

COMMISSION de SURVEILLANCE
du SECTEUR FINANCIER

ANNUAL REPORT

2004

COMMISSION de SURVEILLANCE
du SECTEUR FINANCIER

ANNUAL REPORT

2004

Commission de Surveillance du Secteur Financier

110, route d'Arlon

L-2991 LUXEMBOURG

Tel.: (+352) 26 251-1

Fax: (+352) 26 251-601

E-mail: direction@cssf.lu

Website: <http://www.cssf.lu>

Cut-off date: 1 March 2005.

The reproduction of the annual report is authorised, provided the source is acknowledged.

Design: metaph

Printed by: Victor Buck



PREFACE

As I had announced last year, the signs of recovery, which were observed in 2003, materialised, although its effects are still modest. We are currently witnessing a stabilisation of the financial centre as a whole due to the fact that certain business areas developed while others are declining. Moreover, each entity has its own life, with the result that the financial sector as a whole does not follow a general trend.

Among the events, which particularly influenced the financial centre's activities in 2004, are the tax measures taken by some of our neighbours. However, the repercussions of these measures, which have been felt in the Luxembourg financial centre, were not such as to hinder its development. In spite of concerns, they even had a positive aspect for Luxembourg, since many customers took the opportunity to reflect on the future management of their assets. The fact that the vast majority of them have decided to continue their business relations with Luxembourg banks is a truly positive factor for the future of our financial centre. The confidence placed in Luxembourg banks proves that tax considerations are no longer the only criteria to plan wealth management. As regards the field of asset management, as well as many others, I have no doubt that the financial centre's future is promising, if it endeavours to improve the provision of customer services under appealing conditions.

The annual report 2004 clearly shows that the financial centre is further diversifying. Through the creation of new financial instruments, Luxembourg's legal framework allows those who know how to use them to make highly interesting transactions.

I would also like to emphasise that the international environment implies an increasing amount of work for our institution and that international relations require growing efforts of the members of staff to keep up with the very demanding pace of discussions on a wide range of subjects.

Although it can be concluded that 2004 was a good year and that the positive image of the financial centre consolidated, I would like to mention however that we observed certain behaviours of players in the financial centre, who do not blend in with this image. I do not intend to generalise, but I am of the opinion that, in too many cases, the persons responsible for reprehensible acts do not suffer the consequences with regard to the continuation of their occupation. The person responsible for such an act is often simply removed from management while being granted compensations, which largely exceed normal expectations. Sometimes, the impression could arise that crime pays, which soils the reputation of a financial centre. Moreover, it can be observed on too many occasions that when such professionals seek new employment, the new employers tend to somewhat close their eyes to the problem, while knowingly taking the risk that the persons concerned could again perform reprehensible acts. I would therefore like to stress that in the future, the CSSF will insist even more on the fact that the players in the financial centre show an irreproachable behaviour in line with intact professional ethics. In this context, I invite the players in the financial centre to openly talk to each other, while complying with the legal provisions of course.

Finally, I would like to pay tribute to Mr Charles Kieffer who retired on 31 December 2004. As Director of the CSSF, he was a qualified, committed and cheerful colleague, whom we owe a significant share of our institution's success. During his long career in the public sector, but also in the private sector, which was the starting point, he actively contributed to the development of Luxembourg's financial centre.

Jean-Nicolas SCHAUS
Director General

TABLE OF CONTENTS

	Corporate governing bodies of the Commission de Surveillance du Secteur Financier	9
I	SUPERVISION OF THE BANKING SECTOR	11
	1. Developments in the banking sector in 2004	
	2. Developments in the regulatory framework	
	3. Prudential supervisory practice	
II	SUPERVISION OF UNDERTAKINGS FOR COLLECTIVE INVESTMENT	45
	1. Developments in the UCIs sector in 2004	
	2. Newly created entities approved in 2004	
	3. Closed down entities in 2004	
	4. Developments regarding UCIs investing principally in other UCIs	
	5. Management companies	
	6. Developments in the regulatory framework	
	7. Prudential supervisory practice	
III	SUPERVISION OF PENSION FUNDS	83
	1. Developments in the pension funds sector in 2004	
	2. Developments in the legal framework	
IV	SUPERVISORY FRAMEWORK FOR SICARS	87
	1. Legal framework	
	2. Prudential supervisory practice	
V	SUPERVISION OF THE OTHER PROFESSIONALS OF THE FINANCIAL SECTOR	91
	1. Developments in 2004 of the other professionals of the financial sector (PFS)	
	2. Prudential supervisory practice	
VI	SUPERVISION OF SECURITIES MARKETS	115
	1. Reporting of transactions on financial assets	
	2. Investigations conducted by the CSSF in its supervision of securities markets	
	3. Supervisory practice	
VII	SUPERVISION OF INFORMATION SYSTEMS	125
	1. Activities in 2004	
	2. Supervisory practice	

VIII	MEANS OF SANCTION AVAILABLE TO THE CSSF	133
	<ol style="list-style-type: none"> 1. Means of intervention available to the CSSF 2. Sanctions imposed in 2004 	
IX	CUSTOMER COMPLAINTS	137
	<ol style="list-style-type: none"> 1. Complaints in 2004 2. Analysis of complaints handled in 2004 3. FIN-NET network, the cross-border out-of-court complaints network for financial services 	
X	INTERNATIONAL CO-OPERATION: CSSF INVOLVEMENT IN INTERNATIONAL GROUPS	147
	<ol style="list-style-type: none"> 1. Co-operation within European institutions 2. Multilateral co-operation 	
XI	BANKING AND FINANCIAL LEGISLATION AND REGULATIONS	173
	<ol style="list-style-type: none"> 1. Directives under discussion at Council level 2. Directives adopted by the Council and the European Parliament but not yet implemented under national law 3. Laws passed in 2004 4. Circulars issued in 2004 5. Circulars in force 	
XII	INTERNAL ORGANISATION OF THE CSSF	191
	<ol style="list-style-type: none"> 1. Functioning of the CSSF 2. Human resources 3. Information technology 4. Staff members 5. Internal committees 	
	APPENDICES	205
	<ol style="list-style-type: none"> 1. Communications related to the fight against money laundering and terrorist financing 2. The CSSF in figures 3. The financial centre in figures 4. Contact telephone numbers 	



| Simone DELCOURT | Arthur PHILIPPE | Jean-Nicolas SCHAUS |

CORPORATE GOVERNING BODIES OF THE COMMISSION DE SURVEILLANCE DU SECTEUR FINANCIER

Board of Directors

Chairman	Jean GUILL <i>Treasury director, Ministry of Finance</i>
Vice-chairman	Gaston REINESCH <i>General administrator, Ministry of Finance</i>
Members	Rafik FISCHER <i>Member of the Board of Directors of the Association Luxembourgeoise des Fonds d'Investissement</i>
	Jean FUCHS <i>President of the Association Luxembourgeoise des Professionnels du Patrimoine</i>
	François MOES <i>President of the Association des Banques et Banquiers, Luxembourg</i>
	Etienne REUTER <i>Premier Conseiller de Gouvernement, Ministry of Finance</i>
	Claude WIRION <i>Member of the Executive Committee of the Commissariat aux Assurances</i>
Secretary	Danielle MANDER

Executive Board

Director General	Jean-Nicolas SCHAUS
Directors	Arthur PHILIPPE
	Simone DELCOURT (from 1 January 2005)
	Charles KIEFFER (until 31 December 2004)

CHAPTER I



CSSF

COMMISSION de SURVEILLANCE
du SECTEUR FINANCIER

SUPERVISION OF THE BANKING SECTOR

1. Developments in the banking sector in 2004
2. Developments in the regulatory framework
3. Prudential supervisory practice

SUPERVISION OF THE BANKING SECTOR

1. DEVELOPMENTS IN THE BANKING SECTOR IN 2004

1.1. Characteristics of the Luxembourg banking sector

Luxembourg banking law recognises three types of banking licences, namely licences governing the activities of universal banks (159 institutions having this status on 31 December 2004), those governing the activities of banks issuing mortgage bonds (3 institutions having this status on 31 December 2004) and those governing the activities of banks issuing electronic means of payment (no institution having this status on 31 December 2004).

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

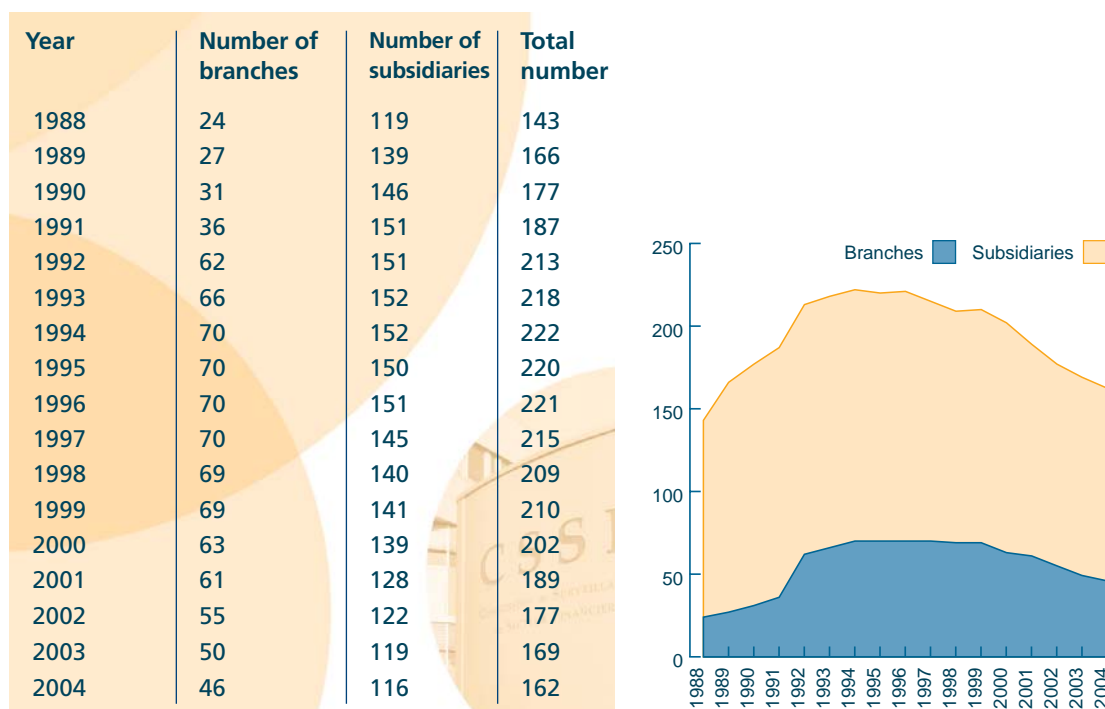
- banks under the law of Luxembourg (116 on 31 December 2004);
- branches of banks originating from a Member State of the European Union (39 on 31 December 2004);
- branches of banks originating from non-Member States of the European Union (7 on 31 December 2004).

In addition, there is the special case of the unit formed by the *caisses rurales* (18 on 31 December 2004) and their central establishment, the Banque Raiffeisen, which, according to the law on the financial sector, is to be considered as a single credit institution.

1.2. Development in the number of credit institutions

The downward trend of the number of credit institutions established in Luxembourg has been confirmed in 2004, but slowed down as compared to the previous years. The total number of banks only amounts to 162 at the end of the year 2004 against 169 as at 31 December 2003. Among these 162 entities, 116 are banks incorporated under Luxembourg law (2003: 119) and 46 are branches (2003: 50).

Development in the total number of banks established in Luxembourg



The development in the number of credit institutions notably depends on the following phenomena.

- Mergers, generally originating in the restructuring of parent companies abroad, unavoidably affect the Luxembourg presences, even if the rate of mergers has again slowed down in 2004; one bank only withdrew in 2004 due to a merger, against three in 2003 and seven in 2002.
- Seven banks decided to cease their activities; two branches transferred their activities to a bank newly incorporated under Luxembourg law and another one gave up its banking license to take up the status of a Luxembourg PFS.

Liquidations / Mergers / Changes in status	Date of withdrawal from the official list of credit institutions
Bank Corluy, succursale de Luxembourg	Transfer of activities to Banque Corluy Luxembourg S.A. on 01.01.2004
KOOKMIN Bank Luxembourg S.A.	Withdrawal on 18.02.2004
Schmidtbank AG, Filiale Luxemburg	Withdrawal on 31.03.2004
Chekiang First Bank (Luxembourg) S.A.	Withdrawal on 30.04.2004
IMI Bank (Luxembourg) S.A.	Merger with Sanpaolo Bank S.A. on 01.09.2004
Unicredito Italiano Spa, succursale de Luxembourg	Transfer of activities to UniCredit International Bank (Luxembourg) S.A. on 29.10.2004
Banque Audi (Luxembourg) S.A.	Withdrawal on 31.10.2004
BGL-MeesPierson Trust (Luxembourg) S.A.	Change of status to PFS on 16.11.2004
SWEDBANK, Stockholm (Sweden), succursale de Luxembourg	Withdrawal on 31.12.2004
Oldenburgische Landesbank A.G., Oldenburg (Germany), succursale de Luxembourg	Withdrawal on 31.12.2004
Bankhaus Lampe KG, Bielefeld (Germany), succursale de Luxembourg	Withdrawal on 31.12.2004

Four new banks started their activities in 2004.

Creation	Date of registration on the official list of credit institutions
Banque Corluy Luxembourg S.A.	1 January 2004
Hypo Real Estate Bank International, Dublin (Ireland), succursale de Luxembourg	12 January 2004
Northern Trust Global Services Ltd, London (United Kingdom), Luxembourg Branch	1 August 2004
UniCredit International Bank (Luxembourg) S.A.	29 October 2004

SUPERVISION OF THE BANKING SECTOR

The breakdown of the credit institutions according to geographical origin has changed as follows (2003 figures between brackets). Banks of German origin are the highest in number with 46 (49) entities, followed by Belgian and Luxembourg banks with 18 (19) entities. 17 (17) banks originate from France, 15 (16) from Italy, 12 (13) from Switzerland, 6 (5) from the United Kingdom, 6 (7) from Sweden and 6 (6) from the United States.

Geographical origin of banks



Besides the changes recorded during 2004, two banks withdrew from the official list on 1 January 2005, namely Banque Continentale du Luxembourg S.A., which has been taken over by Kredietbank S.A. Luxembourgeoise and Cortal Consors Luxembourg S.A. which has merged with BNP Paribas Luxembourg. On the same date, two new banks, Nord Europe Private Bank S.A. and CREDIT SUISSE, Zurich (Switzerland), Luxembourg branch, have been registered on the official list.

1.3. Development in the local branch network in Luxembourg

The downward trend in the branch networks since the 1990s continued in 2004, at a slower pace however.

In order to better reflect the reality of the commercial presence of banks as perceived by the general public, the figures relating to the year 2004 include, for the first time, the Caisses Rurales Raiffeisen affiliated to Banque Raiffeisen, as well as the Caisses Rurales' local branches. When taking account (as in the previous years) solely of the direct branches of Banque Raiffeisen, the total number of branches in Luxembourg reaches 198 entities as at 31 December 2004 against 200 as at 31 December 2003.

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Local branches	262	260	254	240	231	226	225	214	207	200	253*
Banks concerned	11	11	11	11	11	10	9	9	8	8	9

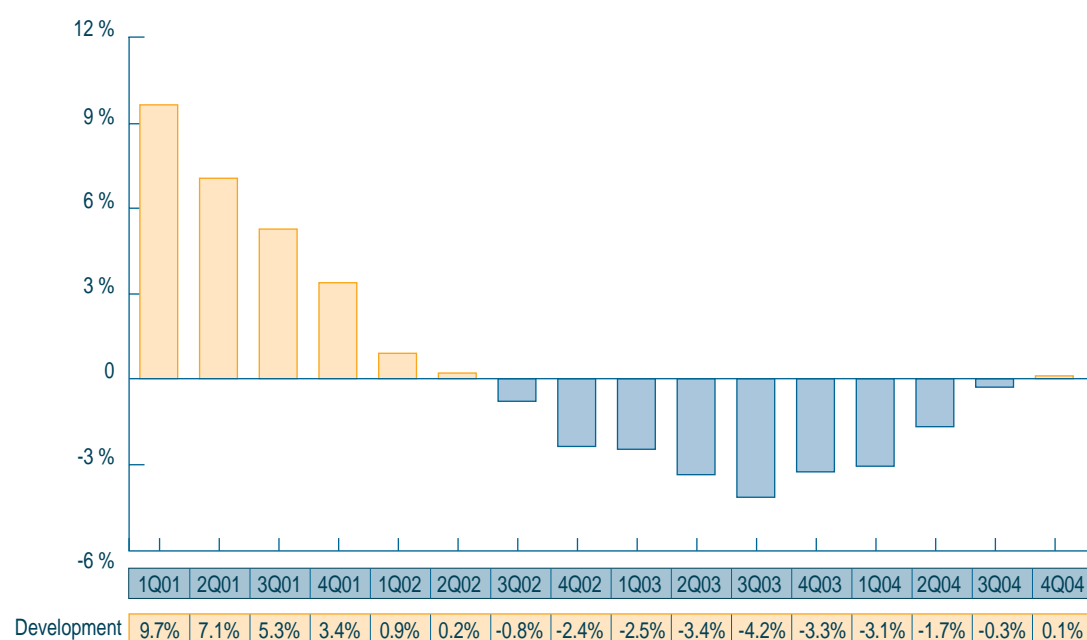
* including the Caisses Rurales Raiffeisen affiliated to Banque Raiffeisen and the local branches of these Caisses Rurales; the number of local branches in 2004 totals 198 entities, if counted as in the previous years.

1.4. Development in banking employment

The total number of employees of Luxembourg credit institutions as at 31 December 2004 reached 22,554, which represents an increase of 25 employees (+0.1%) over a year.

The stabilisation of banking employment during 2004 marks a clear break with the two previous years. Indeed, 2002 and 2003 had recorded a substantial decline in banking employment (-561 posts, i.e. -2.4% in 2002 and -771 posts, i.e. -3.3% in 2003). It should be borne in mind that this fall in employment is not always synonymous with a fall in domestic employment. While it cannot be denied that the economic slowdown and the European consolidation of banking activities result in losses in banking employment in Luxembourg, the considerable decreases in employment observed in the past years are nevertheless partly attributable to a redeployment of the financial production tool within the financial centre. This is notably the case for activities that banks spun off within the scope of the new laws on management companies¹ and on the other professionals of the financial sector². In this context, former banking sector posts are henceforth included in the employment statistics of other professionals of the financial sector.

Quarterly development of the annual growth rate of banking employment



¹ Law of 20 December 2002 concerning undertakings for collective investment as amended.

² Law of 2 August 2003 concerning the professionals of the financial sector.

Situation in banking employment

	Total			Management			Office staff			Technical staff			Total workforce		
	Luxemb.	Foreigners	Total	Men	Women	Total	Men	Women	Total	Men	Women	Total	Men	Women	Total
1994	8,116	9,522	17,638	2,308	384	2,692	7,086	7,700	14,786	47	113	160	9,441	8,197	17,638
1995	8,170	10,113	18,283	2,533	451	2,984	7,318	7,813	15,131	49	119	168	9,900	8,383	18,283
1996	8,113	10,469	18,582	2,658	490	3,148	7,476	7,809	15,285	48	101	149	10,182	8,400	18,582
1997	8,003	11,086	19,089	2,765	547	3,312	7,631	8,013	15,644	44	89	133	10,440	8,649	19,089
1998	7,829	12,005	19,834	2,900	577	3,477	7,846	8,377	16,223	47	87	134	10,793	9,041	19,834
1999	7,797	13,400	21,197	3,119	670	3,789	8,362	8,961	17,323	34	51	85	11,515	9,682	21,197
2000	7,836	15,232	23,068	3,371	783	4,154	9,030	9,801	18,831	35	48	83	12,436	10,632	23,068
2001	7,713	16,148	23,861	3,581	917	4,498	9,222	10,046	19,268	33	62	95	12,836	11,025	23,861
2002	7,402	15,898	23,300	3,654	977	4,631	8,941	9,657	18,598	25	46	71	12,620	10,680	23,300
2003	7,117	15,412	22,529	3,720	1,049	4,769	8,486	9,211	17,691	23	40	63	12,229	10,300	22,529
2004	7,001	15,553	22,554	3,801	1,111	4,912	8,451	9,138	17,589	19	34	53	12,271	10,283	22,554

The breakdown of total employment shows that the share of executives within total employment continues to grow, rising from 21.2% to 21.8% during 2004. This increase results from a clear difference in the development between categories of posts. While employment of executives rose constantly by 3% during the last three years, less qualified employment decreased.

Finally, the employment rate of women fell slightly from 45.7% to 45.6% in 2004.

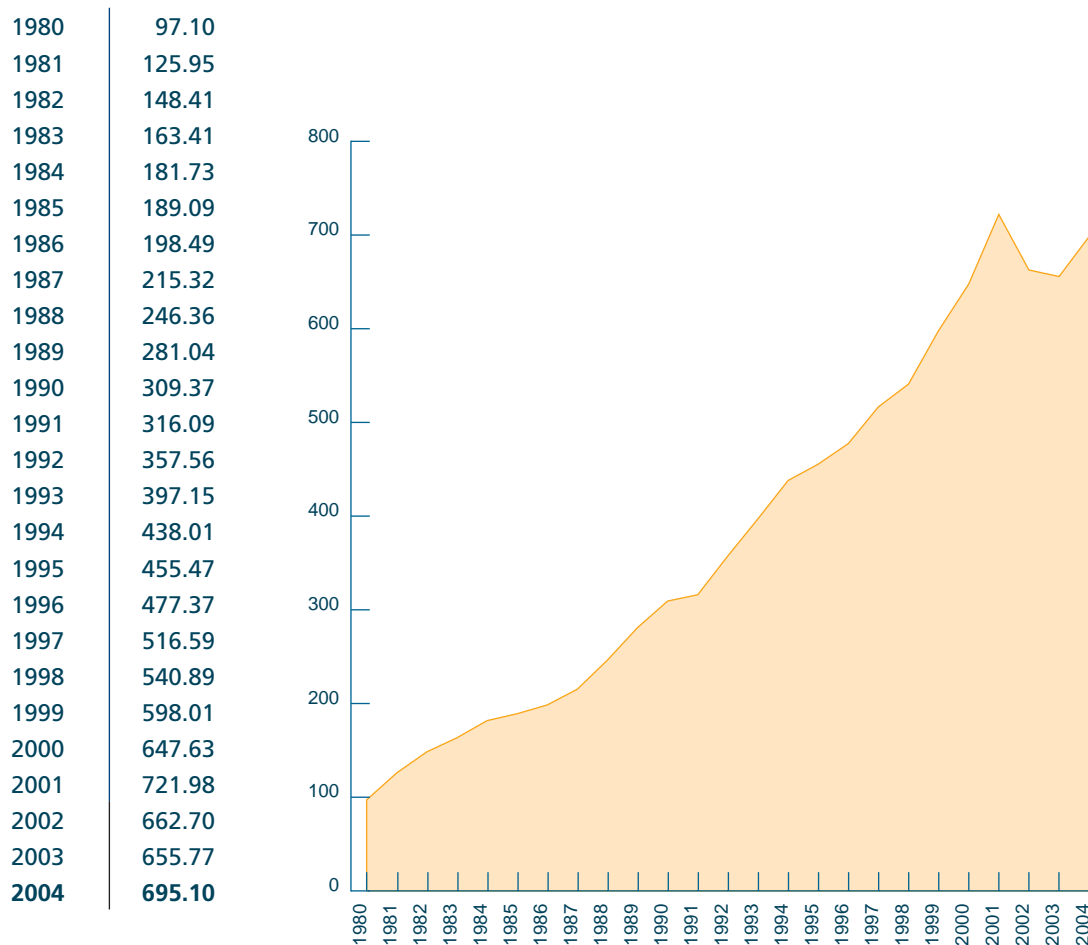
Breakdown of the number of employees per bank

Number of employees		>1,000	500 to 1,000	400 to 500	300 to 400	200 to 300	100 to 200	50 to 100	<50
Number of banks	2003	4	4	4	6	11	19	21	100
	2004	4	2	6	8	8	19	21	94

1.5. Development in the balance sheet totals

The balance sheet total of credit institutions rose to EUR 695,103 million at the end of 2004 against EUR 655,601 million at the end of 2003, which represents an increase of 6.0% during 2004.

Development in the balance sheet totals of the credit institutions – in billion EUR



SUPERVISION OF THE BANKING SECTOR

Aggregated balance sheet total – in million EUR

ASSETS	2003	2004 ³	Variation in %	LIABILITIES	2003	2004 ³	Variation in %
Loans and advances to credit institutions	339,862	372,701	+9.7%	Amounts owed to credit institutions	307,592	328,915	+6.9%
Loans and advances to customers	117,482	121,127	+3.1%	Amounts owed to customers	215,956	228,378	+5.8%
Fixed-income securities	145,610	145,436	-0.1%	Debt evidenced by certificates	69,210	72,322	+4.5%
Variable-yield securities	3,923	4,387	+11.8%	Various items	4,968	4,885	-1.7%
Participating interests and shares in affiliated undertakings	6,979	6,924	-0.8%	Permanent shareholders' equity (*)	57,875	60,603	+4.7%
Fixed assets and other assets	41,745	44,528	+6.7%	of which profit for the year	2,869	2,884	+0.5%
Total	655,601	695,103	+6.0%	Total	655,601	695,103	+6.0%

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

Assets

As far as assets are concerned, the growth in the banks' balance sheet total mainly stems from a significant increase in loans and advances to credit institutions. Loans and advances to customers, variable-yield securities and fixed assets and other assets have also grown. The other items of the banks' total assets slightly dropped compared to the end of 2003.

Loans and advances to credit institutions increased by 9.7% in 2004 to EUR 372,701 million. In 2003, this item was decreasing (-0.8%). The growth of this item in 2004 goes together with a strengthening of the refinancing of banks on the liability side. The part of amounts owed to credit institutions rose to 53.6% of the balance sheet total. This figure bears witness to the importance of interbank positions for the Luxembourg financial centre.

