covered by Chapter 2 of Part 1 of the aforementioned Law are included in this category, since approval obtained as another FSP also authorises the provision of company domiciliation services in accordance with the Law of 31 May 1999 on company domiciliation.

The most significant increases appear amongst the following categories: company domiciliation agents (18 new entities), distributors of investment fund units/shares (eight new entities) and private portfolio managers (five new entities). The growth in the number of company domiciliation agents is related to the Law of 31 May 1999 on company domiciliation, with 18 companies applying for authorisation to act as domiciliation agents in order to comply with the legal provisions in force. The substantial increase in the number of distributors of investment fund units/shares in 2001 was due to the continued growth and favourable development of the sector concerned. In 2001 private portfolio managers and commission agents recorded the same steady growth they have experienced over the last several years, reflecting the consistently high interest shown in these market niches.

Breakdown of FSPs by geographic origin

	1994	1995	1996	1997	1998	1999	2000	2001
Belgium	26	26	29	27	25	24	21	22
France	11	9	11	10	10	10	11	14
United Kingdom	7	8	9	10	9	8	8	9
Switzerland	8	6	5	6	4	4	7	11
Luxembourg	7	8	8	11	12	17	22	31
Germany	4	8	6	6	6	7	11	11
United States	4	5	6	3	4	3	4	8
Netherlands	1	1	2	2	3	3	7	12
Other	6	7	6	5	10	14	22	27 ²
Total	74	78	82	80	83	90	113	145

There was considerable growth - from 22 to 31 - in the number of FSPs originating from Luxembourg, followed by those from the Netherlands (five new entities), Switzerland (four new entities) and the United States (four new entities). The increase in Luxembourg FSPs was due in particular to company domiciliation agents newly approved in 2001, reflecting efforts to bring the institutions concerned into line with the Law of 31 March 1999 on company domiciliation.

² Including Italy (five entities), Sweden (four entities), Denmark (4 entities).

1.2. Development of employment for other financial sector professionals

Summary of employment per year compared to the development of the number of FSPs

Year	Number of FSPs	Total workforce
1995 1996 1997 1998 1999 2000	78 82 80 83 90 113	1.827 2.017 2.323 2.612 2.788 3.499
2001	145	4.176



The upward trend in employment over the years is closely linked to the growth in the number of other financial sector professionals, and bears witness to the growth and dynamism in this area of the financial sector. It should be noted, however, that the less than proportionate increase in the workforce compared to the number of FSPs over recent years is partly due to the fact that several new small-scale entities were authorised.

Employment in 2001 can be subdivided into two contrasting periods in terms of numbers involved.

The total workforce increased over the first three quarters of the year to reach 4,071 on 30 September 2001, compared to 3,499 at the end of the previous year.

The final quarter, however, was marked by unfavourable developments in the financial markets and the sector in general following the tragic events of September 11, with an inevitable impact on the job market. FSP personnel only increased from 4,071 on 30 September 2001 to 4,176 on 31 December 2001, a rise of a mere 105 persons. This low growth was due mainly to the contribution of the personnel concerned from the *Entreprise des Postes et Télécommunications* who was approved as FSPs during the final quarter of 2001. The level of employment therefore stagnated to some extent towards the end of the year.

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1.3. Changes in 2001 in the official list of FSPs

1.3.1 Luxembourg-registered FSPs approved in 2001

Investment firms

By virtue of Chapter 2, Section 2, Part I of the amended Law of 5 April 1993 on the financial sector, are considered as investment firms, companies acting on a professional basis as commission agents (Article 24A), private portfolio managers (Article 24B), professionals acting for their own account (Article 24C), distributors of investment fund units/shares (Article 24D) and underwriters (Article 24E). An application for approval may relate to one or more of the categories mentioned.

The following institutions were approved as investment firms in 2001:

Name of FSP	Category
ABN Amro Investment Funds S.A. AIG Asset Management International (Europe) S.A. Alternative Leaders S.A.	Distributor of investment fund units/shares Distributor of investment fund units/shares Private portfolio manager
BCB & Partners S.A. Brianfid-Lux S.A.	Private portfolio manager Professional acting for its own account, professional custodian of securities or other financial instruments and distributor of investment fund units/shares
Citco (Luxembourg) S.A.	Distributor of investment fund units/shares
Createrra S.A.	Professional acting for its own account
Crédit Agricole Indosuez Conseil S.A.	Commission agent
Frontier S.A.	Commission agent and distributor of investment fund units/shares
Fund-Market Research & Development S.A.	Private portfolio manager
International Financial Data Services (Luxembourg) S.A.	Distributor of investment fund units/shares
International Fund Services & Asset Management S.A.	Private portfolio manager and distributor of investment fund units/shares
Lissa-Luxembourg Investment Strategies S.A.	Commission agent
Moventum S.A.	Private portfolio manager and distributor of investment fund units/shares
Notz, Stucki & Cie, Luxembourg S.A.	Private portfolio manager

The combination of different statuses of FSP within certain companies demonstrates their efforts to become versatile financial sector professionals so as to offer a broader range of services to their clients. Most companies, however, prefer to specialise in a specific sector of business. Thus four out of six companies authorised in 2001 to act as private portfolio managers applied exclusively for this status.

FSPs other than investment firms

According to the provisions of Articles 25 to 28-2 of the amended Law of 5 April 1993 on the financial sector, financial advisors (Article 25), brokers (Article 26), market makers (Article 27), professional custodians of securities or other financial instruments (Article 28), company domiciliation agents (Article 28-1) and operators of payment or securities settlement systems (Article 28-2) constitute FSPs other than investment firms.

In 2001 the following institutions were approved as FSPs other than investment firms:

Name of FSP	Category
ACM Global Investor Services S.A.	Domiciliation agent
A.L.T. Management S.A.	Domiciliation agent
A.M. Mercuria S.A.	Domiciliation agent
Ascendo S.A.	Domiciliation agent
Benelux Trust (Luxembourg) Sàrl	Domiciliation agent
Citco (Luxembourg) S.A.	Domiciliation agent
Companies & Trust Promotion S.A.	Domiciliation agent
F.G.P. (Luxembourg) S.A.	Financial advisor
Figestor S.A.	Domiciliation agent
Finsev S.A.	Domiciliation agent
First Trust S.A.	Domiciliation agent
Furka S.A.	Domiciliation agent
Graham Turner Trust Services (Luxembourg) S.A.	Domiciliation agent
Halsey Group S.ÀR.L.	Domiciliation agent
Infigest S.A.	Domiciliation agent
ING Trust (Luxembourg) S.A.	Financial advisor and domiciliation agent
Intertrust Dom S.A.	Domiciliation agent
Luxigec S.A.	Domiciliation agent
Morley Corporate Services S.A.	Domiciliation agent
Stratego Trust S.A.	Domiciliation agent
Suxeskey S.A.	Domiciliation agent

Most of the newly approved companies adopted the status of domiciliation agent in accordance with Article 28-1 of the amended Law of 5 April 1993 on the financial sector. One company was approved as a financial advisor, while another obtained the dual status of financial advisor and domiciliation agent.

Institutions authorised to conduct all the FSP activities permitted by Article 28 of the Law of 15 December 2000 on postal services and financial postal services

The *Entreprise des Postes et Télécommunications* was approved as a financial sector professional in 2001. Since the special nature of its business does not allow it to be classified in one of the existing categories of FSP defined by the amended Law of 5 April 1993 on the financial sector, the *Entreprise des Postes et Télécommunications* has been included on the official list under a separate category of FSP. The Law of 15 December 2000 on postal services and financial postal services, considering the institution concerned to be a financial sector professional, is the legal base of its application for authorisation to conduct a professional activity in the financial sector.

1.3.2. FSPs that renounced their status in 2001

In 2001 four investment firms renounced their FSP status, two going into liquidation, one being taken over by another FSP and another changing its objects.

Name of FSP	Category	Reason for renouncement
Raymond James Benelux (Luxembourg) S.A. Compagnie Internationale de Rentes S.A. Degroof, Thierry & Associés S.A. HSBC Investment Funds (Luxembourg) S.A.	Commission agent Commission agent Private portfolio manager and distributor of investment fund units/shares Private portfolio manager	Liquidation Liquidation Merger by take-over by Degroof Portabella S.A. Change in company objects
These investment rands (Eavenised g) our in	and distributor of investment fund units/shares	change in company objects

1.3.3. Changes in category in 2001

Name of FSP	Category (before change)	Category (after change)
Carl Kliem Carmignac Gestion Luxembourg S.A.	Broker Private portfolio manager and distributor of investment fund units/shares	Commission agent Professional acting for its own account and distributor of investment fund units/shares
Fidelity Investments Luxembourg S.A.	Distributor of investment fund units/shares	Commission agent and distributor of investment fund units/shares
First European Transfer Agent S.A.	Distributor of investment fund units/shares	Private portfolio manager and distributor of investment fund units/shares
Liberty Ermitage Luxembourg S.A.	Distributor of investment fund units/shares	Commission agent and distributor of investment fund units/shares
Lindé Partners Asset Management S.A.	Financial advisor	Private portfolio manager and distributor of investment fund units/shares
Petercam (Luxembourg) S.A.	Professional acting for its own account	Professional acting for its own account and distributor of investment fund units/shares

An analysis of changes in categories of financial market professionals in 2001 confirms the diversification of market activities. Most of the requested changes relate to the adoption of an additional status with a view to expanding the business covered.

1.4. Movement of balance sheet total and results

Movement of balance sheet total and net results of FSPs

CATEGORIES	Balance sheet total (EUR)			
	1999	2000	2001	
Investment firms				
Commission agents	18 389 700	42 240 456	99 716 630	
Private portfolio managers	546 155 533	862 469 254	1 066 264 897	
Professionals acting for their own account	176 986 025	179 164 191	255 338 494	
Distributors of investment fund units/shares	314 064 828	597 862 391	983 602 842	
Underwriters	14 826 461	64 889 343	139 986 343	
FSPs other than investment firms				
Advisors	300 897 745	5 131 921	8 733 273	
Brokers	64 524 440	64 964 167	54 566 570	
Domiciliation agents	1	27 504 392	72 764 211	
Market makers	14 826 461	17 569 951	17 658 712	
Depositors	297 536 840	643 858 392	866 132 691	
Institutions authorised to conduct all the				
FSP activities permitted by Article 28 of				
the Law of 15 December 2000 on postal	,	,	,	
services and financial postal services	/	/	/	
Total	1 216 504 853	1 989 979 453	2 479 420 688	

CATEGORIES	Net results (EUR)		
	1999	2000	2001
Investment firms			
Commission agents	1 661 187	7 452 020	7 720 969
Private portfolio managers	109 011 443	216 734 523	152 603 646
Professionals acting for their own account	25 111 056	30 297 844	11 191 358
Distributors of investment fund units/shares	39 271 095	62 993 399	72 720 500
Underwriters	1 097 104	5 807 259	4 708 210
FSPs other than investment firms			
Advisors	64 326 247	683 501	733 654
Brokers	13 877 143	17 622 675	17 877 198
Domiciliation agents	/	3 192 271	7 669 732
Market makers	1 097 104	1 884 174	943 460
Depositors	63 569 555	135 660 085	52 122 317
Institutions authorised to conduct all the			
FSP activities permitted by Article 28 of			
the Law of 15 December 2000 on postal	,	,	,
services and financial postal services	/	/	/
Total	217 237 068	424 475 052	278 843 470

Comment on the tables:

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 aforementioned Law, balance sheet totals are aggregated for each category but are not included in the grand total to avoid double counting.

The balance sheet total posted by FSPs established in Luxembourg increased substantially during the year to EUR 2,479 million, compared to EUR 1,990 million at the end of 2000, a net growth of 24.58%. This positive development was due in particular to the significant increase in the number of FSPs: from 113 at 31 December 2000 to 145 at 31 December 2001.

FSP net results at 31 December 2001 were in fact lower than in the previous year, amounting to a mere EUR 279 million as against EUR 424 million at 31 December 2000, a reduction of 34.20%. This heavy fall was largely attributable to the unfavourable development of the financial markets and the financial sector in general following the tragic events of 11 September 2001.

It should be noted, however, that different categories of FSP posted different trends in results in the 2001 financial year. Certain categories recorded a fall compared to the previous year, while others, which were either less dependent on stock market developments or which had increased in number, were more stable or even recorded a significant increase in the balance sheet total and net results.

Finally, an analysis of the tables reveals that the balance sheet total and net results for FSPs as a whole and for the different categories have fluctuated considerably over the years. The main reason for this is the heavy concentration of activities and results amongst a handful of professionals. For example, at 31 December 2001 only 14 FSPs had a balance sheet total exceeding EUR 30 million. Thus the withdrawal from the official list of a significant FSP in terms of total balance sheet and net results or the approval of a company of significant size may lead to strong variations in figures in relation to the categories of FSP concerned.

Private portfolio managers

Despite the increase from 46 to 51 companies in 2001, private portfolio managers posted lower net results compared to the previous year, particularly reflecting the negative development of the financial sector during the final quarter. Whilst reducing the value of the managed assets, the fall in stock markets also led to a decline in commissions receivable and a consequent fall in the principal source of revenue of private portfolio managers. It should also be noted that a few large-scale institutions were responsible for the fall in net results.

Distributors of investment fund units/shares

Distributors of investment fund units/shares, which increased from 35 to 43 over the last year, achieved some profit growth and a significant increase in total balance sheet compared to the preceding year. This was due to several major players in the market who are responsible for financial developments in the category of distributors of investment fund units/shares.

Supervision of other financial sector professionals

Professionals acting for their own account

The table reveals a significant fall in net results for professionals acting for their own account, while the balance sheet total recorded clear growth compared to the end of 2000. The reduction in net results was due in particular to the decline in stock markets over the last quarter of 2001, since the business and therefore the results of these companies are highly dependent on stock market and financial developments in general. As far as the balance sheet total is concerned, there was a substantial growth in some companies, while most professionals acting for their own account experienced a stabilisation.

Brokers

Despite a fall in the balance sheet total for this category, net results grew slightly compared to 2000. Brokers, particularly online brokers, suffered less from the stock market crisis in autumn 2001 than other categories of FSP. Even though the number of client orders fell, expansion of the product range offset this loss.

1.5. Expansion of FSPs at international level

Formation of subsidiaries in 2001

The subsidiary of the investment firm Capital @ Work International commenced operations in Spain in 2001.

Freedom of establishment

Two Luxembourg-registered investment firms established a branch in another EU country in accordance with the principle of freedom of establishment in 2001. These were J.P. Morgan Fleming Asset Management (Europe) S.ÀR.L., which established a branch in Austria, and Moventum S.A., which set up a branch in Germany. Since its switch in status from broker to commission agent gave it the status of an investment firm, in 2001 the Luxembourg company Carl Kliem fell within the scope of Directive 93/22/EEC of 10 May 1993 concerning investment services (Article 14 relating to freedom of establishment), though its branch in Belgium has been operating since 1999.

The following table shows Luxembourg investment firms represented at 31 December 2001 by means of one or more branches established in other EU countries.

Name of FSP	Category	Branch
Creutz & Partners, Global Asset Management Carl Kliem J.P. Morgan Fleming Asset Management (Europe) S.À R.L.	Private portfolio manager Commission agent Private portfolio manager and distributor of investment	Germany Belgium Sweden
J.P. Morgan Fleming Asset Management (Europe) S.À R.L.	fund units/shares Private portfolio manager and distributor of investment fund units/shares	Austria
Le Foyer, Ottaviani & Associés S.A.	Private portfolio manager and distributor of investment fund units/shares	Belgium
Moventum S.A.	Private portfolio manager and distributor of investment fund units/shares	Germany

At 31 December 2001 the number of branches established in Luxembourg by investment firms from other EU Member States had not changed since the end of the preceding year, the figure still standing at four.

Name of branch	Country of origin
Assets & Equities S.A. Morgan Stanley Dean Witter Investment Management Limited PFPC International Limited Prudential-Bache International Limited	Belgium United Kingdom Ireland United Kingdom

Free provision of services

In 2001 ten Luxembourg-registered investment firms applied to pursue business in one or several EU countries under freedom to provide services. The upward trend in preceding years was in fact confirmed.

Notifications to freely provide services in Luxembourg from investment firms situated in other EU countries developed in a similar way. In 2001 the CSSF received 147 notifications compared to 107 in 2000, a significant growth which bears witness to the internationalisation of financial sector activities.

Three notifications from the Norwegian authorities on behalf of Norway-registered investment firms were also sent to the CSSF. According to Article 30 of the amended Law of 5 April 1993 on the financial sector, investment firms with their registered office in Norway are treated as Community investment firms, as Norway is a member of the European Economic Space.

The geographical breakdown of investment firms that submitted a notification in 2001 shows that British firms continue to be the ones that most often apply for permission to freely provide services in Luxembourg, followed by French and Austrian investment firms.

Country of origin	Number of entities submitting a notification to freely provide services in 2001
Germany	6
Austria	7
Belgium	3
Spain	1
Finland	1
France	12
Greece	3
Ireland	2
Italy	1
Norway	3
Netherlands	3
United Kingdom	105
Sweden	3
Total	150

On 31 December 2001 a total of 1,035 Community investment firms were authorised to provide services freely in Luxembourg.

2. FSPs not subject to the permanent supervision of the CSSF

For FSPs not subject to permanent supervision, the CSSF's role is confined to ensuring that the general provisions relating to the authorisation of other financial sector professionals incorporated under Luxembourg Law are applied, 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 when exercised as main activity, factoring and bond lending activities;

Position of the CSSF with respect to leasing activity

In terms of leasing with purchase option agreements entered into by leasing companies, in refining its approach the CSSF believes that only firms that mainly carry out leasing activities with a purchase option clause (financial leasing) must apply for approval as FSPs, on basis of Article 13 of the amended Law of 5 April 1993 on the financial sector. The Commission considers that financial leasing activity is the main activity if it accounts for over 50% of the company's turnover.

When financial leasing activity is conducted on an ancillary basis by a company that mainly pursues an activity covered by the Law of 28 December 1988 on the right of establishment, only an authorisation from the *Ministre des Classes Moyennes* is required, in accordance with Article 11 of the Law of 9 August 1993 on consumer credit.

- · FSPs which collect third-party receivables;
- FSPs which perform cash-exchange transactions.

2.1. FSPs authorised under general provisions in 2001

In 2001 approval was granted to four new FSPs authorised to conduct all financial sector activities under Chapter 2, Section 1, Part I of the amended Law of 5 April 1993 on the financial sector, excluding the FSP categories also mentioned in Section 2 of the same chapter.

Name of FSP	Activity
Creditlease S.A. Société Luxembourgeoise de Leasing BIL-Lease S.A. Luxequip Bail S.A. KBC Lease (Luxembourg) S.A.	Factoring activity Leasing with purchase option activity Leasing with purchase option activity Leasing with purchase option activity

The above table shows that financial leasing activity in particular (agreements with a purchase option clause) is experiencing a positive development, with three entities receiving approval as FSPs under the general provisions in 2001.

2.2. FSPs which renounced their status in 2001

Robert Fleming Stock Lending (Luxembourg) S.à r.l., operating in the field of stock-lending, went into liquidation in 2001.

3. Prudential supervisory practice

3.1. Prudential supervision instruments

Prudential supervision is exercised by the CSSF by means of four types of instrument:

- financial information submitted periodically to the CSSF enabling the continuous monitoring of the activities of FSPs and of inherent risks. Added to this is the periodic supervision of the capital adequacy ratio in application of Article 56 of the amended Law of 5 April 1993 on the financial sector;
- the report drawn up annually by the external auditors (including a certificate concerning anti-money laundering rules and a certificate concerning compliance with CSSF circular 2000/15 as from 31 December 2001);
- internal audit reports relating to inspections carried out during the year, and the management's report on the state of the internal auditing of the FSP;
- on-site inspections carried out by the CSSF.