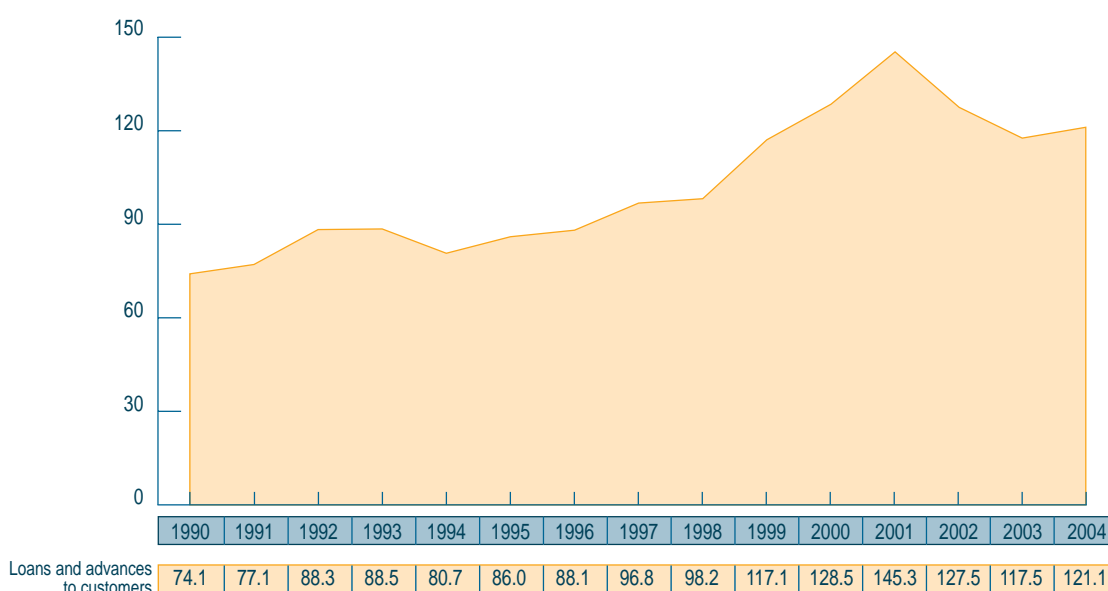
Qualitative breakdown of interbank assets

	2002	2003	2004
Central and multilateral banks	0.30%	0.13%	0.15%
Banks zone A ⁴	98.48%	98.27%	98.59%
Banks zone B ⁵	1.23%	1.60%	1.26%

This breakdown shows that the vast majority of loans and advances to credit institutions consist of commitments on zone A banks, i.e. banks of industrialised countries. The breakdown in relative terms remained relatively stable over the last three years. Loans and advances on central and multilateral banks, which have been weak already, have however recorded a substantial fall.

The item **loans and advances to customers** grew by 3.1% to EUR 121,127 million, i.e. 17.4% of the balance sheet total at the end of 2004, compared to EUR 117,482 million in 2003.

Development in loans and advances to customers – in billion EUR



Breakdown of loans and advances to customers

	2002	2003	2004
Public authorities zone A	5.59%	6.77%	8.66%
Public authorities zone B	0.19%	0.19%	0.09%
Private customers & Financial institutions	94.17%	92.98%	91.19%
<i>of which: legal entities</i>	54.96%	52.44%	50.51%
<i>of which: natural persons</i>	21.32%	23.84%	24.30%
<i>of which: financial institutions</i>	23.66%	23.66%	25.13%
Leasing	0.05%	0.06%	0.06%

⁴ Countries zone A: Australia, Austria, Belgium, Canada, Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Japan, Liechtenstein, Luxembourg, Mexico, Netherlands, New Zealand, Norway, Poland, Portugal, Saudi Arabia, Slovakia, South Korea, Spain, Sweden, Switzerland, Turkey, United Kingdom, United States.

⁵ Countries zone B: all other countries than zone A.

SUPERVISION OF THE BANKING SECTOR

Loans and advances to legal entities dropped by 3% in 2004. A more restrictive credit policy of the banks as regards their non financial corporate clients can explain this trend, which is even more perceptible as regards exposures to certain risk sectors⁶. The volume of loans and advances to natural persons and to financial institutions grew by 2.7% and 7% respectively. Overall, these trends led to an increase in relative terms of the loans and advances to natural persons and to financial institutions and to a decrease in loans and advances to legal entities. Loans and advances to public authorities have continued to grow in absolute and relative terms in 2004. These credits however are still only fairly represented with less than 9% of the total loans and advances to customers.

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

	2002	2003	2004
Secured by public authorities	3.97%	3.31%	3.00%
Secured by credit institutions	17.94%	16.64%	16.79%
Secured by other tangible securities	31.56%	32.53%	31.61%
Unsecured	46.53%	47.52%	48.60%

The secured part of loans and advances continues to fall for the third consecutive year.

The portfolio of the **fixed-income securities** slightly fell (-0.1%) after having recorded a drop of 4% in 2002 and an increase of the same order during 2003. This item amounts to EUR 145,436 million, i.e. 20.9% of the total balance sheet in 2004. Its relative importance continues to decrease.

Qualitative breakdown of fixed-income securities

	2002	2003	2004
Public sector zone A	24.53%	23.63%	25.11%
Public sector zone B	0.61%	0.69%	0.32%
Credit institutions zone A	50.82%	51.32%	51.92%
Credit institutions zone B	0.97%	0.80%	0.85%
Other issuers zone A	18.73%	19.38%	17.92%
Other issuers zone B	4.34%	4.18%	3.88%

The volume of the portfolio of **variable-yield securities**, i.e. equities, remains marginal for Luxembourg banks, even though this item recorded a substantial increase by 11.8% in 2004 to EUR 4,387 million at the end of the year. This development reflects the improvement of stock exchanges over the year.

The item **participating interests and shares in affiliated undertakings** remained almost stable at EUR 6,924 million in 2004 (-0.8%) and only represents 1% of the total balance sheet.

⁶ Please also refer to Chapter I, point 1.11. concerning exposures to high-risk sectors.

Liabilities

As far as liabilities are concerned, all major items are increasing except for the item various.

Amounts owed to credit institutions increased by 6.9% to EUR 328,915 million. The interbank market remains the main item as regards refinancing with 47.3% of liabilities.

Amounts owed to customers, representing 32.9% of total liabilities, increased by 5.8% to EUR 228,378 million at the end of the 2004. Amounts owed to the public sector decreased (-7.2%), as well as amounts owed to natural persons (-5.7%), while amounts owed to legal entities grew substantially (+11.0%).

Breakdown of amounts owed to customers

	2002	2003	2004
Amounts owed to the public sector	2.84%	3.92%	3.44%
Amounts owed to legal entities	66.22%	68.29%	71.76%
Amounts owed to natural persons	30.94%	27.79%	24.80%

Amounts owed represented by securities grew by 4.5% in absolute terms as compared to 2003. With 10.4% of the balance sheet total, this refinancing mode remains interesting, notably for the banks issuing mortgage bonds.

The **permanent shareholders' equity**, which mainly encompasses subscribed capital, reserves, provisions, subordinated debts and accruals, rose by 4.7% in 2004 to EUR 60,603 million at the end of the year. This rise is mainly attributable to an increase in the accruals and reserves.

1.6. Development in the profit and loss account

The aggregated profit and loss account of Luxembourg credit institutions showed net profits that remained unchanged in 2004 as compared to the previous year.

In a more and more positive business environment, the banks have managed to reach gross profits of EUR 7,380 million. These results are mainly driven by ordinary recurrent operations, contrary to 2002 and 2003. In parallel, the improving economic situation has contributed to a reduction in the need for risk provisioning. Net constitution of provisions has thus been reduced by EUR 370 million in one year. However, the absence of extraordinary profits entails that 2004 records stable net profits year-on-year.

SUPERVISION OF THE BANKING SECTOR

Profit and loss accounts – in million EUR

	2002	Relative share	2003	Relative share	2004 ⁷	Relative share
Interests and dividends received	41,257		34,071		29,224	
Interests paid	37,116		29,991		25,312	
Interest-rate margin	4,141	51%	4,080	54%	3,912	53%
Commission income	2,615	32%	2,533	33%	2,779	38%
Income from financial operations	261	3%	481	6%	571	8%
Other income	1,044	13%	496	7%	118	2%
Banking income	8,061	100%	7,590	100%	7,380	100%
General administrative expenses	3,182	39%	3,095	41%	3,174	43%
<i>of which: staff costs</i>	<i>1,809</i>	<i>22%</i>	<i>1,752</i>	<i>23%</i>	<i>1,800</i>	<i>24%</i>
<i>of which: other administrative expenses</i>	<i>1,373</i>	<i>17%</i>	<i>1,342</i>	<i>18%</i>	<i>1,373</i>	<i>19%</i>
Depreciation	308	4%	290	4%	287	4%
Result before provisions	4,571	57%	4,206	55%	3,919	53%
Creation of provisions	1,824	23%	1,389	18%	1,017	14%
Write-back of provisions	658	8%	751	10%	750	10%
Taxes	685	8%	694	9%	768	10%
Result for the financial year	2,720	34%	2,874	38%	2,884	39%

Among ordinary income, income from financial operations (EUR 571 million) and commission income (EUR 2,779 million) have strongly increased. The growth in stock valuation and the vigour of stock exchange operations are greatly beneficial to the **commission income** which increases by an average of 10%. The increase is particularly strong for exchange commissions (+10%), as well as for commissions for holding and managing assets (+11%), which follow the upward trend of third-party assets (+8%). As far as market activities are concerned, the financial centre shows **income from financial operations** of EUR 571 million, on the rise by 19% year-on-year.

The performance is more mediocre for **interest-rate margin**, which reached EUR 3,912 million. While the banks have managed to maintain the level of dividends on their participations⁸, the persistence of the historically low interest-rate environment continues to negatively impact interest income. This applies especially to the banks' substantial permanent shareholders' equity. The interest-rate margin, which includes income on interests and participations, decreases by 4% as compared to 31 December 2003.

(in million EUR)	2002	2003	2004 ⁹
Dividends received on participating interests	499	628	643

⁷ Provisional figures for the year ending 31.12.2004.

⁸ Dividends relating to participating interests and interests in affiliated undertakings.

⁹ Provisional figures for the year ending 31.12.2004.

Given the solid ordinary income, the drop of **banking income** (-3%) is attributable to less important other income. This income, made up mainly by non-recurring revenues, fell by 76% year-on-year. As at 31 December 2004, it only represents EUR 118 million, i.e. 2% of the banking income.

As far as expenses are concerned, **general administrative expenses** are increasing. After two years of decline in a context of economic slowdown, general expenses increase by 3% during the year 2004. This growth concerns administrative expenses (+2%) and staff costs (+3%).

Gross profit before provisions drops by 7% over a year, mainly due to the decrease in extraordinary revenues. Disregarding "other income", profit before provisions rises by 2%. This figure bears witness to the ability of the banks of the financial centre to generate solid ordinary results.

While write-back of provisions remains virtually unchanged year-on-year, new risk **provisioning** falls by 27%. This fall is a consequence of the improved international economic environment accompanied by lower risk potential. It may also be linked to the introduction of the IFRS accounting standards which oblige banks to revisit the structure of their provisioning policies.

The increase in **taxes** (+11%) bears witness to the vigorous ordinary results. In 2003, the banks of the financial centre had paid less taxes based on higher revenues, which included however revenues benefiting from tax exemption.

Structural ratios	2002	2003	2004
Cost / income ratio	43.3%	44.6%	46.9%
Profit before taxes / average assets	0.49%	0.54%	0.53%
Profit before taxes / risk-weighted assets	21.3%	22.4%	24.0%
Profit before taxes / tier-1 capital	14.4%	15.1%	14.6%
Income excluding interest / banking income	48.6%	46.2%	47.0%
Creation of provisions for loans and advances to customers ¹⁰	1.0%	0.9%	0.7%
Creation of provisions for participations and shares in for affiliated undertakings ¹¹	11.8%	9.1%	16.9%

The decrease in banking income and the rise in operating costs lead to a marked deterioration of the cost / (gross) income ratio, which rises from 44.6% to 46.9%. The worsening of the profitability is also perceptible from the point of view of net income, which takes account of the net creation of provisions. The indicators of net unit profitability, measured in terms of average assets or own funds, are going down. Solely the profitability adjusted for risk is up from 22.4% to 24.0%. This improvement took place despite the increase in capital requirements (+0.6%), meaning that income before taxes increases more rapidly than the assets at risk.

¹⁰ As a % of the gross amount.

¹¹ As a % of the gross amount.

SUPERVISION OF THE BANKING SECTOR

Creation of provisions for loans and advances decreases by 17% year-on-year. Taking account of a 3% growth in volume of loans and advances to customers, the unit creation of provisions thus decrease to 0.7% of the gross amount. This drop bears witness to the improvement in the quality of credit portfolios of the financial centre. Participations and shares in affiliated undertakings recorded the opposite trend. However, the subsequent increase in the unit creation of provisions does not reflect the general trend, but rather the specific case of two banks of the financial centre.

Development of certain indicators of the profit and loss account by employee

<i>(in million EUR)</i>	2002	2003	2004
Banking income / employee	0.346	0.337	0.327
Staff costs / employee	0.078	0.078	0.080

Given the stabilisation of banking staff during the past year, the development in the banking income and staff costs per employee exclusively reflect the variation of banking income and staff costs.

1.7. Off-balance sheet items and financial derivatives

The banks of the financial centre used derivatives for a nominal amount of EUR 625.3 billion in 2004 against EUR 730.7 billion in 2003. The use of derivatives thus falls by 14.4% as compared to 2003.

The drop concerns all the categories of derivatives: interest rate swaps (-13.7%), forward rate agreements (-40.5%) and options (-39.6%). Only futures recorded a substantial increase by 110.9%. Their use remains marginal however (2.8% of the total nominal amount). Interest rate swaps, used mainly within the scope of the management of assets/liabilities, remain the predominant derivative. They totalled EUR 571.7 billion in 2004, i.e. 91.4% of total volume.

The ratio of the volume of derivatives compared to the balance sheet total now amounts to 90% against 111.5% in 2003.

Instruments dealt over the counter still remain the most used (96.1% of the total nominal amount in 2004 against 96.3% in 2003). They reached a volume of EUR 601.0 billion against EUR 703.9 billion in 2003.

Use of financial derivatives by credit institutions

	2003		2004 ¹²	
	<i>in billion EUR</i>	<i>as a % of balance sheet total</i>	<i>in billion EUR</i>	<i>as a % of balance sheet total</i>
Interest rate swaps	662.1	101.0%	571.7	82.2%
Future or forward rate agreements	29.5	4.5%	17.6	2.5%
<i>of which: over the counter</i>	25.1	3.8%	14.1	2.0%
<i>of which: regulated market</i>	4.5	0.7%	3.4	0.5%
Futures (currencies, interests, other rates)	8.3	1.3%	17.4	2.5%
Options (currencies, interests, other rates)	30.9	4.7%	18.6	2.7%
<i>of which: over the counter</i>	16.7	2.6%	15.2	2.2%
<i>of which: regulated market</i>	14.1	2.2%	3.4	0.5%

During 2003, the CSSF refined the reporting of third-party assets held by banks¹³. While this category previously comprised all the securities deposits of professional and non-professional customers, this amount is now broken down into the following categories:

- assets deposited by UCIs;
- assets deposited by clearing or settlement institutions;
- assets deposited by other professionals intervening in the financial markets;
- other deposited assets.

The CSSF has not published the amount of securities deposits before 2003, as this figure was difficult to interpret. Indeed, the technical functioning of the securities deposits in the banking system implies that the same securities can be deposited and sub-deposited with several professionals, entailing that the same securities are counted twice or even more times, which can lead to wrong interpretations of the total amount of securities deposits.

This risk is however diminished, but not totally eliminated for the deposits of the non-bank customers, UCIs and clearing or settlement institutions, so that the CSSF considered that these amounts can be published.

<i>(in billion EUR)</i>	2003	2004
Assets deposited by UCIs	890.5	1,040.6
Assets deposited by clearing or settlement institutions	301.0	311.4
Other deposited assets	335.3	361.4

1.8. Development in own funds and in the solvency ratio

1.8.1. Number of banks required to meet a solvency ratio

As at 31 December 2004, the number of banks required to meet a non-consolidated solvency ratio stood at 117, including 116 banks incorporated under Luxembourg law and one branch of non-EU origin. Among these banks, 93 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 to meet a solvency ratio	Integrated ratio		Simplified ratio		Total	
	2003	2004	2003	2004	2003	2004
Non-consolidated	25	24	95	93	120	117
Consolidated	14	14	14	14	28	28 ¹⁴

¹³ For credit institutions under Luxembourg law and branches originating from third countries; branches originating from a Member State of the European Union are subject to a simplified reporting.

¹⁴ Banks whose participating interests are deducted from own funds on an individual basis are not required to calculate a consolidated ratio.

1.8.2. Development in the solvency ratio

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

The **capital adequacy ratio** maintained its high level in 2004 following a parallel shift of the base of the eligible own funds and the capital requirements. The solvency ratio itself reached 16.5%, easily exceeding the minimum threshold of 8% required by the existing prudential regulation. Taking into account core equity capital (Tier 1) only, the aggregate ratio for the Luxembourg financial centre rose from 12.7% as at 31 December 2003 to a provisional figure of 12.9% at year-end 2004.

Capital requirements for credit risk grew slightly in 2004 (+0.6%). Lending operations however continue to make up the bulk of capital requirements. Capital requirements for risks linked to the banks' trading portfolios, negligible in terms of volume, rose more distinctly compared to the previous years (+39.3% compared to year-end 2003). Capital requirements for foreign exchange risks remain marginal and thereby confirm the downward trend that started in 2000.

Eligible own funds continue their positive development of the previous years. Core capital, which represents 80% of total eligible own funds, grew by 2.1% due to the rise of the item "Share premium accounts, reserves and profits brought forward". Additional own funds (after capping) confirm their downward trend of the previous years and record a provisional volume of EUR 6,878 million as at 31 December 2004, i.e. down 4.1% year-on-year. The marginal use of super additional own funds, as in the two previous years, also needs to be noted. Finally, items to be deducted from own funds follow a contrasting trend. In terms of volume, items to be deducted from own funds fell from EUR 2,427 million in 2002 to EUR 792 million at year-end 2003 and rose to a provisional total of EUR 835 million as at 31 December 2004. The drop in 2003 was mainly due to a refocusing on non-strategic participations in other credit and financial institutions by certain banks in the financial centre. In 2004, participations exceeding 10% of the share capital of other credit and financial institutions are the cause of the upward trend of the items to be deducted. The impact on the solvency ratio denominator is significant as the participations concerned are to be fully deducted from eligible own funds.

(in million EUR)

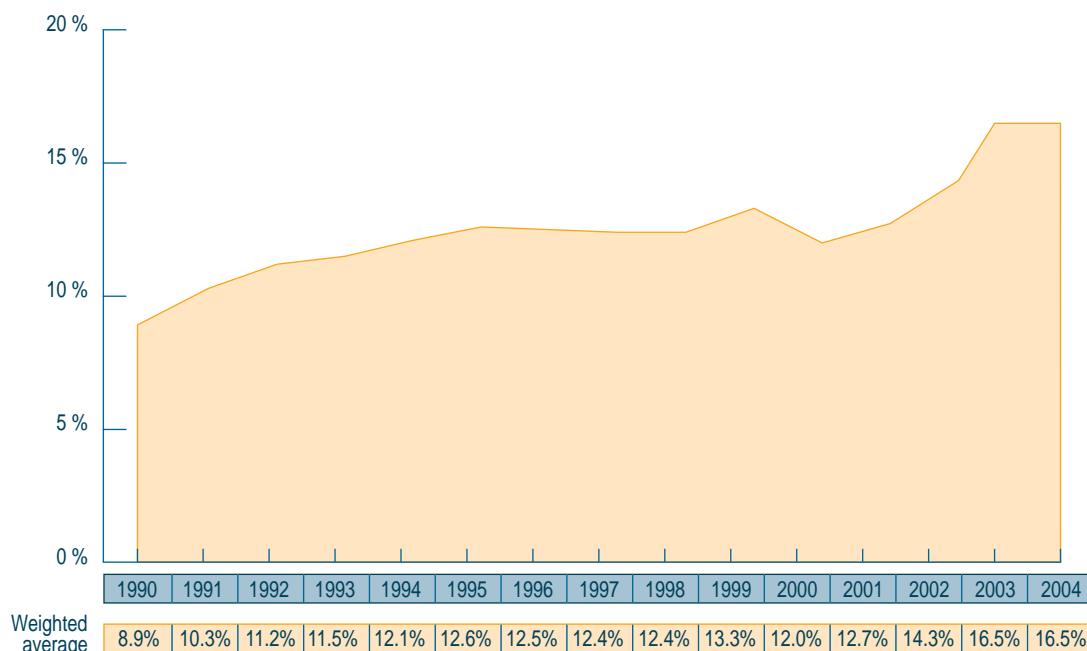
Numerator	2003 consolidated	2004 consolidated (provisional)
Original own funds before deductions	25,750	26,182
Paid-up capital	7,794	7,783
Silent participation	2,591	2,523
Share premium account, reserves and profits brought forward	12,887	13,155
Funds for general banking risks	1,824	1,837
Profits for the financial year	292	494
Specific consolidation items	361	390
Items to be deducted from original own funds	-796	-712
Own shares	-1	0
Intangible assets	-94	-99
Losses brought forward and loss for the financial year	-59	-50
Specific consolidation items	-642	-562
ORIGINAL OWN FUNDS (TIER 1)	24,954	25,470
Additional own funds before capping	7,227	6,900
Upper TIER 2	3,039	3,197
Of which: cumulative preference shares with no fixed maturity	22	27
Of which: subordinated upper TIER 2 debt instruments	2,215	2,269
Lower TIER 2	4,188	3,703
Lower TIER 2 subordinated debt instruments and cumulative preference shares with fixed maturity	4,188	3,703
ADDITIONAL OWN FUNDS AFTER CAPPING (TIER 2)	7,170	6,878
Super additional own funds before capping	115	69
SUPER ADDITIONAL OWN FUNDS AFTER CAPPING (TIER 3)	38	31
OWN FUNDS BEFORE DEDUCTIONS (T1+T2+T3)	32,162	32,379
ITEMS TO BE DEDUCTED FROM OWN FUNDS	792	835
Items of share capital in other credit and financial institutions in which the bank owns interests exceeding 10% of their share capital	544	643
Items of share capital in other credit and financial institutions in which the bank owns interests less or equal to 10% of their share capital	248	192
ELIGIBLE OWN FUNDS	31,370	31,544
Denominator	2003	2004
TOTAL CAPITAL ADEQUACY REQUIREMENT	15,221	15,312
To cover credit risk	14,928	14,945
To cover foreign exchange risk	59	41
To cover trading risk	234	326
Ratio	2003	2004
SOLVENCY RATIO (base 8%)¹⁵	16.5%	16.5%
SOLVENCY RATIO (base 100%)	206.1%	206.0%

¹⁵ Eligible own funds / (Total capital adequacy requirement * 12.5)

SUPERVISION OF THE BANKING SECTOR

The graph below plots the development of the solvency ratio (base 8%) since 1990. The weighted average is the ratio between total eligible own funds in the financial centre and total weighted risks. This average takes into account all credit institutions according to their volume of business.

Development in the solvency ratio (base 8%) since 1990



1.8.3. Development in the solvency ratio distribution (base 8%)

In non-consolidated terms, the high solvency ratio in the financial centre is reflected by a rather low number of banks whose ratio is situated within the medium capitalisation bands, i.e. below 11%. For instance, as at 31 December 2004, the percentage of banks with a solvency ratio below 10% is 3.4%. Conversely, more than two thirds of credit institutions of the financial centre record a solvency ratio exceeding 15%.

Ratio	Number of banks		as % of total
	2003	2004	2004
<8%	0	0	0.0%
8%-9%	2	2	1.7%
9%-10%	6	2	1.7%
10%-11%	8	11	9.4%
11%-12%	7	7	6.0%
12%-13%	3	3	2.6%
13%-14%	7	5	4.3%
14%-15%	5	7	6.0%
15%-20%	29	26	22.2%
>20%	53	54	46.2%
Total	120	117	100.0%

1.9. International expansion of Luxembourg banks

In 2004, Luxembourg banks continued their prudent policy as regards the development of their activities abroad. External and organic growth strategies are only pursued on an isolated basis.

Three banks have expanded their international network in 2004, either by opening branches, or by acquiring existing companies. Several banks however disposed of entities abroad, mostly due to strategic interest.

As in 2003, the CSSF noted that overall the expansion strategy is mixed and that the expected results have not been achieved yet. The CSSF thus continues to adopt a prudent approach as regards authorisations for acquisition.

Creations and acquisitions in 2004 by Luxembourg banks of subsidiaries of banks or PFS abroad

Name of the bank	Entity formed or acquired
Pictet & Cie (Europe) S.A.	Opening of a branch in Paris
Kredietbank S.A. Luxembourgeoise	Acquisition of Puilaetco S.A. (Belgium)
Dexia Banque Internationale à Luxembourg S.A.	Acquisition of FMS Hoche, France

Closures and disposals in 2004 by Luxembourg banks of subsidiaries of banks or PFS abroad

Name of the bank	Entity sold or closed
Sanpaolo Bank S.A.	Disposal of its subsidiary Sanpaolo Bank (Austria) S.A.
Dexia Banque Internationale à Luxembourg S.A.	Sale of Société Monégasque de Banque Privée S.A.
Dexia Banque Internationale à Luxembourg S.A.	Sale of Kempen & Co NV, Netherlands
American Express Bank (Luxembourg) S.A.	Closure of the branch in London

Branches established in the EU/EEA as at 31 December 2004

Country of origin	Luxembourg branches established in the EU/EEA	Branches of EU/EEA banks established in Luxembourg
Austria	1	-
Belgium	1	1
Finland	-	1
France	1	6
Germany	1	17
Iceland	-	2
Ireland	3	1
Italy	-	3
Portugal	2	2
Spain	3	-
Sweden	1	1
United Kingdom	3	5
Total	16	39

SUPERVISION OF THE BANKING SECTOR

Freedom to provide services within the EU/EEA as at 31 December 2004

Country	Luxembourg banks providing services in the EU/EEA	EU/EEA banks providing services in Luxembourg
Austria	24	12
Belgium	48	15
Cyprus	1	-
Czech Republic	1	-
Denmark	26	7
Estonia	1	-
Finland	20	3
France	49	54
Germany	43	33
Gibraltar	-	1
Greece	22	-
Hungary	1	1
Iceland	3	-
Ireland	20	31
Italy	40	6
Latvia	1	-
Liechtenstein	1	1
Lithuania	1	-
Malta	1	-
Netherlands	39	25
Norway	8	3
Poland	1	-
Portugal	26	8
Slovakia	1	-
Slovenia	1	-
Spain	33	4
Sweden	20	3
United Kingdom	33	82
Total number of notifications	465	289
Total number of banks concerned	67	289

1.10. Banks issuing mortgage bonds

The banks issuing mortgage bonds continued their positive development during 2004. Indeed, as at 31 December 2004, the balance sheet total of three banks issuing mortgage bonds totalled EUR 30 billion and the total volume of public sector mortgage bonds issued (and in circulation) by these three banks reached EUR 17.9 billion against EUR 17.725 billion at the end of 2003.

Issues of mortgage bonds are guaranteed by ordinary cover assets and by substitute cover assets. As at 31 December 2004, cover assets totalled EUR 20.7 billion, resulting in an over-collateralisation (nominal value) of mortgage bonds in circulation of EUR 2.8 billion. Over-collateralisation calculated according to the current value amounts to EUR 2.6 billion as at 31 December 2004.

The ordinary cover assets of municipal bonds for the three banks break down as follows:

- claims on or guarantees from public organisations: EUR 5.5 billion;
- bonds issued by public organisations: EUR 11.3 billion;
- municipal bonds of other issuers: EUR 975 million;
- derivative transactions: EUR 1.2 billion.

Besides these ordinary cover assets, the banks used substitute cover assets amounting to EUR 1.8 billion as at 31 December 2004.

Owing 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.

It has to be noted that since 2004, the public sector mortgage bonds issued by EUROHYPO Europäische Hypothekenbank S.A. also benefit from a rating by a second rating agency, i.e. FITCH IBCA. The AAA rating of this agency is due to the quality of the cover assets, as well as to the importance of over-collateralisation, which is sufficient to resist all stress tests carried out by the rating agency. Moreover, FITCH IBCA has also taken account of the operational capacity of the bank, the involvement of the special auditor and the role of the CSSF.

Although the law of 21 November 1997 allows the banks issuing mortgage bonds to issue municipal bonds as well as mortgage bonds, the Luxembourg banks continued to limit their main activities in 2004 to municipal bonds covered by sovereign debtors. However, the first mortgage bonds are expected to be issued in 2005.

1.11. Exposure to high-risk sectors

Circular letter of 29 November 2001 requested the twenty most important credit institutions of the financial centre to provide information concerning their exposures to certain sectors more particularly hit by the unfavourable economic environment. Thus, they report, on a quarterly basis, their exposures towards the sectors of telecommunications, media and technology, transport, aviation, tourism and leisure industry, as well as the insurance sector. These twenty credit institutions cover 60% of the total balance sheet of the financial centre in 2004.

In 2004, the CSSF closely monitored the development of the reported risk exposures. The following table summarises the recent development of loans, net of specific provisions, drawn by the different sectors. Overall, the risk exposures taken into consideration represent 1% of the total balance sheet of the banks of the financial centre at the end of 2004.

<i>(in million EUR)</i>	Exposure at the end of 2003	Exposure at the end of 2004	Variation in %
Telecommunications, media and technology	2,829	2,713	-4%
Aviation	1,677	1,501	-11%
Insurance	1,165	1,067	-8 %
Transport	1,247	1,203	-4%
Tourism and leisure industry	736	770	+5%

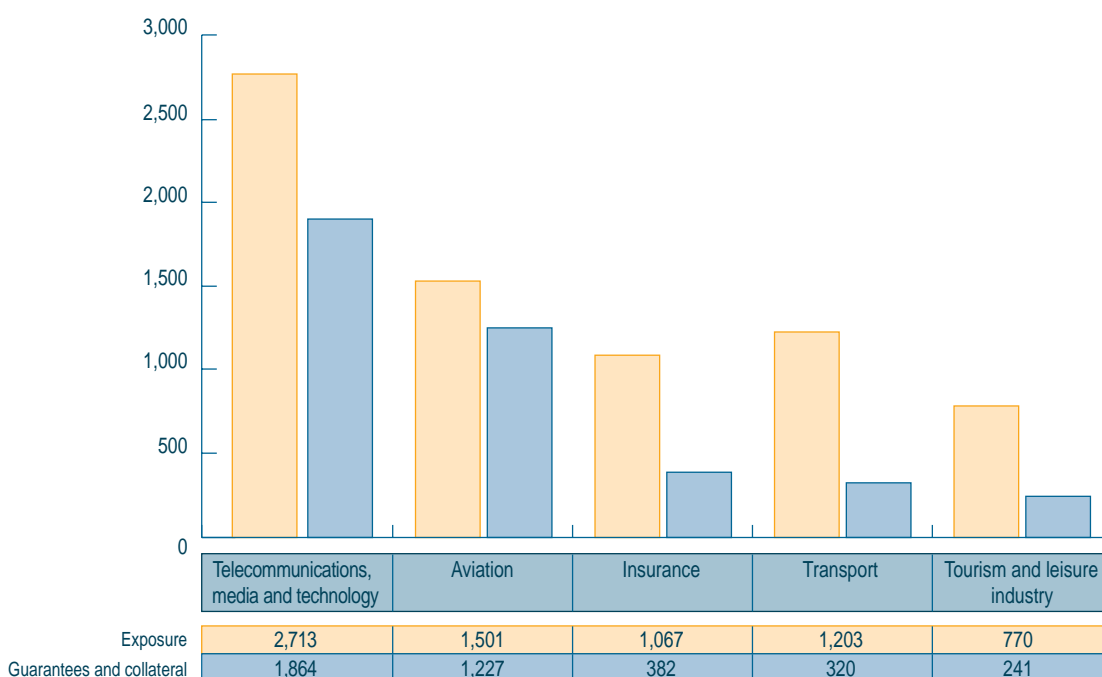
SUPERVISION OF THE BANKING SECTOR

Total risk sector exposures decreased by 5.2% during 2004. All risk sectors with the exception of the tourism and leisure industry have followed this downward trend. Risk exposures to the aviation sector recorded the most important decrease with EUR 176 million down in 2004, representing a decrease of 11%. Exposures to the telecommunications, media and technology sector and the insurance sector, as well as, to a lesser extent, to the transport sector, also fell. However, banks slightly strengthened their positions on the tourism and leisure sector, which represents henceforth 10.6% of the total volume of risk exposures.

The development of the high-risk exposures is in stark contrast with the development in the total volume of loans and advances to customers, which increased by 3.1% over a year. This divergent development is attributable to a more selective credit policy of banks. The banks have thus adopted a more prudent approach as regards their exposures to certain risk sectors.

The following graph illustrates the degree of coverage of risk exposures. Overall, exposures were covered up to 56% by guarantees and collateral in 2004, compared to 52% in 2003. The coverage ratio is highest for the aviation sector (82%) and the telecommunications, media and technology sector (69%). The increase in the coverage ratio was particularly significant as regards the aviation sector, which, in 2003, was covered up to 66.9%.

Risk positions at the end of 2004: exposure and guarantee/collateral – in million EUR



The CSSF applies strict eligibility requirements as regards guarantees/collateral. Only guarantees and collateral of outstanding quality and liquidity are taken into account for internal analysis. In certain cases, haircuts that take into account the non-covered residual risk are deducted from the gross amount of guarantees.

The table below sets out own funds of banks with exposures to high-risk sectors. It also gives a fair outline of the coverage ratio by own funds of the risk exposures considered.

Sector	Own funds of banks with risk exposures (in million EUR)	Ratio between exposure and own funds	
		Highest ratio for systemic banks	Ratio for the three most exposed banks
Telecommunications, media and technology	21,864	12% ^(*)	7% ^(*)
Aviation	23,024	27%	18%
Insurance	22,589	9%	7%
Transport	21,864	24%	14%
Tourism and leisure industry	20,825	8%	7%

(*) Highest ratio among those calculated separately for the telecommunications, media and technology sectors.

The first ratio analysed by the CSSF relates the risk-sector exposure to the own funds of the individual banks. For each sector, the table shows the highest ratio observed among the systemic banks. The second ratio calculates the same percentage as regards the three banks with the highest risk-sector exposures. Neither of these ratios indicates an abnormal concentration. The risk concentration of banks is highest for the aviation sector. However, the exposure towards this sector decreased substantially from the third quarter 2001.

The decrease in ratios relating the sector exposure to the own funds of the banks has been particularly marked in the last two years due to the joint impact of a policy consisting in reducing risk exposures and a strengthening of the banks' own funds.

Capital buffers constituted mainly by lumpsum provisions allow most of the banks to absorb possible losses incurred in high-risk sectors without their own funds being directly affected.

Recent developments in certain risk sectors monitored more particularly by the CSSF are not very encouraging. Certain airline companies in particular continue to encounter serious financial problems that could jeopardise their existence. Furthermore, the financial perspectives of the large players in the telecommunication sector have not particularly improved over the last years. The CSSF thus continues to closely monitor the development of the banks' risk exposures.

The analysis of the figures collected over the last four years of the twenty most important credit institutions in the financial centre reveals however an improvement of the banks' situation as regards exposures to high-risk sectors. Risk exposures have thus continuously decreased. In parallel, the degree of coverage of the risk exposures strengthened substantially.

SUPERVISION OF THE BANKING SECTOR

Exposure at the end of the year (in million EUR)	2001	2002	2003	2004
Telecommunications, media and technology	3,986	3,855	2,829	2,713
Aviation	2,566	2,107	1,677	1,501
Insurance	1,618	1,392	1,165	1,067
Transport	1,492	1,071	1,247	1,203
Tourism and leisure industry	656	734	736	770
Total exposures to high-risk sectors	10,318	9,159	7,654	7,254
Variation (in %)		-11%	-16%	-5%
Guarantees and collateral (as a % of risk exposures)	44%	58%	52%	56%
Aggregated balance sheet total (in million EUR)	721,978	662,700	655,601	695,103
Variation (in %)		-8%	-1%	+6%

New high-risk sectors have certainly been added to those monitored by the CSSF for several years. The real estate sector, for instance, is weakened due to the development of the non-residential national and international real estate market. The high number of bankruptcies of small and medium-sized undertakings is another concern of banks active in the financing of this sector. In the absence of major issues encountered by the banks within the scope of the management of their exposures to these new risk sectors, the CSSF does not consider any formalised and regular follow-up of these sectors for the time being.

2. DEVELOPMENTS IN THE REGULATORY FRAMEWORK

2.1. Circular CSSF 04/155 concerning the Compliance function

On 27 September 2004, the CSSF published this circular aiming at strengthening the sound administrative and accounting organisation that each credit institution and investment firm (hereinafter "institutions") must have in accordance with the law of 5 April 1993 on the financial sector as amended.

By means of this circular, which lays down that each institution shall set up a Compliance function, the CSSF responds to an increasing demand from institutions under its supervision for guidelines in this field, just ahead of the publication of rules at international level, and more particularly by the Basel Committee on banking supervision.

Before defining the principles of the Compliance function, which for a great number of institutions does not constitute a new function, the circular provides a certain number of definitions of a conceptual nature and discusses the responsibilities of the board of directors and the management of an institution.

While drafting the circular, the CSSF endeavoured to devise principles allowing to reach the goal of efficiency and sound performance without however prescribing or regulating the organisation of this function in detail. The circular therefore allows institutions to be flexible enough in order not to bring about important or costly changes to existing structures. This flexibility is not limited to small-sized institutions or those with smaller risks, which can, for instance, be granted an exemption from creating a full-time post of Compliance Officer. Even the other institutions are flexible as regards organisation due to fact that some tasks of the Compliance function may, under its responsibility, be delegated to other divisions or departments.

The coming into force of the circular, which was immediate while allowing institutions to comply by 1 January 2006, does not imply the creation of an additional control level or that of an additional regulatory responsibility. It rather intends to coordinate and structure controls already carried out pursuant to other regulations in force, but which are currently often spread over different organisational levels.

2.2. Implementation of the new capital adequacy framework

In 2004, the CSSF department responsible for the supervision of banks carried out its first fact-finding mission concerning the implementation of the New Basel Accord, respectively of the European Directive on capital requirements, and plans to continue this mission in 2005 in close co-operation with the department "General Supervision".

The specific fact-finding missions were either initiated by the credit institutions themselves or by the CSSF, or follow the first coordination efforts undertaken together with foreign supervisory authorities within the scope of the home-host co-operation.

The main objectives of the fact-finding missions are, at a first stage

- for the CSSF to learn about the progress of credit institutions as regards the implementation of the IRB approach, and
- the management of the project (budget, development plan, gap analysis compared to regulatory requirements, etc.),

taking account notably of corporate governance (role of risk management and internal audit, validation process, stress testing, etc.) and organisational aspects (separation of tasks, qualitative aspects of data, etc.), concepts (philosophy of internal ratings, Masterscale, etc.) and the methods chosen (expert modelling, statistics, causals, etc.), as well as the operational framework (use tests). At a later stage, the scope of these on-site missions will be extended to other areas, such as operational risk or Pillar II of the new framework.

In order to be able to prepare these on-site missions and to allow a structured dialogue, the CSSF invites banks to provide it with the documents relating to a standard agenda beforehand. Furthermore, other elements, such as the responses to the circular letter of the CSSF of 17 December 2003 and information gathered on the occasion of previous exchanges of opinion are used for these missions.

In an effort to be proactive, the CSSF reserves the right to voice comments if it notices cases of non-compliance with specific points, but responses are not to be considered as formal validation by the CSSF.

2.3. Implementation of the IAS framework¹⁶

While the transposition of the IAS regulations into the banking law is in progress, a relating draft bill having been submitted to the *Chambre des Députés* (Chamber of Deputies), the CSSF plans to introduce a single compulsory IAS reporting on an individual as well as consolidated level as from January 2008. This IAS reporting will cover all the IAS requirements by also taking account of the prudential concerns of the CSSF¹⁷.

The IAS accounting reporting will be based on the European financial reporting scheme for prudential supervision, developed under the aegis of CEBS (Committee of European Banking Supervisors) and submitted to public consultation at the end of March 2005.

¹⁶ International Accounting Standards or International Financial Reporting Standards (IFRS) according to the denomination of the new international accounting standards endorsed by the International Accounting Standards Board (IASB).

¹⁷ Please also refer to the CSSF's Annual Report 2003.

SUPERVISION OF THE BANKING SECTOR

The CSSF's strategy aims to allow banks in the financial centre to prepare only one set of statements and to use the IAS standards as their basic standards. Indeed, the CSSF considered that this would be in the best interest of the financial centre given the objective of the European Commission to use the IAS standards as the reference standards in Europe in the medium term and the different initiatives regarding this matter in the EU. This point of view had been confirmed, on the one hand, by the result of a survey launched with the banks in December 2002 within the scope of which a vast majority of banks favoured the introduction of IAS standards for prudential needs and, on the other hand, by the agreement in principle of the *Administration des Contributions Directes* (tax office) to accept the IAS standards for tax accounts, taking account of certain adjustments to be made to obtain a result for tax purposes from a commercial result.

Finally, choosing the IAS standards meets the CSSF's major concern, which is to have only one accounting standard similar to the internal risk management of banks, and which allows total transparency and comparability for the entities supervised.

The concrete modes of implementation of the prudential reporting based on IAS standards, as well as all the CSSF tables and the definition of the solvency ratio (CAD III) will be defined in a CSSF circular.

3. PRUDENTIAL SUPERVISORY PRACTICE

3.1. 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 CSSF monitors the implementation by credit institutions of the laws and regulations relating to the financial sector.

3.2. 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;
- limitation of the risk concentration on a single debtor or a group of associated debtors;
- liquidity ratio;
- limitation of qualified participating interests.

In 2004, the CSSF did not have to intervene in any instances of violations of the capital ratio and the liquidity ratio. It intervened on sixteen occasions with regard to exceeded limits on large exposures. These breaches often resulted from difficulties in interpreting regulations and have been swiftly regularised.

3.3. Monitoring of qualitative standards

The CSSF relies on several instruments to assess the quality of the banks' organisation:

- analytical reports prepared by external auditors;
- management letters and similar reports prepared by external auditors;
- on-site inspections undertaken by CSSF agents;
- reports prepared by internal auditors of the banks.

These reports are processed according to a methodology described in the CSSF's internal procedures. The response of the CSSF depends on the seriousness of the problem raised and whether it is repetitive in nature. It varies from simple monitoring of the problem on the basis of reports, through the preparation of deficiency letters, to convening the bank's management or on-site inspections undertaken by CSSF agents. Where necessary, the CSSF may use its formal powers of injunction and suspension of managers or activities.

During 2004, the CSSF sent 159 (132 in 2003) deficiency letters to banks based on shortcomings in terms of organisation.

The most frequent issues that arose were the following:

- procedure manual (degree of precision, regular updates);
- equal powers of the approved managers;
- adequate segregation of duties;
- unsatisfactory or ill-tested disaster recovery plan and business continuity plan;
- internal audit (hierarchical position of the internal audit, resources, implementation of recommendations);
- supervisory system of margin lending: frequency of assessments, consideration of all the exposures (including forward transactions and assimilated), deficiencies in the legal records, procedure to start liquidation of cover assets;
- IT security (control of access rights, encryption of telecommunications);
- process of sending and delivering mail;
- insufficient supervision of the internal accounts;
- weaknesses relating to rules of conduct as laid down in circular CSSF 2000/15 (absence of a written warning on the risks concerning derivatives, ill-informed clients in case of significant losses);
- incorrect reporting to the CSSF.

3.4. Analytical report

The analytical report prepared by the external auditor is one of the most important instruments to assess the quality of the organisation and the exposure to different risks. The CSSF requires the preparation of an analytical report on a yearly basis for each Luxembourg credit institution as well as for the Luxembourg branches of non-EU credit institutions. Furthermore, credit institutions supervised on a consolidated basis are required to submit a yearly consolidated analytical report and individual analytical reports of each subsidiary included in the consolidation and carrying out an activity of the financial sector.

SUPERVISION OF THE BANKING SECTOR

Analytical reports were made compulsory in 1989 through a circular, which was reformed in 2001 (circular CSSF 01/27) in order to take account of the development of the regulatory and prudential framework.

In 2004, the CSSF analysed 258 analytical reports, 25 of which were consolidated analytical reports and 100 were analytical reports of subsidiaries.

3.5. Co-operation with external auditors

Article 54 of the law of 5 April 1993 on the financial sector as amended governs the relationship between the CSSF and the external auditors. This article confers upon the CSSF the power to establish the regulations relating to the audit mandate and the content of the audit report. The professionals supervised shall communicate all the reports issued by the external auditor within the course of the audit of annual accounts to the CSSF.

Furthermore, the external auditors are required by law to inform the CSSF immediately of any serious facts, defined more specifically under article 54(3) of the aforementioned law, which have come to their attention in the course of their duties.

The supervision of the CSSF is thus largely based on the work of the external auditors and their reports. Since 2002, the CSSF holds annual meetings with the main audit firms in order to exchange opinions on specific issues encountered. Discussions also concerned the quality of the reports and the results of the inspections.

3.6. On-site inspections

The CSSF intensified its efforts as regards on-site inspections even more in 2004. Thus, 76 inspections were carried out in 2004, against 62 in 2003 and 47 in 2002.

The programme of inspections to be carried out during the year is set up at the beginning of the year and is based on the assessment of the risk areas of the various credit institutions. The objective is on the one hand to be present at the major credit institutions and on the other hand to supervise the other institutions following a schedule covering several years.

Inspections carried out by CSSF agents generally follow standard inspection procedures, in the form of discussions with the people responsible, assessment of procedures and verification of files and systems.

During the year under review, compliance with the rules on money laundering was still a major focus of attention, although to a little lesser extent than in the previous years. Eleven inspections concerned this subject against twenty in 2003 (please refer to point 3.7. hereafter).

The CSSF focused in particular on the functioning of the banks' bodies, notably the board of directors, with eleven inspections. During these inspections, the CSSF inspected the meeting frequency of the board of directors, the subjects mentioned, the frequency of the audits of the parent company and the decision-making process relating to the main counterparty risks and the business relationships in general. The CSSF observed that the banks inspected are in general well integrated in the decision-making process and control of the parent companies. In some cases, the frequency of the controls carried out by the group's internal audit can be qualified as insufficient.

As the CSSF accompanies the banks' preparation for the implementation of the new regulations on own funds ("Basel II"), thirty on-site visits on this subject have been undertaken at the premises of eleven banks (please refer also to Chapter X, point 2.1.1. regarding the new capital adequacy regime).

Two banks introduced a request for the validation of their internal market risk management model; these requests have been accepted.

The other on-site inspections concerned the credit activity, the organisation of private banking and the asset liability management.

3.7. Combating money laundering

Article 15 of the law of 12 November 2004 concerning the fight against money laundering and financing of terrorism provides that the CSSF is the relevant authority to ensure compliance with professional obligations as regards the fight against money laundering and financing of terrorism by every person subject to its supervision. However, non-compliance in full knowledge with the professional obligations falls under the penal law and proceedings thus fall within the competence of the public prosecutor.

Before the adoption of the above-mentioned law, non-compliance with professional obligations, even unintentional, was subject to criminal sanctions and the public prosecutor's office was consequently responsible for prosecution.

The CSSF uses the following instruments to supervise compliance with these rules: inspections carried out by CSSF agents, reports of external auditors and those prepared by internal auditors.

During the year under review, the CSSF sent 64 deficiency letters to the banks in relation with shortcomings concerning money laundering. These letters, based on on-site inspections and external or internal audit reports, list the shortcomings identified and enquire about the corrective measures envisaged.

In 2004, the CSSF carried out eleven missions to control compliance with anti-money laundering rules. The banks concerned were chosen according to volume and type of activity as well as to the origin of their clients. Overall results were positive as far as customer identification is concerned. Furthermore, a high level of awareness of the persons responsible was noted.

The yearly analytical report prepared by external auditors must specifically cover compliance with legal requirements and the adequate application of internal procedures concerning the prevention of money laundering. The main deficiencies observed are about the same as those noted by the CSSF.

The law requires that banks with branches or subsidiaries abroad ensure that these entities comply with Luxembourg professional obligations. The law of 12 November 2004 added an important and useful point to this requirement. Thus, the obligation to comply with the Luxembourg professional obligations does not apply where the subsidiary or branch abroad is subject to equivalent professional obligations provided for by the laws applicable at the place of its establishment. The CSSF verifies compliance with this requirement by means of analytical reports of external auditors to be prepared for each subsidiary carrying out an activity of the financial sector. Furthermore, the CSSF requires that the internal audit of the Luxembourg parent company periodically verify that subsidiaries and branches abroad comply with the group's directives on anti-money laundering. The results of these inspections must be included in the summary report, which has to be submitted to the CSSF on an annual basis.

SUPERVISION OF THE BANKING SECTOR

3.8. Management letters

Management letters drawn up by external auditors for the attention of the banks' management are an important source of information as regards the quality of the credit institutions' organisation. In these reports, the external auditors point out weaknesses they observed in the internal control system in the course of their assignment. During 2004, the CSSF analysed 99 management letters.

3.9. Meetings

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

In 2004, 183 meetings were held between CSSF representatives and bank executives.

3.10. Specific controls

According to article 54(2) of the law of 5 April 1993 on the financial sector as amended, the CSSF has the right to require an external auditor to conduct a specific audit in a given institution. The CSSF made use of this right once in 2004 for a case where a bank was the victim of the presumed criminal dealings of its two authorised directors.

Furthermore, the CSSF invited two banks to appoint specifically their external auditor to audit a specific business area.

3.11. Internal audit reports

The CSSF takes into account the work of the internal audit when assessing the quality of the organisation and risk management by analysing the summary report which the internal auditor must prepare each year. In 2004, the CSSF analysed 125 summary reports. It also requested 70 specific internal audit reports in order to obtain more detailed information on particular subjects.

3.12. Supervision of a consolidated basis

As at 31 December 2004, 31 banks under Luxembourg Law¹⁸ (against 33 in 2003), as well as one Luxembourg-incorporated finance company¹⁹ (idem in 2003) were supervised by the CSSF on a consolidated basis.

The conditions governing submission to a consolidated supervision, the scope, content and methods of supervision on a consolidated basis are laid down in Section III, chapter 3 of the law of 5 April 1993 on the financial sector as amended. The rules 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 is explained in circular IML 96/125.

¹⁸ ABN Amro Bank (Luxembourg) S.A., Banca Popolare di Verona e Novara (Luxembourg) S.A., Banque Delen Luxembourg, Banque de Luxembourg S.A., Banque Degroof Luxembourg S.A., Banque Générale du Luxembourg S.A., Banque Safran-Luxembourg S.A., BHF-BANK International S.A., BNP Paribas Luxembourg, Credem International (Lux), Crédit Agricole Indosuez Luxembourg, Crédit Agricole Investor Services Bank Luxembourg, Danske Bank International S.A., DekaBank Deutsche Girozentrale Luxembourg S.A., Deutsche Bank Luxembourg S.A., Dexia Banque Internationale à Luxembourg, Dresdner Bank Luxembourg S.A., DZ Bank International S.A., Fideuram Bank (Luxembourg) S.A., HSH Nordbank International S.A., IKB International, ING Luxembourg S.A., John Deere Bank S.A., Kredietbank S.A. Luxembourgeoise, Natexis Private Banking Luxembourg S.A., Norddeutsche Landesbank Luxembourg S.A., Nordea Bank S.A., Sanpaolo Bank S.A., Société Générale Bank & Trust, UBS (Luxembourg) S.A., West LB International S.A.

¹⁹ Clearstream International

It has to be noted that the CSSF pays particular attention to the “group head” function set up at the Luxembourg establishment falling under its consolidated supervision. Thus, the CSSF sees more specifically to the way the Luxembourg parent company communicates its policies and strategies to its subsidiaries as well as to the controls set up at the Luxembourg parent company in order to monitor the organisation and activities of the subsidiaries, as well as their exposures.