Position of the CSSF as regards circular 2000/12 specifying capital adequacy ratios in application of Article 56 of the amended Law of 5 April 1993 on the financial sector

According to Point 1 of Part III, the circular concerned applies to all investment firms incorporated under Luxembourg Law, with the exception of those covered by Article 13(2) of the amended Law of 5 April 1993 on the financial sector and companies confined to receiving and transmitting investors' orders but which do not hold clients' funds and/or securities themselves.

The CSSF considers that the activity of commission agent under Article 24(A) of the aforementioned Law, which in addition to the receipt and transmission of investors' orders also includes the execution of such orders on behalf of third parties, is excluded from the scope of CSSF circular 2000/12, which defines capital adequacy ratios. This conclusion also applies to distributors of investment fund shares or units who do not accept and who do not make payments, in accordance with Article 24(D) of the amended Law of 5 April 1993 on the financial sector, as these investment firms only receive and transmit investors' orders without holding their clients' funds and/or securities themselves. However, distributors of investment fund shares or units authorised to accept and make payments in accordance with Article 24(D) of the aforementioned Law and who are thus more exposed to financial risks, fall under the scope of circular CSSF 2000/12 and are henceforth required to periodically communicate information on capital adequacy and risks to the CSSF.

3.2. On-site inspections

In 2001 the CSSF carried out on-site inspections at two financial sector professionals. There will be more on-site inspections in 2002, particularly concerning the Internet business of different FSPs (consultative or transactional sites), an area which is growing strongly.

Supervision of other financial sector professionals

3.3. Interviews

A total of 64 interviews concerning FSP activities were held in 2001 in the CSSF's offices. Most of these interviews related to applications for approval as FSPs from firms newly incorporated or to be created, or from existing entities who intend to conduct business in the financial sector that requires prior authorisation.

The remainder of the interviews held with representatives of FSPs covered the following areas in particular:

- courtesy visits;
- planned changes in business;
- presentation of the general context and business of the company concerned.

A certain number of interviews in 2001 were also held at the CSSF's initiative when problems were identified in relation to ESPs.

3.4. Sanctions

In 2001 the CSSF did not have to formally use its right of injunction and suspension granted by the Law on the financial sector. The CSSF did on the other hand lodge three complaints with the Public Prosecutor's Office against the illegal exercise of domiciliation activities by companies not authorised to this end.

3.5. Specific audits

Article 54(2) of the amended Law of 5 April 1993 on the financial sector specifies that the CSSF may ask external auditors to carry out a specific audit on a financial professional. The resulting costs must be met by the professional concerned. The CSSF did not formally make use of this right, but did invite two FSPs to authorise an auditor to carry out a specific audit on one or more particular aspects of the business or operations of the concerned institution.

3.6. Supervision on a consolidated basis

The supervision of investment firms on a consolidated basis is governed by the amended Law of 5 April 1993 on the financial sector, particularly by Chapter 3 bis of Part III. The corresponding articles define the conditions under which the investment firms are subject to supervision on a consolidated basis and its scope. The form, extent, content and means of supervision on a consolidated basis are also laid down in the Law.

At 31 December 2001 the CSSF carried out supervision on consolidated basis on 16 investment firms coming under the above-mentioned Law. An in-depth study of the financial groups to which most of the FSPs belong was needed to determine whether, at what level and in what form the consolidation should apply. For the concerned investment firms, CSSF Circular 00/22 on the supervision of investment firms on a consolidated basis specifies the practical aspects of the rules as regards this type of supervision. Many firms supervised on a consolidated basis belong to major groups operating in the financial sector whose ultimate parent company is usually a credit institution.

The following FSPs were subject at 31 December 2001 to supervision by the CSSF on a consolidated basis:

- Atag Asset Management (Luxembourg) S.A.
- Beta Europa Management S.A.
- Brianfid-Lux S.A.
- Capital @ Work International
- Citco (Luxembourg) S.A.
- Corluy Luxembourg S.A.
- Crédit Lyonnais Management Services S.A., abbreviated to C.L.M.S. (Luxembourg) S.A.
- Dewaay Luxembourg S.A.
- Dexia Asset Management S.A.
- Fidessa Asset Management Luxembourg S.A.
- Foyer Asset Management S.A.
- Fund-Market Research & Development S.A.
- Kredietrust
- Petercam (Luxembourg) S.A.
- Premium Select Lux S.A.
- Union Investment Euromarketing S.A.

4. Company domiciliation agents

4.1. Developments in the regulatory framework

4.1.1. CSSF Circular 01/28 inviting credit institutions and other financial sector professionals to submit client companies domiciled through a third party in Luxembourg to systematic supervision

On 6 June 2001 the CSSF issued CSSF Circular 01/28 aiming to encourage the supervised institutions to systematically verify, when they begin relations with a company, whether the latter is domiciled through a third party approved in Luxembourg so as the identity and exact address of the company's third-party domiciliation agent. When relations begin with a foreign company that has a domicile in Luxembourg, it also needs to obtain information concerning its nationality and, if applicable, the address of the principal registered office abroad.

By means of CSSF Circular 01/28, banks and FSPs are permanently invited to inform the CSSF of any new contact with a company domiciled in Luxembourg through a third-party who does not belong to one of the categories of professionals regulated and listed restrictively by the Law of 31 May 1999 on company domiciliation. For this purpose, the CSSF informed the supervised institutions of the addresses of the websites on which lists of approved domiciliation agents can be viewed. Banks and FSPs have also been asked to examine their existing client companies before the end of the third quarter of 2001 and to inform the CSSF of cases of companies domiciled in Luxembourg through persons who are not authorised by the aforementioned Law to offer domiciliation services.

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4.1.2. CSSF Circular 01/29 concerning the minimum content of a company domiciliation agreement

CSSF Circular 01/29 of 7 June 2001 provides details on the minimum content of a domiciliation agreement which, in accordance with Article 1(1) of the Law of 31 May 1999 on company domiciliation, must be concluded between a domiciled company and a third-party domiciliation agent. This circular sets out the points that must obligatorily appear in a domiciliation agreement, i.e.:

- the object of the agreement;
- the rights and obligations of the domiciliation agent;
- the responsibility of the domiciliation agent;
- the rights and obligations of the company;
- the instructions and means of communication;
- the commission;
- the term and procedure for terminating the contract;
- the applicable law and dispute settlement procedure.

4.1.3. CSSF Circular 01/47 concerning the professional obligations of company domiciliation agents and general recommendations and amending CSSF Circular 01/28

CSSF Circular 01/47 of 21 December 2001 lists and clarifies the professional obligations that company domiciliation agents subject to supervision by the CSSF must comply with before and after concluding a domiciliation agreement with a company.

a) before conclusion

- the obligation to verify that the domiciled company complies with the provisions relating to domicile within the meaning of Article 2(2) of the amended Law of 10 August 1915 on commercial companies;
- the obligation to know the real identity of members of company boards, shareholders and/or beneficial owners of the domiciled company.

b) after conclusion

- the obligation to verify the real identity of members of company boards, shareholders and/or beneficial owners of the domiciled company and the latter's activity;
- the obligation to file documentation enabling the above-mentioned parties to be identified and to keep it up to date;
- the obligation to ensure compliance with the legal provisions by the domiciled company, particularly those contained in the Law of 10 August 1915 on commercial companies and those relating to the right of establishment;
- the obligation to file and publish the notice of termination of the domiciliation agreement.

CSSF Circular 01/47 also amends a provision in CSSF Circular 01/28 by restricting the duty of banks and other FSPs to inform the CSSF of the names of non-approved domiciliation agents, without including the names of the companies domiciled through them.

4.2.1. Movements in the number of company domiciliation agents in 2001

During the year 18 establishments were approved as company domiciliation agents under Article 28-1 of the amended Law of 5 April 1993 on the financial sector:

- ACM Global Investor Services S.A.
- A.L.T. Management S.A.
- A.M. Mercuria S.A.
- Ascendo S.A.
- Benelux Trust (Luxembourg) Sàrl
- Companies & Trust Promotion S.A.
- Figestor S.A.
- Finsev S.A.
- First Trust S.A.
- Furka S.A.
- Graham Turner Trust Services (Luxembourg) S.A.
- Halsey Group S.AR.L.
- Infigest S.A.
- Intertrust Dom S.A.
- Luxigec S.A.
- Morley Corporate Services S.A.
- Stratego Trust S.A.
- Suxeskey S.A.

The category of other financial sector professionals that recorded the highest increase (+128%) in 2001 was company domiciliation agents. This reflects companies' efforts to comply with the Law of 31 May 1999 on company domiciliation. The number of company domiciliation agents thus rose from 14 to 32 after the Law of 31 May 1999 came into force. There were no withdrawals in 2001.

4.2.2. Shareholders of company domiciliation agents

An analysis of the applications approved at 31 December 2001 shows that 25% of company domiciliation agents, i.e. eight entities, have credit institutions as shareholders. The percentage of domiciliation agents that have a bank as a shareholder, still 50% in 2000, fell significantly, particularly due to the number of company domiciliation agents with private individuals as shareholders. It should also be noted that in two newly approved applications in 2001, the ultimate shareholders are insurance groups listed on a European stock exchange.

The following conclusions can be drawn concerning the geographical origin of the direct shareholder:

- Luxembourg shareholders are the most heavily represented with 16 entities, including six credit institutions:
- the most important non-resident shareholders are from the Netherlands (five entities), followed by Belgium, France and Switzerland (two entities each).

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Supervision of other financial sector professionals

Nationality of shareholders

Country	Number of domiciliation agents
Luxembourg	16
Netherlands	5
Switzerland	2
Belgium	2
France	2
United States	1
Italy	1
United Kingdom	1
Sweden	1
Multinational joint venture	1
Total	32

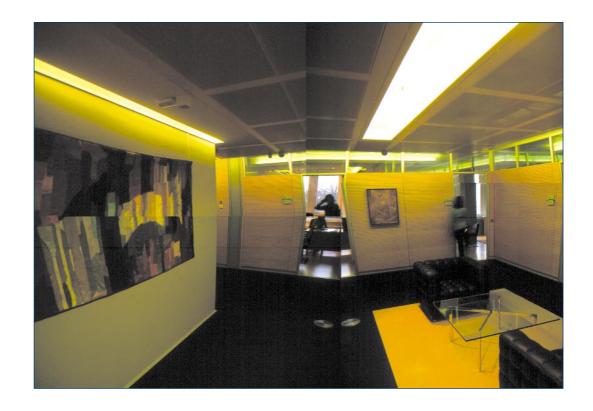
4.2.3. The CSSF awareness-raising campaign

In 2001 the CSSF continued its comprehensive awareness-raising campaign aimed at people likely to conduct domiciliation activity without being authorised to do so under the Law of 31 May 1999 on company domiciliation.

In this context, on 22 February 2001 the CSSF launched a warning via a press release to make natural or legal persons who are not qualified to conduct domiciliation activity, so as the companies domiciled by them, aware of the existence of the aforementioned Law and of the respective penalties in the event of failure to comply with the legal provisions.

The CSSF also took many initiatives to detect infringements of the Law of 31 May 1999 on company domiciliation, including in particular a thorough study of Mémorial C and a systematic analysis of adverts in the press or in telephone directories.

Under these initiatives the CSSF lodged three complaints with the Public Prosecutor against infringements of the Law of 31 May 1999 on company domiciliation.



CHAPTER V

SUPERVISION OF SECURITIES MARKETS

- 1. Reporting of transactions on financial assets (TAF)
- 2. Investigations conducted by the CSSF in its supervision of securities markets
- 3. Prudential supervisory practice

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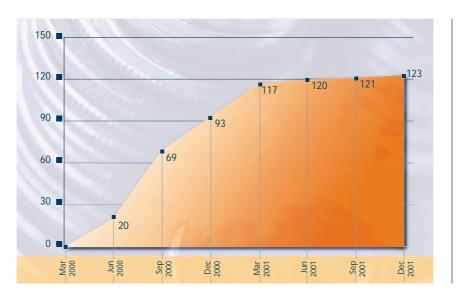
COMMISSION de SURVEILLANCE du SECTEUR FINANCIER

1. Reporting of transactions on financial assets (TAF)

While 2000 was devoted to the implementation of the TAF project, putting this project into effective operation marked the year 2001. In addition, first conclusions could be drawn from this project within the CSSF.

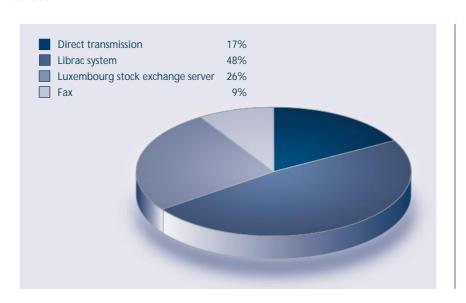
1.1. Movements in the number of connections and methods of transmission.

Movements in the number of connections



During 2001 the number of connections concerning the transmission of data on financial assets in the TAF project rose from 93 investment firms at the beginning of the year to 123 at its end. Nevertheless, the total number of firms which are subject to reporting requirements fell slightly, due to the number of mergers that occurred on the Luxembourg financial market as part of the concentration movement in the international financial sector.

Transmission methods



1.2. First conclusions drawn from the TAF project

In order to allow as many investment firms as possible to adapt their reporting to the requirements laid down in Circular 99/7 on reporting to the CSSF pursuant to Articles 5 and 6 of the amended Law of 23 December 1998 on the supervision of securities markets, the TAF project team published several documents. These documents should help to clarify regulatory aspects as well as technical aspects.

The implementation of the requirement to report transactions on financial assets as from 1 January 2000, the practical use made of this reporting and the first on-site inspections of certain investment firms raised numerous questions. The CSSF therefore clarified several general principles and answered the most frequently asked questions in relation to Circular 99/7 by publishing a circular letter on 23 May 2001.

The Circular puts the crucial point, among other things, to the principles for the reporting of purchases and sales executed for the account of clients as well as for own account activities. Indeed, many investment firms missed to make the right distinction between transactions executed for their own account and transactions negotiated for the account of their customers. This misinterpretation brought confusion into the CSSF's data analysis, as it was not in the possession of homogeneous reports. In this context, it has been accepted that transactions carried out for client's account as well as those executed under discretionary management have to be reported for "client's account" taking into account the client's orientation of the transaction. Those initiated by the investment firm itself should be stated at the initiative of the firm.

At a technical level, the document "Recueil d'Instructions" was updated in May 2001 in order to consider the additional explanations given to Circular 99/7 and the principal problems encountered. The document provides further information to the communication system established between the CSSF and the investment firms in relation to the reporting requirements. The discordance of electronic exchange regarding the reporting was due, among other things, to the non-respect of the stipulated delays, to the duplication of reporting concerning the transactions that are carried out on the Luxembourg Stock Exchange, as well as to the right application within the correction of possible errors.

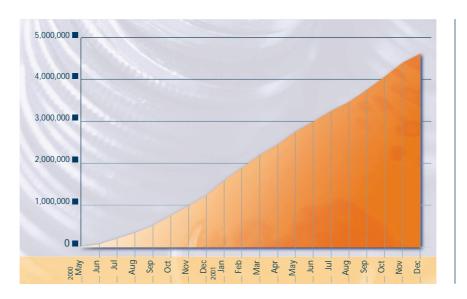
All the information relating to TAF reporting, which is continuously updated, is accessible on the CSSF website (www.cssf.lu) in the 'Reporting légal' section under 'Reporting TAF'.

All these efforts have been initiated in order to allow the CSSF to provide correct interpretation and analysis according to the severe requirements of the different investigations. The results of these initiatives should contribute to an effective regime of investor protection, market transparency and to the successful detection of infringements of the financial laws and regulations.

1.3. Movements in the number of trades reported

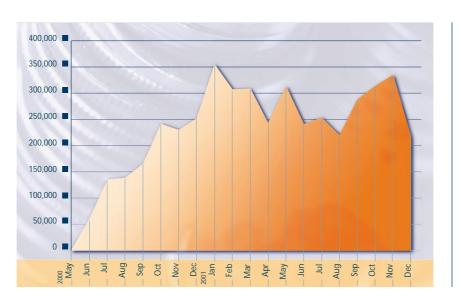
The number of trades that have been reported rose from 1,219,000 in 2000 to 4,595,777 in 2001, representing an increase of 26%. The central system recorded an average of 14,555 TAF trades per working day.

Number of trades reported



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Monthly volume of trades reported



2. Investigations conducted by the CSSF in its supervision of securities markets

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

2.1. Investigations into breaches of stock exchange regulations

The CSSF is the administrative authority competent to ensure that the provisions of the Law of 3 May 1991 on insider dealing are applied to the professionals of the financial sector. The aim is twofold: to ensure fair and equal treatment of investors and 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 within the framework of international co-operation.

2.1.1. Enquiries initiated by the CSSF

Enquiries concerning insider dealing

In 2001 the CSSF initiated four enquiries into a possible breach of the Law of 3 May 1991 on insider dealing.

Based on evidence and information it received in relation to one of the enquiries, the CSSF decided to pursue this investigation internationally by requesting assistance from several European market authorities. Once the CSSF has all the information requested, both at national and international level, it will decide whether to report these on to the State Prosecutor under Article 6(2) of the Law of 3 May 1991 on insider dealing.

The evidence and information collected during two other enquiries allowed the CSSF to conclude that there were no infringements of the Law of 3 May 1991 on insider dealing.

Following the example of a number of other authorities, the CSSF reacted rapidly to the terrorist attacks of 11 September 2001 on US soil by launching an enquiry to detect insider dealing connected with the attacks. The CSSF first analysed on- and off-exchange transactions on securities of companies active in the sectors most sensitive to this type of event, notably insurance and airlines companies. The CSSF concentrated in particular on the two weeks preceding the attacks and on the day of 11 September 2001 itself. The CSSF also examined the market behaviour of each financial sector professional on an individual basis during the same period to detect anomalies and suspect validations, particularly with respect to their seasonal activity. After these investigations the CSSF concluded that it did not have information to confirm that possible insider dealing had taken place in relation to these attacks.

Enquiries into price manipulation

As part of its general mission of supervising the financial markets the CSSF also opened an enquiry on market manipulation in 2001. The subject of these specific investigations was to verify whether the prices of a security officially listed on the Luxembourg Stock Exchange had been manipulated upwards. Investigations are still in progress.

Supervision of securities markets

2.1.2. Enquiries conducted by the CSSF at the request of a foreign administrative authority

Enquiries concerning insider dealing

The number of requests for assistance from foreign authorities was much higher than in the previous year. In 2001 the CSSF processed 57 applications for enquiries into insider dealing (versus 39 in 2000), one of which was filed by a government body outside the European Economic Area.

A total of five requests from foreign authorities concerning insider dealing were referred to the CSSF in direct connection with the attacks of 11 September 2001. These enquiries focused principally on the securities of airlines, insurance and reinsurance companies.

The CSSF handled all these enquiries with the necessary diligence befitting co-operation between authorities. During these enquiries, no major issues relating to the involved financial intermediaries have been raised.

Enquiries into price manipulation and fraudulent public offers

The CSSF received one request for assistance from a foreign authority in connection with price manipulation and one request in connection with a fraudulent public offer of transferable securities. The CSSF replied to both requests within its legal competence.

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

CSSF Circular 2000/15 of 2 August 2000 states the specific rules of conduct to be observed by all financial sector professionals. The primary purpose of this Circular is to amplify and clarify the principles laid down in Article 37 of the amended Law of 5 April 1993 on the financial sector.

A fair number of these rules of conduct are related to the overall principle that the professional shall act honestly and fairly in conducting his business activities in the best interest of his clients and the integrity of the market. Rule 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 any behaviour liable to impair the transparency or distort the proper operation of the market. At no time shall he manipulate the market, either alone or in concert, for his own benefit or for that of a third party, by means of a single act or series of acts of whatever nature, intending actively or passively to mislead or misinterpret, without prejudice to the professional's right to intervene in the market in order to ensure the success of an offering or to stabilise a market price'.

On six occasions the CSSF addressed letters to members of the Luxembourg Stock Exchange to make them aware of their duties to ensure compliance with the rules of conduct.

In particular the CSSF took action on so-called offsetting of operations, i.e. transactions which members of the stock exchange carry out acting themselves as counterparty. The CSSF reconsidered these operations within their regulatory context. Transactions of this category actually represent around one-third of the volume carried out on the market of the Luxembourg Stock Exchange and are subject to the same rules as transactions carried out on the central market. They thus follow the same price formation mechanisms and rules of allotting the securities available. The outcome of this analysis was that while most of these operations comply with the rules of conduct, some nevertheless do not.

As a first step, the CSSF agreed with the Luxembourg Stock Exchange to establish a specific system allowing members to report block trades executed off the order book to the stock exchange for the purpose of publication in the official price list. This system, which is in fact used by many other stock markets, allows block trades to be made public while avoiding negative interference with the market, on condition however that strict pre-defined rules are followed. The start of this specific system of reporting block trades was scheduled at the beginning of 2002. Depending on the results thereof, the CSSF will decide if and what kind of additional measures will be necessary to reach the scope of increasing market transparency while respecting market integrity.

The use made of the information collected in relation to the reporting of transactions on financial assets carried out by investment firms contributed a lot to the performance of the tasks fulfilled in 2001 with respect to enquiries. This effective tool enabled the CSSF to obtain the tangible real-time information needed to conduct its investigations throughout the year.

3. Prudential supervisory practice

In accordance with the amended Law of 23 December 1998 on the supervision of securities markets, the CSSF enlarged its activity relating to the supervision of stock exchanges, public offerings and listed Luxembourg companies.

3.1. Supervision of stock exchanges

The establishment of a stock exchange in Luxembourg is subject to a concession to be granted by grand-ducal decree. The only stock exchange currently licensed under Luxembourg Law is the "Société de la Bourse de Luxembourg" (the "Luxembourg Stock Exchange"). The CSSF monitors the proper functioning of the market operated by the Luxembourg Stock Exchange as well as the proper application of the related regulations. It also attends the meetings of the Luxembourg Stock Exchange authorities.

3.1.1. Regulatory changes

Developments made in 2001 in the context of the agreement on cross-membership and cross-access signed on 16 November 2000 between Euronext and the Luxembourg Stock Exchange, were the subject of several meetings of the CSSF and the Luxembourg Stock Exchange. The purpose of this discussion was to include the view of the CSSF in the underlying harmonised regulations, particularly as regards the specific of 'cross members', essential under this new form of co-operation.

In order to keep the stock exchange regulations regarding market surveillance in line with the regulatory developments at European level and the background of a fully decentralised automatic market, a Surveillance Committee was created as part of the Luxembourg Stock Exchange bodies. This Committee is in charge of supervising the members' compliance with the Rules and Regulations laid down by the Luxembourg Stock Exchange and any legal and regulatory provisions governing stock exchange trades. This supervisory committee informs the CSSF of any suspected infringements of the law.

3.1.2. The market ensured by the Luxembourg Stock Exchange and its members

The CSSF is kept informed of market activities and related problems on a daily basis through an activity report provided by the Luxembourg Stock Exchange.

As far as market activities are concerned, turnover fell by 14.2% compared to 2000 to reach EUR 2.4 billion. It may be worth pointing out that trends in trading reversed from past years in favour of bonds with a total turnover representing 67% of trading compared to variable income securities, which accounted for the remaining 33%. This change was partly due to withdrawals of certain traditional shares of Luxembourg origin. The general development of markets, reinforced by the economic consequences of the 11 September attacks were some additional reasons.

At the end of 2001 the Luxembourg Stock Exchange had 85 members, 28 of which were 'cross members'.

Considering that turnover fell in 2001, the year was nevertheless marked by intense activity in new admissions to the Luxembourg Stock Exchange. A total of 7,225 new securities were admitted, an increase of some 19% in relation to the number of quotation lines, compared to an increase of 15.5% in 2000. The total number of securities admitted as at 31 December 2001 amounted to 23,438, divided into 16,447 bonds, 278 shares, 1,306 warrants and 5,407 investment funds and subfunds.

3.2. Documentation relating to public offers and listings

Under the supervision of the CSSF, the Luxembourg Stock Exchange is entrusted with the examination of prospectuses, pursuant to the Grand Ducal regulation of 28 December 1990 on the requirements for the drawing up, scrutinising and distribution of the prospectus to be published where 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. Under the Grand Ducal regulation, the Luxembourg Stock Exchange approves the prospectuses to be published where transferable securities are admitted to official listing and where public offers of transferable securities are followed by a listing on the Luxembourg Stock Exchange. Prospectuses relating to public offers of transferable securities not followed by a listing are approved by the CSSF.

During the year under review, some 50 public offers of transferable securities were made in Luxembourg, 11 of which were public exchange offers in relation to securities listed on the Luxembourg Stock Exchange. The CSSF approved the documentation relating to 12 public offers that were not the subject of an application for admission to official listing.

The criteria applied by the CSSF regarding the supervision of the specific task of approval of prospectuses carried out by the Luxembourg Stock Exchange are based on close co-operation between the Stock Exchange and the supervisory authority.

During 2001 the Luxembourg Stock Exchange submitted some 20 application files drawn up for the purpose of the due examination of the public offer prospectus or listing particulars to the CSSF in order to obtain the CSSF's view on these issues. In addition, over 60 reports for a waiver from specific provisions of the regulations concerning the prospectus were referred to the CSSF by the Stock Exchange. A total of 50 of these were duly justified and thus granted.

The CSSF also clarified its position regarding issues of mortgage bonds. In fact, these issues may benefit, as from the time of their first application, from the partial exemption from the obligation to publish a prospectus provided to credit institutions issuing debt securities in a continuous or repeated manner. The prospectus shall contain information only on the persons responsible for it, on the bonds, on the admission of the bonds to the official list and on any

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events of importance for the assessment of the securities concerned, that would have occurred since the end of the financial year in respect of which the last annual accounts were published. These accounts must be made available to the public.

In the absence 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 thus always admitted that an offer of securities for subscription or sale is public when it is announced in the press or by any other means accessible to the public in general. The fact that the public can get a prospectus of a securities issue at the counters of a bank is also considered as a public offering just like information about a securities issue given by way of circular letters or tracts.

Despite its continuous efforts to clarify the essential elements to be considered when appreciating the private or public character of an offer, the CSSF had to intervene on several occasions in 2001 in connection with public offers because the document approval procedure was not carried out properly. Specific intervention proved necessary in relation to public exchange offers concerning securities listed on the Luxembourg Stock Exchange. Notices relating to the announcement of these public exchange offers should in fact be published in one or several national newspapers circulated throughout Luxembourg or widely therein. Taking into account this announcement and the distribution among the public, these exchange offers fall within the scope of the regulations in force for public offers of transferable securities.

As regards co-operation with foreign authorities concerning mutual recognition of prospectuses, the CSSF issued certificates of approval relating to 94 public offers or admission to the official stock exchange listing made simultaneously or within short interval in several Member States of the European Economic Area. These issues include in particular the public offer of securities made by Arcelor in exchange for Arbed, Aceralia and Usinor securities, an offer followed by admission to the official stock exchange listing on the Luxembourg Stock Exchange.

The special nature of the above-mentioned public exchange offer was due to the fact that four financial markets were directly affected by the underlying operation, which would certainly have repercussions, both on the markets concerned and on the companies involved. This entailed simultaneously considering the interests of shareholders and employees while complying with the regulations in force in the different countries affected by the offer and the listing. It is evident that the offer documentation and issue prospectus relating to the new securities were thoroughly examined by the competent authorities in Luxembourg, Belgium, France and Spain. Since the listing particulars, which were scrutinised by the Luxembourg Stock Exchange, were an integral part of the offer documents in the four countries, as much information as possible required under the different laws on the public offer of securities had to be included. In the framework of this transaction it should be emphasised that co-operation between the Luxembourg Stock Exchange and the CSSF, and between the four concerned supervisory authorities, was marked by a concern to protect the interests of investors by providing them, during the assessment of the option whether or not to accept the exchange offer, with the information necessary to make an informed judgement on the assets, financial position, results and prospects of the companies involved.

3.3. Luxembourg companies listed on the Luxembourg Stock Exchange

3.3.1. Monitoring of financial information and information on shareholdings

The amended 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 (48 at 31 December 2001).

The CSSF verifies financial data submitted to it, in particular the annual and half-yearly reports published by these companies. As part of this mission the CSSF contacted companies on several occasions to obtain additional information on certain aspects of their reports. It also formulated written comments on the annual accounts of certain companies.

The CSSF systematically checks compliance with the Law of 4 December 1992 on the information to be published when a major holding in a listed company is acquired or disposed of. For this purpose, attendance registers of ordinary or extraordinary general meetings are considered. The CSSF took action with companies that did not comply with the provisions laid down.

3.3.2. The RTL Group case

At national level the exclusive offer made by Bertelsmann to GBL rekindled interest in the discussion of the principle of protection of minority shareholders. On 2 July 2001 the Belgian group GBL sold its holding of around 30% in RTL Group to Bertelsmann, which then controlled 67% of RTL Group. In return GBL received a holding in the capital of Bertelsmann. This transfer of the exclusive control of RTL Group to Bertelsmann was not followed by an offer in identical conditions to the other shareholders. This fact was vigorously contested by the minority shareholders. Alongside the legal proceedings brought by the minority shareholders, some of their representatives referred to the CSSF. In August 2001, the CSSF specified that it was not entitled to issue an order with respect to the specified case. Despite this, the CSSF referred to the European Commission Recommendation of 25 July 1977 concerning a European code of conduct relating to transactions in transferable securities. In fact, point 3 of the General Principles states that 'equality of treatment should be guaranteed to all holders of securities of the same type issued by the same company; in particular, any act resulting directly or indirectly in the transfer of a holding conferring de jure or de facto control of a company whose securities are dealt in on the market, should have regard to the right of all shareholders to be treated in the same fashion'. Point 17 of the Supplementary Principles reads as follows: 'Any transaction resulting in the transfer of a holding conferring control in the sense referred to in general principle 3 should not be carried out in a surreptitious fashion without informing the other shareholders and the market control authorities. It is desirable that all the shareholders of the company whose control has changed hands should be offered the opportunity of disposing of their securities on identical conditions, unless they have the benefit of alternative safeguards which can be regarded as equivalent'.

The CSSF pointed out that these provisions are very clear and that it is of the opinion that, insofar as the minority shareholders were excluded from the opportunity to have their securities repurchased or exchanged on the same conditions as those granted to GBL/Electrafina, the above-mentioned principles were not observed.



SUPERVISION OF INFORMATION SYSTEMS

- 1. Activities in 2001
- 2. International co-operation

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The principal mission of the CSSF information technology audit is the prudential supervision of information systems, i.e. consideration of technological aspects relating mainly to data processing and telecommunications in supervising the financial sector. Rather than financial risks, the information technology audit examines the operational risks arising when financial institutions use information technology systems. In order to assess operational risks, the information technology audit is carried out when projects submitted to the CSSF are assessed or during on-site inspections, often based on a comparative assessment of good practice in information technology.

1. Activities in 2001

1.1. Interviews and on-site inspections

In 2001 the information technology audit consisted of 28 interviews with financial institutions and 22 interviews with IT companies or consultancies, and ten on-site inspections were carried out.

The interviews and on-site inspections covered the following principal information technology activities:

- consultative or transactional internet sites;
- · outsourcing of IT activities;
- · relocation of systems;
- backup centres and continuity plans;
- assessment of IT functions (organisation, security, systems etc.).

Interviews with IT companies or consultancies on the one hand allow the CSSF to improve its knowledge of the activities, products and services offered to financial institutions, and on the other hand to make such companies aware of issues surrounding the prudential approach adopted when evaluating IT projects. The CSSF has found that the projects submitted to it by the financial institutions under its supervision have a better response to prudential and regulatory expectations as a result of this approach. This is true in particular when a provider serves several financial institutions, promoting a co-ordinated vision of the prudential aspects to be taken into consideration. Meetings with these IT services companies and consultancies are generally initiated at their request. It should be noted that the CSSF does not approve companies which are not under its authority and in no way awards a specific conformity label to the services provided by these companies. Equally they do not receive any form of a certification following such interviews.

1.2. Publication of the 'Internet-based Financial Services' survey

The CSSF information technology audit finalised the examination of the survey of Internet-based financial services at 31 December 2000. The results were published in December 2001 in a document which also includes the relevant CSSF recommendations. Before it was finalised this document was discussed by the Information Technology Committee, an advisory body that works within the CSSF. The *Institut des Réviseurs d'Entreprises* [Institute of Auditors] and the *Institut des Auditeurs-Conseil Internes* [Institute of Consultant Internal Auditors] also took part in the discussions.

Figures from the survey on the number of financial institutions offering financial services over the Internet were obsolete at the end of 2001 for two reasons: on the one hand institutions have set up new consultative and/or transactional sites, and on the other hand all the 'virtual banks' in Luxembourg, i.e. without outlets and only operating on the Internet, terminated their activities. This disappearance of 'virtual banks' was an indirect result of the continued fall in stock exchange prices that began in the second quarter of 2000, and which drastically slowed public enthusiasm for using online services to buy and sell shares (e-brokerage). The profitability of the 'virtual banks' that had promoted these financial products to capture a new international clientele was compromised. Information technology projects had been costly and there was a risk that the client base would be too small to meet expectations of a return on investment within a reasonable time.

Financial services via the Internet continued to grow, however. Financial institutions embraced the Internet in a 'multi-channel' vision of the distribution of their products, and an increasing number of them see this channel of communication as essential for retaining their clientele in the long term. However, it is no longer the securities purchasing and sale service that is the principal advantage in the eyes of the public, but the availability of all the services usually offered at bank counters, and the quality and user-friendliness of the site. The present concept most widely accepted by the public is called 'brick & click', which confirms that the physical relationship between client and banker prevails over the virtual relationship.

The CSSF report nevertheless remains valid on the other aspects of the survey and the results provide indications as to how the financial institutions have addressed the introduction of financial services provision via the Internet.

The document is available on the CSSF site at the following address: www.cssf.lu/docs/brochure_internet2001.pdf

1.3. Other important events

In 2001 three types of technology-related questions were frequently put to the CSSF:

a) Since the events of 11 September 2001 in the United States the financial market has been aware of the importance of providing a solution for ensuring the continuity of its activities. Circular IML 96/126 addresses this issue by imposing a backup solution for information systems which are essential for pursuing activities. Many questions put to the CSSF focus on aspects of implementing backup centres: What minimum distance must there be between the production site and the backup site? What should the physical environment of the backup site be in the event of using a shared backup centre? What functions should be covered by a continuity solution and what time limits are imposed? What methodology should be adopted for defining the backup solution? Should the safety plan be validated, etc.?

The CSSF plans to carry out a study with a sample of financial institutions to obtain a more complete view of the current situation. According to the results of this study the CSSF will produce a range of recommendations that can be used as the basis for preparing a circular on the subject. At the moment the CSSF information technology audit is providing food for thought on this matter by examining best practice in the area and studying the measures taken by the foreign authorities. Since the CSSF does not act as a validator, it is precluded a priori from establishing metrological criteria, such as the minimum distance between two centres.

b The subcontracting of printing and the dispatch of documents by specialised centres also forms part of the questions put to the CSSF. Such subcontracting is justified by the potential economic gains for financial institutions which can then participate indirectly and only partly in purchasing costly printing and enveloping equipment. However,

Supervision of information systems

subcontracting raises the problem of the confidentiality of the data processed, since printing mostly involves statements of client accounts and bank transactions. The CSSF considers the printing function to be equivalent to an information technology function, in that mail can only be generated thanks to a specialised piece of computer equipment that processes confidential data produced by the information system of the financial institution. From this point of view IML circular 96/126 applies in full, and the provider should never be in a position to view the confidential data.

The CSSF has taken a position on a case by case basis on the projects submitted to it, defining the conditions it deems acceptable to guarantee that information remains confidential. These conditions can be summarised as follows. Data can only enter the printing site in encrypted form and can only be decoded by the financial institution. The presence of an official from the financial institution is essential throughout the process to verify that no operative working for the subcontractor accesses the data. The computer printing system should not be accessible remotely during the process. The medium that accommodated the data should be irreversibly erased (formatting if possible) and it should only be possible to carry out the justification and pagination tests on fictitious test data. Only the personnel of the financial institution or a Post Office employee may receive mail intended for posting.

c) The entry into force of the Law of 14 August 2000 on e-commerce, transposing European Directive 1999/93/EC on the electronic signature, raised many questions for the CSSF in connection with the possible obligation to use an advanced electronic signature based on a qualified certificate. The CSSF points out that the use of a qualified certificate is advisable to guarantee legal equivalence with a written signature. However, the conditions defining a certificate as qualified are still rather vague, and we must await implementation of the supervision of certification-service-providers by the *Organisme luxembourgeois d'accréditation et de surveillance* (OLAS) [Luxembourg Accreditation and Supervisory Board], accountable to the Ministry of Economy, to define the qualification of the certificates used by financial institutions.

The CSSF is taking an active part in the 'e-commerce' platform established by the Ministry of Economy and the working group for standardisation within the platform so as to measure the impact of the use of simple qualified certificates and qualified certificates accredited by the OLAS within the financial sector. The understanding of the security measures necessary for obtaining a qualification of certificates by the OLAS allows the CSSF to anticipate potential limits of use by financial institutions in relation to their clients.

2. International co-operation

The supervision of information systems requires constant updating of technical knowledge in information technology, telecommunications and finance, which is why the personnel responsible for this work participate regularly in seminars and presentations of new techniques and products.

The CSSF forms part of the supervisory authorities that have introduced an information technology auditing function to respond to specific technical questions from the financial sector. It therefore participates in particular in certain international bodies such as the Electronic Banking Group of the Basel Committee by contributing its experience and understanding of technological issues in the area of prudential supervision. The CSSF is holding talks with other authorities to share its knowledge in the area of methodology and technological watching. Co-operation with foreign authorities that have an analogous function of information technology auditing should allow mutual understanding of inspection procedures, which in the case of the consolidated supervision of a financial institution improves the co-ordination of the inspection and assessment of results.

The pooling of technological watching information makes it possible to step up consideration of new phenomena, whether security solutions, suppliers of new services (aggregators, for example), attempted hacking into information systems or financial frauds based on information technology. As far as the latter is concerned, it should be noted that information is still difficult to obtain at European or international level, which makes it harder to establish the exact number of cases known and the weaknesses exploited.

The technological watching consists in staying informed about new trends and technical and security products by means of different sources (Internet forum, specialized press, consultants, etc).