The CSSF uses many means to supervise on a consolidated basis:

- The CSSF requires a periodic reporting reflecting the financial situation and the consolidated risks of a group subject to its consolidated supervision.
- Another source of information are the reports prepared by the external auditors. Circular CSSF 01/27 defining the mission of the external auditor requires that a consolidated long form report of a group subject to the consolidated supervision of the CSSF be drawn up. This consolidated report aims at providing the CSSF with an overview of the group’s situation and at giving indications on the risk management and structures of the group.
- The CSSF requires for each important subsidiary an individual long form report.
- By virtue of circular IML 98/143 on the internal control, a summary report on the activities carried out by the internal audit department is to be communicated to the CSSF on an annual basis. The CSSF requires that the scope of intervention of the internal audit of the Luxembourg parent company be extended to the subsidiaries in Luxembourg and abroad. This report must mention the controls carried out within the subsidiaries and the results thereof.
- The CSSF’s information is supplemented by many contacts, exchange of letters and meetings with supervisory authorities of the subsidiaries’ host countries. Within the scope of its supervision on a consolidated basis, the CSSF expects to systematically obtain, from the Luxembourg banks subject to consolidated supervision, information on any interventions of the host country authorities with the subsidiaries, where these interventions concern non-compliance with domestic regulations and aspects regarding organisation or risks of these subsidiaries.
- As regards groups with an important network of subsidiaries, the CSSF follows the development of the financial situation and the risks of the subsidiaries included in the consolidated supervision by means of regular meetings with the management of the Luxembourg credit institution under consolidated supervision.

Until now, the CSSF has not carried out itself any on-site inspection at the premises of foreign subsidiaries of Luxembourg banks.

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

3.13. International co-operation on matters of banking supervision

The CSSF has concluded memoranda of understanding with the banking supervisory authorities of most Member States of the European Economic Area²⁰ with a view to specify the terms of co-operation. These memoranda concern in particular the supervision of credit institutions involved in cross-border operations by way of the freedom to provide services or through the creation of branches.

Moreover, 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.

²⁰ Namely Belgium, Germany, Finland, France, Ireland, Italy, Netherlands, Norway, Portugal, Spain, Sweden and the United Kingdom.

SUPERVISION OF THE BANKING SECTOR

In 2004, the CSSF held five bilateral meetings with various banking supervisory authorities in order to exchange prudential information on institutions under supervision having a presence in both countries.

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 acquisitions of significant participating interests and restructurings of share ownership.

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.

Following the takeover of the Clearstream group by the Deutsche Boerse AG, the German and Luxembourg authorities signed a memorandum at the beginning of 2004 defining the modes of co-operation between both authorities as regards the supervision of the Clearstream group.

The authorities considered that the new structures of these groups, introducing a decentralised organisation of operational management units and centres of competence, called for an adaptation of the prudential supervisory modes of the activities of these groups. The key objective of such a co-operation between authorities is to ensure that all banking activities of these groups are adequately supervised. To this end, the authorities ensure in particular that the various sets of regulations are applied in a harmonised manner in order to avoid any unbalanced treatment within the groups.

The co-operation between authorities is enacted on several levels:

- close consultation between the authorities in order to coordinate and align their prudential supervision;
- continuous and systematic exchange of information on any significant event likely to impact the group or its main constituent entities;
- regular consultation 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 on-site inspections to be carried out by the competent authority in close co-operation with the other relevant authorities.

Besides frequent exchanges of information between persons directly responsible of the supervised entities in each authority, the CSSF attended twenty-five meetings in 2004 within the framework of this co-operation. A certain number of these meetings between authorities exclusively concerned their co-operation within the scope of implementation of new models of risk management by various banking groups, in order to prepare for the future Basel II regulations.

The CSSF considers that this form of co-operation substantially improves the effectiveness of supervision of cross-border banking groups and 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 CSSF's belief that there is no need for centralised supervision of cross-border groups at EU level.



| Department Supervision of Banks

First row, left to right:

Monica CECCARELLI | Marina SARMENTO | Jean-Louis DUARTE | Claudine WANDERSCHIED

Second row, left to right:

Steve HUMBERT | Jean-Louis BECKERS | Frank BISDORFF | Christina PINTO | Michèle DELAGARDELLE

Third row, left to right:

Claude REISER | Patrick WAGNER | Romain DE BORTOLI | Nico GASPARD

Absent:

Marc BORDET | Claude MOES | Steve POLFER



| Department Supervision of Banks

First row, left to right:

Carlos AZEVEDO PEREIRA | Françoise DALEIDEN | Claudine TOCK

Second row, left to right:

Joan DE RON | Michèle TRIERWEILER | Anouk DONDELINGER | Isabelle LAHR

Third row, left to right:

Yves SIMON | Jacques STREWELER | Jean-Paul STEFFEN | Ed. ENGLARO | Marc WILHELMUS

Absent:

Marco BAUSCH | Gilles JANK | Jean LEY | Jean MERSCH | Alain WEIS



SUPERVISION OF UNDERTAKINGS FOR COLLECTIVE INVESTMENT

1. Developments in the UCIs sector in 2004
2. Newly created entities approved in 2004
3. Closed down entities in 2004
4. Developments regarding UCIs investing principally in other UCIs
5. Management companies
6. Developments in the regulatory framework
7. Prudential supervisory practice

SUPERVISION OF UNDERTAKINGS FOR COLLECTIVE INVESTMENT

1. DEVELOPMENTS IN THE UCIS SECTOR IN 2004

1.1. Key trends

In 2004, the sector of undertakings for collective investment (UCIs) saw a positive development as regards the number of UCIs registered on the official list as well as the net assets managed. 1,968 UCIs were registered on the official list as at 31 December 2004 against 1,870 at year-end 2003 (+5.2%). The net assets managed amounted to EUR 1,106.2 billion at the end of the year, against EUR 953.3 billion twelve months earlier (+16.0%).

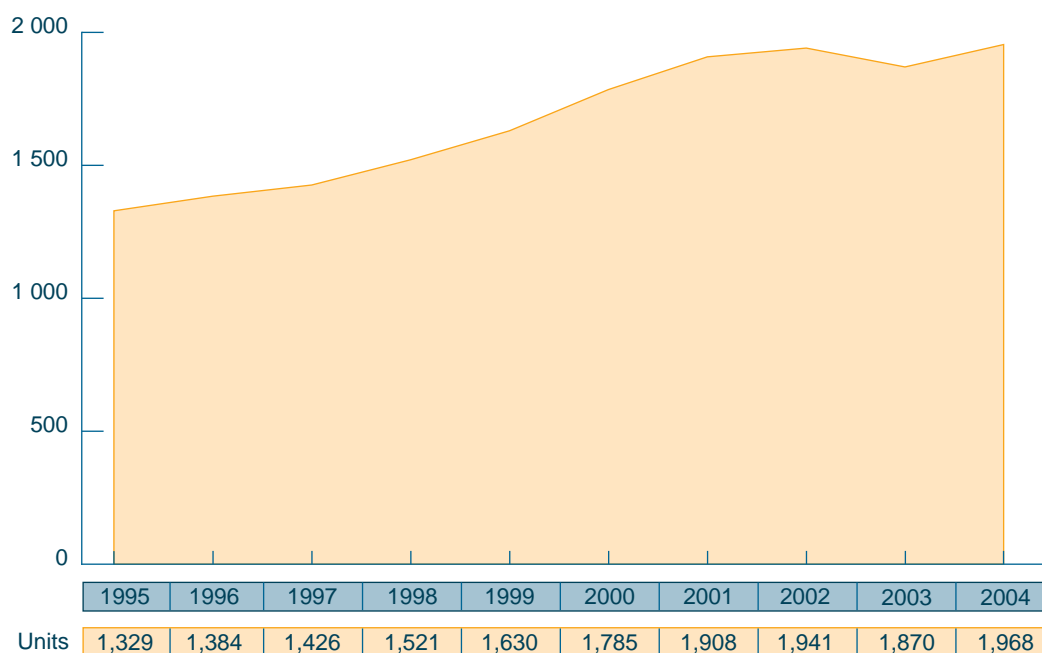
Development in the number and net assets of UCIs

in billion EUR

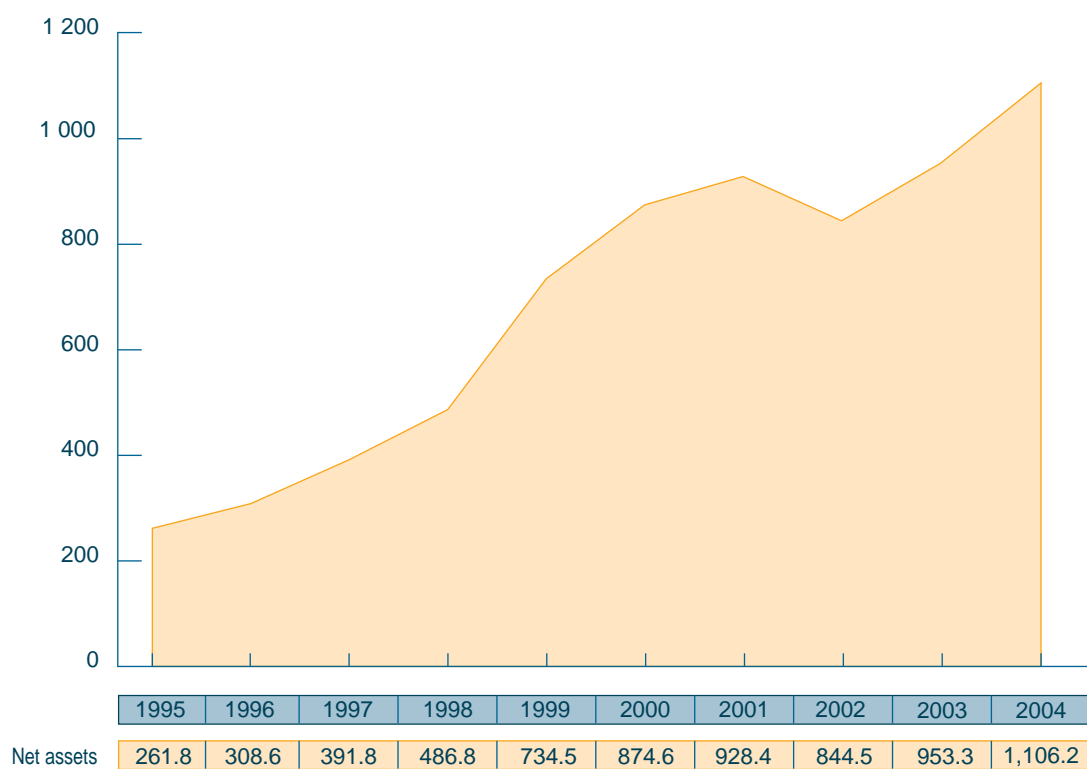
Year	Number of UCIs	Registrations on the list	Withdrawals from the list	Net variation	In %	Net assets	Net issues	Variation of net assets	In %	Average net assets by UCI
1995	1,329	166	120	46	3.6	261.8	2.0	14.3	5.8	0.197
1996	1,384	182	127	55	4.1	308.6	22.5	46.8	17.9	0.223
1997	1,426	193	151	42	3.0	391.8	50.1	83.2	26.9	0.275
1998	1,521	234	139	95	6.7	486.8	84.1	95.0	24.3	0.320
1999	1,630	265	156	109	7.2	734.5	140.1	247.7	50.9	0.451
2000	1,785	278	123	155	9.5	874.6	168.1	140.1	19.1	0.490
2001	1,908	299	176	123	6.9	928.4	121.7	53.8	6.2	0.487
2002	1,941	222	189	33	1.7	844.5	57.3	-83.9	-9.0	0.435
2003	1,870	175	246	-71	-3.7	953.3	82.6	108.8	12.9	0.510
2004	1,968	202	104	98	5.2	1,106.2	113.7	152.9	16.0	0.562

After 2002 and 2003 in the course of which the development of the main financial markets and global economy required promoters of UCIs to be able to re-orientate and anticipate, the year 2004 was characterised by the relaunch of a certain number of UCI products.

The number of UCIs registered on the official list thus increased by 98 entities. On the one hand, the number of newly registered UCIs is again increasing with 202 UCIs. On the other hand, the number of withdrawals reached only 104 entities, which is the lowest number of withdrawals recorded for years. Indeed, the major restructurings and reorganisations seem to be completed. Among these 104 UCIs, 88 have been liquidated and 16 withdrew following takeover by merger.

Development in the number of UCIs

A moderate increase in the main financial stock exchanges, as well as the regular influx of new capital led total net assets of Luxembourg UCIs to climb to EUR 1,106.2 billion as at 31 December 2004.

Development in UCI net assets (in billion EUR)

SUPERVISION OF UNDERTAKINGS FOR COLLECTIVE INVESTMENT

The breakdown of UCIs across *fonds communs de placement* (FCP), *sociétés d'investissement à capital variable* (SICAV) and *sociétés d'investissement à capital fixe* (SICAF) reveals that at 31 December 2004, FCPs were still the most prevalent legal form with 1,036 entities out of a total of 1,968 UCIs in operation, against 913 entities operating as SICAVs and 19 as SICAFs.

Breakdown of UCIs by legal status

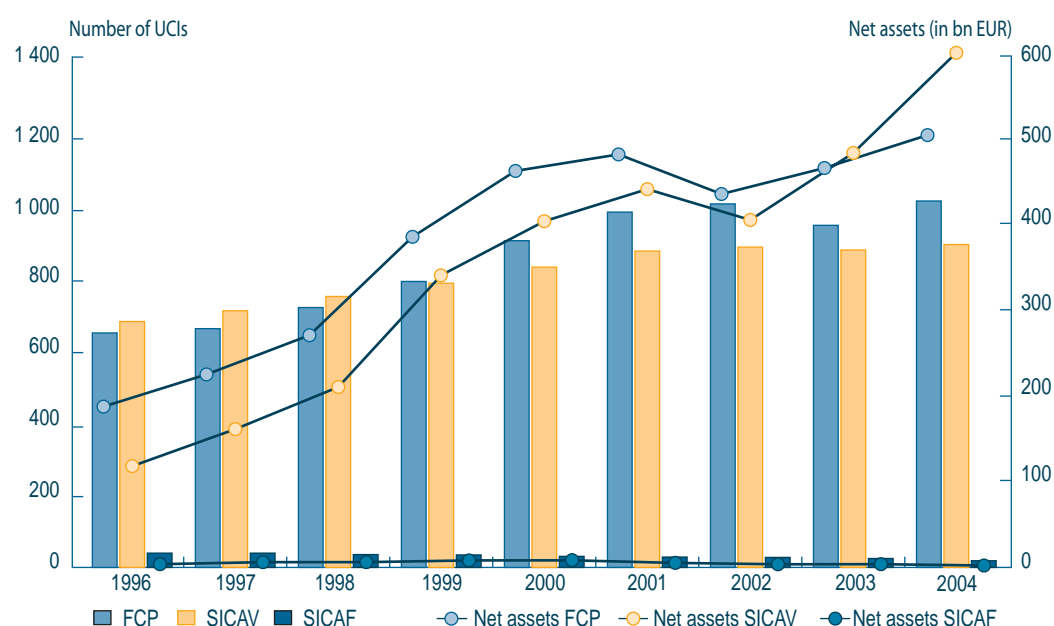
in billion EUR

	FCPs		SICAVs		SICAFs		Total	
	Number	Net assets	Number	Net assets	Number	Net assets	Number	Net assets
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
2002	1,017	435.8	896	405.5	28	3.2	1,941	844.5
2003	957	466.2	888	483.8	25	3.3	1,870	953.3
2004	1,036	504.0	913	600.3	19	1.9	1,968	1,106.2

At year-end 2004, FCP net assets totalled EUR 504.0 billion, representing 45.6% of the UCI total net assets. SICAV net assets increased to EUR 600.3 billion, representing 54.3% of the total net assets of UCIs, whereas SICAF net assets stayed below EUR 2.0 billion.

While FCP net assets slightly exceeded SICAV net assets during many years, SICAV net assets have exceeded those of FCPs since 2003. This trend became more noticeable in 2004, SICAV net assets having grown by 24.1%.

Breakdown of UCIs by legal status



The following table illustrates the spread of UCIs depending on whether they fall within the scope of Part I or Part II of the law of 30 March 1988 as amended, Part I or II of the law of 20 December 2002 as amended or the law of 19 July 1991 concerning UCIs reserved for institutional investors.

Breakdown of UCIs according to Parts I and II of the law and institutional UCIs

in billion EUR

	Part I		Part II		Institutional UCIs	
	Number	Net assets	Number	Net assets	Number	Net assets
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
2002	1,206	628.9	602	171.6	133	44.0
2003	1,149	741.1	583	169.3	138	42.9
2004	1,303	929.3	516	131.2	149	45.7

UCIs that fall under Part I of the law of 30 March 1988 as amended and the law of 20 December 2002 as amended respectively are those which comply with the provisions of the Community Directive on UCITS and which can therefore benefit from the marketing facilities provided. Part II encompasses all the other UCIs which pool funds from the public, whereas institutional funds are UCIs whose securities are not intended to be placed with the public. In terms of the regulatory provisions and especially the applicable restrictions regarding investment policies, they are nonetheless very similar to the UCIs subject to Part II of the law of 30 March 1988 as amended.

In accordance with article 134 of the law of 20 December 2002 as amended, all UCIs under Part II of the law of 30 March 1988 as amended fall *ipso jure* under the provisions of the law of 20 December 2002 as amended since 13 February 2004. From that date onwards, UCIs under Part II of the law of 30 March 1988 as amended do not exist anymore.

The law of 20 December 2002 as amended provides for an extension of the investment policy of UCITS under Part I of the law. Within the scope of their main policy, UCITS can, on certain conditions, invest notably in money market instruments, acquire parts of UCITS and/or other UCIs, invest their assets in deposits and/or derivatives.

96 UCIs benefited from the provisions of the law of 20 December 2002 as amended to change from Part II of the former law into a UCI under Part I of the new law.

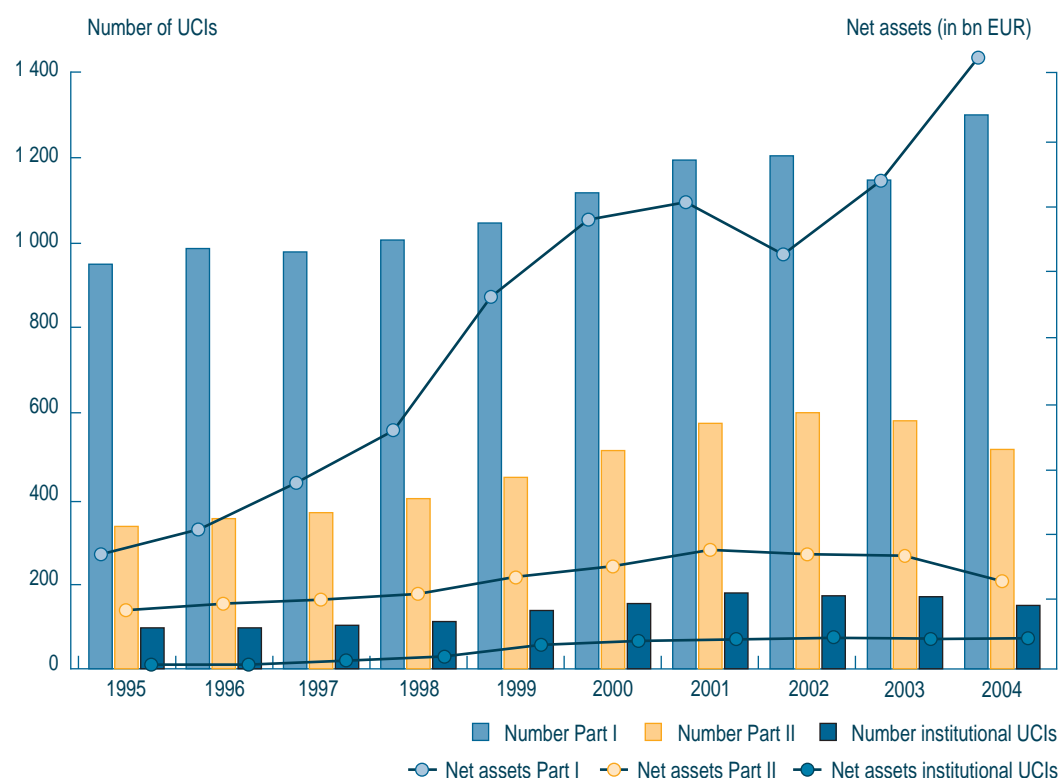
SUPERVISION OF UNDERTAKINGS FOR COLLECTIVE INVESTMENT

Breakdown of UCIs and their assets according legal status and law applicable

Situation as at 31 December 2004	Number of UCIs				Net assets (in bn EUR)			
	FCP	SICAV	Others	Total	FCP	SICAV	Others	Total
Part I (law 1988)	425	427	4	856	314.636	413.000	0.221	727.857
Part I (law 2002)	326	121	0	447	87.333	114.126	0.000	201.459
Part II (law 2002)	198	305	13	516	71.864	57.670	1.619	131.153
Institutional UCIs	87	60	2	149	30.124	15.520	0.109	45.753
Total	1,036	913	19	1,968	503.957	600.316	1.949	1,106.222

66.2% of UCIs active as at 31 December 2004 were EU UCITS governed by Part I of the abovementioned laws and 26.2% were other UCIs not allowed, by virtue of a Community law, to marketing in the other EU countries. Institutional UCIs represented 7.6% of 1,968 Luxembourg UCIs. UCIs under Part I, those under Part II and institutional UCIs record 84.0%, 11.9% and 4.1% respectively of net assets.

Breakdown of UCIs according to Parts I and II of the law and institutional UCIs



The following table compares the development in 2004 of the number of UCIs and net assets according to legal status as well as to the scope of the laws.

Breakdown of UCIs according to Parts I and II of the law and institutional UCIs

Number of UCIs	2003				2004				Variation 2003/2004			
	FCP	SICAV	SICAF	Total	FCP	SICAV	SICAF	Total	FCP	SICAV	SICAF	Total
Part I	611	532	6	1,149	751	548	4	1,303	22.91%	3.01%	-33.33%	13.40%
Part II	260	306	17	583	198	305	13	516	-23.85%	-0.33%	-23.53%	-11.49%
Institutional UCIs	86	50	2	138	87	60	2	149	1.16%	20.00%	0.00%	7.97%
Total	957	888	25	1,870	1,036	913	19	1,968	8.25%	2.82%	-24.00%	5.24%

Net assets (in bn EUR)	2003				2004				Variation 2003/2004			
	FCP	SICAV	SICAF	Total	FCP	SICAV	SICAF	Total	FCP	SICAV	SICAF	Total
Part I	321.419	418.316	1.361	741.096	401.969	527.126	0.221	929.316	25.06%	26.01%	-83.76%	25.40%
Part II	114.294	53.178	1.842	169.314	71.864	57.670	1.619	131.153	-37.12%	8.45%	-12.11%	-22.54%
Institutional UCIs	30.509	12.265	0.118	42.892	30.124	15.520	0.109	45.753	-1.26%	26.54%	-7.63%	6.67%
Total	466.222	483.759	3.321	953.302	503.957	600.316	1.949	1,106.222	8.09%	24.09%	-41.31%	16.04%

As far as Part I of the law of 1988 and that of 2002 is concerned, the number of UCIs rose by 13.4% as compared to the year-end of the previous year. Net assets recorded an even stronger growth (+25.4%). On the other hand, the number as well as the net assets of UCIs under Part II decreased (-11.5% and -22.5% respectively), owing, among other things, to the widening of the scope of application of Part I of the law of 20 December 2002 as amended.

As regards institutional UCIs, their number increased by eleven entities and their net assets recorded a growth rate of 6.7% in 2004.

In 2004, UCIs under part I of the law of 30 March 1988 as amended or the law of 20 December 2002 as amended, mainly UCIs in the form of SICAV, record 87.6% of net issues. UCIs under Part II of the law of 2002 showed net issues totalling EUR 13.7 billion.

Breakdown of net issues according to Parts I and II of the law and institutional UCIs

in million EUR

	FCP	SICAV	SICAF	Total
Part I	20,973	78,798	-198	99,573
Part II	3,792	9,948	-36	13,704
Institutional UCIs	-1,883	2,337	0	454
Total	22,882	91,083	-234	113,731

SUPERVISION OF UNDERTAKINGS FOR COLLECTIVE INVESTMENT

1.2. Developments in umbrella funds

Following the slowdown recorded in 2003, the number of umbrella funds started to grow again in 2004. 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 re-focus their investment without having to switch to another investment fund. Within a single umbrella fund, many promoters offer a range of subfunds investing in equities, debt securities, money market paper or 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.

Umbrella funds

in billion EUR

Year	Total number of UCIs	Number of umbrella funds	As a % of total	Number of subfunds	Average number of subfunds per umbrella fund	Total number of entities	Net assets of umbrella funds	As a % of total	Net assets per subfund
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
2002	1,941	1,190	61.3	7,055	5.93	7,806	724.8	85.9	0.103
2003	1,870	1,180	63.1	6,819	5.78	7,509	820.9	86.1	0.120
2004	1,968	1,226	62.3	7,134	5.82	7,876	962.8	87.0	0.135

As at 31 December 2004, 1,226 out of 1,968 UCIs, i.e. almost 60%, have adopted a multiple subfund structure.

The average number of subfunds per undertaking decreased to 5.82 as at 31 December 2004. However, this figure conceals a wide dispersion between the smallest and largest UCIs.

As at 31 December 2004, umbrella fund net assets totalled EUR 962.8 billion, i.e. a substantial increase of 17.3% compared with the previous year-end. 87% of total net assets are managed within umbrella funds.

1.3. Valuation currencies used

With regard to the valuation currencies used, the distribution remains almost the same as in the previous year. Most entities (5,260 out of a total of 7,876) are denominated in euros, followed by those in US dollars (1,807) and those in Swiss francs (241).

In terms of net assets, the entities denominated in euros encompass EUR 717.778 billion of a total EUR 1,106.222 billion, ahead of entities expressed in US dollars (EUR 264.480 billion) and Swiss francs (EUR 51.677 billion).

1.4. UCIs' investment policy

Net assets managed by UCIs or umbrella funds invested in fixed-income transferable securities amounted to EUR 557.880 billion as at 31 December 2004 (i.e. 50.43% of total net assets), followed by the funds invested in variable-yield securities (EUR 371.087 billion or 33.55%), funds of funds (EUR 85.023 billion or 7.69%) and diversified funds (EUR 77.357 billion or 6.99%).