CHAPTER VII

CUSTOMER COMPLAINTS

- 1. Analysis of complaints handled during 2001
- 2. European co-operation in out-of-court mechanisms for redress in financial services

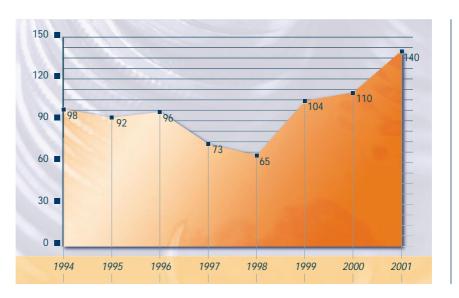
COMMISSION de SURVEILLANCE du SECTEUR FINANCIER

1. Analysis of complaints handled during 2001

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.

Number of complaints

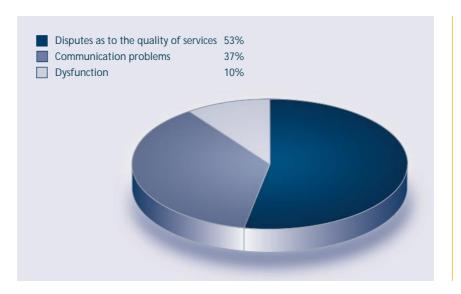


Among the 140 complaints received by the Commission in 2001, 131 concerned banks and 9 concerned other financial sector professionals. 132 were from private persons and 8 from legal entities. The increase compared with 2000 is due to various factors. Customers are particularly more prepared to challenge the conduct of banks when the results of their management are negative. It may also be the case that the public becomes more aware of the role of the CSSF as a mediator.

The total number of complaints about banks increased in relation to the preceding year from 38 in 2000 to 52 in 2001.

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



102 of the complaints received during the period under review were settled. In 44 cases, the dispute was settled in favour of the customer. In 58 cases the dispute was settled in favour of the financial professional. 38 cases are still under review.

The following is a sample of the complaints illustrating the mission of the CSSF.

- Many customers complained that they had not received an answer from their bank to a
 request to correct an accounting error and contacted our services in desperation. Although
 they were aware that the dispute only involved a minimal sum, they nevertheless wanted
 us to intervene, quite rightly feeling that a bank should at least answer its customers'
 letters. Following our involvement the bank agreed to their requests.
- A customer complained that her bank, having notified that it had mistakenly carried out a
 transfer from the account the customer held abroad, had debited the sum in question from
 her account without warning. The customer said that she was prepared to accept the debit
 concerned, however, on condition that the bank provided evidence of the disputed
 transfer. The bank agreed to re-credit the customer's account while awaiting the evidence
 concerned from the receiving bank.
- Wishing to subscribe to an issue of bonds issued by a non-European state, a private individual sent a cheque to a bank in the market referred to in the prospectus as the collecting agent for the issue. The cheque was returned three months later without a word of explanation! After a great deal of effort the individual finally discovered that the bank was not involved in the issue and received the address of the real collecting agent. In view of these failings the bank finally made a commercial gesture to the customer.
- We also noted that a customer had to use our services to obtain a basic document in bankcustomer relations, i.e. the general terms of business.

These different cases illustrate the communication problems arising between banks and their customers.

It should be noted that the role of the CSSF in these matters was merely to ensure that the channels of communication were reopened.

- A customer sent his bank a share certificate for the bank to hold the respective securities on
 deposit. However, the securities were only credited to the deposit account two months
 later, the bank failing to notify the customer of the delay. Since the price of the securities
 had fallen in the meantime, the customer blamed the bank for allowing him to miss the
 opportunity to sell on time. Deeming the delay to be excessive and confirming that the
 transaction could have been carried out much more quickly, we invited the bank to
 compensate the customer.
- A customer instructed his broker to invest some EUR 10,000 in an investment fund, the
 amount concerned being paid from a subscription account in Germany. Since he received
 no further information, the customer had to contact the various counterparts involved,
 notably a Luxembourg financial professional. The latter's explanations showed that the
 subscription had in fact been carried out, but to an incorrect account number due to an
 encoding error. Since the error was the fault of the financial professional, we concluded
 that the latter should compensate the customer.
- A customer complained about the results of the discretionary management practised by his bank, alleging that the bank had not followed his instructions not to invest in high-tech shares, and had exceeded the upper limit established for investments in shares. We concluded that the investments in high-tech shares could not be contested because the customer could not prove that he had actually forbidden them. On the other hand, since the management contract effectively established the maximum percentage of shares to be held in portfolio, and since this had been exceeded, we did not consider that the manager's evidence stating the customer's wish to see the bank conduct a more aggressive policy was sufficient to exempt the bank from complying with the terms of the contract. We therefore concluded that the bank had been negligent in breaching the contractual provisions.
- A customer of a bank passed himself off abroad for one of its agents. By means of this subterfuge he had a private individual send him a cheque to the order of the bank to credit the respective sum to an account that he would open in the name of the private individual with his so-called employer. He paid the cheque into his own account, however, and the deceived individual held the bank liable. We noted that the swindler was only able to cash the cheque by making use of the facility offered by the bank to its customers to pay money into an account by a transfer or cheque in their name. We therefore concluded that, although the bank was not in any way involved in the fraud, it had facilitated the swindler's work because the person defrauded thought that, because of banking practice, he was sure that a cheque to the order of the bank could only be cashed by the latter.

One of the conclusions that can be drawn from these various examples is that recourse to the CSSF services could in many cases have been avoided if the financial professional had made the effort to clarify the situation rapidly and correctly. Thus the failure to reply to a customer's letter or delays in providing the clarifications requested are, among other things, factors that generate unnecessary tension between the parties.

The CSSF can once again only highlight how important it is for financial professionals to be available to listen to the views of the customer, who need to be confident that he or she is dealing with someone who will listen to their grievances.

2. European co-operation in out-of-court mechanisms for redress in financial services

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.

At the moment 37 bodies, including the CSSF, are involved in the co-operation network.



INTERNATIONAL CO-OPERATION:
CSSF INVOLVEMENT IN INTERNATIONAL GROUPS

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- 1. Co-operation within European Institutions
- 2. Multilateral co-operation

COMMISSION de SURVEILLANCE

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

1. Co-operation within European Institutions

1.1. Groups attached to the European Commission

1.1.1. The Banking Advisory Committee

The Banking Advisory Committee was established by Article 11 of the first banking coordination directive (Directive 77/780/EEC). It is made up of decision makers of the highest level in the banking supervisory and regulatory authorities of each Member State. It is chaired by Mr Norgren of the Swedish Finansinspektionen. 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 Committee assumes a regulatory role in the comitology procedure as part of the executive power of the Commission. The Committee is not authorised to examine specific problems concerning individual credit institutions.

During 2001 the Committee was consulted several times by the European Commission on the proposal for a directive on financial conglomerates. The Committee was also asked for its opinion on a GTIAD report containing recommendations designed to bring the EU framework on own funds into line with that in force in Basel as regards hybrid Tier 1 capital instruments. Like other forums, after the events of 11 September, the Committee asked the supervisory authorities about the measures taken in the fight against terrorism.

As in the past, the Committee was kept informed as to the development 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 in parallel to the work in progress undertaken by the Basel Committee on Banking supervision, the members of the Committee regularly discussed the progress reports provided by the working subgroup and its working parties. The Committee thus discussed the question of choosing the most appropriate legislative approach with regard to capital adequacy, and the question of supervisory convergence.

The European Commission regularly submitted verbal reports to the Committee on the subject of progress in the action plan concerning financial services.

The Committee continued to follow the development of the banking sector's solvency 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.

Finally, it was decided during 2001 to form a permanent group of accounting experts operating under the aegis of the Banking Advisory Committee.

1.1.2. High Level Securities Supervisors' Committee

Created in 1985 and consisting of senior officials of the supervisory authorities of securities markets, the Committee plays a consultative role within 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 guidelines to be followed with a view to ensuring the optimum development of securities markets in the EU.

During 2001 the Committee examined questions concerning the Community system regarding the obligation of transparency for issuers whose securities are admitted for trading on a regulated market. The Committee discussed the modernisation of Directive 82/121/EEC on regular reporting and Directive 93/22/EEC on investment services in the securities field (DSI). It also reviewed the list of markets regulated under the DSI system. The Committee also discussed the proposal for a directive on insider dealing and the manipulation of market prices (market abuse), and the proposal for a directive on prospectuses to be published when securities are offered to the public or admitted to trading. Furthermore, the expansion of the European Union, cross-border co-operation in the area of complaints concerning financial services, e-commerce, financial services and accounting standards and the independence of auditors were all on the agenda of meetings of the Committee.

1.1.3. The Contact Committee on the Accounting Directives

The Contact Committee on the Accounting Directives is a consultative body consisting of senior representatives of Member States and the European Commission. It was created by the latter in application of Article 52 of Directive 78/660/EEC (4th accounting directive). Its objectives are the following:

- to ensure a harmonised application of accounting directives by regular discussions focusing in particular on the specific problems raised by implementing them;
- to advise the Commission, where appropriate, on the additions or amendments to be introduced into the accounting directives.

The Contact Committee met three times in 2001. Discussions focused largely on a proposal for a directive to modernise the current accounting directives. This exercise in modernisation is additional to the proposed European Parliament and Council regulation on the application of international accounting standards ('IAS Regulation'), which provides for the mandatory application with effect from 2005 of IAS standards to the consolidated accounts of listed companies.

The update plan is intended to:

- update directives that have remained unchanged for some 20 years;
- address certain issues not falling under the IAS regulation, such as the requirement to publish a management report and to have the accounts audited by a statutory auditor;
- to maintain a level playing field as far as possible between the companies that apply IAS standards and those that do not.

In order to achieve this it is intended:

- to remove all the incompatible aspects that currently exist between IAS standards and accounting directives;
- to ensure that the options available in the IAS standards are accessible to the companies that continue to apply the accounting directives;
- to update the basic structure of the accounting directives with a view to obtaining a regulatory framework which is both compatible with modern accounting practice and

sufficiently flexible to adapt to future developments.

The proposal for a directive will soon be submitted to the expert group attached to the European Council.

1.1.4. The Contact Group

The contact group created in 1972 is at the origin of informal co-operation on Community level. The group comprises senior representatives of the banking supervisory authorities of Member States. It is currently chaired by Mr Vargas from the Banco de España. A body appreciated for informal exchanges concerning the situation of individual credit institutions, particularly in the event 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. More recently the Banking Advisory Committee appointed the group to develop principles in certain areas with a view to achieving greater convergence of prudential supervision conducted by the supervisory authorities.

During its three meetings in 2001, the contact group addressed a considerable number of subjects of particular interest to the prudential supervision of credit institutions.

Particularly noteworthy was the work already begun in 2000 aiming at a uniform implementation of the supervisory review process, the so-called pillar 2 of the proposal for a new capital adequacy framework at Community level.

The group also developed principles intended to ensure the convergence of the prudential approach for the supervision of banks' provisioning practices.

In terms of comparative studies, reference should be made to completion of the study on the prudential treatment of cross-border banking services provided on the Internet and the annual study on the solvency of credit institutions in the European Economic Area.

1.1.5. The Contact Committee on Money-Laundering

The Contact Committee on money-laundering met once in 2001. The meeting involved an exchange of information on the measures taken or to be taken to combat the financing of terrorism.

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

The group held no meetings during 2001.

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

In its only meeting in 2001 the *ad hoc* group discussed questions of interpretation arising during the implementation of the directive on cross-border credit transfers (97/5/EC) and the directive on settlement finality in payment and securities settlement systems (98/26/EC). The European Commission kept the group informed of different studies it had commissioned on the pricing of cross-border credit transfers or the application of the recommendation concerning transactions carried out by means of electronic payment instruments.

1.1.8. The mixed working group on financial conglomerates

The mixed working group on financial conglomerates met several times in 2001. It carried out a survey designed to measure the impact of the future directive on the supplementary supervision of credit institutions, investment firms and insurance undertakings. For this purpose it surveyed the financial groups likely to constitute a financial conglomerate within the meaning of the proposed directive.

1.1.9. The joint ESCR-ECB working group on securities clearing and settlement systems

On 27 September 2001 the European Central Bank (ECB) and the European Securities Regulators Committee (ESRC) outlined the framework for co-operation between the European System of Central Banks (ESCB) and the ESRC in the area of securities clearing and settlement systems with a view to studying subjects of common interest.

A joint working group was created and met for the first time in late November 2001. One of the objectives of the group is to prepare a report on the adaptation of CPSS-IOSCO recommendations to the European environment, stressing the essential recommendations, analysing the activities of central counterparties and defining recommendations based on the standards of the European Association of Central Counterparty Clearing Houses (EACH).

1.1.10. The Peer Review group

In the context of its expansion, the European Union assesses the extent to which legislation and prudential supervision policy of candidate countries complies with the existing Community rules. It also verifies the implementation and application of Community rules in candidate countries. In order to do this, the European Commission asked the supervisory authorities of Member States, the 'peers', to assess the equivalent authorities of the respective candidate countries. For each candidate country six authorities competent to supervise the financial sector (banks, financial markets and insurance) and a representative of the European Commission form a peer review team that visits the country to meet the equivalent authorities locally to assess their missions and responsibilities and how they operate (authorisation, on-site inspections, ability to impose sanctions).

The CSSF took part in the peer review team that visited Cyprus from 9 to 13 July 2001 to assess the adequacy of the respective structures and systems for supervising financial services. In cooperation with its Greek equivalent, the Hellenic Capital Markets Commission, the CSSF assessed the supervision of the securities market in Cyprus, the Cyprus Stock Exchange and undertakings for collective investment.

1.2. Groups operating at European Union Council level

The CSSF is a 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 format the consensus texts, referring only political difficulties to the Permanent Representatives Committee and the Council of Ministers of Finance. The groups are chaired by a representative of the Member State acting as president of the Council. The office of president was thus occupied by Sweden during the first half of 2001 and by Belgium during the second half. The list of directives under negotiation at Council level and a brief description thereof can be found in chapter IX.

1.3. The Banking Supervision Committee of the European Central Bank

The Banking Supervision Committee of the European Central bank is a committee made up of representatives of the banking supervisory authorities and the central banks of Member States. It is chaired by Mr Meister, a member of the Board of Directors of Deutsche Bundesbank. The missions concerning prudential supervision conferred by the Treaty and the statutes of the European Central Bank to the ESCB (European System of Central Banks) are carried out by the Banking Supervision Committee on behalf of the ESCB. The Committee is a forum for the exchange of opinions on the policies and practice of supervision in Member States. It should also be consulted on proposals for directives and bills tabled by Member States affecting matters within its competence.

In carrying out its mandate in 2001, the Banking Supervisory Committee was supported by four workgroups, the Working group on macro-prudential analysis, the Working group on early warning systems, the Working group on developments in banking and the Working group on credit registers. Ad hoc groups (Task Forces) created in 2001 continued to examine more specific subjects.

In order to systematise the analysis of macroeconomic data with a view to identifying in reasonable time, as far as possible, factors likely to weaken the financial institutions as a whole and therefore the financial system, the Working group on macro-prudential analysis monitors the macroeconomic environment and reports to the Committee on trends and facts likely to be relevant to the prudential supervision of the financial sector. The practical aspects of the changeover to the euro, such as banks' preparations to introduce the new currency, were subject to exchanges of views within the Committee throughout the year. The Committee also discussed the consequences of the events of 11 September 2001 on the financial and economic situation in Europe, and thus on the stability of the European financial and banking system. It also analysed the macro-prudential effects of the world-wide economic slowdown and of certain national or even regional economic developments on the banking sector.

2. Multilateral co-operation

2.1. The Basel Committee on Banking Supervision

As in 2000, the Basel Committee concentrated its work on finalising a new capital adequacy framework, begun in June 1999. This subject is dealt with in detail in chapter I, point 3.

The working groups

■ The Electronic Banking Group (EBG) is responsible for analysing the major challenges associated with e-banking services (particularly over the Internet), and with establishing foundations for a harmonised approach to supervision of e-banking activities.

A report called 'Risk management principles for electronic banking', focusing on the principles of risk management for the electronic bank, was published in May 2001.

While the Basel Committee believes that the general principles of risk management continue to apply, it is nevertheless important to adapt and, where appropriate, extend them to meet the specific challenges posed by the characteristics of e-banking activities. A total of 14 risk management principles have been identified, divided into three groups: 'Board and management oversight', 'Security controls', and 'Legal and reputational risk management'. The Committee has specified that, rather than constituting an absolute requirement, these principles express what a supervisory authority is entitled to demand, and will help to develop special management principles for e-banking as a whole.

The Working group on cross-border banking, which is a joint working group of the Basel Committee and the Offshore Group of Banking Supervisors, drafted the document 'Essential elements of a statement of co-operation between banking supervisors', published in May 2001, which is to be used as a specimen for Memoranda of Understanding between supervisory authorities.

Meanwhile the same working group drew up a document entitled 'Customer due diligence for banks', in consultation with the industry, the final version of which was published in October 2001. This document in particular establishes recommendations on credit institutions' duty of diligence towards their customers in the form of minimum standards regarding the identification and monitoring of their customers. The systematic duty of diligence towards the bank customer is an essential element of risk management by banks and plays a significant role in preserving the confidence and integrity of the banking system.

The document also highlights the role of the banking supervisory authorities responsible for establishing a prudential approach towards know-your-customer procedures for banks. For these supervisory authorities the principles and recommendations designed to reinforce standards of diligence in high-risk areas are reference points for preparing or even improving existing prudential approaches.

- The Accounting Task Force is responsible for monitoring developments in the area of accounting and auditing. There are two aspects to its mandate:
 - monitoring the work of accounting and auditing standard setters that are of particular interest to the financial and banking sector, notably the work of the International Accounting Standards Board (IASB) and various committees operating under the roof of the International Federation of Accountants (IFAC);
 - developing principles and guidelines.

Over the last year the task force carried out an extensive work programme with a view to preparing the Basel Committee's letter of comments on the 'Draft Standard and Basis for Conclusions: Financial Instruments and Similar Items', published by the Joint Working Group of Standard Setters, a much-debated document which proposes the valuation of virtually all financial instruments at fair value.

In order to prepare this exercise in the best possible way, the task force organised surveys, interviews and discussions, not only with the banking industry but also with other interested parties, such as company analysts and external auditors throughout the world.

The task force also actively participated in the work of the IASB to develop guidelines with a view to implementing IAS 39, which introduces fair value for the valuation of certain types of financial instruments. Currently the task force is very closely monitoring the IASB's efforts to modify certain provisions of this standard.

In view of the current discussions on provisioning methods, particularly the so-called dynamic methods, the group started to examine this subject in detail.

As far as auditing is concerned, the publication of the document 'Internal audit in banks and the supervisor's relationship with auditors' in August 2001 is particularly noteworthy. This document establishes 20 principles of best practice in the area of internal auditing of banks and relations between banking supervisory authorities, banks' internal and external auditors.

Finally, the group contributed to the introduction of an 'audit practice statement' issued by the International Auditing Practices Committee (IAPC), dealing with relations between the banking supervisory authorities and the external auditors of banks.

■ In 2001 the Transparency Group deployed quite some efforts to the fine-tuning of work on pillar 3 dealing with market discipline. The group prepared a working document entitled 'Working paper on Pillar 3 - Market Discipline', published by the Basel Committee in October 2001. This document presents a disclosure regime thus reflecting the efforts of the Committee to streamline pillar 3, with the aim in particular of simplifying the information to be provided and thereby reducing the burden of disclosure for banks, however without questioning the principle of market discipline.