Breakdown of net assets of UCIs according to their investment policy

Situation as at 31 December 2004	(in bn EUR)
Fixed-income transferable securities ¹	557.880
Variable-yield transferable securities ²	371.087
Mixed securities	77.357
Fund of funds	85.023
Cash	6.994
Real estate	3.130
Futures, options, warrants	4.605
Other assets	0.146
Total	1,106.222

The following table illustrates, per quarter, the annual flow of subscriptions and redemptions broken down into the main investment policies:

- 1 - Fixed-income transferable securities (excluding money market instruments and short-term securities)
- 2 - Variable-yield securities (equities)
- 3 - Mixed transferable securities
- 4 - Liquid assets, money market instruments and other short-term securities
- 5 - Other

Pol.	1st quarter 2004			2nd quarter 2004			3rd quarter 2004			4th quarter 2004			Total		
	subscr.	red.	n. iss.	subscr.	red.	n. iss.	subscr.	red.	n. iss.	subscr.	red.	n. iss.	subscr.	red.	n. iss.
1	49,387	36,990	12,397	43,260	36,965	6,295	35,971	27,754	8,217	52,297	39,145	13,152	180,915	140,854	40,061
2	61,725	42,895	18,830	56,645	45,348	11,297	42,513	35,322	7,191	53,931	43,480	10,451	214,814	167,045	47,769
3	8,350	5,900	2,450	5,293	5,023	270	6,363	4,719	1,644	9,620	7,317	2,303	29,626	22,959	6,667
4	263,437	261,383	2,054	244,608	246,334	-1,726	163,434	167,781	-4,347	206,980	204,130	2,850	878,459	879,628	-1,169
5	12,378	8,618	3,760	19,197	9,826	9,371	11,431	9,200	2,231	13,716	8,675	5,041	56,722	36,319	20,403
Total	395,277	355,786	39,491	369,003	343,496	25,507	259,712	244,776	14,936	336,544	302,747	33,797	1,360,536	1,246,805	113,731

¹ Including EUR 182.515 billion in money market instruments and other short-term securities.

² Including EUR 2.221 billion in non listed securities and EUR 0.436 billion in venture capital.

SUPERVISION OF UNDERTAKINGS FOR COLLECTIVE INVESTMENT

The first quarter of 2004 was characterised by an upturn in net issues, which then decreased during the second and third quarters of the year but recovered during the fourth. The most interest was registered for UCIs investing mainly in shares and bonds.

UCIs' investment policy

Situation as at 31 December 2004	Number of entities	Net assets (in bn EUR)	Net assets (in %)
UCITS subject to Part I			
Fixed-income transferable securities ³	2,151	499.282	45.1
Variable-yield transferable securities	2,616	349.245	31.6
Mixed transferable securities	796	69.716	6.3
Fund of Funds	258	10.413	0.9
Cash	1	0.660	0.1
UCITS subject to Part II⁴			
Fixed-income transferable securities ⁵	267	41.731	3.8
Variable-yield transferable securities	152	6.533	0.6
Mixed transferable securities	87	4.505	0.4
Fund of Funds	810	62.763	5.7
Cash	113	6.335	0.6
UCITS subject to Part II⁶			
Non listed transferable securities	14	1.835	0.2
Venture capital	17	0.424	0.0
Leveraged	2	0.054	0.0
Other UCIs subject to Part II			
Real estate	8	2.280	0.2
Futures and/or options	62	4.547	0.4
Other securities	4	0.146	0.0
Institutional UCIs			
Fixed-income transferable securities ⁷	201	16.867	1.5
Variable-yield transferable securities	100	12.598	1.1
Mixed transferable securities	50	3.136	0.3
Non listed transferable securities	5	0.386	0.0
Venture capital	1	0.012	0.0
Fund of Funds	144	11.847	1.1
Real estate	14	0.850	0.1
Futures and/or options	3	0.057	0.0
TOTAL	7,876	1,106.222	100.0

³ Including EUR 154.071 billion in money market instruments and other short-term securities (284 entities).

⁴ UCITS excluded from Part I of the law of 20 December 2002 pursuant to article 3, 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.

⁵ Including EUR 26.570 billion in money market instruments and other short-term securities (110 entities).

⁶ UCITS excluded from Part I of the law of 20 December 2002 pursuant to article 3, point 4, i.e. UCITS under one of the categories established by circular CSSF 03/88 owing to their investment and loan policy.

⁷ Including EUR 1.874 billion in money market instruments and other short-term securities (16 entities).

1.5. Development in guarantee-type UCIs

Given the fluctuations inherent in financial markets, guarantee-type UCIs 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 even receives a return on his investment at the end of one or several pre-determined periods.

In the course of 2004, the number of guarantee-type UCIs rose from 76 to 90 and the number of entities increased from 166 to 207.

As at 31 December 2004, the 207 entities comprise 16 entities guaranteeing investors only a proportion of the invested capital, 86 entities guaranteeing repayment in full of the invested capital (money-back guarantee) and 105 entities which offer their investors a surplus as compared to the initial price.

UCIs offering their investors a surplus compared to their initial outlay are thus dominant. 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.

Net assets of guarantee-type UCIs increased by EUR 0.52 billion to EUR 21.41 billion in 2004, i.e. an increase of 2.5%. It is also worth noting that guarantee-type UCIs created by German promoters alone account for 92.4% of the total net assets of guarantee-type UCIs.

Development in guarantee-type UCIs

	Number of UCIs	Number of economic entities	Net assets (in bn EUR)
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
2002	75	151	17.40
2003	76	166	20.89
2004	90	207	21.41

1.6. Promoters of Luxembourg UCIs

The breakdown of Luxembourg UCIs according to geographic origin of their promoters highlights the multitude of countries represented in the financial centre. Promoters of Luxembourg UCIs spread over 43 countries. The main countries actively promoting UCIs in Luxembourg are Switzerland, the United States, Germany, Italy and Belgium.

SUPERVISION OF UNDERTAKINGS FOR COLLECTIVE INVESTMENT

Origin of promoters of Luxembourg UCIs as at 31 December 2004

Country	Net assets (in bn EUR)	In %	Number of UCIs	In %	Number of entities	In %
Switzerland	234.364	21.2%	260	13.2%	1,444	18.3%
United States	198.430	17.9%	115	5.9%	697	8.9%
Germany	186.048	16.8%	752	38.2%	1,331	16.9%
Italy	131.805	11.9%	73	3.7%	649	8.2%
Belgium	96.447	8.7%	132	6.7%	1,118	14.2%
United Kingdom	82.695	7.5%	99	5.1%	556	7.1%
France	64.264	5.8%	170	8.6%	730	9.3%
Japan	23.604	2.2%	67	3.4%	158	2.0%
Netherlands	22.880	2.1%	43	2.2%	246	3.1%
Sweden	21.427	1.9%	36	1.8%	151	1.9%
Others	44.258	4.0%	221	11.2%	796	10.1%
Total	1,106.222	100.0%	1,968	100.0%	7,876	100.0%

There have been no major changes as compared to 2003. The ratios remained almost the same as regards the number of UCIs as well as the number of entities per country of origin of the promoter.

1.7. Marketing of Luxembourg UCIs and marketing of foreign UCIs in Luxembourg

Owing to the small size of the domestic market, the vast majority of Luxembourg UCIs are marketed outside Luxembourg. To this end, UCIs governed by Part I of the law of 30 March 1988 as amended and Part I of the law of 20 December 2002 as amended respectively, 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.

Until 31 December 2004, the CSSF had delivered a total of 3,321 Directive compliance certificates for registered UCITS, representing an increase of 467 compared with 31 December 2003, and an increase of 411 compared with 31 December 2002. The certificates issued by the CSSF were intended for 1,165 different UCIs (2003: 1,020 UCIs, 2002: 1,068 UCIs, 2001: 997 UCIs), which means that 89% of UCIs falling under Part I of the law of 30 March 1988 as amended and Part I of the law of 20 December 2002 as amended had requested at least one certificate.

The main countries concerned, in decreasing order, are: Germany (876 certificates), Austria (399), Italy (322), France (282), Spain (244), Belgium (194), Sweden (170), United Kingdom (157) and the Netherlands (155).

As regards foreign UCITS marketed in Luxembourg at the end of 2004, 143 foreign EU UCITS (69 from Germany, 27 from France, 31 from Ireland, 10 from Belgium and 6 from the United Kingdom) took advantage of the marketing facilities provided by the Directive to offer their units/shares in Luxembourg.

Finally, at 31 December 2004, 19 foreign UCIs (9 from Germany, 9 from Switzerland and 1 from Belgium) have been authorised to market their units/shares in Luxembourg in accordance with article 70 of the law of 30 March 1988 as amended and article 76 of the law of 20 December 2002 as amended respectively.

Marketing of foreign UCIs in Luxembourg

	2001	2002	2003	2004
EU UCITS				
<i>Home country</i>				
Germany	112	93	70	69
France	27	26	26	27
Ireland	15	19	22	31
Belgium	9	9	10	10
United Kingdom	2	2	3	6
Denmark	1	1	-	-
Subtotal	166	150	131	143
Other foreign UCIs				
<i>Home country</i>				
Germany	5	13	16	9
Switzerland	49	16	15	9
Belgium	1	1	2	1
Subtotal	55	30	33	19
Total	221	180	164	162

2. NEWLY CREATED ENTITIES APPROVED IN 2004

2.1. General data

The number of newly approved entities⁸ in 2004 has increased again and reaches almost its 2001 level. Thus, 1,434 new entities have been approved, representing a growth of 32.0% as compared to 2003 and 7.2% as compared to 2002.

	2001	2002	2003	2004
Newly approved entities	1,497	1,338	1,086	1,434
<i>Of which : launched in the same year</i>	<i>1,020</i>	<i>881</i>	<i>637</i>	<i>961</i>
In %	68.1%	65.8%	58.7%	67.0%

The entities approved in the course of a year have not necessarily been launched that same year. Until 31 December 2004, only 961 entities out of the 1,434 entities approved during the year were active, i.e. 67% of the total number of approved entities. The lapse between the authorisation of a new entity and its effective launch can be explained, *inter alia*, by the period of time promoters have to wait between the notification to the host country's authority pursuant to European regulations and the effective marketing of units/shares in the host country. Moreover, given changing opportunities of one or several financial markets, promoters sometimes decide to postpone the launching of a subfund.

⁸ The term "entity" refers both to traditional UCIs and the subfunds of umbrella funds. The number of new "entities" therefore denotes from an economic point of view the number of economic vehicles created.

2.2. Analysis of the investment policy of new entities

The investment policy of the newly approved entities reflects the general market trends.

Most of the entities approved in 2004 chose to invest in fixed-income transferable securities. Their number totals 497 entities, i.e. more than a third of the total number of newly approved entities. Out of the 1,434 approved entities in the course of the year, 358 plan to invest in variable-yield transferable securities and 263 in other UCIs. In relative terms, this accounts for 24.96% and 18.34% respectively of the total number of newly approved entities.

Moreover, a significant part of the requests for registration on the official list becomes more and more complex. In this context, investments in structured products and UCIs investing in real estate should be mentioned.

Investment policy	2004	
	Number of entities	As a % of total
Fixed-income transferable securities (excluding money market instruments and other short-term securities)	497	34.65%
Variable-yield transferable securities	358	24.96%
Mixed transferable securities	205	14.29%
Fund of Funds	263	18.34%
Cash, money market instruments and other short-term securities	48	3.35%
Futures, options, warrants	52	3.63%
Others	11	0.78%
Total	1,434	100.00%

Among the 1,434 newly approved entities in 2004, only six (0.4%) benefited from the reduced subscription tax reserved for subfunds investing in cash, money market instruments and short-term securities.

2.3. Origin of promoters of new entities

The analysis of the origin of promoters of newly created entities shows that:

- The Belgian promoters have strengthened their position with more than a fifth of the newly approved entities.
- The German and Swiss promoters take the second and third places with 16.11% and 15.55% of the newly approved entities respectively.
- With 11.85% of the newly approved entities, French promoters progressed compared to the previous year.

Origin of promoters of new entities

	2001		2002		2003		2004	
	Entities	In %	Entities	In %	Entities	In %	Entities	In %
Belgium	169	11.29%	197	14.72%	192	17.68%	306	21.34%
Germany	264	17.64%	227	16.97%	160	14.73%	231	16.11%
Switzerland	259	17.30%	289	21.60%	176	16.21%	223	15.55%
France	147	9.82%	82	6.13%	99	9.12%	170	11.85%
United Kingdom	111	7.41%	122	9.12%	86	7.92%	108	7.53%
Italy	217	14.50%	97	7.25%	127	11.69%	83	5.78%
United States	92	6.15%	99	7.40%	76	7.00%	78	5.43%
Netherlands	31	2.07%	28	2.09%	36	3.31%	70	4.88%

3. CLOSED DOWN ENTITIES IN 2004**3.1. General data**

694 entities have been closed down in 2004, which represents a substantial decrease as compared to 2003 (-41.09%). The number of liquidated entities decreased by 38.88% and the number of merged entities even by more than half. Only the number of matured entities increased from 47 to 64 entities.

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Liquidated entities	167	183	223	254	221	254	354	490	643	393
Matured entities	25	35	32	43	65	47	47	49	47	64
Merged entities	56	72	72	195	429	150	150	326	488	237
Total	248	290	327	492	715	451	551	865	1,178	694

3.2. Investment policy of the closed down entities

During the year under review, 133 of the 293 closed down entities of the category of entities investing in variable-income transferable securities have merged. Among the 168 closed down entities whose investment policy provides for investment in fixed-yield transferable securities, 44 have merged. In the category "Fund of Funds", 26 of the 97 closed down entities have merged and in the category "Mixed transferable securities", 19 of 85 of the closed down entities have merged.

Investment policy	2004	
	Number of entities	As a % of total
Fixed-income transferable securities (excluding money market instruments and other short term securities)	168	24.2%
Variable-yield transferable securities	293	42.2%
Mixed transferable securities	85	12.3%
Fund of Funds	97	14.0%
Cash, money market instruments and other short term securities	46	6.6%
Futures, options, warrants	5	0.7%
Total	694	100.0%

SUPERVISION OF UNDERTAKINGS FOR COLLECTIVE INVESTMENT

3.3. Restructurings of Luxembourg UCIs in 2004

At international level, the merger and acquisition trend of banks and other financial institutions of 2003 did not continue in 2004.

33 major restructurings have affected Luxembourg UCIs in 2004, involving 64 legal entities and 342 subfunds.

These restructurings can be divided into three categories:

- restructuring of the UCI range of a promoter	13 cases
- takeover of management activities of a promoter by another	12 cases
- reorganisation within a promoter group impacting UCIs promoted by this group	8 cases
Total	33 cases

Finally, it has to be noted that besides the major restructurings mentioned in this section, 16 other smaller-scale UCI mergers have taken place in 2004, involving a total of 46 subfunds.

4. DEVELOPMENT REGARDING UCIS INVESTING PRINCIPALLY IN OTHER UCIS: "FUNDS OF FUNDS"

4.1. General data

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

Following the coming into force of the law of 20 December 2002 as amended, "funds of funds" UCIs can fall under Part I or Part II of this law, or under the law of 19 July 1991 concerning funds reserved for institutional investors.

Analysis of the trends of the previous years showed that the number of entities investing mainly in other UCIs has substantially grown between 1999 (213 entities) and 2003 (1,098 entities). This upward trend continued in 2004, the number of entities rising to 1,198 as at 31 December 2004. The annual growth rate was 9.1%.

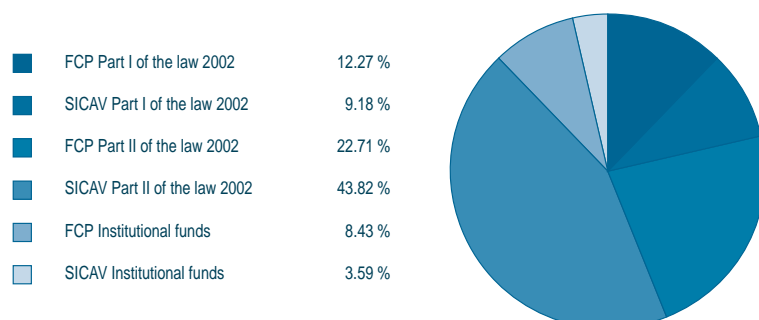
It is worth noting that the share of net assets of entities investing mainly in UCIs known as "funds of funds", compared with the net assets of all UCIs, rose in 2004 and reached 7.7% at the end of 2004, against 7.2% at the end of 2003. Their proportion had only reached 1.8% in December 1998.

4.2. Legal status of "funds of funds"

As at 31 December 2004, 21.45% of "funds of funds" UCIs (257 entities) were governed by Part I and 66.53% (797 entities) by Part II of the law of 20 December 2002 as amended. 12.02% (144 entities) were subject to the law of 19 July 1991.

An additional distinction according to the legal status of the UCI in question, *fonds commun de placement* (FCP) or *société d'investissement à capital variable* (SICAV), is shown in the following graph.

*Breakdown of “funds of funds” according to governing laws and legal status
(in terms of entities)*

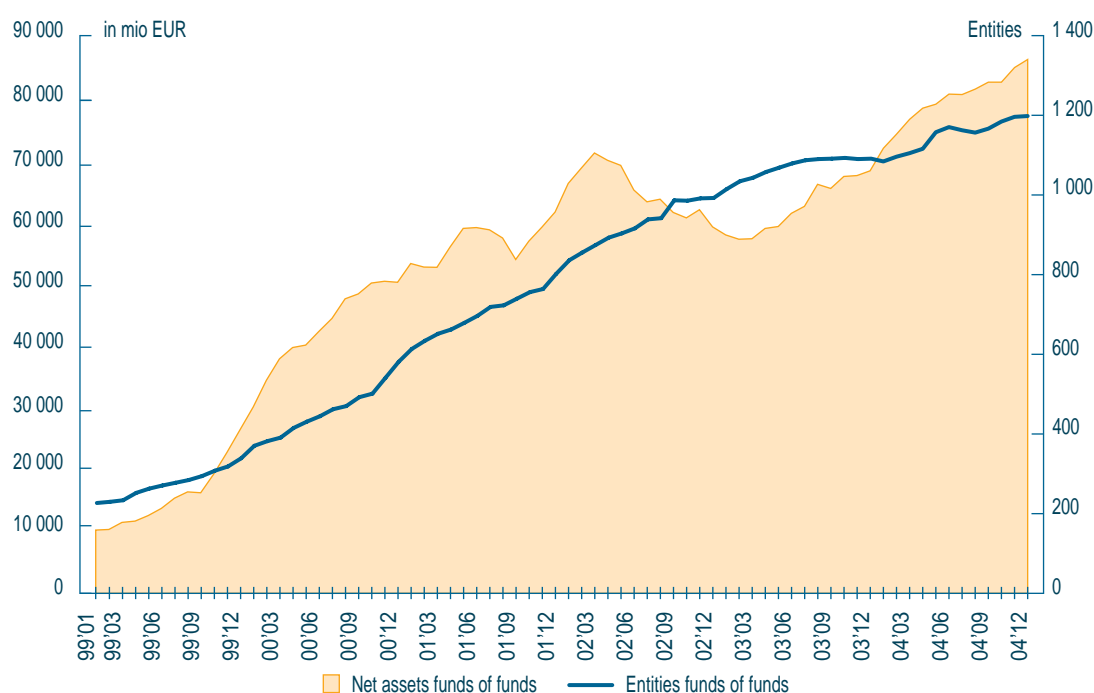


4.3. Development in the number of entities and net assets of “funds of funds”

The number of “funds of funds” entities decreased slightly in January 2004. However, from February to June 2004, the number of entities rose, followed by a stagnation which ended in September 2004. In the last quarter of 2004, the number of entities rose again, reaching in December 2004 its highest level (1,198 entities) since the first analyses in December 1998.

The net assets of “funds of funds” reached a peak as at 31 March 2002 amounting to EUR 71.4 billion. Since then, however, the continuous slump of stock markets has also affected net assets of “funds of funds”. The trend has been reversed by the revival of stock markets as from April 2003. The continuous increase in assets then continued throughout 2004. It was only interrupted by a slight decrease of assets in July 2004. The record of 31 March 2002 having been broken already on 29 February 2004, the year 2004 closed with a new high of EUR 85.0 billion.

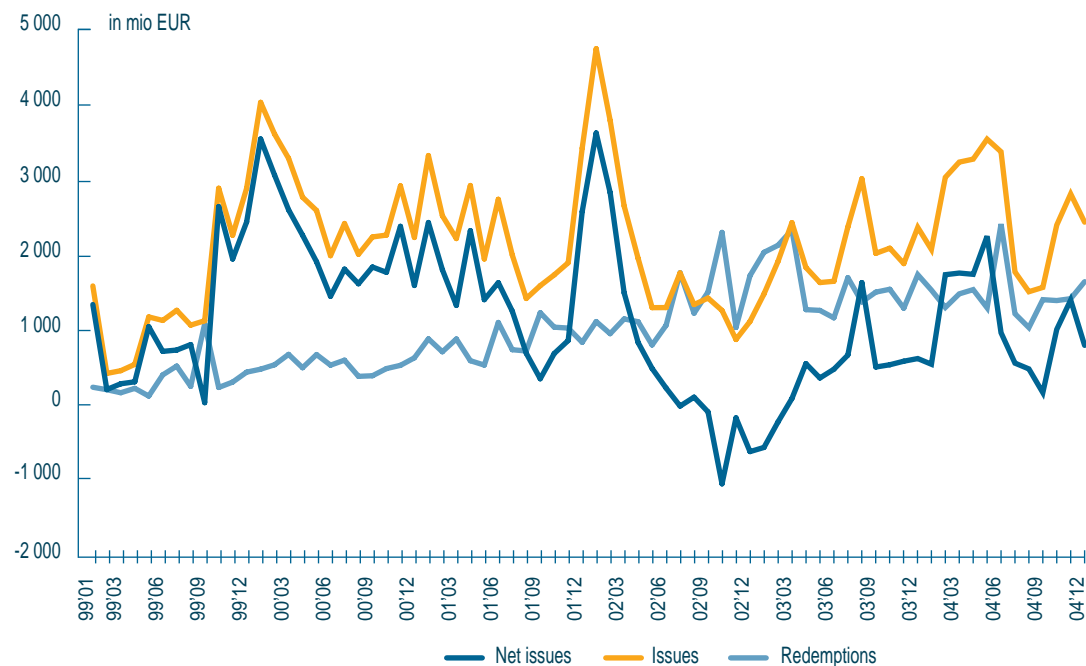
Development in the number of entities and net assets of “funds of funds”



4.4. Development in net issues of “funds of funds”

As far as inflow of new capital for “funds of funds” is concerned, net issues totalled approximately EUR 13.5 billion for the year 2004. Throughout 2004, net issues were positive, alternating periods of intense subscriptions (February to May 2004 and the last quarter 2004) and periods with fewer subscriptions.

Development in issues, redemptions and net issues of “funds of funds”

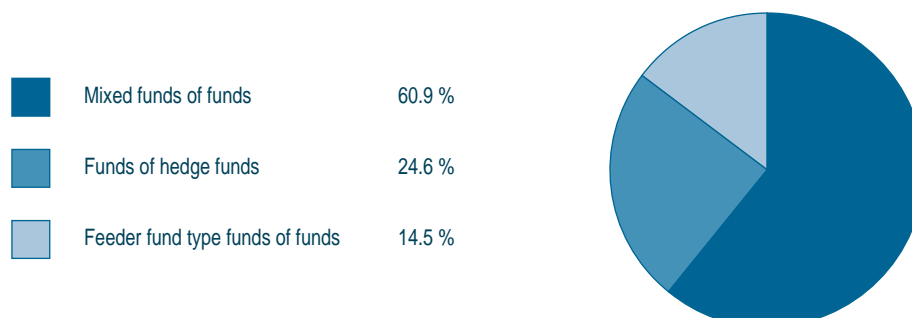


4.5. Classification of “funds of funds” according to their specific investment policy

The “funds of funds” can be classified according to three specific investment policies:

1. those investing in other UCIs by employing a risk spreading policy (mixed funds of funds);
2. those investing in one or a very limited number of UCIs (maximum of 3) (feeder fund-type funds of funds);
3. those investing in funds that invest in hedge funds (funds of hedge funds).

Breakdown of net assets of “funds of funds” according to specific investment policy

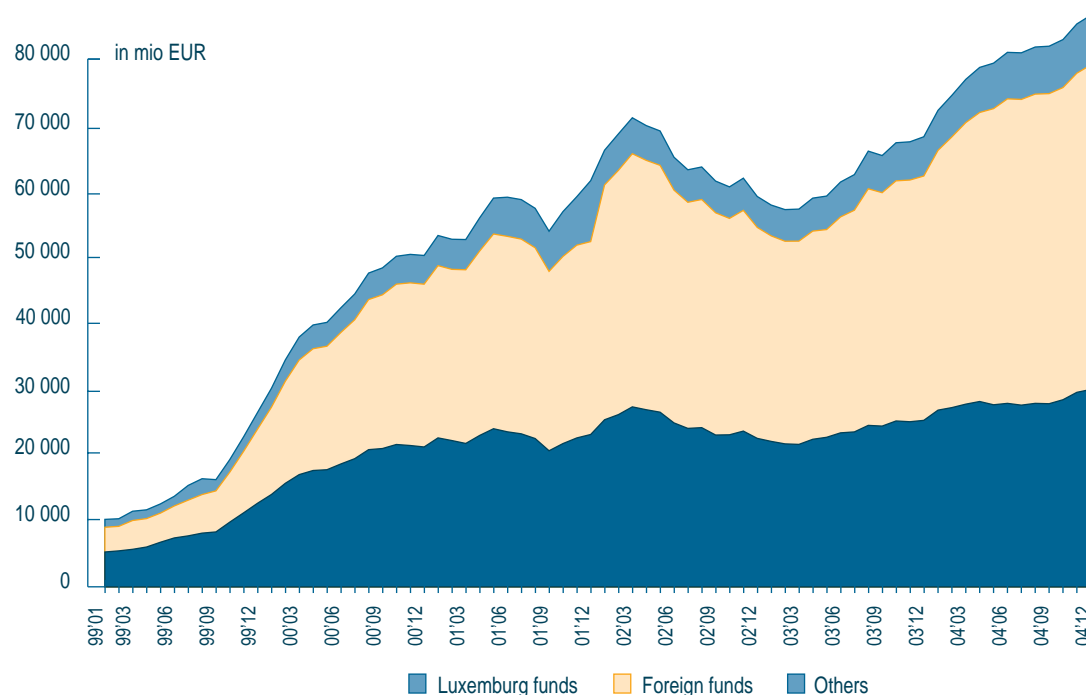


The category “mixed funds of funds” was in the lead in terms of net assets with 60.9%. The proportion of “funds of hedge funds” increased from 20.4% in 2003 to 24.6% at the end of 2004. The proportion of “feeder fund-type funds of funds” remained almost stable decreasing from 14.6% in 2003 to 14.5% in December 2004.

4.6. Nationality of UCIs acquired by “funds of funds”

As at 31 December 2004, 34.5% of net assets of “funds of funds” UCIs have been invested in Luxembourg funds, while 56.8% have been invested in foreign funds and 8.7% in other financial products (cash, equities, bonds, derivatives, etc.).

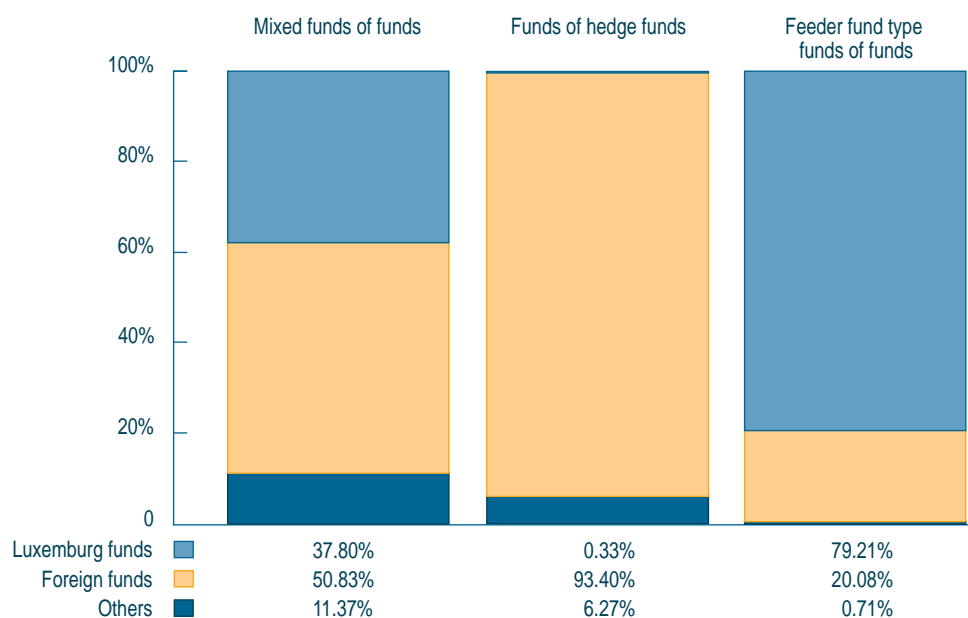
Development and breakdown of “funds of funds” net assets



4.7. Breakdown of net assets of “funds of funds” according to nationality of UCIs acquired and to specific investment policy

As at 31 December 2004, the share of assets of UCIs in the “funds of hedge funds” category investing in Luxembourg funds was almost nil, while the Luxembourg funds were the best represented in the category “feeder fund-type funds of funds”.

Breakdown of net assets of “funds of funds” according to specific investment policy and investment product



5. MANAGEMENT COMPANIES

5.1. Management companies under chapter 13 of the law of 20 December 2002 relating to undertakings for collective investment as amended

The year 2004 was characterised by the fact that an increasing number of promoters decided to set up a management company complying with the provisions of Directive 2001/107/EC 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.

During the year under review, 24 management companies have submitted their application for approval to the CSSF in order to become compliant with the provisions of chapter 13 of the law of 20 December 2002 as amended. Until 31 December 2004, 23 new entities have been registered on the official list of management companies under chapter 13 and benefiting from the European passport by way of free establishment or free provision of services in another EU Member State. As at 31 December 2004, the number of management companies approved in accordance with chapter 13 totals 26 entities.

The authorisations of nineteen management companies cover exclusively the activity of collective management pursuant to article 77(2) and the authorisations of seven management companies cover, in addition to collective management, also one or several services referred to under article 77(3) of the law of 2002.

Three financial groups, which were not established in Luxembourg yet, have now set up in the financial centre by way of a management company: the Italian group Banca Delle Marche S.p.a., the American group Northern Trust Corporation and the Scottish group The Royal Bank of Scotland Group plc.

Moreover, it should be noted that five of these 23 entities gave up their PFS status to become a management company under chapter 13 of the law of 2002 (namely ABN Amro Investment Funds S.A., CMI Asset Management (Luxembourg) S.A., Dexia Asset Management Luxembourg S.A., Fortis Investment Management Luxembourg S.A. and Nordea Investment Funds S.A.) and that one PFS merged with a management company (Aviva Fund Services).

Employment of these 26 management companies approved as at 31 December 2004 totalled 511 persons at year-end.

5.2. Overall situation

As at 31 December 2004, the Luxembourg financial centre counted 295 active management companies among which 26 fulfilled the provisions of chapter 13 of the law of 2002.

158 of these 295 entities exclusively manage UCITS and 39 manage UCITS as well as other UCIs. 52 management companies manage exclusively UCIs subject to Part II of the law of 20 December 2002 as amended, 42 management companies manage only UCIs under the law of 19 July 1991 concerning undertakings for collective investment whose securities are not to be placed with the public and 4 management companies manage UCIs under Part II of the law of 2002 as well as UCIs under the law of 1991.

Distribution of management companies (MCs)		2003	2004
		Number	Number
MCs subject to chapter 13 of the law of 2002		3	26
MCs subject to chapter 14 of the law of 2002		281	269
Total		284	295
of which			
MCs managing exclusively UCITS subject to Part I of the law		148	158
MCs managing UCITS subject to Part I of the law as well as other UCIs		42	39
MCs managing UCIs subject to Part II of the law		54	52
MCs managing UCIs subject to Part II of the law and UCIs subject to the law of 1991		3	4
MCs managing UCIs subject to the law of 1991		37	42

The table shows that 197 management companies manage at least one UCITS under Part I of the law of 2002 as at 31 December 2004.

The following table breaks down the management companies that manage only one UCITS or UCI.

Management companies (MCs) managing only one UCITS/UCI	2003	2004
	Number	Number
MCs managing only one UCITS subject to Part I of the law	143	138
MCs managing only one UCI subject to Part II of the law	54	50
MCs managing only one UCI subject to the law of 1991	37	41

5.3. Cross-border activities of management companies under chapter 13 of the law of 20 December 2002 as amended

Articles 88 and 89 of the law of 20 December 2002 as amended introduce a European passport for management companies complying with the amended Directive 85/611/EEC. These articles indeed provide that a management company is allowed to carry on in an EU Member State other than its home Member State, the activity for which it has been authorised in its home Member State, by means of a notification under the right of establishment or the freedom to provide services.

5.3.1. Right of establishment

In 2004, one management company incorporated under Luxembourg law set up branches in other EU Member States under the right of establishment, namely Dexia Asset Management Luxembourg S.A., which set up in Spain, Italy and the Netherlands by means of a branch.

SUPERVISION OF UNDERTAKINGS FOR COLLECTIVE INVESTMENT

The following management companies are represented, as at 31 December 2004, in one or several EU/EEA countries or Switzerland by means of a branch.

Name of the management company	Country of establishment of the branch
Dexia Asset Management Luxembourg S.A.	Spain Italy Netherlands Switzerland
Nordea Investment Funds S.A.	Austria

As at 31 December 2004, no management company of another EU Member State established a branch in Luxembourg.

5.3.2. Freedom to provide services

In 2004, eleven management companies incorporated under Luxembourg law introduced a notification to carry on their activities in one or several countries of the European Union by way of free provision of services. The majority of the management companies concerned carry on their activities in several EU countries. Given the vocation of the Luxembourg financial centre to be a Pan-European distribution platform for promoters, the majority of these management companies mentioned the marketing activity.

On the other hand, only three management companies that have their registered office in another EU Member State notified their intention to freely provide their services on the Luxembourg territory in 2004.

5.3.3. Representative offices

In 2004, the management company Fortis Investment Management Luxembourg S.A. has opened a representative office in Spain and Switzerland respectively.

5.4. Prudential supervisory practice

5.4.1. Investment firms and management companies under chapter 13 of the law of 20 December 2002 as amended

In 2004, the question was put to the CSSF whether a PFS is allowed to keep its status under the law of 5 April 1993 on the financial sector as amended and combine it with the management company status under chapter 13 of the law of 2002.

Considering article 2 (grandfathering clauses and final provisions) of Directive 2001/107/EC, the CSSF concluded that a management company under chapter 13 cannot hold concurrently the status of management company and that of professional of the financial sector under the law of 5 April 1993 as amended.

5.4.2. Management company and domiciliation activities

This issue arose from the plans of certain professionals of the financial sector to become a management company under chapter 13 of the law of 2002. These PFS indeed requested to be allowed to continue their domiciliation activities after having adopted the status of management company.

The CSSF concluded that a management company under chapter 13 is not authorised to carry on domiciliation activities pursuant to the law of 31 May 1999 governing domiciliation of companies as amended. Indeed, this activity requires a special authorisation and is not included in the scope of activities that a management company is authorised to carry on pursuant to the law of 2002.

However, under article 1(4) of the law of 31 May 1999 as amended, which provides, *inter alia*, that article 1 of this law does not apply to the domiciliation of a management company of undertakings for collective investment, an investment firm or any other undertaking for collective investment in the legal form of a commercial company, at a management company of undertakings for collective investment.

5.4.3. Management company and provision of administrative services for pension funds and/or SICAR

The CSSF had to decide whether a management company is allowed to act as central administration for a SICAR, or provide administrative services for pension funds. These activities would include, *inter alia*, book-keeping, computation of net asset value as well as supervisory and coordination functions, excluding activities linked to intellectual management for these investment vehicles.

The CSSF decided that a management company is allowed to provide these services if it has adequate human and technical resources. In particular, if a management company plans to act as central administration for a SICAR or pension fund, it must fulfil the requirements of chapter D “Rules relating to the administration of Luxembourg UCIs” of circular IML 91/75 of 21 January 1991.

6. DEVELOPMENTS IN THE REGULATORY FRAMEWORK

6.1. Amendment of the law of 20 December 2002 concerning undertakings for collective investment

The law of 15 June 2004 relating to the investment company in risk capital amends article 129(3) of the law of 20 December 2002 concerning UCIs as amended by adding to the structures exempt from the subscription tax “UCIs whose securities are reserved for (i) institutions for occupational retirement provision, or similar pension pooling vehicles, created on the initiative of a same group for the benefit of its employees and (ii) undertakings of this same group investing the funds they hold, to provide retirement benefits to their employees.”

The objective is to exempt from the subscription tax the pension pooling vehicles that manage collectively the different pension funds created generally in several jurisdictions by the large multinationals.

Two UCIs of the type pension pooling vehicle are currently registered on the official list.

6.2. Circular CSSF 04/146 concerning the protection of undertakings for collective investment and their investors against Late Trading and Market Timing practices

The purpose of circular CSSF 04/146 of 17 June 2004 is to protect UCIs and their investors against Late Trading and Market Timing practices. To that end, it defines both notions and the protective measures to be adopted by UCIs and certain of their service providers.

SUPERVISION OF UNDERTAKINGS FOR COLLECTIVE INVESTMENT

These measures take into account the characteristics of Luxembourg UCIs which are frequently invested and distributed through several time zones and the marketing of which is frequently undertaken by intermediaries subject to the supervision of a foreign authority. Furthermore, this circular fixes more general rules of conduct to be complied with by the professionals subject to the supervision of the CSSF. In order to strengthen the protection of UCIs and their investors, the circular specifically lays down that any person who is guilty of knowingly undertaking or supporting Late Trading or Market Timing practices as defined by this circular exposes himself to sanctions and to the obligation of repairing the damage caused to the UCI. Finally, it amends circular CSSF 02/81 by extending the role of the auditor of the UCI as regards the verification of the procedures and controls established by the UCI to protect itself against Late Trading and Market Timing practices.

7. PRUDENTIAL SUPERVISORY PRACTICE

7.1. Prudential supervision

7.1.1. Standards to be observed by UCIs

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

7.1.2. Instruments of prudential supervision

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

- examination of the periodic financial information which UCIs must submit to the CSSF on a monthly and annual basis;
- analysis of annual and semi-annual reports which UCIs must publish for their investors;
- analysis of the management letters issued by the external auditor, which must be communicated immediately to the CSSF;
- analysis of the statements made in accordance with the circular relating to the protection of investors in the event of a calculation error of the net asset value (NAV) and correction for the consequences of non-compliance with investment rules applicable to UCIs;
- on-site inspections carried out by CSSF agents.

7.1.3. Audit

- ***Audit of semi-annual and annual reports***

Scrutiny of semi-annual and annual reports carried out by the CSSF shows that these reports are in general prepared in accordance with the applicable legal rules. During 2004, the CSSF had to intervene with several UCI service providers for the following reasons:

- publication deadline not met by several funds subject to Part II of the law of 30 March 1988 as amended and by UCIs that were put into liquidation;
- non-compliance of the financial report with the fund's investment policy or lack of required information;
- insufficient representation of the promoter on the board of directors;
- omission to mention that the subscription can only be made on the basis of the UCI's prospectus;

- omission to mention the exchange rate;
- incorrect mention of the UCI's or compartment's denomination;
- high fees;
- incorrect breakdown of the securities portfolio.

• ***Audit of financial information for the CSSF and STATEC***

In accordance with circular IML 97/136 and pursuant to article 94(1) of the law of 30 March 1988 as amended and article 118 of the law of 20 December 2002 as amended, the central administrations of Luxembourg UCIs must transmit financial information by electronic means to the CSSF, on a monthly (tables O 1.1.) and yearly (tables O 4.1. and O 4.2.) basis. The deadline to transmit the monthly financial information is twenty days following the reference date, which is in principle the last day of each month. As regards yearly financial information, the reference date is the date of the close of the financial year and the time limit is four months.

As far as monthly financial information is concerned, the CSSF considers that UCIs must, on the one hand, scrupulously observe the imparted deadline to submit table O1.1. and, on the other hand, pay due attention when drawing up this table so as to ensure that the format and content are correct. To this end, the CSSF called to order the UCIs that did not meet these conditions, leading the central administrations in charge to review their procedures to make sure that the files are transmitted within the time limit and to improve the quality of this reporting. For information, the format and content of about 7,500 files, representing around 15,000 types of units/shares, are controlled each month.

• ***On-site inspections***

During 2004, the CSSF carried out six on-site inspections at the premises of providers of services to UCIs.

The purpose of one on-site inspection was notably to assess the functioning of the central administration and of the UCI depositary bank, as well as the anti-money laundering procedures. Three on-site inspections mainly aimed to assess the functioning of the UCI central administration and the procedures set up in the fight against money laundering. The purpose of another inspection was to assess the decision-making process and organisation of the fund management and one inspection was conducted mainly to assess the functioning of the UCI's central administration.

The providers of services that have been inspected by the CSSF carry out the functions of central administration and/or depositary bank for more than 200 UCIs.

• ***Surveys on Late Trading and Market Timing***

Following the publication of circular CSSF 04/146 concerning the protection of UCIs and their investors against Late Trading and Market Timing practices, six cases of potential Market Timing have been reported to the CSSF. Investigation is in progress.

Furthermore, the CSSF noted that most of the Luxembourg UCI promoters have amended and adapted their prospectus, notably in order to comply with circular CSSF 04/146.

• ***Meetings***

In 2004, 150 meetings were held between representatives of the CSSF and intermediaries of UCIs. These meetings concerned the presentation of new UCI projects, restructurings of UCIs, but also the application of the laws and regulations of UCIs.

SUPERVISION OF UNDERTAKINGS FOR COLLECTIVE INVESTMENT

7.2. Circular CSSF 02/77

7.2.1. Statements made in 2004 on the basis of CSSF Circular 02/77

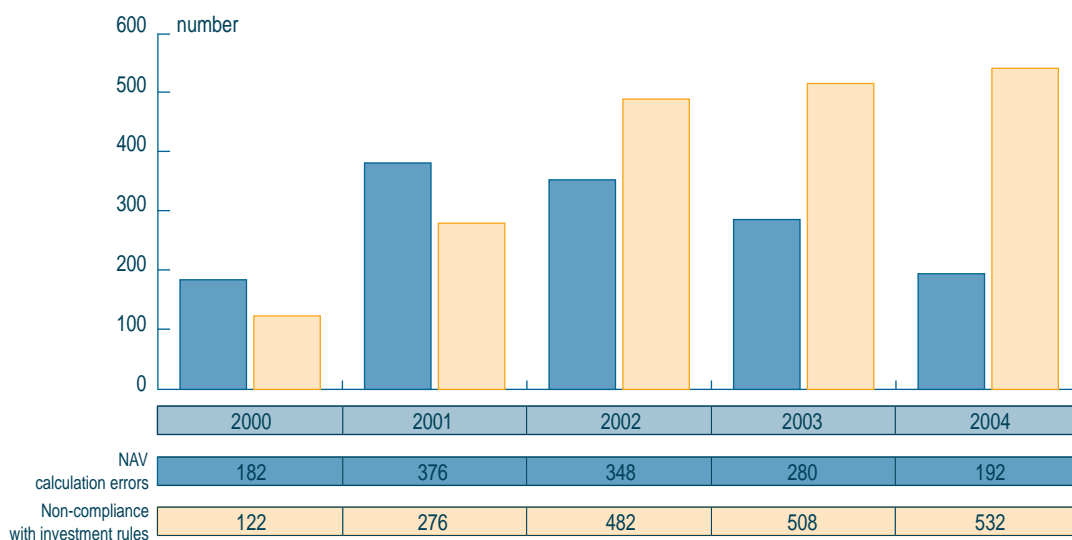
Circular CSSF 02/77 of 27 November 2002 concerning the protection of investors in case of NAV calculation error and correction of the consequences resulting from non-compliance with the investment rules applicable to UCIs repealed circular CSSF 2000/8.

In 2004, the CSSF recorded 724 statements on the basis of circular CSSF 02/77, against 788 statements in 2003, representing a decrease of 8%.

Among these statements, 192 cases (280 in 2003) concerned NAV calculation errors and 532 cases (508 in 2003) non-compliance with investment rules, including 97 cases (70 in 2003) of non-compliance with the investment policy. It is interesting to note that in absolute terms, the number of cases of NAV calculation errors decreased substantially as compared to 2003 (-31%), while the number of cases concerning non-compliance with investment rules increased by 5%.

The following graph shows the development of the number of NAV calculation errors and cases of non-compliance with investment rules which have been reported to the CSSF over the last five years.

Development in the number of NAV calculation errors and cases of non-compliance with investment rules over the last five years



The number of NAV calculation errors has decreased since 2002, while the number of cases of non-compliance with investment rules has constantly risen since the coming into force of the circular in question.

As regards more particularly the statements received in 2004, 164 of the 192 cases of NAV calculation errors and 230 of the 532 cases of non-compliance with investment rules could not be closed at 31 December 2004, as the CSSF is still awaiting further information, the report(s) of the external auditor or the management letter, or the report on the UCI's activity following the application of the simplified procedure as provided for by circular CSSF 02/77.

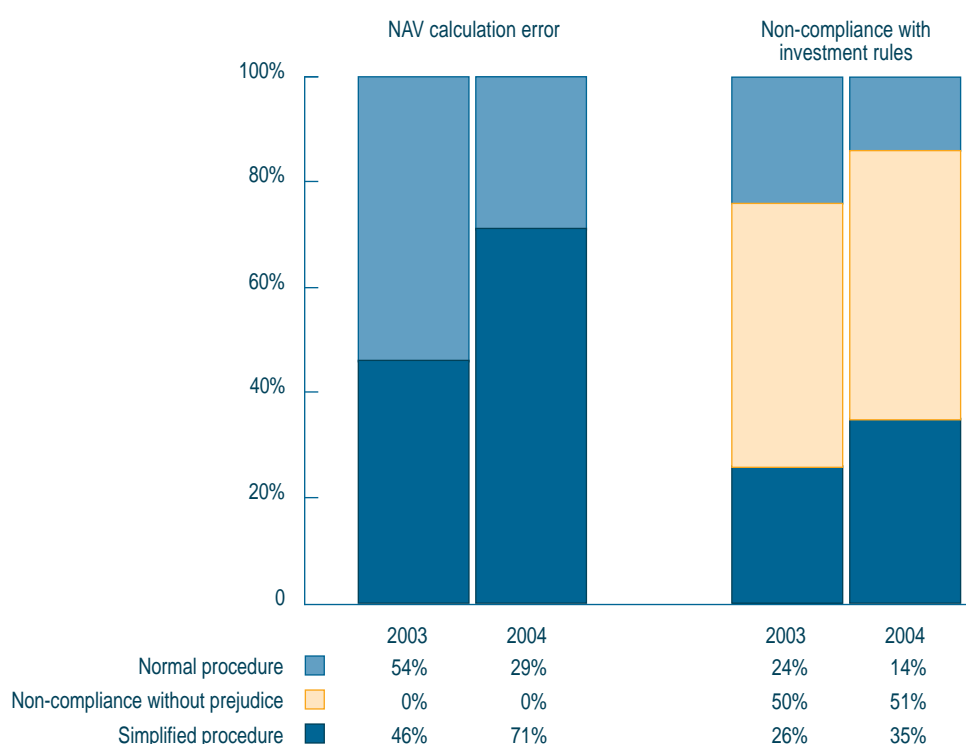
Indeed, circular CSSF 02/77 introduced a simplified procedure for cases of NAV calculation errors or non-compliance with investment rules that entail losses for the UCI, where the indemnification amount does not exceed EUR 25,000 and the amount to be reimbursed to an investor does not exceed EUR 2,500.

In this event, no corrective action plan needs to be submitted to the CSSF, but the central administration must notify the occurrence of the calculation error or non-compliance to the CSSF and take the measures necessary to correct the calculation error or non-compliance and arrange the indemnification of the damages occurred. In the course of his annual audit, the external auditor of the UCI must review the correction process. The external auditor must in his report state whether, in his opinion, the process of correction is appropriate and reasonable.

In 2004, 137 out of 192 cases of NAV calculation errors fall within the scope of the simplified procedure (129 cases of 280 in 2003). 131 out of 532 cases of non-compliance with investment rules have also applied this procedure (131 cases of 508 in 2003).

The following graph plots the proportion of the cases of simplified procedure compared to the total number of statements over the last two years.

Simplified procedure

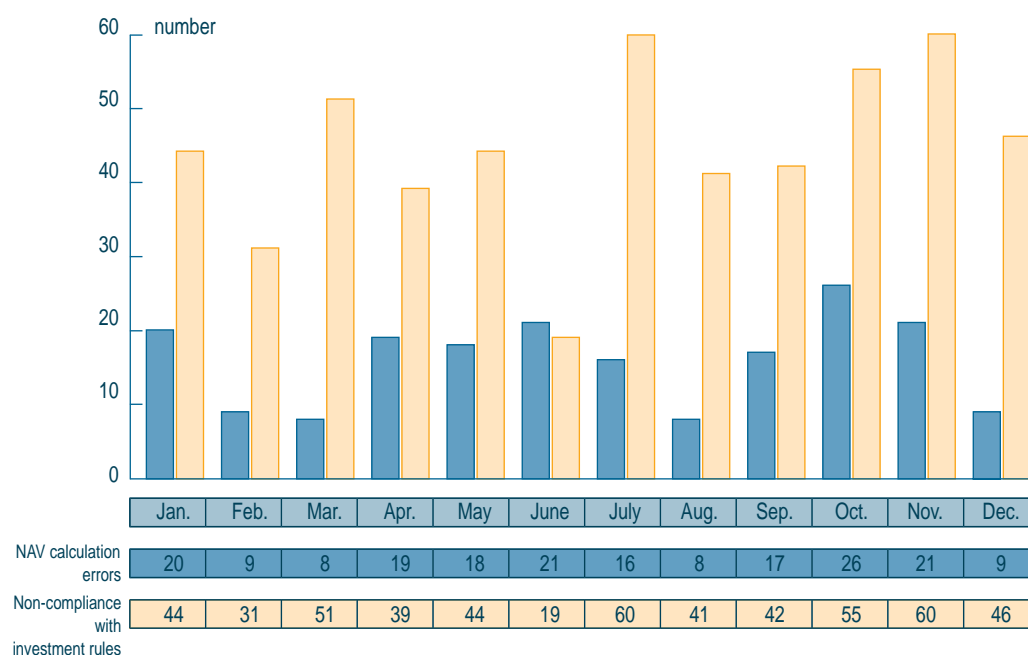


Thus, 71% of the statements of NAV calculation errors fall within the scope of the simplified procedure (46% in 2003). As regards the cases of non-compliance of investment rules, 35% of the cases meet the criteria of the simplified procedure (26% in 2003) and 51% of the cases could have been regularised without harming the investors (50% in 2003).

SUPERVISION OF UNDERTAKINGS FOR COLLECTIVE INVESTMENT

The following graph sets out in detail the statements made during 2004.