Throughout its work the group maintained regular contacts with the banking industry, analysts and other parties with a particular interest in the banks' transparency so as to ensure that the information requested is relevant to the objective of market discipline.

In parallel the group had and continues to have regular exchanges with the IASB to ensure that the provisions are compatible with the current revision of the former IAS 30 establishing disclosure rules for banks and similar financial institutions.

Publications

- The document 'Review of issues relating to highly leveraged institutions' (March 2001), drawn up by a joint Basel Committee and IOSCO working group, forms part of the recommendations formulated in January 1999 by the Basel Committee in its document 'Sound practices for banks' interactions with highly leveraged institutions', followed by the report 'Banks' interactions with highly leveraged institutions: implications of the Basel Committee's sound practices paper', published in January 2000. By and large most banks and investment firms made significant progress in implementing recommendations formulated on the subject of highly leveraged institutions. The willingness of highly leveraged institutions to provide their counterparties with information on their activities and their exposure to risk also increased, but strong competitive pressure still prevents information from being shared.
- The document 'Conducting a supervisory self-assessment practical application' (April 2001) provides guidelines which the supervisory authorities can use to assess their system of prudential supervision. It is based largely on the self-assessment experience of a certain number of countries since publication of the 'Core principles'. The document involves three aspects: the self-assessment strategy, the four stages of self-assessment, and the self-assessment report.
- The report 'Public disclosures by banks: results of the 1999 disclosure survey' (April 2001) presents the results of the annual survey on the publication of information by banks operating at international level, conducted by the Transparency Group of the Committee in the context of efforts to promote market discipline with a view to reforming the capital adequacy framework.
- The publications relating to the reform of the capital adequacy framework are shown in chapter I, point 3.

2.2. The International Organisation of Securities Commissions (IOSCO) and IOSCO Task Forces

2.2.1. The XXVIth Annual Conference of the IOSCO

The regulatory authorities of the financial and futures markets and other members of the international financial community met in Stockholm from 23 to 29 June 2001 on the occasion of the XXVIth Annual Conference of the International Organisation of Securities Commissions (IOSCO).

Under the theme of securities markets in the information age, the conference provided an opportunity for participants to discuss issues inherent in the relationships between technology and securities markets.

The themes addressed during the conference included the impact of the Internet on the functioning and regulation of markets, market stability, market and information access for the investor in the Internet age, auditor independence, demutualisation and privatisation of stock exchanges and transparency in the regulatory process.

2.2.2. IOSCO groups

The CSSF is a member of two IOSCO groups, Standing Committee no. 1 (formerly Task Force no. 1), dealing with subjects concerning accounting, and Standing Committee no. 5 (formerly Task Force no. 5), concerning UCITS and collective management.

Standing Committee no. 1

The Committee pursued its work with the International Accounting Standards Board on international accounting standards. It also began an important project concerning international auditing standards, particularly in relation to the independence of the auditor, and envisages continuing its joint work with the International Federation of Accountants (IFAC).

Standing Committee no. 5

In 2001 the Committee finalised the document 'The role of investor education in the regulation of CIS and CIS operators'. It also prepared a document entitled 'Investment management: areas of regulatory concern and risk assessment methods', and has continued its work on a study aimed at simplified prospectuses and a study on advertising, particularly the advertising of performances in relation to collective management.

2.3. CESR and groups established within CESR

2.3.1. CESR (Committee of European Securities Regulators)

Established by the European Commission decision of 6 June 2001, CESR took over from FESCO (Forum of European Securities Commissions) in September 2001. Composed of representatives of 17 supervisory authorities of securities markets in the European Economic Area (Member States of the European Union, Norway and Iceland), CESR is an independent body which assists the European Commission in preparing technical measures regarding Community legislation on transferable securities, and has the mission of ensuring harmonised and continued application of Community legislation in Member States. CESR also works towards strengthening co-operation between the supervisory authorities.

CESR is one of the two committees proposed in the report of the Committee of Wise Men chaired by Baron Alexandre Lamfalussy (the 'Lamfalussy Report'), which was endorsed by the Stockholm resolution of 23 March 2001. This report proved to be necessary because the European and global financial markets are developing increasingly rapidly and the rhythm

and complexity of changes under way are unprecedented in the history of the financial markets. European regulations should follow the rhythm of technological changes and the transformation of markets, while continuing to ensure appropriate investor protection and preserving the stability of the financial system as a whole.

The European supervisory authorities for transferable securities adopted the Charter on CESR's operational arrangements during their first meeting on 11 September 2001 in Paris.

In accordance with the principles set out in its Charter and the recommendations in the Lamfalussy report, in October 2001 CESR published a press release specifying in particular its consultation policy towards all the parties concerned, directly or indirectly, by its work. The objective of this consultation procedure is to achieve greater transparency in the area of regulating securities markets.

2.3.2. CESR groups

All the work of the FESCO expert groups has now been taken over by CESR.

■ The Market Abuse expert group is responsible for drafting proposals to promote the integrity of financial assets markets. The philosophy underlying this approach is that the markets and market users should adopt appropriate measures and establish effective procedures to prevent market abuse.

For this purpose the group published a consultative document entitled 'Measures to promote market integrity' in August 2001. At its meeting in December 2001, CESR decided to adapt the rules in the document to the comments made during the consultation by the stock exchanges and market participants.

The group also has a mandate to assist the European Commission in preparing measures to execute the rules provided for in the proposal for a directive on insider dealing and market manipulating (market abuse).

- After an initial consultation in 2000, from June to September 2001 the Primary Market Practices expert group launched a second consultation in the context of offerings of transferable securities. So as to provide a framework for the very specific intervention on securities which stabilisation represents, the group laid down standards to harmonise stabilisation practices, independent of the market in which such intervention takes place. In terms of securities allotment the group opted for a solution offering increased transparency in the allotment methods used, the process and the respective results.
- After identifying the advantages and risks associated with 'ATS' (Alternative Trading Systems), the Alternative Trading Systems expert group was given a mandate to develop proposals on the management of potential risks associated with ATS operated by investment firms within the framework of existing European legislation. A document proposing common standards for alternative trading systems, seeking to ensure market integrity and to provide adequate protection for users of these systems, was the object of a first consultation in mid-2001. This consultation in particular raised the problems associated with the differentiation between bilateral systems and multilateral systems. The final document will be taken into account when revising the investment services directive.
- The contributions of the Investor Protection expert group, which fall within the framework of the modernisation of the investment services directive, were subject to the broadest consultation carried out by FESCO/CESR members in 2001. Harmonisation of the rules of conduct of the financial sector is essential in order to remove the obstacles hindering cross-border financial activities within the European Economic Area. The group published two revised consultative documents, one on the harmonisation of the rules of conduct of the financial sector and the other on the categorisation of investors within the framework of these rules of conduct.

The categorisation of investors, which describes assessment criteria for a client so as to determine the rules of conduct regime applicable to him, was amended to include large-scale enterprises and companies and other institutional investors in the category of professional investors.

- Following developments at Community and international level in the area of accounting standards, in March 2001 the regulators took the decision to establish a committee on financial disclosure: FESCOFIN, which then became CESRFIN. The latter is assisted in its mission by two working groups developing standards relating to the practical application of international IAS accounting standards, and standards relating to supervision of respect for these principles by companies issuing transferable securities respectively.
- In August 2001 the European Public Offerings expert group forwarded to the European Commission an addition to the January 2001 proposal on the introduction of a European passport for prospectuses, seeking to facilitate cross-border operations while guaranteeing high standards of information to the public. This addition particularly concerns the obligations to provide information for products other than ordinary bonds or shares and the presentation of pro forma financial statements in a prospectus..
- The **Prospectus** expert group, created in December 2001, took over from the European Public Offerings expert group in the area of prospectuses. It was given the mission of assisting the European Commission in the context of the comitology procedure in preparing measures to implement the rules provided for by the proposal for a directive on the prospectus to be published when securities are offered to the public or admitted to trading.

CESRPOL

Responsible for facilitating exchanges of information and co-ordinating the organisation of investigations into breaches of stock exchange rules, CESRPOL, successor to FESCOPOL, met three times during 2001.

CESRPOL discussed in particular the question relating to the supervision of remote members of the European stock exchanges, with a view to organising closer co-operation between competent authorities within the framework of cross-border investigations.

The members of CESRPOL proved their sound organisation and functioning in the areas of co-operation and exchange of information following the terrorist attacks of 11 September 2001. Enquiries concerning insider dealing were initiated to find out whether traders in markets of sensitive securities, such as those of certain airline and insurance companies or those related to tourism, benefited in advance from insider information on the terrorist acts and their foreseeable consequences for the market.

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', held from 17 to 19 October 2001 in Athens. The aim of this contact group is to initiate regular, multinational dialogue 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.

The 'Prospectus' informal contact group

During its two meetings in 2001, the 'Prospectus' informal contact group examined the question of defining the person who assumes responsibility for the content of the listing

International co-operation

and/or public offer prospectus. Advertising before and after publication of the prospectus, the justification for the issue price and the disciplinary penalties applicable by the stock exchange authorities were also discussed on an informal basis.

The contact group also examined the various approval procedures for listing prospectus in the different Member States and the methods established for doing so. The proposal for a European Parliament and Council directive of 30 May 2001 concerning the prospectus to be published when securities are offered to the public or admitted to trading was of particular interest to the contact group during its discussions.

2.5. Memoranda of Understanding

In 2001 the CSSF concluded Memoranda of Understanding relating to the securities markets and undertakings for collective investment with the Securities Commission of the Czech Republic, the Latvian Securities Market Commission and the Securities and Exchange Commission of Poland respectively. These agreements seek to reinforce co-operation and the exchange of information between authorities with a view to investor protection and promotion of market integrity.



Staff members recruited in 2001

First row from left to right:

Annick ZIMMER - Daniel SCHMITZ - Yolanda ALONSO - Monica CECCARELLI - Diane WEYLER - Carla DOS SANTOS Joëlle HERTGES - Sabine SCHIAVO - Marco VALENTE

Second row from left to right :

Carole NEY - Gérard KIEFFER - Edouard REIMEN - Nadia MANZARI - Laurent CHARNAUT - Nadine HOLTZMER Claude WAMPACH - Manuel NEU - Paul CLEMENT - Luc PLETSCHETTE - René BOES - Tom EWEN - Pascal DUCARN

Absent :

Anouk DONDELINGER - Gilles JANK - Marie-Rose COLOMBO - Damien HOUEL - Isabelle Maryline SCHMIT Thierry STOFFEL - Sylvie NICOLAY-HOFFMANN

CHAPTER IX

BANKING AND FINANCIAL LEGISLATION AND REGULATIONS

- List of proposals for Directives under discussion at the Council
 of the European Union
- 2. List of Directives adopted by the Council and the European Parliament, but not yet implemented under national legislation
- 3. Laws passed in 2001
- 4. Circulars issued in 2001
- 5. Circulars in force
- 6. The complete set of rules on the fight against money laundering

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1. List of proposals for Directives under discussion at the Council of the European Union

The CSSF participates in the groups examining the following proposals for Directives:

1.1. Proposal for a Directive on financial collateral arrangements

The purpose of this draft directive is to improve the effectiveness of the single market for financial services. It seeks to increase the harmonisation of the European financial market and foster the smooth functioning of the single monetary policy in the Economic and Monetary Union. To that end, it lays down a single, minimum legal framework applicable to the provision of securities and cash as collateral, and the pledging of securities or transfer of title, including repurchase agreements ("repos"). The proposal seeks to ensure that effective and simple regimes exist for the creation of collateral under either title transfer or pledge structures. It takes the protection of collateral arrangements from some rules of insolvency law, in particular those that inhibit the effective realisation of collateral or cast doubt on the validity of techniques such as close-out netting, the provision of top-up collateral and substitution of collateral.

The proposal also aims to limit the administrative burdens affecting the use of collateral in the financial markets by restricting the imposition of onerous formalities on either the creation or the enforcement of collateral arrangements. It ensures that agreements permitting the collateral taker to re-use the collateral for its own purposes under pledge structures are recognised as effective, as for repos.

The Council of Finance Ministers agreed a common position on the proposal for a Directive at the Fcofin Council of 13 December 2001.

1.2. Proposal for a Directive on financial conglomerates

In 2001, the Council began talks on a proposal for a Directive on the supplementary supervision of credit institutions, investment firms and insurance undertakings. The proposal seeks to supplement legislation on sectoral prudential supervision with a supervisory regime for financial conglomerates.

1.3. Proposal for a Directive concerning the distance marketing of consumer financial services

The Council of Ministers for the Internal Market, Consumers and Tourism held on 27 September 2001 reached political agreement on a proposal for a Directive on the distance selling of financial services. The proposal for a Directive will be finally adopted once the Parliament has finished its second reading under the co-decision procedure.

The scope ratione personae (or personal scope) of the proposal includes all financial services providers. The concept of financial services encompasses banking products, insurance products and investment services. The proposal deals with the distance marketing of financial services, whatever the means of communication are, i.e. electronic means, mail, fax or even telephone. 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 promote cross-border trade of financial products and services. To that end, it introduces notably an obligation to provide various items of

information prior to the conclusion of a contract and to confirm this information in writing. Consumers enjoy a right to withdraw, except for a number of specific services. The proposal also provides protection for consumers for payments made by cards and limits the use of distance means of communication.

1.4. Proposal for a Regulation of the European Parliament and of the Council on the application of international accounting standards (IAS Regulation)

The Ecofin Council of 13 December 2001 agreed on a common position with regard to the proposal for a Regulation of the European Parliament and of the Council on the application of international accounting standards making it compulsory, from 2005 on, to apply IAS standards to the consolidated accounts of publicly traded companies. The Commission will have to adopt the applicable IAS standards using the comitology procedure within the new "Accounting Regulation Committee", the latter being advised by the European Financial Reporting Advisory Group (EFRAG). Each Member State will have the option to apply the IAS standards thus adopted to annual accounts on an optional or compulsory basis, as well as to companies not listed on the stock exchange. The compromise text has been forwarded to the European Parliament.

1.5. Proposal for a Directive on insider dealing and market manipulation (market abuse)

The Ecofin Council of 13 December 2001 adopted the proposal for a Directive on insider dealing and market manipulation (market abuse), which seeks to ensure the integrity of the European financial markets, to establish and implement common standards to combat market abuse throughout Europe and to enhance investor confidence in these markets.

Given the great variety in the different Member States' legislations on market manipulation, the fact that Directive 89/592/EEC on insider dealing was adopted more than a decade ago, and the new products and technologies that need to be taken into account, the proposal for a Directive on "market abuse" encompasses both market manipulation and insider dealing. Market integrity can only be guaranteed with a general application of the prohibition of abusive behaviour.

The proposal for a Directive defines the concepts of "market manipulation" and "insider dealing". It prohibits inside information obtained through the exercise of one's profession or duties from being used for the purpose of acquiring or disposing of transferable securities and requires issuers to disclose any inside information. The proposal affirms the principle of a single competent administrative authority for each Member State responsible for applying the Directive and provides for a closer, more prompt and efficient co-operation between national competent authorities. It also aims to impose prompt and dissuasive sanctions against market abuse. Finally, the proposal lists the technical implementing details to be set by the European Commission in accordance with the comitology procedure advocated by the Lamfalussy Report.

In the wake of the attacks of 11 September 2001, the Ministers of Finance agreed that the proposal is an important element in the fight against the financing of terrorism. For that reason, discussions within the group of experts had been stepped up in order to reach agreement on a common text.

The final adoption of the Directive on "market abuse" is scheduled for the first half of 2002.

1.6. Proposal for a Directive on the prospectus to be published when securities are offered to the public or admitted to trading

Based on the conclusions of the Lisbon summit with a view to improving the single market for financial services, the Lamfalussy Report seeking to accelerate at European Union level the drawing up of regulations on securities markets and the proposals on the implementation of a European passport for prospectuses submitted by FESCO/CESR, the European Commission presented a draft Directive on 30 May 2001 for the creation of a single European passport for public offers and the admission of securities to trading on regulated markets.

Currently, the content and layout of prospectuses, the methods used and the time required for checking the information given therein, as well as the concept of a public offer– which automatically involves preparing a prospectus – differ from one Member State to another. As a result, the complex and partial mutual recognition mechanism for prospectuses, although provided for in existing Directives, is unable to ensure the objective of a single passport for issuers.

The proposal therefore seeks to introduce appropriate and equivalent disclosure standards in all Member States for publicly offered securities or securities admitted to trading on a regulated market, thereby enabling the creation of a single European passport for prospectuses and ensuring equal treatment for investors in terms of the information they receive.

The key features of the proposed system are as follows:

- Introduction of enhanced disclosure standards, in line with international standards, as well as standards of transparency.
- Change of the key criterion from admission to listing a wording which is not harmonised at European level to admission to trading on a regulated market and definition of the concept of public offer, the second criterion involving the obligation to draw up a prospectus.
- Publication of a prospectus split into three parts, i.e. a registration document of a permanent nature in the form of an extended annual report yearly updated, a note on transferable securities and a summary.
- Possibility to offer or admit transferable securities to trading on a regulated market in a host Member State on the basis of a simple notification of the prospectus approved by the home Member State.
- Concentration of the responsibility in the home competent authority, defined as that of the country in which the issuer has its registered office, and introduction of the concept of a single independent authority for each Member State, in charge of supervision, approval and registration tasks.
- Use of the comitology process, i.e. adopting a "framework Directive" under the co-decision procedure and entrusting the European Securities Committee and the Committee of European Securities Regulators (represented by the CESR) with the relevant implementing measures.

The Directive is scheduled to be adopted in 2002.

1.7. Proposal for a Directive on institutions for occupational retirement provision

Talks on this proposal for a Directive commenced at the Council of the European Union in January 2001. The proposal seeks a minimal harmonisation of prudential standards for institutions for occupational retirement provision (IORPs), the mutual recognition of supervisory authorities and the introduction of a European passport operating in accordance with the principle of the freedom to provide services. It is one of the legal priorities identified by the Lisbon and Stockholm European Councils within the framework of the Financial Services Action Plan.

This proposal is concerned with institutions operating occupational pension schemes; it seeks to cover supplementary private pension-savings schemes operating on a funded basis. The proposal does not cover statutory social security schemes or book-reserve or pay-as-you-go schemes, life-assurance companies or UCITS. However, it does authorise Member States to apply the prudential requirements that apply to IORPs to occupational retirement products offered by life-assurance companies.

An institutional approach has been adopted with the aim of achieving minimal harmonisation, taking account of the variety of ways in which IORPs operate in the various Member States, while at the same time providing a high degree of protection by imposing rigorous prudential criteria with regard to the financing of liabilities, requirements regarding the competence and good repute of managers, diversification of assets, and information to be provided to supervisory authorities, members and beneficiaries. The proposal advocates a qualitative approach to investment rules; it recommends that the management of assets should comply with principles of security, quality, liquidity, performance and diversification, rather than uniform quantitative requirements. The proposal also removes all prudential barriers to the cross-border management of pension schemes by IORPs, establishing mutual recognition of national prudential systems and proposing a system of notification and cooperation between competent authorities.

The Directive is expected to be adopted in 2002.

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

This section lists the various Directives adopted by the European Parliament and the Council for which a draft law has been submitted to the Luxembourg Parliament (Chambre des Députés) or for which a preliminary draft is under discussion by committees operating within the CSSF or which are still being implemented by the CSSF.