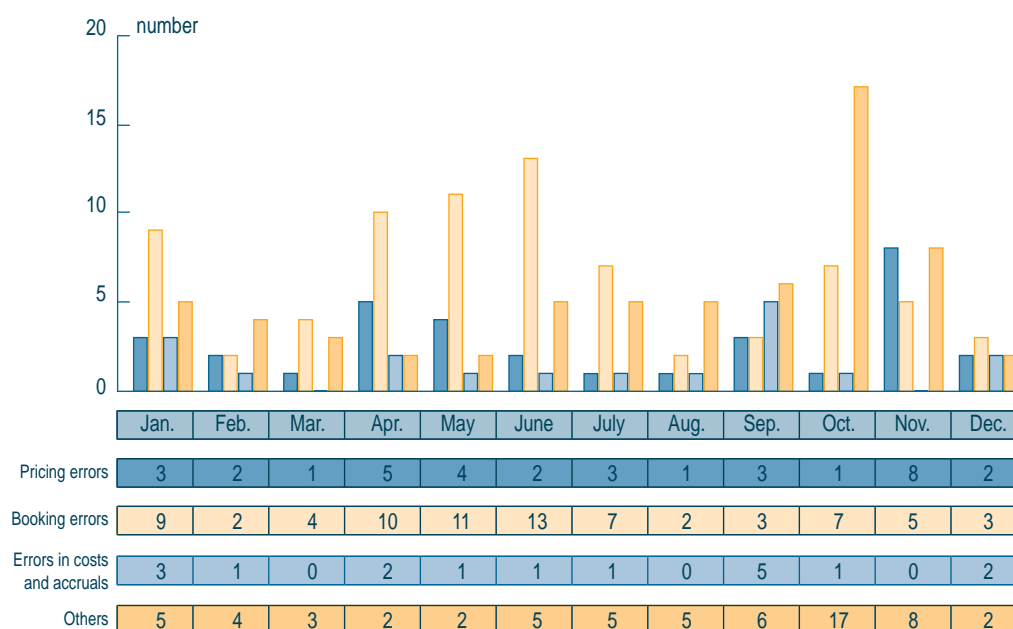
Development in the errors notified in 2004



NAV calculation errors are 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 cases of NAV calculation errors recorded in 2004.

Development of the cause of NAV calculation errors in 2004



In 2004, 18% of NAV calculation errors were due to pricing errors, 40% to booking errors and 9% to calculation errors in 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 account for 9% of the NAV calculation errors.

The following table shows the development of the cases of NAV calculation errors since 2000 (coming into force of circular CSSF 2000/8 of 15 March 2000 repealed by circular CSSF 02/77 of 27 November 2002).

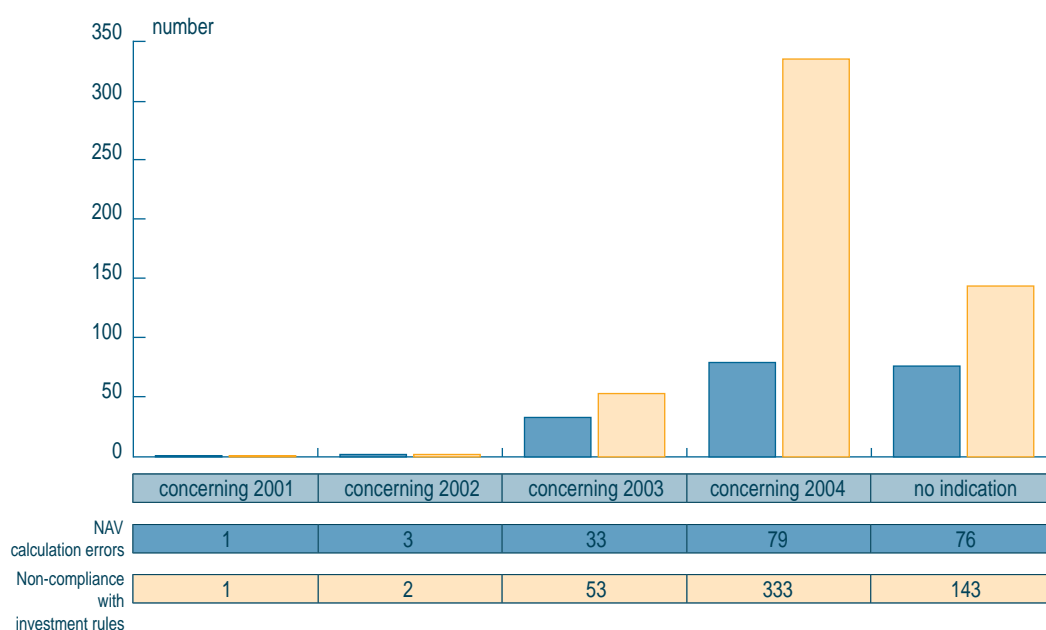
Development of the causes of NAV calculation errors over the last five years



Over the last five years, booking errors and errors in the valuation of securities held by UCIs were the main causes for NAV calculation errors. The number of errors relating to the determination of costs and accruals fell compared to 2003. Moreover, it is particularly interesting to note that the number of errors due to transactions on securities increased substantially as compared to 2003.

It should be noted that statements made during 2004 do not relate exclusively to errors and instances of non-compliance that occurred during 2004. Thus, they can also relate to errors or instances of non-compliance detected in 2004, but which relate to errors or instances of non-compliance that occurred before the start of the year, as shown in the graph below.

Statements made during 2004



SUPERVISION OF UNDERTAKINGS FOR COLLECTIVE INVESTMENT

Out of 724 statements made in 2004, 0.3% and 0.7% respectively were related to errors or instances of non-compliance that had occurred in 2001 or 2002. 12% concerned errors or instances of non-compliance which have occurred in 2003 and 57% of statements related to errors or instances of non-compliance that had actually occurred in 2004.

7.2.2. Compensation paid following regularisation of NAV calculation errors or instances of non-compliance with investment rules

The table below sets out the amounts of compensation notified in 2003 and 2004. It has to be noted that it is based on data available to the CSSF as at 31 December 2003 and 31 December 2004 respectively, while the amount of compensation had not yet been notified in certain cases.

Compensation following NAV calculation errors				
	Investors		UCI/Subfund	
	2003	2004	2003	2004
EUR	758,417.22	439,106.11	1,164,859.50	266,576.98
USD	1,599,307.08	212,624.16	1,388,746.56	277,787.97
JPY	6,322,973.00	248,560.00	1,240,052.83	436,200.00
GBP	722.28	298.71	-	83.56
CHF	-	222.81	-	-
Other currencies*	-	1,171.70	808.25	4,775.96
Total (in EUR**)	2,072,540.61	598,725.98	2,274,412.65	478,535.90

Compensation following non-compliance with investment rules				
	Investors		UCI/Subfund	
	2003	2004	2003	2004
EUR	73,356.74	5,605.52	320,566.54	673,865.93
USD	28,328.94	-	774,209.75	137,726.03
JPY	-	-	1,234,205.00	5,567,032.93
GBP	1,171.29	-	182.81	26,802.85
CHF	1,337.84	-	6,300.00	42,253.64
Other currencies*	-	2,704.75	225.08	10,118.50
Total (in EUR**)	98,307.89	8,310.27	947,227.15	890,364.27

* converted in EUR at the exchange rate applying on 31 December 2004 and 31 December 2003 respectively

** exchange rate as at 31 December 2004 and 31 December 2003 respectively

268 out of the 532 instances of non-compliance with investment rules have been regularised resulting in a profit, while 121 regularisations led to a loss. In 143 instances of non-compliance, the amount realised in the context of regularising operations has not been communicated yet.

As compared to 2003, the amounts of compensation paid following NAV calculation errors fell substantially. It should be noted however that these data are provisional as the amounts for compensation in 76 instances have not been communicated yet. Compensation of investors following instances of non-compliance with investment rules continued to decrease. This development can be explained notably as follows:

- control of investment rules has been reinforced, resulting in a faster detection of instances of non-compliance and shorter periods of non-compliance;
- the period between the overrun and the problem's detection having become shorter, fewer movements on subscriptions and redemptions of units/shares were made during the period of non-compliance; consequently, the amounts of compensation paid to investors and/or UCIs were not very important in a number of cases;
- the losses sustained did not have any material impact on NAV so that it was not necessary to recalculate NAV during the period of non-compliance.

7.2.3. Management letters

Chapter P of circular IML 91/75 of 21 January 1991 states that UCIs must automatically and immediately communicate to the CSSF the management letters issued by external 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 and article 113 of the law of 20 December 2002 as amended.

The analysis below sets out data for the year 2003, since these are more pertinent. Indeed, most UCIs close their financial year on 31 December so that the data relating to 2003 are established by the CSSF in 2004.

The majority of management letters, namely 72.1%, are management letters that contain no recommendations, i.e. the external auditor has not detected any irregularities in the management of the UCIs. 24.8% are management letters with recommendations by which the external auditors have reported irregularities of various types. 3.1% of the management letters are still lacking.

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

In the course of 2003, 51% of management letters mentioned instances of exceeded investment limits whilst 49% of irregularities came under the other aforementioned categories.

In this context, it should be noted that some major errors or instances of non-compliance considered as "active" that have been reported in management letters, have also been the subject of a statement in accordance with circular CSSF 2000/8 or circular CSSF 02/77 which repeals the aforementioned circular.

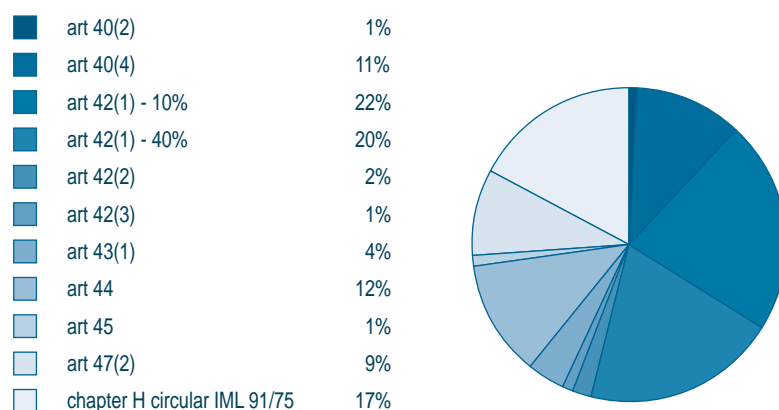
Moreover, numerous instances of overstepping investment limits reported in management letters could be considered as "passive." With regard to NAV calculation errors, some did not exceed the materiality thresholds laid down in the aforementioned circular. Certain management letters (16%) also contained details concerning the simplified procedure.

SUPERVISION OF UNDERTAKINGS FOR COLLECTIVE INVESTMENT

As at 31 December 2003, UCIs governed by Part I of the law of 30 March 1988 as amended represented 60.7% of Luxembourg UCIs. Insofar as statutory restrictions applying to them are more rigid than those applicable to UCIs 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 UCIs governed by Part I of the law of 30 March 1988 as amended.

Nature of limits exceeded by UCIs governed by Part I of the law of 1988



The management letters mainly revealed cases where the statutory limits as defined in article 42(1) of the law of 30 March 1988 as amended were exceeded, i.e. in 42% 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 shall not exceed 40% of the value of the assets of the UCITS. Even though these limits are frequently exceeded, a decrease of 4% as compared to 2002 has to be noted.

Compared with 2002, there has been an increase of 2% in cases of overstepping the limit set by articles 44 and 47(2) and of 5% in cases set by chapter H of circular IML 91/75. With regard to the other limits, the percentage of cases recorded has slightly decreased.

7.3. The long form report

Circular CSSF 02/81 of 6 December 2002 set down rules concerning the scope of the audit of the annual accounting documents and the content of the audit reports to be drawn up in this context pursuant to the law of 30 March 1988 on undertakings for collective investment as amended.

The circular, which applies to all the Luxembourg UCIs, takes account of the fact that in practice, the role and function of the external auditor are one of the pillars of the prudential supervision of UCIs.

The purpose of the long form report introduced by circular CSSF 02/81 is to report on the findings of the auditor in the course of its audit concerning the financial and organisational aspects of the UCI comprising *inter alia* its relationship with the central administration, the depositary bank and the other intermediaries (investment managers, transfer agents, distributors, etc.).

946 long form reports relating to the financial year ending 31 December 2003 were drawn up and submitted to the CSSF.

The reports are an important source of information for the CSSF in the performance of its supervisory functions as they provide detailed information on the organisation of UCIs and on the relationships with the central administration, the depositary bank or any other intermediary.

7.4. Enforcement of the legislation concerning UCIs

7.4.1. Simplification of the authorisation procedures

- ***Compliance of UCITS with the provisions of the law of 20 December 2002 as amended***

The CSSF, in consultation with the *Association Luxembourgeoise des Fonds d'Investissement* (ALFI), decided on a sped-up authorisation procedure to make coordinated Luxembourg UCITS compliant with the provisions of Directives 2001/107/EC and 2001/108/EC, transposed into Luxembourg law by the law of 20 December 2002 as amended. This sped-up authorisation procedure is applicable solely to UCITS that only adjust their constituent documents to these Directives, or to the CSSF circulars, without making any major changes to their investment policy.

To be able to benefit from this procedure, the CSSF requires that the application for approval enclose a written confirmation of the applicant or his authorised representative assuring that the changes made concern only those mentioned. Management companies and self-managed investment firms, that wish to comply with the provisions of Directive 2001/107/EC can also use the sped-up procedure, provided that all the conditions laid down in circular CSSF 03/108 are abided by.

- ***Scrutiny of files of UCIs under the law of 19 July 1991***

With a view to speed up the processing of files of UCIs under the law of 19 July 1991, the CSSF has decided to stress the aspects “promoter” and “investment policy” (including investment restrictions and risk mitigation).

Given the spirit of the law, the CSSF considers that institutional investors can assess themselves the requirements for participation, rights and obligations inherent in these participations and equal treatment of participants. The CSSF reserves however the right to intervene where it deems it necessary.

7.4.2. Enforcement of the legislation concerning UCIs

- ***Credit Default Swaps (CDS)***

In its 2003 Annual Report, the CSSF had mentioned the conditions it imposed on UCITS under Part I to use these CDS. These requirements remain valid, but as regards UCITS under the law of 20 December 2002 as amended, the CSSF decided to adopt a more liberal approach and to accept that UCITS fix the maximum limit of inherent commitments to CDS to more than 20% of net assets. The CSSF requires that UCITS that decided to use this option submit a comprehensive description of the situation and all the documents justifying the application of an adjusted risk management.

SUPERVISION OF UNDERTAKINGS FOR COLLECTIVE INVESTMENT

- ***Open real estate UCIs***

As far as the possibility for a UCITS to invest in open real estate UCIs is concerned, the CSSF considers that an open real estate UCI is not an eligible investment under article 41(1)e) of the law of 20 December 2002 as amended, as it does not fulfil the conditions laid down under article 1 paragraph 2, first and second indents, of Directive 85/611/EEC. On the other hand, the CSSF considers that, under article 41(2)a), a UCITS can invest 10% of its net assets in a regulated open real estate UCI subject to an equivalent supervision.

- ***Gold Bullion Securities***

As regards the eligibility of Gold Bullion Securities as investment of a UCITS, the CSSF considers that a UCITS cannot invest in such securities, as article 40(2)d) of the law of 30 March 1988 as amended or article 41(2)c) of the law of 20 December 2002 as amended provide that a UCITS may not acquire either precious metals or certificates representing them.

- ***Real Estate Investment Trusts Funds (REIT funds)***

As regards the eligibility of Real Estate Investment Trusts (REITs) as investment of a UCITS, the CSSF considers that REITs are comparable to UCIs whose exclusive purpose is to invest in real estate securities. Consequently, in order to be able to fix the thresholds, it should be determined whether or not the REITs are closed to redemption.

- ***Multi-manager UCIs and investor information***

The CSSF decided that UCIs whose prospectus state that they are multi-manager UCIs are not required to notify the press in the event of a change in management.

The CSSF stressed that UCIs that make use of the multi-management principle must, as in the past, apply for a prior authorisation by the CSSF as regards the appointment of a new manager. They are not obliged to update their prospectus immediately. However, investors must be able to obtain from the central administration, at any moment, and if possible via Internet, information relating to the managers in charge of the effective management of one or several compartments of the UCI concerned. The financial statements must identify the managers during the given period.



| ***Department Supervision of UCIs***

First row, left to right:

Martine KERGER | Géraldine APPENZELLER | Thierry QUARING | Patricia JOST

Second row, left to right:

Jean-Claude FRAITURE | Damien HOUEL | Jean-Marc LEHNERT | Thierry STOFFEL | Dave REUTER

Third row, left to right:

Marc DECKER | Tom EWEN | Guy MORLAK | Charles THILGES | Marc SIEBENALER | Francis LIPPERT

Absent:

Marie-Rose COLOMBO | Dominique HERR | Vic MARBACH



| Department Supervision of UCIs

First row, left to right:

Christiane STREEF | Joëlle HERTGES | Pascale SCHMIT | Evelyne PIERRARD-HOLZEM

Second row, left to right:

Angela DE CILLIA | Roberta TUMIOTTO | Carole LIS | Nathalie REISDORFF | Francis GASCHE |
Yolanda ALONSO

Third row, left to right:

Fabio ONTANO | Anica GIEL-MARKOVINOVIC | Stéphanie BONIFAS | Francis KOEPP | Claude WAGNER |
Pierre REDING

Absent:

François HENTGEN | Nadine PLEGER | Daniel SCHMITZ | Michèle WILHELM



| Department Supervision of UCIs

First row, left to right:

Claudine THIELEN | Géraldine OLIVERA | Jolanda BOS | Anne-Marie HOFFELD

Second row, left to right:

Claude STEINBACH | Danièle CHRISTOPHORY | Nico BARTHELS | Eric TANSON

Third row, left to right:

Christiane CAZZARO | Pierre BODRY | Pascal BERCHEM | Claude KRIER | Suzanne WAGNER

Absent:

Marie-Louise BARITUSSIO | Anne CONRATH | Pascale FELTEN-ENDERS | Danielle NEUMANN



| Department Supervision of UCIs

First row, left to right:

Sandy BETTINELLI | Simone KUEHLER | Carole EICHER | Sabine SCHIAVO

Second row, left to right:

Roberto MONTEBRUSCO | Martin MANNES | Nathalie CUBRIC | Irmine GREISCHER | Ralph GILLEN |
Joël GOFFINET | Marc RACKE

Third row, left to right:

Adrienne ANDRE-ZIMMER | Isabelle DOSBOURG | Diane REUTER | Alain STROCK | Laurent CHARNAUT |
Karin HOFFMANN

Absent:

Carla DOS SANTOS | René SCHOTT

CHAPTER

III



SUPERVISION OF PENSION FUNDS

1. Developments in the pension funds sector in 2004
2. Developments in the legal framework

1. DEVELOPMENTS IN THE PENSION FUNDS SECTOR IN 2004

1.1. Pension funds

During the course of 2004, the CSSF authorised two pension funds subject to the law of 8 June 1999 as amended: one pension savings company with variable capital (sepcav) and one pension savings association (asep):

- THE RAPALA GROUP SEPCAV, constituted in the legal form of a multiple compartment sepcav, was set up on the initiative of the Finnish company Rapala VMC Corporation. Its purpose is to organise a pension fund for the managerial staff of the Rapala Group.
- EUROPEAN PENSION FUND, constituted in the legal form of a multiple compartment asep, was set up on the initiative of Dresdner Bank Luxembourg S.A. and Allianz Global Investors Luxembourg S.A.. Its purpose is, at a first stage, to organise a pension fund for the employees of Dresdner Bank Luxembourg S.A., Dresdner Bank Aktiengesellschaft Frankfurt Niederlassung Luxembourg and Allianz Global Investors Luxembourg S.A..

The authorisation of these new pension funds raises the number of pension funds subject to the law of 8 June 1999 as amended to twelve as at 31 December 2004.

It has to be noted that the growth rate of the pension funds sector is very slow. The coming into force on 23 September 2005 of Directive 2003/41/EC, which confers a European passport on institutions for occupational retirement provision, will hopefully facilitate the setting-up of pan-European pension funds in the medium term.

The CSSF expects activities to continue their slow but ongoing pace in 2005. Half a dozen applications for approval are currently being processed, half of which being pension funds for Luxembourg employers, the others being pension funds designed for international groups.

1.2. Liability managers

There has been no new registration on the official list of professionals authorised to act as liability managers for pension funds subject to the law of 8 June 1999 as amended. Consequently, the number of liability managers of pension funds approved by the CSSF amounted to eleven as at 31 December 2004.

2. DEVELOPMENTS IN THE LEGAL FRAMEWORK

In 2004, no changes have been made to the Luxembourg legal framework governing sepcavs and asseps. However, works are in progress to transpose into national law Directive 2003/41/EC of 3 June 2003 on the activities and supervision of institutions for occupational retirement provision ("IORP" Directive), which was published in the Official Journal of the European Union on 23 September 2003.

The purpose of the Directive is to:

- create a harmonised prudential framework for the taking-up and pursuit of activities of institutions for occupational retirement provision;
- allow institutions for occupational retirement provision to freely provide their services to companies located in other Member States by way of mutual recognition of prudential standards and co-operation mechanisms between competent authorities of the home (where the institution is located) and host (where the company paying contributions is located) Member States.

In this context, two draft laws have been submitted to the *Chambre des Députés* on 1 July 2004, with the purpose, on the one hand, of creating a legal framework for the institutions for occupational retirement provision and, on the other hand, adapting the legal framework applicable to pension funds governed by the law of 8 June 1999 as amended creating pension funds in the form of pension savings companies with variable capital (sepcav) and pension savings associations (assep).

The deadline for the transposition of the Directive into national law is set to 24 months from the date of its publication in the Official Journal of the European Union. Hence, the necessary legislative, regulatory and administrative provisions to comply with the Directive must come into effect on 23 September 2005 at the latest.



| Department Supervision of Pension Funds, SICARs and Securitisation Vehicles

From left to right:

Marc PAULY | Daniel CICCARELLI | Josiane LAUX | Isabelle Maryline SCHMIT | Christiane CAMPILL |
Son BACKES

CHAPTER IV



SUPERVISORY FRAMEWORK FOR SICARS

1. Legal framework
2. Prudential supervisory practice

SUPERVISORY FRAMEWORK FOR SICARS

As at 31 December 2004, three SICARs are registered on the CSSF's official list of investment companies in risk capital, namely:

- Naxos Capital Partners S.C.A.
- Amber Trust II S.C.A.
- MediaWin I S.C.A..

Ten application files were being processed at the end of 2004.

1. LEGAL FRAMEWORK

The coming into force of the law relating to investment companies in risk capital (SICARs) on 15 June 2004 provided the Luxembourg financial centre with an investment vehicle complementary to undertakings for collective investment.

Consistent with the communication of the European Commission published in 1998 and the conclusions drawn by the European Council of Lisbon in March 2000, the Luxembourg government has indeed decided to set up a legal framework for a new type of investment firm specialised in risk capital whose securities are reserved to well-informed investors.

The purpose of the law relating to the investment company in risk capital is to promote the pooling within a specialised vehicle of what is known as "Venture Capital" or "Private Equity". "Venture Capital" generally refers to the capital provided to start-ups or business sectors with high development potential. "Private Equity" is widely defined as any investment in a private non-listed company.

The elements that these types of investments have in common are to knowingly engage in a risk transaction, the expectation of sizeable yield, the lack of liquidity of the subscribed securities and a relatively long maturity before payment of the first dividends or redemptions.

The law lays down a flexible framework allowing well-informed investors wishing to invest in risk capital to opt for a prudential supervisory regime which is less strict than that applicable to UCIs. This product is therefore restricted to investors who are informed and aware of the risks inherent in the investments. The illiquid character of investments in a SICAR is often accompanied by the fact that the investor is unable to request the redemption of his shares.

Under article 2 of the law of 15 June 2004, a "well-informed investor" refers to any institutional investor, professional investor or other investor who confirmed in writing his status as a well-informed investor, and who either invests a minimum of EUR 125,000 in the company, or has obtained certification from a credit institution, another professional of the financial sector subject to rules of conduct under Article II of Directive 93/22/EEC, or from a management company under Directive 2001/107/EC, certifying his expertise, experience and knowledge allowing him to adequately assess an investment in risk capital.

To perform their activities, SICARs must dispose of a prior licence from the CSSF. The administrative procedure to authorise a SICAR is very much in line with that applicable to undertakings for collective investment and pension funds.

Like UCIs and pension funds, SICARs are subject to the "visa" procedure at the time of authorisation, and subsequently in case of amendments. This procedure is not only intended for internal CSSF identification purposes, but also purports to facilitate the admission of the SICAR's shares to trading on a stock exchange or on a regulated market, in accordance with article 13(3) of the law of 15 June 2004.

The CSSF carries out a “light” prudential supervision of SICARs. Indeed, it does not authorise the promoters and asset managers of SICARs, nor does it impose requirements regarding the latter’s financial standing or status. The CSSF solely assesses the acceptability of the depositary bank, the central administration, the managers, as well as the compliance of the SICAR’s constitutive documents with the legal provisions.

2. PRUDENTIAL SUPERVISORY PRACTICE

Article 1 of the law of 15 June 2004 on the investment company in risk capital specifies that investment in **risk capital** refers to the capital provided directly or indirectly to entities in view of their launch, development or listing on a stock exchange. As the law does not precisely define the term “risk capital”, compliance of planned investments with the spirit of the law of 15 June 2004 will be verified on a case-by-case basis. The CSSF adopts a flexible approach in this context in accordance with the spirit of the law.

Several decisions have been made as regards eligible investments for a SICAR in particular cases submitted to the CSSF.

Professionals perceive the investment company in risk capital as an efficient means to invest in certain segments of the **real estate sector**. The CSSF accepts such investments for a SICAR on the condition that they are considered as risk capital and are indirectly made through real estate companies. Whether the capital qualifies as risk capital depends on the type of investment and its expected yield. So-called opportunistic investment strategies are acceptable in principle, while core-plus investments will be analysed on a case-by-case basis. Core investments are not eligible in principle.

The CSSF allows a SICAR to invest in units or shares of other **undertakings for collective investment** as long as the latter have themselves adopted a venture capital/private equity investment strategy.

A SICAR is allowed to invest in **listed securities** if such an investment pursues a defined project aiming to generate added value within a target company, i.e. via the development of its activities. A SICAR is allowed to invest in listed securities that do not represent risk capital and hold liquid assets and other similar investments only on a temporary basis, while waiting to invest in risk capital.

As far as the conditions applying to the **directors of a SICAR** are concerned, article 12(3) of the law of 15 June 2004 specifies that the directors of the SICAR and of the depositary must be of sufficiently good repute and have sufficient experience to perform their duties. To that end, their identity must be notified to the CSSF. “Directors” shall mean, in the case of limited partnerships, the general partners and in the case of public limited companies and limited companies, the members of the board of directors and the manager(s), respectively. As regards partnerships limited by shares, “directors” shall mean the general partner. Thus, the members of the board of directors of the general partner are considered as directors of the SICAR. Where the general partner does not have a board of directors, these conditions must be fulfilled by the manager in charge of administrating the general partner. Where the manager is a legal person having the status of professional of the financial sector subject to a supervisory authority that performs an equivalent prudential supervision, the CSSF could accept this person as director of a SICAR.