2.1. Directive 2001/24/EC of 4 April 2001 on the re-organisation and winding-up of credit institutions

This Directive is the natural continuation of the First and Second Banking Coordination Directives. Whereas these Directives deal with the taking up and pursuit of banking activities, Directive 2001/24/EC relates to the measures to be taken in the event of solvency problems concerning a bank and in particular to co-operation between prudential supervisory authorities in the Community in times of crisis. Like the framework Directives, it affirms the principle of 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 section on winding-up affirms the principle of the unity and universality of bankruptcy. The Directive seeks to organise 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 creditors of the defaulting institution.

Finally, the Directive establishes procedures for the exchange of information between the authorities of the Member States concerned and clearly determines the legislation to be applied in specific cases, e.g. with regard to the transactions carried out and the procedures applicable within a regulated market.

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

Both Directives are the subject of a single draft law (no. 4813), which will transpose into Luxembourg law the Community regulations on the taking up and pursuit of the business of electronic money institutions. 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 changes the definition of "credit institution" given in consolidated Directive 2000/12/EC on banking to include the business of electronic money institutions. The consequences of this change are two-fold: firstly, it subjects electronic money institutions to the entire set of Community prudential regulations on banks and, therefore, grants them a European passport. Secondly, it subjects these institutions to the minimum reserve requirement of the European Central Bank.

• The second Directive is designed to adapt the supervisory regime applicable to banks with regard to the specific nature of electronic money institutions. These institutions are subject to less strict requirements for initial capital and own funds. They must be run by experienced managers fulfilling the conditions of professional standing and may exercise a limited list of ancillary activities. The Directive specifies rules limiting the investment opportunities available to electronic money institutions; funds received in return for electronic money issued can only be invested in liquid, low-risk assets. The Directive also allows Member States, under certain conditions, to exempt relatively small electronic money institutions from the scope of the Directive.

2.3. Directive 2001/97/EC of 4 December 2001 amending Directive 91/308/EEC on the prevention of the use of the financial system for the purpose of money laundering

As the basic 1991 Directive did not clearly state the authorities of which Member State should receive declarations on suspicious transactions filed by the EU branches of credit and financial institutions, this Directive states that it is the Member State in which the branch is located which should receive such declarations. These authorities are also responsible for ensuring branches comply with the Directive. For these responsibilities to be clearly determined, the Directive redefines the terms "credit institution" and "financial institution".

In order to cover as much of the financial sector as possible, the Directive specifies that it also applies to investment firms as defined in Directive 93/22/EEC. The Directive extends the scope ratione personae (or personal scope) notably to notaries and other members of legal professions when they assist their customers in various real estate or financial transactions.

Finally, the Directive calls on the Member States to take specific and adequate measures necessary to cope with the greater risk of money laundering which arises when financial sector professionals do business with a customer who has not been physically present for identification purposes.

2.4. "Fair value" Directive

Directive 2001/65/EC of 27 September 2001 amending Directives 78/660/EEC, 83/349/EEC and 86/635/EEC as regards the valuation rules for the annual and consolidated accounts of certain types of companies as well as of banks and other financial institutions, known as the "fair value" Directive, gives Member States the option to require or permit credit institutions to apply the fair value valuation method to a wider range of financial instruments. From now on, the field of application will include all derivative instruments (assets and liabilities), financial instruments on the assets side, with the exception of loans and receivables originated by the company or items held to maturity, as well as trading items on the liabilities side. Member States may, in respect of any assets and liabilities which may qualify as hedged items under a fair value hedge accounting system, or identified portions of such assets or liabilities, permit valuation at the specific amount required under that system.

The "fair value" Directive was adopted ahead of the vast project to update accounting Directives (see Chapter VIII, point 1.1.3. "Contact committee on the Accounting Directives") to provide for the application of accounting standard IAS 39, which came into force on 1 January 2001 and constituted the greatest incompatibility with existing Community regulations on accounting.

2.5. "UCITS III" Directives

Directive 2001/107/EC of 21 January 2002 amending Directive 85/611/EEC on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS) with a view to regulating management companies and simplified prospectuses, and Directive 2001/108/EC of 21 January 2002 amending Directive 85/611/EEC on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS), with regard to investments of UCITS, known as the "UCITS III" Directives, are to be transposed into Luxembourg law by 13 August 2003.

Directive 2001/107/EC seeks to align regulations covering management companies with the rules applicable to other financial service operators (i.e. banks, investment firms and insurance companies) to enable them to set up branches in other Member States and operate throughout the EU under the freedom to provide services. It also introduces the possibility for management companies to provide portfolio management services for individual customers (private persons or institutional investors such as pension funds), as well as a number of specific auxiliary services related to the core service. Finally, it affirms the principle of simplified prospectuses.

Directive 2001/108/EC seeks to extend the European passport to undertakings for collective investment that invest in financial assets other than transferable securities, such as units in other UCIs ("funds of funds"), money market instruments and bank deposits, as well as UCITS tracking a stock exchange index.

3. Laws passed in 2001

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

This law has already been commented in the 2000 Annual Report.

3.2. Law of 1 August 2001 on the transfer of title as collateral

This law amends and completes the law of 21 December 1994 on repurchase agreements carried out by credit institutions, the amended law of 5 April 1993 on the financial sector and the law of 21 June 1984 on futures traded on the Luxembourg Stock Exchange and on forward markets in which a credit institution is involved.

The law brings the Luxembourg legal framework into line with international practice in the transfer of title as collateral in order to eliminate any form of legal insecurity and retain the competitiveness of the local financial market. In particular, it seeks to ensure the validity and enforceability in respect of third parties of transfers of title as collateral for securities, especially in cases of bankruptcy. This means that in the event of bankruptcy, the creditor will be able to realise his collateral by way of netting, notwithstanding any composition or restructuring.

3.3. Law of 1 August 2001:

- implementing the provisions of Article 1 of Directive 98/33/EC amending Directives 77/780/EEC, 89/647/EEC and 93/6/EEC and partially implementing the provisions of Directive 2000/64/EC of the European Parliament and of the Council of 7 November 2000 amending Directives 85/611/EEC, 92/49/EEC, 92/96/EEC and 93/22/EEC as regards exchange of information with third countries, in the amended law of 5 April 1993 on the financial sector
- amending Article 8 of the law of 23 December 1998 on the supervision of securities markets

The law enlarges the list of authorities, organisations and persons from third countries with whom the CSSF can exchange, as part of its supervisory role, information required to fulfil their respective tasks. It establishes the conditions under which these exchanges of information can take place.

As regards the supervision of the financial markets, the law confers the CSSF with the same powers and limits on the exchange of information as for the supervision of banks and investment firms.

3.4. Law of 1 August 2001:

- implementing, in the amended law of 30 March 1988 on undertakings for collective investment, the provisions of Article 1 of Directive 2000/64/EC amending Directives 85/611/EEC, 92/49/EEC, 92/96/EEC and 93/22/EEC as regards exchange of information with third countries
- amending Article 76 of the amended law of 30 March 1988 on undertakings for collective investment

The law lists the authorities, organisations and persons form third countries with whom the Commission can exchange information as part of the prudential supervision of undertakings for collective investment. It also extends the procedure for the exchange of information to all undertakings for collective investment, rather than UCITS alone.

3.5. Law of 1 August 2001 on the circulation of securities and other financial instruments

This law replaces the Grand-Ducal Regulation of 17 February 1971 concerning the circulation of transferable securities, as amended. Developments on the financial markets over the past few decades made a revision of the above regulation urgent. The law seeks to strengthen legal security with regard to the safekeeping of transferable securities and securities settlement, which is one of the strengths of the local financial market.

The key changes are as follows:

- the scope of application of the Grand-Ducal Regulation has been widened by redefining securities and custodians:
- the legal status of depositors has been strengthened by specifying the nature of their rights;
- the rules for the creation and realisation of pledges have been relaxed and are more in keeping with customers' requirements.

3.6. Law of 1 August 2001 on the changeover to the euro on 1 January 2002 and amending certain statutory provisions

Article 14 of the law states that the limit of "LUF 500,000", above which customers must be identified, as specified in Article 39(2) of the amended law of 5 April 1993 on the financial sector, was reduced on 1 January 2002 to "EUR 10,000". Furthermore, the law states that the maturity date fixed at 31 December 2001 for any contractual obligation incumbent upon a financial sector professional is brought forward to 28 December 2001. These contractual obligations shall be fulfilled in accordance with the terms applicable on 28 December 2001.

3.7. Law of 1 August 2001 amending 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)

This law is covered separately in point 2 of Chapter III "Supervision of pension funds".

3.8. Law of 9 November 2001 amending the law of 23 December 1998 creating a supervisory commission for the financial sector

The law amends the provisions relating to the personnel in the law of 23 December 1998, introducing broader derogations from the general status of "civil servant".

3.9. Law of 21 December 2001 amending certain provisions on direct and indirect taxes

This law reduces, among other things, the annual subscription tax due by undertakings specified in the amended law of 30 March 1988 from 0.06% to 0.05%. This decision was taken as part of the policy to enhance the competitiveness of Luxembourg-based investment funds. The lower rate of subscription tax came into force on 1 January 2002.

3.10. Law of 13 January 2002:

- approving the International Convention for the suppression of counterfeiting currency and the related protocol, signed in Geneva on 20 April 1929
- amending certain provisions of the Penal Code and the Code of Criminal Procedure

This law seeks to approve the aforementioned International Convention and transpose into Luxembourg law the framework decision of the Justice and Home Affairs Council of 29 May 2000 aimed at strengthening, by means of penal and other sanctions, protection against counterfeiting in connection with the introduction of the euro. It also inserts a new Article 64-1 in the amended law of 5 April 1993 on the financial sector enabling, with regard to (EC) Council Regulation No. 1338/2001 of 28 June 2001, managers and employees of credit and similar institutions to be sanctioned if they fail to discharge their obligation to withdraw from circulation counterfeit euro notes and coins received or to hand them over to the competent authorities.

4. Circulars issued in 2001

From 1 January 2001 to 1 March 2002, 32 Circulars were issued by the CSSF, 16 of which dealt with the fight against money laundering and identifying business relations with terrorist circles.

The following Circulars were the most important, and are also detailed in the Annual Report.

- Circular 01/27 on practical rules regarding the role of external auditors
- Circular 01/29 defining the minimum content of a company domiciliation agreement
- Circular 01/40 specifying the extent of the professional obligations laid down in Part II of the amended law of 5 April 1993 on the financial sector and IML Circular 94/112 on the fight against money laundering and prevention of the use of the financial sector for the purpose of money laundering
- Circular 01/50 specifying the professional obligations of company domiciliation agents and general recommendations

5. Circulars in force (as at 1 March 2002)

5.1.	Circulars issued by the Commissariat au Contrôle des Banques					
В	79/2	of	07.05.1979	European Code of Conduct on securities transactions		
В	83/6	of	16.03.1983	Participating interest held by credit institutions		
5.2.	Circulars issued by the Institut Monétaire Luxembourgeois					
IML	84/18	of	19.07.1984	Futures markets (law of 21 June 1984)		
IML	86/32	of	18.03.1986	Control of the annual accounts of credit institutions		
IML	88/49	of	08.06.1988	New legal provisions concerning controls carried out by auditors		
IML	91/75	of	21.01.1991	Revision and recasting of rules governing Luxembourg undertakings covered by the law of 30 March 1988 on undertakings for collective investment		
IML	91/78	of	of 17.09.1991 Terms of application of Article 60 of the amended law of 27 N 1984 regulating private portfolio managers			
IML	92/85 of 19.06.1992		19.06.1992	New compilation of instructions to banks		
IML	92/86	of	03.07.1992	Law of 17 June 1992 concerning the accounts of credit institutions		
IML	92/87	of	21.10.1992	Reporting to be supplied by other financial sector professionals		
IML	92/88	of	30.11.1992	292 Certain periodic data to be supplied by credit institutions under Luxembourg law and by branches of banks originating from a country outside the EEC		

IML	93/92	of	03.03.1993	Computerised transmission of periodic data
IML	93/94	of	30.04.1993	Entry into force for banks of the law of 5 April 1993 on the financial sector
IML	93/95	of	04.05.1993	Entry into force for other financial sector professionals of the law of 5 April 1993 on the financial sector
IML	93/99	of	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
IML	93/100	of	21.07.1993	Provisions for credit institutions of Community origin exercising banking activities in Luxembourg through branches or under the freedom to provide services
IML	93/101	of	15.10.1993	Rules concerning the organisation and internal control of the market activity of credit institutions
IML	93/102	of	15.10.1993	Rules concerning the organisation and internal control of the activities of brokers or commission agents exercised by other financial sector professionals
IML	93/104	of	13.12.1993	Definition of a liquidity ratio to be observed by credit institutions
IML	93/105	of	13.12.1993	Introduction of table 4.5. "Shareholder Composition"
IML	94/109	of	08.03.1994	Allocation of responsibilities for the establishment of equipment for transmitting computerised data to the IML
IML	94/112	of	25.11.1994	The fight against money laundering and prevention of the use of the financial sector for the purpose of money laundering
IML	94/113	of	07.12.1994	Explanations 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 supplement to the Compilation of instructions to banks
IML	95/116	of	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
IML	95/118	of	05.04.1995	Treatment of customer complaints
IML	95/119	of	21.06.1995	Rules for the management of risks linked to derivatives transactions
IML	95/120	of	28.07.1995	Central administration
IML	96/123	of	10.01.1996	Staff numbers (new table S 2.9.)
IML	96/124	of	10.01.1996	Staff numbers (new table S 2.9. for other financial sector professionals)
IML	96/125	of	30.01.1996	Supervision of credit institutions on a consolidated basis

IML	96/126 of	11.04.1996	Administrative and accounting organisation
IML IML			The law of 9 May 1996 on the netting of claims in the financial sector Calculation of a simplified ratio in application of IML Circular 96/127
IML	97/134 of	17.03.1997	Provision for the cost of migration to the euro for banking systems
IML	97/135 of	12.06.1997	Transmission of supervisory data and statistics by telecommunications media
IML	97/136 of	13.06.1997	Financial information for the IML and Statec
IML	97/137 of	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
IML	97/138 of	25.09.1997	New collection of statistical data with a view to Economic and Monetary Union
IML	98/142 of	01.04.1998	Financial data to be supplied periodically to the IML
IML	98/143 of	01.04.1998	Internal control
IML	98/144 of	10.04.1998	New collection of statistical data from undertakings for collective investment in money market instruments with a view to Economic and Monetary Union
IML	98/146 of	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
IML	98/147 of	14.05.1998	Provisions for EC investment firms exercising their activities in Luxembourg through branches or under the freedom to provide services
IML	98/148 of	14.05.1998	Provisions for Luxembourg investment firms wishing to exercise their activities in other EC countries through the establishment of branches or under the freedom to provide services
IML	98/149 of	29.05.1998	Updating the Compilation of instructions for banks: Table S 1.2.: Simplified monthly statistical balance sheet
5.3.		issued by t December	he Luxembourg Central Bank 1998)
LCB	98/151 of	24.09.1998	Accounting aspects of switching to the euro
LCB	98/152 of	06.11.1998	Introduction of a minimum reserve system
LCB	98/153 of	24.11.1998	Supplement to IML Circular 94/112 on the fight against money laundering and prevention of the use of the financial sector for the purpose of money laundering
LCB	98/155 of	09.12.1998	Minimum reserve requirements

5.4.	Circu	lars	issued by	the Stock Exchange Commission		
SEC	90/1 of		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		
SEC	91/2	of	01.07.1991	Law of 3 May 1991 on insider dealing		
SEC	91/3	of	17.07.1991	Admission to official listing on the Luxembourg stock exchange of foreign undertakings for collective investment (UCIs)		
SEC	93/4	of	04.01.1993	Law of 4 December 1992 on reporting requirements concerning the acquisition or disposal of major holdings in a listed company		
SEC	94/5	of	30.06.1994	Publication of forecasts in the admission prospectus for an official listing		
SEC	98/6	of	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		
SEC	98/7	of	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		
5.5.	Circul	ars	issued by	the Commission de surveillance du secteur financier (CSSF)		
CSSF	99/1	of	12.01.1999	Creation of the Commission de Surveillance du Secteur Financier (CSSF) (list of Circulars in force appended)		
CSSF	99/2	of	20.05.1999	Entry into force of three new laws dated 29 April 1999		
CSSF	99/4	of	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)		
CSSF	99/7	of	27.12.1999	Declarations to be sent to the CSSF in accordance with Articles 5 and 6 of the law of 23 December 1998 on the supervision of the securities markets		
CSSF	00/8	of	15.03.2000	Protection of investors in the event of errors in the calculation of the NAV and compensation for non-compliance with the investment restrictions applicable to UCIs		
CSSF	00/10	of	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)		
CSSF	00/12	of	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)		
CSSF	00/13	of	06.06.2000	9 Sanctions against the Federal Republic of Yugoslavia and the Taliban i Afghanistan		
CSSF	00/14	of	27.07.2000	Adoption of the law of 17 July 2000 amending certain provisions of		

the law of 30 March 1988 on undertakings for collective investment

CSSF	00/15	of	02.08.2000	Rules of conduct for the financial sector	
CSSF	00/16	of	23.08.2000	Supplement to IML Circular 94/112 on the fight against money laundering and prevention of the use of the financial sector for the purpose of money laundering	
CSSF	00/17	of	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	
CSSF	00/18	of	20.10.2000	Bank accounts of the State of Luxembourg	
CSSF	00/19	of	27.11.2000	Appointment of those in charge of certain functions	
CSSF	00/20	of	30.11.2000	EC Council Regulation maintaining a freeze of funds in relation to Mr Milosevic and those persons associated with him	
CSSF	00/21	of	11.12.2000	Supplement to Circulars IML 94/112 and BCL 98/153 on the fight against money laundering and prevention of the use of the financial sector for the purpose of money laundering	
CSSF	00/22	of	20.12.2000	Supervision of investment firms on a consolidated basis carried out by the Commission de Surveillance du Secteur Financier	
CSSF	01/25	of	16.03.2001	Sanctions against the Taliban in Afghanistan	
CSSF	01/26	of	21.03.2001	Law of 12 January 2001 implementing the provisions of Directive 98/26/EC on settlement finality in payment and securities settlement systems under the amended law of 5 April 1993 and supplementing the law of 23 December 1998 creating a supervisory commission for the financial sector	
CSSF	01/27	of	23.03.2001	Practical rules on the role of external auditors	
CSSF	01/28	of	06.06.2001	Verification by banks and FSPs that the legal requirements on domiciliation are satisfied	
CSSF	01/29	of	07.06.2001	Minimum content of a company domiciliation agreement	
CSSF	01/30	of	28.06.2001	Table E 1.1. "Simplified asset and liability situation" Table E 2.1. "Simplified profit and loss account" Update of references in Table B 1.5. "Liquidity ratio"	
CSSF	01/31	of	04.07.2001	Supplement to CSSF Circular 00/16 and IML Circular 94/112 on the fight against money laundering and prevention of the use of the financial sector for the purpose of money laundering	
CSSF	01/32	of	11.07.2001	Publication of information on financial instruments	
CSSF	01/33	of	19.09.2001	Identification and declaration of business relations with terrorist circles	
CSSF	01/34	of	24.09.2001	Entry into force of a series of laws concerning the financial sector	
CSSF	01/36	of	03.10.2001	Publication in the Mémorial A of the law of 1 August 2001 on the changeover to the euro on 1 January 2002 and amending certain legal provisions	

CSSF	01/37	of	04.10.2001	Supplement to CSSF Circulars 00/16 and 00/31 and IML Circular 94/112 on the fight against money laundering and prevention of the use of the financial sector for the purpose of money laundering	
CSSF	01/38	of	19.10.2001	Identification and declaration of business relations with terrorist circles	
CSSF	01/39	of	08.11.2001	Identification and declaration of business relations with terrorist circles	
CSSF	01/40	of	14.11.2001	Specifications on the extent of the professional obligations laid down in Part II of the amended law of 5 April 1993 on the financial sector and in IML Circular 94/112 on the fight against money laundering and prevention of the use of the financial sector for the purpose of money laundering	
CSSF	01/41	of	19.11.2001	Identification and declaration of business relations with terrorist circles	
CSSF	01/42	of	19.11.2001	Mortgage bond banks: rules on real estate valuation	
CSSF	01/43	of	29.11.2001	Measures taken against UNITA (União Nacional para a Independência Total de Angola)	
CSSF	01/44	of	13.12.2001	Identification and declaration of business relations with terrorist circles	
CSSF	01/45	of	18.12.2001	Statistics on guaranteed deposits and instruments on 31 December 2001	
CSSF	01/46	of	19.12.2001	Repeal of CSSF Circular 01/35	
CSSF	01/47	of	21.12.2001	Professional obligations of domiciliation agents of companies and general recommendations Amendment to CSSF Circular 01/28	
CSSF	01/48	of	20.12.2001	Supplement to CSSF Circulars 00/16, 00/31 and 01/37 and IML Circular 94/112 on the fight against money laundering and prevention of the use of the financial sector for the purpose of money laundering	
CSSF	01/49	of	20.12.2001	Update of CSSF Circular 2000/10 defining capital ratios pursuant to the amended law of 5 April 1993 on the financial sector (definition zone A)	
CSSF	01/50	of	21.12.2001	Update of CSSF Circular 2000/12 defining capital ratios pursuant to the amended law of 5 April 1993 on the financial sector (definition zone A)	
CSSF	02/51	of	03.01.2002	Identification and declaration of business relations with terrorist circles	
CSSF	02/52	of	09.01.2002	Measures taken against UNITA (União Nacional para a Independência Total de Angola)	
CSSF	02/53	of	23.01.2002	Identification and declaration of business relations with terrorist circles	
CSSF	02/54	of	24.01.2002	Breakdown of value adjustments made by credit institutions as at 31.12.01	
CSSF	02/55	of	30.01.2002	Identification and declaration of business relations with terrorist circles	
CSSF	02/56	of	20.02.2002	Measures taken against UNITA (União Nacional para a Independência Total de Angola)	

6. The complete set of rules on the fight against money laundering

Luxembourg was concerned very early about tackling the problem of money laundering: the law of 7 July 1989 made the laundering of money from drug-related sources a criminal offence, supplementing the law of 19 February 1973 on the sale of medicinal substances and measures to combat drug addiction. It was one of the first countries in the world to have a law aimed at combating money laundering and one of the first to put this law into practice – with successful results.

Since this law was introduced, there have been considerable developments in the international agreements to which Luxembourg is signatory. Our legislation has been up-dated accordingly.

The European Directive 91/308/EEC on the prevention of the use of the financial system for the purpose of money laundering – one of the main instruments used to combat money laundering at international level – was implemented in Luxembourg law through the amended law of 5 April 1993 on the financial sector. This law also incorporates the recommendations of the Financial Action Task Force (FATF).

Ratification of the Vienna Convention against illicit traffic in narcotic drugs and psychotropic substances and the Strasbourg Convention on laundering, search, seizure and confiscation of the proceeds from crime, as well as approval of the European Convention on the suppression of terrorism and various United Nations conventions on suppression of the financing of terrorism, demonstrate Luxembourg's determination to combat money laundering.

6.1. Professional obligations with regard to money laundering

The amended law of 5 April 1993 on the financial sector imposes far-reaching professional obligations on financial sector professionals to ensure they are not used for money laundering purposes. The most important of these obligations – some of which having been further explained by way of Circulars, including IML Circular 94/112 – are the following:

- Identify customers using probative documents. The term "customer" refers to direct customers or the beneficial owners of so-called shell companies. This means not only knowing the customer's identity, but also gathering information on his activities and the business objective he pursues.
- Introduce adequate internal control and communication procedures in order to anticipate and prevent money laundering.
- Raise awareness among employees of measures to combat money laundering, and organise training programmes.
- Track operations conducted by customers and closely examine suspicious-looking operations.
- Co-operate with the authorities responsible for applying laws by fulfilling their requests for information to the best of their ability and by notifying the Prosecutor, on their own initiative, of any fact that may be evidence of money laundering.

CSSF Circular 01/40 of 14 November 2001 further specified the extent and application of professional obligations with regard to the fight against money laundering and prevention of the use of the financial sector for the purpose of money laundering. These include the following:

- The financial sector professionals must notify the State Prosecutor of any fact that may be evidence of money laundering, even if they have come into contact with a person or company without having set up a business relationship or having effected a transaction.
- The assumption that a customer (for example, a lawyer or notary) whose normal professional activity involves the conservation of third-party funds with a professional of the financial sector is acting for his

own account is no longer justified. The financial sector professional must now inquire as to whether his customer is acting for his own or for third-party account. If the customer declares that he is acting for third-party account, the professional must ascertain whether the funds on the accounts are derived from the customer's normal business activity or another professional activity. In the latter case, the professional is required to identify the beneficial owners.

- The obligation to co-operate with the authorities implies that financial sector professionals may not invoke professional secrecy when faced with a request from the Prosecutor. Similarly, when faced with such request, the professional must consider whether he should declare a suspicious transaction on his own initiative.
- All declarations of suspicious transactions must be submitted to the Prosecutor and the CSSF for the latter to fulfil its role of prudential supervision.

Through its Circular Letter of 19 December 2001, the CSSF surveyed the changes to the internal procedures made by the financial sector professionals in order to comply with the provisions of Circular 01/40. The Circular Letter also provides additional guidelines to help the professionals devise new procedures for the cases specified in Circular 01/40.

6.2. The definition of money laundering

With the increasing global trend not to limit the definition of money laundering to the proceeds of offences related to drug-trafficking, but to give it a much broader definition, the Luxembourg law of 11 August 1998 extended the field of application of the crime of money laundering and, at the same time, the authorities' reporting requirements. Crimes or offences committed by or involving within the context or in conjunction with a group of criminals or a criminal organisation, abduction of minors, crimes of procuring, offences of corruption and infringements of legislation on arms and munitions are henceforth included.

6.3. The identification and monitoring of customers' transactions

Since 1948, it has been illegal to open an anonymous account in Luxembourg. In accordance with the legal provisions, financial sector professionals must identify customers by means of probative official documents before entering a business relationship with them. This identification requirement also applies to occasional customers once the amount of the transaction exceeds EUR 10.000.

All applications to open an account must be subject to a strict authorisation procedure involving an official or even – depending on the type of customer or its legal status – a director or a committee for customer approval.

As part of the fight against money laundering, financial sector professionals are required to examine in detail any transaction that may involve money laundering. IML Circular 94/112 specified the manner in which financials sector professionals are expected to fulfil this professional obligation.

Financial sector professionals should be well acquainted with the transactions their customers call on them to execute. To that end, they must keep a close eye on the development of transactions executed on behalf of their customers and, if necessary, gather as much information as possible to rule out the risk of money laundering.

Transactions which, by their nature, are likely to involve money laundering include transactions which are unusual in themselves and those which are unusual for the customer in question.

Monitoring customers' transactions therefore involves familiarity with the customer, his activities, the purpose of his transactions and the origin of his funds. This information must be gathered when opening the account and be updated regularly. It is usually derived from statements made by the customer, but has to be corroborated by probative elements.

For practical reasons, reasonably large banks should also monitor transactions by computer. A number of flexible software packages are available on the market, enabling settings to be defined for the type of transaction and customer profile. The department responsible for dealing with exceptions identified by the software should then gather all plausible explanations, if necessary by contacting the customer.

If evidence of money laundering is uncovered when monitoring transactions, it must be reported to the competent authorities. The manager responsible for combating money laundering takes the decision to report the customer, upon advice from the person designated to the Prosecutor's office as being in charge of the fight against money laundering.

The financial professional's management must be directly involved in the company's fight against money laundering. This means being involved in all aspects of combating money laundering, i.e. the production of written procedures, staff awareness and training and the internal control methods employed. Management should receive regular reports on incomplete files for opening new accounts, on the follow-up of incomplete files for opening new accounts, on dormant accounts and on the monitoring of dubious transactions.

6.4. Money derived from corruption

CSSF Circular 00/21 of 11 December 2000, which predates 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, is an important step in the fight against money laundering in that it defines the term "corruption". The Circular requires all financial sector professionals to be particularly vigilant when doing business with senior public officials in a country or persons associated with them (or holding or accepting assets belonging to them) and warns them of the potential legal and financial risks – as well as risks to their reputation – if they do business with such individuals. The Circular also requires that particular procedures for accepting and monitoring such customers should be in place.

6.5. Relations with uncooperative countries and territories

CSSF Circular 00/16 of 23 August 2000 refers to the FATF report identifying countries and territories that are uncooperative in helping to combat money laundering. The report identifies countries and territories whose money laundering regulations are considered not to be in line with the recommendations of the FATF. The Circular emphasises the obligation incumbent upon financial sector professionals to examine in detail transactions executed with counterparties based in the countries and territories listed in the report and calls for a specific strategy to be devised for relations with these countries and territories, as well as for the implementation of sufficient internal procedures to monitor them. Updates of the FATF report, mainly related to the list of uncooperative countries and territories, were distributed in Circulars 01/31, 01/37 and 01/48.

6.6. Specific measures

CSSF Circulars contain all Community regulations dealing with the fight against money laundering. These include Circular 00/20 maintaining a freeze of funds in relation to Mr Milosevic and persons associated with him, CSSF Circulars 00/13, 01/25, 01/33, 01/38, 01/39, 01/41, 01/44, 01/46, 02/51, 02/53 and 02/55 on measures taken against the Taliban in Afghanistan, and CSSF Circulars 01/43, 02/52 and 02/56 on Measures taken against UNITA (União Nacional para a Independência Total de Angola).

6.7. Money Laundering Steering Committee

In the wake of recent international initiatives to combat money laundering and the preliminary conclusions of the International Monetary Fund within the framework of the Financial Sector Assessment Programme (FSAP) for Luxembourg, the Commission set up a Money Laundering Steering Committee in February 2002. The Committee's main task is to advise on questions with regard to the prevention of money laundering and to help the government and the CSSF when drawing up laws and regulations on the fight against money laundering. In addition to representatives from the financial sector, the Committee also includes representatives from the judicial system and non-financial sector professionals involved in the fight against money laundering and affected by the relevant Community Directives.



Participants in the weekly meeting between the management and staff responsible for the departments and functions

First row from left to right :

Sonny BISDORFF-LETSCH - Simone DELCOURT - Marie-Anne VOLTAIRE - Arthur PHILIPPE - Charles KIEFFER Annick ZIMMER - Danièle BERNA-OST - Jean-Nicolas SCHAUS - Isabelle GOUBIN - Anne CONRATH Iwona MASTALSKA

Second row from left to right :

Frank BISDORFF - Romain STROCK - Pascale FELTEN-ENDERS - Marc WEITZEL - François HENTGEN Pierre BODRY - Danielle MANDER - David HAGEN - Jean-Luc FRANCK - Pascale DAMSCHEN Edmond JUNGERS - Georges BECHTOLD

Absent : Irmine GREISCHER - Françoise KAUTHEN - Claude SIMON - Michel HEINTZ

CHAPTER X

INTERNAL ORGANISATION OF THE CSSF

- 1. The functioning of the CSSF
- 2. Human resources
- 3. Information technology department
- 4. Staff members
- 5. Internal committees

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1. The functioning of the CSSF

The decision-making process

The senior executive authority of the CSSF is the management, composed of a director general and two directors appointed by the Grand Duke on the proposal of the Government in Council for a period of six years. According to its internal rules of procedure, the management must meet collectively at least once per week to ensure co-ordinated management and to take the decisions required to accomplish the mission of the CSSF, as conferred upon it by the amended Law of 23 December 1998 which created it. The management is responsible collectively even if each individual member runs one or several departments.

The decisions taken collectively by the management, which in practice meets on a daily basis, are countersigned by all members of the management and are recorded in a register held by the general secretariat. Except in urgent cases the management ensures that all decisions apart from general ones are taken in the presence of all its members. Each decision, apart from the above-mentioned general ones, requires the consent of at least two members who are present or who have been contacted, unless unanimity is expressly stipulated, such as in relation to the CSSF organisation chart. When a question requires an urgent decision and it is impossible to contact the other members in reasonable time, a single member may validly take a decision by invoking exceptional circumstances and is responsible for submitting the matter to the other members of management as soon as possible.

All documents binding the Commission must bear the signature of at least one member of the management.

Drafting of regulations

The legislative framework applicable to the financial sector is completed by circulars issued by the CSSF to specify how the legal provisions should be applied, to publish prudential regulations specific to certain areas of activity and to issue recommendations on conducting activities in the financial sector.

After identifying the subjects that need to be regulated by means of a circular, the CSSF departments prepare a draft text. Following the example of international forums and its counterpart authorities, the CSSF has established a very broad consultation procedure which involves, during the stage of drafting regulations, both people who work in the financial sector and any other person concerned. In order to obtain advice as to whether projects are relevant to the real situation of the market and whether they are consistent with the general legislative and regulatory framework, the CSSF has appointed various internal committees in a consultative capacity which bring together specialists in the area concerned. The members of these committees represent the companies subject to CSSF prudential supervision, professional associations representing various segments of the financial sector and external auditors and legal consultants working in the financial area (see point 5 below). All draft texts are submitted to the appropriate internal committees for their opinion.

Having heard the opinion of the internal committees, the draft project, amended where appropriate, is submitted to the *Comité consultatif de la réglementation prudentielle* [Prudential Regulation Consultative Committee]. The Consultative Committee, established by the amended Law of 23 December 1998 creating the CSSF, may be consulted on the Government's intention in relation to any draft bill or grand ducal regulation concerning requirements in the area of financial sector supervision falling within the competence of the CSSF. In practice the Committee is consulted by the management of the CSSF with respect to any draft regulation relating to the financial sector. If the Committee considers that a particular project cannot be accepted it can inform the Government accordingly.

Any innovation concerning financial regulation is explained in the monthly Newsletter and the CSSF annual activity report. The full texts are available on the CSSF Internet site at www.cssf.lu.

Co-operation with the national authorities

Under Article 44 of the amended Law of 5 April 1993 on the financial sector and Article 8 of the amended Law of 23 December 1998 on the supervision of financial markets, the CSSF cooperates and exchanges information with the other national authorities working in the financial and legal areas. Co-operation takes place on an informal basis and is realised among other things by the participation of CSSF representatives in the internal committees set up with the authorities and vice versa. It also takes place in accordance with the provisions of international memoranda of understanding stipulating co-operation at national level, such as the 'Memorandum of understanding on co-operation between payment systems overseers and banking supervisors in stage three of economic and monetary union'.

The internal functioning of CSSF departments

In order to ensure optimum co-operation between Commission departments, important decisions and events are presented and discussed during daily meetings between the management and the heads of the departments responsible for prudential supervision.

In addition to this a weekly extended meeting involving both the management and the staff responsible for all the Commission's supporting departments and functions acts as a platform for discussing any matter of common concern relating to the missions and proper functioning of the CSSF.

The functioning of each CSSF department is set out in an internal procedures manual updated in the light of developments in the methods of supervision and resources in place. The procedure manual describes all the tasks to be performed by CSSF staff, acts as a guide for staff in carrying such tasks out and also makes it possible to standardise and ensure cohesion in the prudential approach adopted. Aspects of the organisational structure and internal functioning in relation to CSSF staff as a whole are regulated by means of internal memos.

All decisions taken are documented appropriately at department level, thus making it possible to recall the facts and considerations underlying decisions at any time (audit trail).

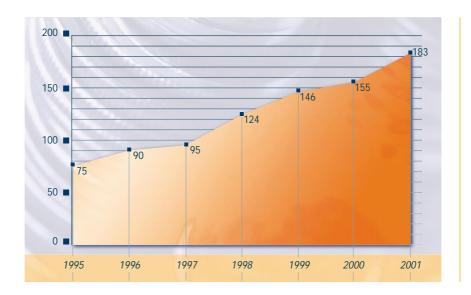
The internal audit of the CSSF, which enjoys the necessary independence and reports directly to the executive committee to which it is attached, ensures the development of and respect for internal procedures. Internal auditing missions are documented in an audit report sent to the management and recommending corrective measures to be imposed by the executive committee, where appropriate.

Responsibility for defining the internal and external information technology security policy, procedures relating to systems and supervision of their implementation lies with the 'systems security' function, which is attached to the executive committee and reports directly to it.

2. Human resources

The development of professions in the financial sector and the increasing number of personnel working in the sector have had an impact on the CSSF, which launched a recruitment campaign at the beginning of 2001. The campaign was very successful, total personnel rising by 18% to reach 183 at 31 December 2001, compared to 155 at the beginning of the year.

Movements in staff numbers



2001 was thus marked by strong growth in the number of staff responsible for prudential supervision. This is due to several factors, including:

- · increasing complexity of supervisory tasks;
- the multiplication of tasks at international level;
- the attribution of new responsibilities to the Commission.

The Law of 9 November 2001, amending the Law of 23 December 1998 creating a commission for the supervision of the financial sector, henceforth allows the CSSF itself to organise the recruitment and training of staff who, through their status, are equivalent to civil servants.

At the beginning of 2002 open competitions will therefore be organised with a view to reinforcing the teams by recruiting new staff with the status of civil servants.

The CSSF also attributes an essential role to continuing staff training. In order to better meet the needs arising out of financial market developments, the training offered both internally and externally will be completed and developed by the establishment of a training plan.

3. Information technology department

2001 was marked by the consolidation and improvement of data processing systems in place in the CSSF.

Centralised management of the addresses and telephone numbers of CSSF contact persons was improved when the information technology development team set up a database. Progress was also made in the periodic reporting of banks. Since May 2001 the CSSF has offered banks an automatic return flow of information notifying them of the encoding quality of reporting files sent to the CSSF.

In light of the new technical possibilities offered by the market and bearing in mind the increase in its personnel and the number of documents to be managed, in 2001 the CSSF decided to replace its current messaging and document management system. An internal study was carried out to specify the CSSF's needs and to prepare specifications. After analysing the tenders received the CSSF chose a successor product at the end of the year. This new tool for electronic document management and messaging should be introduced in 2002.

The significant number of staff newly recruited in 2001 meant that the information technology team had to do a great deal of work in preparing workstations and providing training to familiarise new staff with the CSSF computer infrastructure and applications. In addition some 100 PCs were replaced by new equipment.

In 2001 particular stress was placed on the security of the Internet access. After introducing a range of protection systems (firewall, control of intrusion, anti-virus), the computer network is ready to allow CSSF staff to connect to the Internet and to the e-mail network from their workstations. Supervision of these systems following pre-defined procedures will be ensured by the operating systems team in co-operation with the staff member responsible for systems security.

The number of visits to the www.cssf.lu Internet site is experiencing linear growth. The site has been expanded several times, particularly as regards legal reporting and the reports published by the CSSF. Since May 2001 the site has also been offering an English version of the monthly CSSF Newsletter. The objective of keeping information up-to-date was achieved in full, all the CSSF publications being posted on the site on the day of their publication by press release or otherwise

4. Staff members (situation at 1 March 2002)

Management

Director General

Jean-Nicolas SCHAUS

Directors

Arthur PHILIPPE - Charles KIEFFER

· Executive secretaries

Marcelle MICHELS - Monique REISDORFFER Joëlle DELOOS - Anne SAUER-MAYER

Information technology audit

David HAGEN - Claude BERNARD

Internal audit

Marie-Anne VOLTAIRE

Director General's advisors

Isabelle GOUBIN - Marc WEITZEL

IT co-ordination

Pascale DAMSCHEN

Systems security

Constant BACKES

General secretariat

Head of department Deputy head of department Danièle BERNA-OST Danielle MANDER

Anne CONRATH - François HENTGEN - Pascale FELTEN-ENDERS Benoît JUNCKER - Geneviève PESCATORE - Jean-François HEIN Michel HEINTZ - Nadine HOLTZMER - Iwona MASTALSKA

Department for the Supervision of Banks

Head of department Deputy head of department Claude SIMON Frank BISDORFF

• Division 1

Head of division

Marc WILHELMUS

Marco BAUSCH - Jean LEY - Françoise DALEIDEN

Martine WAGNER - Jean-Louis BECKERS Romain DE BORTOLI - Gilles JANK

• Division 2

Head of division

Ed. ENGLARO

Joan DE RON - Patrick WAGNER - Claudine TOCK Isabelle LAHR - Claude MOES - Steve POLFER

• Division 3

Head of division

Jean-Paul STEFFEN

Jean MERSCH - Marguy MEHLING - Alain WEIS

Christina PINTO - Marc BORDET - Michèle TRIERWEILER

Pascal DUCARN - Gérard KIEFFER

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Division 4

Head of division Nico GASPARD

Anouk DONDELINGER - Monica CECCARELLI

· International and legal affairs division

Head of division Romain STROCK

Guy HAAS - Nadia MANZARI

· Methods and analyses

Joëlle MARTINY - Davy REINARD - Manuel NEU

Edouard REIMEN - Claude WAMPACH

· Accounting and fiscal issues

Danièle KAMPHAUS-GOEDERT

· Information technology and statistics

Claude REISER

Secretaries

Elisabeth DEMUTH - Claudine WANDERSCHEID

Department for the Supervision of Undertakings for Collective Investment

Head of department Simone DELCOURT
Deputy head of department Irmine GREISCHER

• Division for the permanent supervision of UCI and international relations

Head of division Pierre BODRY

Section 1

Head of section | Charles THILGES

Marc SIEBENALER - Nicole GROSBUSCH - Francis LIPPERT René SCHOTT - Dominique HERR - Claude WAGNER - Tom EWEN

Section 2

Head of section Vic MARBACH

Martine KERGER - Géraldine APPENZELLER - Guy MORLAK Marc DECKER - Carlo PLETSCHETTE - Marie-Rose COLOMBO

Thierry STOFFEL

Section 3

Head of section Ralph GILLEN

Joël GOFFINET - Marc RACKÉ - Karin HOFFMANN

Roberto MONTEBRUSCO - Luc RICCIARDI - Damien HOUEL

Laurent CHARNAUT

Legal affairs and international relations section

Head of section Jean-Marc GOY

Géraldine OLIVERA - Isabelle Maryline SCHMIT

Division fot the approval of UCI and supervision of management companies

Head of division Francis KOEPP

Section 1

Head of section Francis GASCHÉ

Anica GIEL-MARKOVINOVIC - Pascale SCHMIT

Daniel CICCARELLI - Pierre REDING - Daniel SCHMITZ

Section 2

Head of section Nadine PLEGER

Nathalie REISDORFF - Michèle WILHELM - Evelyne PIERRARD

Yolanda ALONSO

Section for the approval and supervision of management companies

Head of section Pascal BERCHEM

Alain KIRSCH - Isabelle SCHMIT

· Division for the data management and risk supervision of UCI

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

Risk supervision of UCI section

Head of section Angela DE CILLIA

Alain STROCK - Fabio ONTANO - Eric TANSON

Sabine SCHIAVO - Diane WEYLER

· Division for the approval and permanent supervision of pension funds

Head of division Christiane CAMPILL

Marc PAULY - Didier BERGAMO - Joëlle HERTGES

• Secretaries Danièle CHRISTOPHORY - Karin FRANTZ

Sandy BETTINELLI - Carla DOS SANTOS

Department for the Supervision of Investment Activities

Acting head of department Sonny BISDORFF-LETSCH

• Division for the supervision of financial sector professionals

Head of division Sonny BISDORFF-LETSCH

Denise LOSCH - Mylène HENGEN - Claudia MIOTTO Sylvie MAMER - Anne MARSON - Martine SIMON Brigitte JACOBY - Carole NEY - Luc PLETSCHETTE

Secretaries Emilie LAUTERBOUR - Marie-Josée PULCINI

· Division for the supervision of securities markets

Head of division Françoise KAUTHEN

Pierre VAN DE BERG - Karin WEIRICH - Malou HOFFMANN

Sylvie NICOLAY - Annick ZIMMER

Secretary Carole EICHER

Department Administration and Finance

Head of department Edmond JUNGERS

· Human resources and general management division

Head of division Georges BECHTOLD

René BOES - Fernand ROLLER - Raul DOMINGUES

Paul CLEMENT - Marco VALENTE

• Budget operations division

Head of division René KREMER

· Accounting and financial management division

Head of division Guy LINDÉ

• Financial controller Jean-Paul WEBER

• Secretary Milena CALZETTONI

IT Department

Head of department Jean-Luc FRANCK

· Analysis and development division

Paul HERLING - Marc KOHL - Guy WAGENER

· Database management division

Sandra WAGNER

Operating systems division

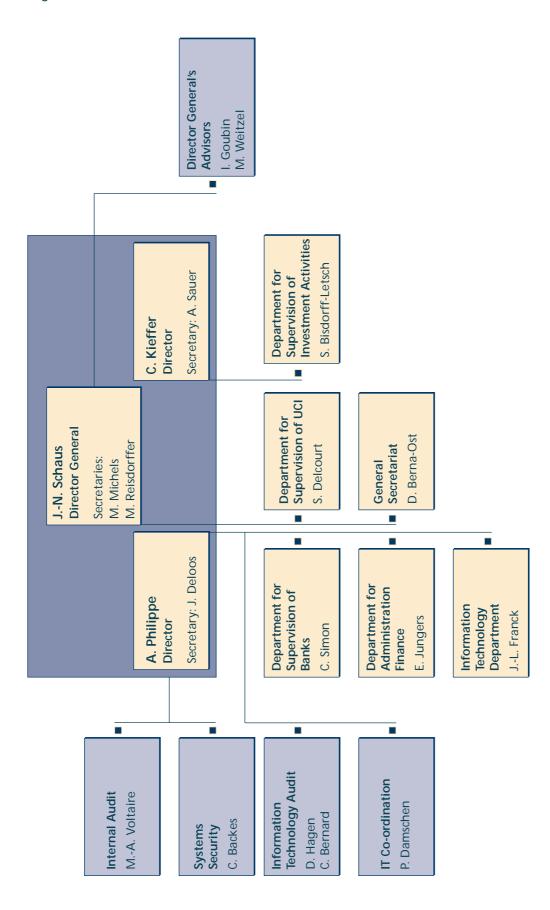
Jean-Jacques DUHR - Guy FRANTZEN - Edouard LAUER Jean-François BURNOTTE

Dataflow management division

Joao Pedro ALMEIDA - Karin PROTH - Carine SCHILTZ

External Auditors PricewaterhouseCoopers

Organisation chart



5. Internal committees

Prudential regulation consultative committee

President Jean GUILL

Members Philippe DE BROQUEVILLE - Rafik FISCHER - Jean FUCHS - Michel MAQUIL

Paul MEYERS - Arthur PHILIPPE - Jean-Nicolas SCHAUS - Lucien THIEL

Secretary Pascale FELTEN-ENDERS

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

Anti-money laundering steering committee

President Jean-Nicolas SCHAUS

Members Patrice BERNABEI - Olivier DE JAMBLINNE - Jacques DELVAUX

Jean-Paul FRISING - Jean FUCHS - Paul GASPAR - Jean GUILL - Willy HEIN Pit HENTGEN - Paul HIPPERT - Guy HORNICK - Jean-Luc KAMPHAUS Pierre KRIER - Jean-Marie LEGENDRE - Guy LEGRAND - François MOES Arthur PHILIPPE - Victor ROD - Daniel RUPPERT - Guy SCHLEDER

Lucien THIEL - Pierre THIELEN

Secretary Jean-François HEIN

Other financial sector professionals committee

President Jean-Nicolas SCHAUS

Members Danièle BERNA-OST - Freddy BRAUSCH - Jean BRUCHER - Jean FUCHS

Irmine GREISCHER - Charles KIEFFER - Didier MOUGET - Jacques PETERS

Carl SCHARFFENORTH

Secretary Anne MARSON

Banks committee

President Arthur PHILIPPE

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 control 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

Company domiciliation committee

President Jean-Nicolas SCHAUS

Members Gérard BECQUER - Danièle BERNA-OST - Johan DEJANS - Victor ELVINGER

Guy HARLES - Guy HORNICK - Charles KIEFFER - Jean LAMBERT Jean-Jacques ROMMES - Carlo SCHLESSER - Christiane SCHMIT

Pierre THIELEN - Marc WEITZEL - François WINANDY

Secretary Jean-François HEIN

Pension funds committee

President Jean-Nicolas SCHAUS

Members Freddy BRAUSCH - Christiane CAMPILL - Simone DELCOURT - Jacques ELVINGER

Rafik FISCHER - Irmine GREISCHER - Fernand GRULMS - Robert HOFFMANN Claude KREMER - Jacques MAHAUX - Olivier MORTELMANS - Arthur PHILIPPE Jean-Jacques ROMMES - Jean-Paul WICTOR - Claude WIRION - Jacques WOLTER

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 - Dominique VALSCHAERTS

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 - Hanspeter KRÄMER - Arthur PHILIPPE

Jean-Jacques ROMMES - Raymond SCHADECK - Christof M. SCHÖRNIG

Claude SIMON - Romain STROCK

Secretary Michèle TRIERWEILER

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Transferable securities markets committee

President | Charles KIEFFER

Members Danièle BERNA-OST - Daniel DAX - Serge DE CILLIA - Jean-Paul DEKERK

Benoît DUVIEUSART - Axel FORSTER - Giovanni GIALLOMBARDO Irmine GREISCHER - Jean HOSS - Françoise KAUTHEN - Claude KREMER Gilles REITER - Guy ROMMES - Jean-Nicolas SCHAUS - Richard SCHNEIDER

Secretary Annick ZIMMER

Undertakings for collective investment committee

President Jean-Nicolas SCHAUS

Members Freddy BRAUSCH - Marie-Jeanne CHEVREMONT - Simone DELCOURT

Jacques DELVAUX - Jacques ELVINGER - Jean-Claude FINCK - Rafik FISCHER

Jean-Michel GELHAY - Irmine GREISCHER - Manuel HAUSER 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

PPENDICES 1. The CSSF in figures 2. Contact telephone numbers



The CSSF in figures	Prudential supervision				IT matters		Matters of general interest					
	Supervision of banks	Supervision of UCIs	Supervision of FSPs	Supervision of securities markets	Administration and Finance	Information systems	General supervision & methods	Director General's advisors	Management	Customer complaints	General secretariat	Total
Letters	3565	15549	865	1035	641	797	108	132	148	908	1332	2508
Interviews	209	126	64	40	100	110	37	10	-	4	6	706
On-site inspections	35	1	2	1	-	-	12	-	-	-	-	51
Internal committee meetings												56
> "Banks" committee	7											
> "Banking accounting" committee	3											
> "Mortgage bonds" committee	2											
> "Pension funds" committee		4										
> "Legal" committee		13										
> "UCI" committee		2										
> "Other financial sector professionals" committee			3									
> "Domiciliation" committee			5									
> "Securities markets" committee				9								
> "IT" committee						2						
> Prudential supervision consultative committee											6	
International meetings	100	29	1	68	-	-	-	30	-	1	-	229
Bilateral meetings	8	2	1	5	-	-	-	-	-	-	-	16
Speeches at conferences	6	4	4	1	1	1	2	5	6	-	1	31

APPENDICES

Contact telephone numbers

Commission de Surveillance du Secteur Financier

110, route d'Arlon L-1150 Luxembourg Postal address L- 2991 LUXEMBOURG

Switchboard 26 25 1 - 1

Fax 26 25 1 - 601 (management)

603 (banks)604/605 (UCIs)

- 606/607 (investment activities)

- 608 (administration)

e-mail direction@cssf.lu

banques@cssf.lu opc@cssf.lu psf@cssf.lu

informatique@cssf.lu

Website http://www.cssf.lu

Management

26 25 1 201 SCHAUS Jean-Nicolas - director general

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

Information technology audit

26 25 1 421 BERNARD Claude - *employé* 395 HAGEN David - *employé*

Internal audit

26 25 1 366 VOLTAIRE Marie-Anne - attaché de direction

Director General's advisors

26 25 1 207 GOUBIN Isabelle - conseiller de direction 1re classe 209 WEITZEL Marc - conseiller de direction 1re classe

IT co-ordination

26 25 1 353 DAMSCHEN Pascale - attaché de direction 1er en rang

Systems security

26 25 1 | 420 BACKES Constant - employé

General Secretariat

26 25 1 230 BERNA-OST Danièle - conseiller de direction 1re classe

297 MANDER Danielle - conseiller de direction 1re classe

234 CONRATH Anne - conseiller de direction

226 HENTGEN François - conseiller de direction

355 FELTEN-ENDERS Pascale - attaché de direction 1er en rang

238 JUNCKER Benoît - attaché de direction 1er en rang



26 25 1 334 PESCATORE Geneviève - attaché de direction 313 HEIN Jean-François - employé 301 HEINTZ Michel - employé 393 HOLTZMER Nadine - employé 237 MASTALSKA Iwona - employé **Department for Supervision of Banks** 26 25 1 | 222 SIMON Claude - premier conseiller de direction 235 BISDORFF Frank - conseiller de direction 1re classe 229 FNGLARO Ed. - conseiller de direction 1re classe 219 GASPARD Nico - conseiller de direction 1re classe 217 KAMPHAUS-GOEDERT Danièle - conseiller de direction 1re classe 258 STEFFEN Jean-Paul - conseiller de direction 1re classe 213 WILHELMUS Marc - conseiller de direction 1re classe 218 BAUSCH Marco - conseiller de direction 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 - conseiller de direction 310 WAGNER Patrick - conseiller de direction 262 BECKERS Jean-Louis - attaché de direction 1er en rang 354 DALEIDEN Françoise - attaché de direction 1er en rang 307 HAAS Guy - attaché de direction 1er en rang 352 MARTINY Joëlle - attaché de direction 1er en rang 315 STROCK Romain - attaché de direction 1er en rang

351 WAGNER Martine - attaché de direction 1er en rang

26 25 1 309 WEIS Alain - attaché de direction 1er en rang 365 BORDET Marc - attaché de direction 215 DE BORTOLI Romain - attaché de direction 324 LAHR Isabelle - attaché de direction 328 MOES Claude - attaché de direction 279 PINTO Christina - attaché de direction 302 REINARD Davy - attaché de direction 290 TOCK Claudine - attaché de direction 367 TRIERWEILER Michèle - attaché de direction 299 CECCARELLI Monica - employé 275 DONDELINGER Anouk - employé 280 DUCARN Pascal - employé 298 JANK Gilles - employé 372 KIEFFER Gérard - employé 394 MANZARI Nadia - employé 399 NEU Manuel - employé 371 POLFER Steve - employé 397 REIMEN Edouard - employé 398 WAMPACH Claude - employé 292 DEMUTH Elisabeth - secrétaire 221 WANDERSCHEID Claudine - secrétaire

Department for Supervision of Undertakings for Collective Investment

26 25 1 210 DELCOURT Simone - premier conseiller de direction 242 GREISCHER Irmine - conseiller de direction 1re classe 240 BODRY Pierre - conseiller de direction 1re classe 223 CAMPILL Christiane - conseiller de direction

321 STROCK Alain - attaché de direction 1er en rang 343 BERCHEM Pascal - attaché de direction 381 DE CILLIA Angela - attaché de direction 342 GOY Jean-Marc - attaché de direction 380 OLIVERA Géraldine - attaché de direction 379 ONTANO Fabio - attaché de direction 344 PAULY Marc - attaché de direction 345 TANSON Eric - attaché de direction 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 254 GOFFINET Joël - inspecteur 246 KERGER Martine - inspecteur 269 THILGES Charles - inspecteur 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 337 APPENZELLER Géraldine - rédacteur principal

322 CICCARELLI Daniel - rédacteur principal

338 HOFFMANN Karin - rédacteur principal

241 GASCHE Francis - rédacteur principal

256 LIPPERT Francis - rédacteur principal

320 STEINBACH Claude - attaché de direction 1er en rang

26 25 1 330 RACKE Marc - rédacteur principal 341 REDING Pierre - rédacteur principal 335 REISDORFF Nathalie - rédacteur principal 339 SCHOTT René - rédacteur principal 336 WILHELM Michèle - rédacteur principal 383 BARITUSSIO Marie-Louise - rédacteur 387 DECKER Marc - rédacteur 244 HERR Dominique - rédacteur 364 KIRSCH Alain - rédacteur 384 KRIER Claude - rédacteur 382 LAUX Josiane - rédacteur 340 MONTEBRUSCO Roberto - rédacteur 331 MORLAK Guy - rédacteur 378 PLETSCHETTE Carlo - rédacteur 346 RICCIARDI Luc - rédacteur 385 THIELEN Claudine - rédacteur 282 WAGNER Claude - rédacteur 333 WAGNER Suzanne - rédacteur 390 ALONSO Yolanda - employé 306 BERGAMO Didier - employé 373 CHARNAUT Laurent - employé 272 COLOMBO Marie-Rose - employé 374 EWEN Tom - employé 347 HERTGES Joëlle - employé 293 HOUEL Damien - employé 281 PIERRARD Evelyne - employé 273 SCHIAVO Sabine - employé 270 SCHMIT Isabelle - employé

291 SCHMIT Isabelle Maryline - employé



26 25 1	268	SCHMITZ Daniel	-	employé
	375	STOFFFI Thierry	_	emnlové

271 WEYLER Diane - employé

251 BETTINELLI Sandy - secrétaire

236 CHRISTOPHORY Danièle - secrétaire

295 DOS SANTOS Carla - secrétaire

332 FRANTZ Karin - secrétaire

Department for Supervision of Investment activities

26 25 1 | 231 BISDORFF-LETSCH Sonny - conseiller de direction 1re classe

212 LOSCH Denise - conseiller de direction

311 HENGEN Mylène - attaché de direction 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

396 NEY Carole - employé

357 NICOLAY Sylvie - employé

377 PLETSCHETTE Luc - employé

392 VAN DE BERG Pierre - employé

391 WEIRICH Karin - employé

376 ZIMMER Annick - employé

276 EICHER Carole - secrétaire

274 LAUTERBOUR Emilie - secrétaire

276 PULCINI Marie-Josée - secrétaire

Administration and Finance

26 25 1 | 255 JUNGERS Edmond - conseiller de direction 1re classe

259 BECHTOLD Georges - inspecteur principal

248 KREMER René - inspecteur

287 LINDE Guy - inspecteur

250 BOES René - employé

252 WEBER Jean-Paul - employé

264 ROLLER Fernand - premier huissier principal

266 CLEMENT Paul - chauffeur

265 DOMINGUES Raul - chauffeur

263 VALENTE Marco - chauffeur

257 CALZETTONI Milena - secrétaire

IT 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