CHAPTER

V



SUPERVISION OF THE OTHER PROFESSIONALS OF THE FINANCIAL SECTOR

1. Developments in 2004 of the other professionals of the financial sector (PFS)
2. Prudential supervisory practice

1. DEVELOPMENTS IN 2004 OF THE OTHER PROFESSIONALS OF THE FINANCIAL SECTOR (PFS)

With the coming into force of the law of 2 August 2003, amending the law of 5 April 1993 on the financial sector, the entire financial sector now falls under the prudential supervision of the CSSF. The PFS subject to the general provisions of the law of the financial sector, as well as the professionals performing debt recovery and those performing cash-exchange transactions are also subject to the continuous supervision of the CSSF and thus taken into account as far as statistics and official lists are concerned.

The following other professionals of the financial sector fall under the scope of the prudential supervision of the CSSF:

- PFS incorporated under Luxembourg law (the activities performed by these institutions in another EU Member State, by means of a branch or by means of free provision of services, are also subject to the prudential supervision of the CSSF);
- branches of investment firms from non-EU countries;
- branches of PFS other than investment firms originating from the EU or from non-EU countries.

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

1.1. Development in the number of the other professionals of the financial sector

While the development in the last years was characterised by a stagnation in the number of PFS subject to the continuous supervision of the CSSF, the year 2004 however shows a substantial increase in the number of financial professionals. This growth is mainly attributable to the law of 2 August 2003, which amends the law of 5 April 1993 on the financial sector by subjecting the entire financial sector to the prudential supervision of the CSSF and by introducing new specific categories of PFS.

The number of PFS thus rose from 142 entities as at 31 December 2003 to 166 entities at the end of 2004. The number of undertakings authorised in 2004 increased substantially compared to the number of entities that have been granted authorisation in the previous year. In 2004, forty-three undertakings have indeed been approved as PFS (against eleven in 2003), while nineteen undertakings gave up their PFS status during this period.

Development in the number of PFS

Categories	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Investment firms										
Commission agents				4	7	10	14	15	17	15
(Brokers and commission agents)	14	14	14	/	/	/	/	/	/	/
Private portfolio managers	33	36	34	37	38	46	51	51	48	46
Professionals acting for their own account	18	18	20	15	17	14	17	16	16	16
Distributors of units/shares of investment funds	19	20	18	22	25	35	43	45	47	37
Underwriters				1	2	4	4	3	3	3
(Underwriters and market makers)	3	3	3	/	/	/	/	/	/	/
Professional custodians of securities	3	3	3	1	1	3	4	3	3	3
Registrar and transfer agents									1	8
PFS other than investment firms										
Financial advisors	6	6	7	9	10	9	10	9	9	8
Brokers				10	8	7	6	6	5	4
Market makers				1	2	2	2	2	2	2
Professionals performing cash-exchange transactions										1
Debt recovery										3
Professionals performing credit offering										5
Professionals performing securities lending										1
Administrators of collective savings funds										1
... next page										

SUPERVISION OF THE OTHER PROFESSIONALS OF THE FINANCIAL SECTOR

Categories	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
PFS performing a connected or complementary activity of the financial sector										
Domiciliation agents of companies					1	14	32	36	34	31
Client communication agents									2	8
Administrative agents of the financial sector										6
IT systems and communication networks operators of the financial sector									1	11
Professionals performing services of setting up and of management of companies										2
Professionals of the financial sector authorised to exercise any activity referred to in section 1 of chapter 2 of Part I of the amended law of 5 April 1993 on the financial sector, with the exception of the categories of PFS also referred to in section 2 of the same chapter										3
Establishments authorised to exercise all the PFS activities permitted by article 28 of the law of 15 December 2000 on postal services and financial postal services							1	1	1	1
Total ¹	78	82	80	83	90	113	145	145	142	166

Notes concerning the registration of PFS on the official list

- This table, just as the official list of PFS published on the CSSF website, includes, under the heading company domiciliation agents, only companies that have been approved exclusively as company domiciliation agents under article 29 of the law of 5 April 1993 on the financial sector as amended. Entities authorised to exercise, in addition to the status of domiciliation agent, another PFS activity covered by chapter 2 of Part 1 of the aforementioned law are included in this category, since approval obtained as other professional of the financial sector implicitly allows the provision of company domiciliation services in accordance with the law of 31 May 1999 on company domiciliation.
- Given the new provisions introduced by the law of 2 August 2003 and the expiry of the compliance deadline of 31 March 2004, the above-mentioned lists include, for the first time on 31 December 2004, the professionals performing debt recovery, the professionals performing cash-exchange transactions and the PFS authorised under the general provisions of the law of 5 April 1993 on the financial sector as amended, whose activities do not fall under a specific PFS category. The latter are registered on the official list as professionals of the financial sector authorised to exercise any activity referred to in section 1 of chapter 2 of Part I of the law of 5 April 1993 on the financial sector as amended, except for the categories of PFS also referred to in section 2 of the same chapter.

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

The table outlining the development in the number of PFS by categories over the years reveals the boom of the statuses created by the law of 2 August 2003 during 2004.

IT systems and communication networks operators of the financial sector show a substantial growth of ten entities, followed by the registrar and transfer agents (plus seven entities compared to the previous year), the client communication agents and the administrative agents of the financial sector, showing an increase of six entities. It has to be noted that the number of professionals performing credit offering totals five entities as at 31 December 2004.

The positive development of these categories during 2004 bears once again witness to the diversification of the activities of the Luxembourg financial centre and notably to the progressive development of new interesting openings for the future development of the financial sector.

Save for the PFS that are newly subject to the prudential supervision and for the entities authorised in 2004 under a newly created PFS category, the number of entities belonging to the traditional categories of PFS including commission agents, private portfolio managers, but mostly distributors of units/shares of investment funds, decreased slightly however during the past year (minus ten entities compared to the end of December 2003). The fact that several distributors of units/shares of investment funds abandoned their PFS status to form a management company in accordance with chapter 13 of the law of 20 December 2002 concerning undertakings for collective investment partly explains the substantial fall in the number of this category.

A decrease in numbers, although weak, was also recorded for the category of domiciliation agents of companies, actually confirming the negative trend of 2003. In this context, it must be stressed that the activity of domiciliation agent of companies still presents opportunities, but that many entities do not offer only domiciliation services anymore. Given that the undertakings concerned are authorised to also perform another PFS activity, they are registered under that category in the official table and not under the category of domiciliation agents of companies.

As at 31 December 2004, no authorisation has been granted as yet in two categories introduced by the law of 2 August 2003, i.e. the professionals performing money transfer services and the management companies of non-coordinated UCIs.

Breakdown of PFS by geographic origin

Categories	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Belgium	26	29	27	25	24	21	22	22	18	21
France	9	11	10	10	10	11	14	13	9	12
United Kingdom	8	9	10	9	8	8	9	10	11	8
Switzerland	6	5	6	4	4	7	11	10	10	10
Luxembourg	8	8	11	12	17	22	31	31	32	48
Germany	8	6	6	6	7	11	11	10	10	10
United States	5	6	3	4	3	4	8	8	8	11
Netherlands	1	2	2	3	3	7	12	15	15	18
Others	7	6	5	10	14	22	27	26	29	28 ²
Total	78	82	80	83	90	113	145	145	142	166

² Including Italy (4 entities), Sweden (2 entities), Denmark (3 entities).

SUPERVISION OF THE OTHER PROFESSIONALS OF THE FINANCIAL SECTOR

The number of PFS originating from Luxembourg increased considerably in 2004, from 32 entities at the end of 2003 to 48 entities as at 31 December 2004, thereby remaining by far in the majority.

This positive development is mainly due to the fact that most of the PFS newly subject to the supervision of the CSSF are of Luxembourg origin. Furthermore, many companies authorised in 2004 to perform an activity pertaining to the PFS categories defined by the law of 2 August 2003 and more specifically the client communication agents are of Luxembourg origin.

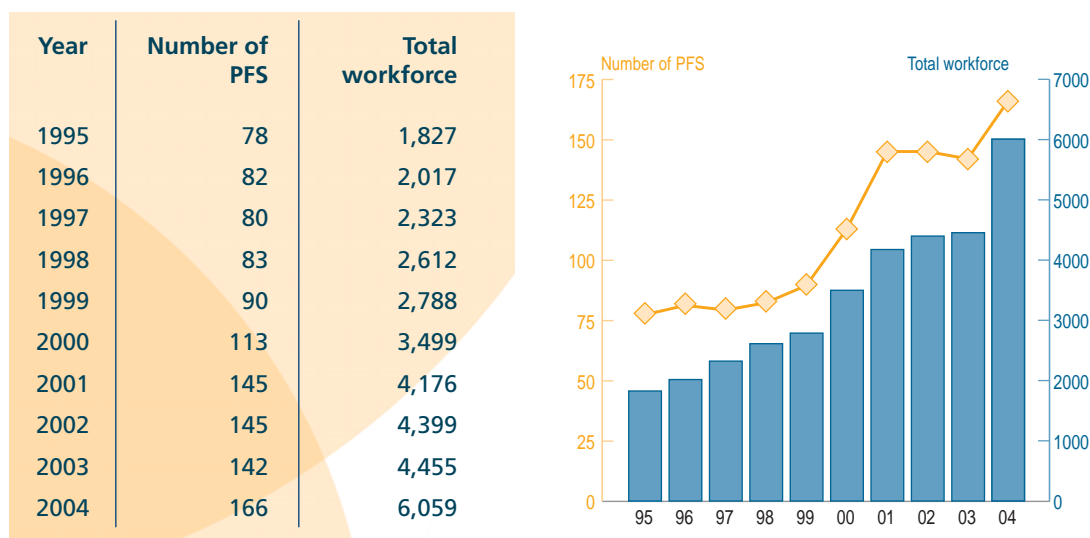
The number of PFS from Belgium, France, the Netherlands and the United States increased by three entities each, a development which bears witness to the attractiveness of the Luxembourg financial centre at international level.

1.2. Development in employment of the other professionals of the financial sector

The number of PFS active in the financial centre having stagnated during the last few years, although employment rose slightly, the year 2004 was however characterised by a considerable increase in the number of PFS (plus 24 entities), as well as in the number of persons employed.

Total staff has indeed substantially risen over a period of twelve months, up from 4,455 persons as at 31 December 2003 to 6,059 persons at the end of December 2004, representing an annual growth of 36%. This positive development can be mainly explained by the high number of newly approved undertakings in 2004, including several professionals with a high number of employees.

Summary of employment per year and compared to the development in the number of PFS



Analysis of employment in 2004 as far as the development in number is concerned, although revealing continuous growth during the whole year, can however be subdivided into two sub-periods.

During the first three quarters, total PSF employment has continuously risen, from 4,776 persons as at 31 March 2004 to 4,928 persons as at 30 June 2004, totalling 4,984 persons as at 30 September 2004. This growth is mostly due to the positive development in the number of PFS approved during this period and, to a lesser extent, to the increase in staff employed by several undertakings active as registrar and transfer agent and distributor of units/shares of investment funds.

The last quarter of 2004 however is marked by a stronger increase in total employment, totalling 6,059 persons as at 31 December 2004 against 4,984 persons at the end of September, i.e. a rise of 21.57%. The stronger growth notably results from the institutions that were approved during the last quarter, more specifically two entities with a high number of employees and active as distributor of units/shares of investment funds and administrative agent of the financial sector respectively.

1.3. Changes in 2004 in the official list of PFS

1.3.1. PFS under Luxembourg law authorised in 2004

- **Investment firms**

According to chapter 2, section 2 of Part I of the law of 5 April 1993 on the financial sector as amended, the following are considered as investment firms: companies acting on a professional basis as commission agent (article 24A), private portfolio manager (article 24B), professional acting for his own account (article 24C), distributor of units/shares of investment funds (article 24D), underwriter (article 24E), professional custodian of securities or other financial instruments (article 24F) or registrar and transfer agent (article 24G). An application for authorisation can concern one or more categories.

The following undertakings were approved as investment firms in 2004:

Name of PFS	Category
CFD Luxembourg	Private portfolio manager
Continental Fund Services S.A.	Registrar and transfer agent ³
IAM Strategic S.A.	Private portfolio manager
Insinger Fund Administration (Luxembourg) S.A.	Registrar and transfer agent
Meespierson Intertrust (Luxembourg) S.A.	Professional acting for his own account ⁴

In 2004, five entities were approved as investment firms, including two entities active as registrar and transfer agent. Two entities have applied for authorisation as private portfolio manager, while one company has opted for the status of professional acting for his own account.

It has to be noted that one entity was authorised in addition as financial advisor, while one entity has adopted the supplementary status of domiciliation agent of companies. These institutions are listed indeed on the official table of PFS other than investment firms and on the table of PFS performing an activity connected or complementary to an activity of the financial sector respectively.

³ Also refer to the table of PFS other than investment firms.

⁴ Also refer to the table of PFS performing an activity connected or complementary to the financial sector.

SUPERVISION OF THE OTHER PROFESSIONALS OF THE FINANCIAL SECTOR

PFS other than investment firms

According to the provisions of articles 25 to 28-8 of the law of 5 April 1993 on the financial sector as amended, financial advisors (article 25), brokers (article 26), market makers (article 27), operators of payment or securities settlement systems (article 28-1), persons performing cash-exchange transactions (article 28-2), debt recovery (article 28-3), professionals performing credit offering (article 28-4), professionals performing securities lending (article 28-5), professionals performing money transfer services (article 28-6), administrators of collective savings funds (article 28-7) and management companies of non-coordinated UCIs (article 28-8) are PFS other than investment firms.

The following undertakings were authorised as PFS other than investment firms in 2004:

Name of PFS	Category
BIL-Lease S.A.	Professional performing credit offering
CGFP-Epargne A.s.b.l.	Administrator of collective savings funds
Continental Fund Services S.A.	Financial advisor ⁵
Eurolease-Factor S.A.	Professional performing credit offering
ING Lease Luxembourg S.A.	Professional performing credit offering
John Deere Finance S.A.	Professional performing credit offering
Lehman Brothers (Luxembourg) S.A.	Professional performing securities lending
Lux Rent a Car S.A.	Professional performing credit offering
Monsieur Jean-Paul Frisch	Financial advisor
PK Airfinance S.à.r.l.	Professional performing credit offering

Among these ten entities, eight fall under a PFS category introduced by the law of 2 August 2003, including six professionals performing credit offering, one professional performing securities lending and one administrator of common savings funds.

The steps undertaken by PFS, which had not been subject to the continuous supervision of the CSSF before, to comply with the new legal provisions introduced by the law of 2 August 2003, are also noteworthy. To this end, five entities are now registered as PFS other than investment firms under the category of debt recovery (four entities) or as professional performing cash-exchange transactions (one entity).

Name of PFS	Category
Auxiliaire Générale d'Entreprises S.A.	Debt recovery
Creditreform Luxembourg S.A.	Debt recovery
Le Recours S.à.r.l.	Debt recovery
Société Luxembourgeoise de Recouvrement S.A., in abbreviated form "SLR"	Debt recovery
Travelex Belgium N.V., succursale de Luxembourg	Professional performing cash-exchange transactions

⁵ Also refer to the table of investment firms.

Definition of an auxiliary credit activity compared to a main activity referred to in the law of 28 December 1988 on the right of establishment

The CSSF considers that a credit activity (consumer credit or leasing activity), carried out on an auxiliary basis under the law of 28 December 1988 on the right of establishment, does not fall under the law of 5 April 1993 on the financial sector as amended. An authorisation as professional performing credit offering (article 28-4 of the above-mentioned law) is not required on the condition that the auxiliary activity is connected to the activity for which the undertaking has been granted an establishment authorisation.

Where the auxiliary credit activity is considered as being carried out in addition to the activity authorised under the law of 28 December 1988 and not linked thereto, it is irrelevant whether the credit activity is performed as auxiliary activity to the activity covered by the authorisation of establishment granted by the Ministry of small- and medium-sized enterprises. In this case, the credit activity concerned requires indeed an authorisation as professional performing credit offering, in accordance with article 28-4 of the law on the financial sector.

- ***PFS performing a connected or complementary activity to the financial sector***

According to the provisions of articles 29 to 29-4 of the law of 5 April 1993 on the financial sector as amended, domiciliation agents of companies (article 29), client communication agents (article 29-1), administrative agents of the financial sector (article 29-2), IT systems and communication networks operators of the financial sector (article 29-3) and professionals performing services of setting up and of management of companies (article 29-4) are PFS performing a connected or complementary activity to the financial sector.

The following institutions have been authorised as PFS performing a connected or complementary activity to the financial sector in 2004:

Name of PFS	Category
Amaco (Luxembourg) S.A.	Domiciliation agent of companies and professional performing services of setting up and of management of companies
Amicorp Luxembourg S.A.	Domiciliation agent of companies and professional performing services of setting up and of management of companies
ATC-RCS Corporate Services	Domiciliation agent of companies
Cetrel S.C.	Administrative agent of the financial sector and IT systems and communication networks operator of the financial sector
Clearstream Services S.A.	Administrative agent of the financial sector and IT systems and communication networks operator of the financial sector
EDS Professionnel Secteur Financier (PSF) Luxembourg S.A.	IT systems and communication networks operator of the financial sector
Eurazeo Services Lux S.A.	Domiciliation agent of companies

SUPERVISION OF THE OTHER PROFESSIONALS OF THE FINANCIAL SECTOR

Name of PFS	Category
Global Facilities S.A.	Client communication agent
IBM Services Financial Sector Luxembourg S.à.r.l.	IT systems and communication networks operator of the financial sector
Imprimerie Centrale S.A.	Client communication agent
Infomail S.A.	Client communication agent
LAB Services PSF S.A.	Client communication agent
LWM S.A.	Professional performing services of setting up and of management of companies
Meespierson Intertrust Financial Engineering S.A.	Domiciliation agent of companies
Meespierson Intertrust (Luxembourg) S.A.	Domiciliation agent of companies ⁶
Permira Luxembourg S.à.r.l.	Domiciliation agent of companies
Reisswolf S.A.	Client communication agent
Servitia S.A.	Client communication agent and IT systems and communication networks operator of the financial sector
Steria PSF Luxembourg S.A.	IT systems and communication networks operator of the financial sector
SunGard Systems Luxembourg S.A.	IT systems and communication networks operator of the financial sector
The Directors' Office S.A.	Professional performing services of setting up and management of companies

In 2004, seven entities were authorised as domiciliation agents of companies, two of them having been authorised as domiciliation agent of companies and professional performing services of setting up and management of companies. One domiciliation agent of companies was also authorised as professional acting for his own account and has therefore been registered on the list of investment firms.

As far as the categories introduced by the law of 2 August 2003 are concerned, six entities had applied for authorisation as client communication agent, including one undertaking which opted in addition for the status of IT systems and communication networks operator of the financial sector.

It has to be noted that the category of IT systems and communication networks operators of the financial sector recorded the most important increase during the year 2004, eight entities having been granted an authorisation for this category during this period.

It appears that the majority of establishments authorised in 2004 as PFS performing a connected or complementary activity to the financial sector applied for an authorisation for one category only, except for some IT systems and communication networks operator of the financial sector, which opted in addition for the status of administrative agent of the financial sector (three entities) and that of client communication agent (one entity).

⁶ Also refer to the table of investment firms.

- ***Professionals of the financial sector authorised to exercise any activity referred to in section 1 of chapter 2 of Part I of the law of 5 April 1993 on the financial sector as amended, with the exception of the categories of PFS also referred to in section 2 of the same chapter***

The PFS governed by the general provisions (section 1 of chapter 2 of Part I of the law of 5 April 1993 on the financial sector as amended), which had not been subject to the continuous supervision of the CSSF before, fall under the scope of prudential supervision of the CSSF following the amendment of the law on the financial sector by the law of 2 August 2003.

Indeed, the activities performed by these entities, even if they do not correspond specifically to the activities of PFS categories defined under articles 24 to 29-4 of the law of 5 April 1993 as amended, are considered as falling within the financial sector and are therefore subject to the continuous supervision by the CSSF.

Three entities are now registered on the official list of PFS as professionals of the financial sector authorised to exercise any activity referred to in section 1 of chapter 2 of Part I of the law of 5 April 1993 on the financial sector as amended, with the exception of the categories of PFS also referred to in section 2 of the same chapter.

Name of PFS

Association Mutualiste des Fonctionnaires des Organisations Intergouvernementales ayant leur siège ou des bureaux permanents en Europe, in abbreviated form "AMFIE Société Coopérative"

Europay Luxembourg S.C.

Visalux S.C.

AMFIE Société Coopérative had already been approved under the general provisions before the law of 2 August 2003 came into force.

1.3.2. PFS that gave up their status in 2004

Nineteen institutions, including ten investment firms, gave up their PFS status in 2004. Four entities have merged with another company of the group to which they belong, while five entities, acting as distributors of units/shares of investment funds and/or private portfolio managers, gave up their PFS status in order to become a management company under chapter 13 of the law of 20 December 2002 concerning undertakings for collective investment. The other withdrawals are due to the winding-up of the institution (two entities), the change into a bank (one entity), the discontinuation of activities (one entity) and the switch to activities which no longer require an authorisation as PFS as they no longer fall under the scope of the law of 5 April 1993 on the financial sector as amended (six entities).

SUPERVISION OF THE OTHER PROFESSIONALS OF THE FINANCIAL SECTOR

Name of PFS	Category	Reason for withdrawal
ABN Amro Investment Funds S.A.	Distributor of units/shares of investment funds	Change into management company
A.L.T. Management S.A.	Domiciliation agent of companies	Ceased PFS activities
Auxiliaire Générale d'Entreprises S.A.	Debt recovery	Ceased PFS activities
Aviva Corporate Services S.A.	Domiciliation agent of companies	Take-over by Aviva Fund Services
Barclays International Independent Financial Advisory Services S.A.	Commission agent	Ceased PFS activities
Bisys Fund Services (Luxembourg) S.A.	Commission agent and distributor of units/shares of investment funds	Ceased activities
CMI Asset Management (Luxembourg) S.A.	Private portfolio manager and distributor of units/shares of investment funds	Change into management company
Continental Fund Services S.A.	Registrar and transfer agent and financial advisor	Transfer of activities to another professional and subsequent winding-up
Corluy Luxembourg S.A.	Professional acting for his own account and distributor of units/shares of investment funds	Change into bank
Dexia Asset Management S.A.	Private portfolio manager	Change into management company
Ersel Asset Management S.A.	Financial advisor	Take-over by Ersel Gestion International S.A.
Euroscandic S.A.	Domiciliation agent of companies	Ceased PFS activities
Fortis Investment Management Luxembourg S.A.	Private portfolio manager and distributor of units/shares of investment funds	Change into management company
Intertrust DOM S.A.	Domiciliation agent of companies	Ceased PFS activities
Lux Rent a Car S.A.	Professional performing credit offering	Ceased PFS activities
Nordea Investment Funds S.A.	Distributor of units/shares of investment funds	Change into management company
Timing Consult S.A.	Financial advisor	Winding-up
Tradition S.A. (Lausanne), succursale de Luxembourg	Broker	Merger with Arbitrage Change S.A.
Union Investment Euromarketing S.A.	Private portfolio manager and distributor of units/shares of investment funds	Merger with Union Investment Luxembourg S.A.

1.3.3. Changes in category in 2004

The analysis of the changes in category of the professionals of the financial sector in 2004 shows that the participants in the financial sector diversify and extend their activities, the majority of requested changes having concerned the adoption of one or several additional statuses. Indeed, the plurality of statuses adopted by one company allows it to provide, as PFS, a large range of services to private and/or institutional clients, or to better adapt to a changing economic environment.

Name of PFS	Category (before change)	Category (after change)
ACM Global Investor Services S.A.	Domiciliation agent of companies	Registrar and transfer agent and domiciliation agent of companies
E Oppenheimer & Son (Luxembourg) Limited	Commission agent and domiciliation agent of companies	Commission agent, domiciliation agent of companies and administrative agent of the financial sector
European Fund Administration S.A.	Commission agent and distributor of units/shares of investment funds not authorised to accept and effect payments	Commission agent, distributor of units/shares of investment funds authorised to accept and effect payments and IT systems and communication networks operator of the financial sector
Euro-VL Luxembourg S.A.	Distributor of units/shares of investment funds and domiciliation agent of companies	Registrar and transfer agent and domiciliation agent of companies
Fidelity Investments Luxembourg S.A.	Commission agent and distributor of units/shares of investment funds	Commission agent, distributor of units/shares of investment funds, registrar and transfer agent, domiciliation agent of companies and administrative agent of the financial sector
First European Transfer Agent S.A.	Private portfolio manager and distributor of units/shares of investment funds	Private portfolio manager, distributor of units/shares of investment funds, registrar and transfer agent, client communication agent and administrative agent of the financial sector
Fund Administration Services & Technology Network (Luxembourg) S.A., in abbreviated form "Fastnet"	Distributor of units/shares of investment funds	Registrar and transfer agent and domiciliation agent of companies

SUPERVISION OF THE OTHER PROFESSIONALS OF THE FINANCIAL SECTOR

Name of PFS	Category (before change)	Category (after change)
Gestador S.A.	Domiciliation agent of companies	Domiciliation agent of companies and registrar and transfer agent
International Financial Data Services (Luxembourg) S.A.	Distributor of units/shares of investment funds	IT systems and communication networks operator of the financial sector
Liberty Ermitage Luxembourg S.A.	Commission agent and distributor of units/shares of investment funds not authorised to accept and effect payments	Commission agent, distributor of units/shares of investment funds authorised to accept and effect payments and registrar and transfer agent
Luxigec S.A.	Domiciliation agent of companies	Domiciliation agent of companies and administrative agent of the financial sector
Maitland Luxembourg S.A.	Domiciliation agent of companies	Domiciliation agent of companies and administrative agent of the financial sector
Mourant Luxembourg S.A.	Domiciliation agent of companies	Domiciliation agent of companies and registrar and transfer agent
Moventum S.A.	Private portfolio manager and distributor of units/shares of investment funds	Private portfolio manager, distributor of units/shares of investment funds and registrar and transfer agent
Schroder Investment Management (Luxembourg) S.A.	Distributor of units/shares of investment funds	Distributor of units/shares of investment funds and registrar and transfer agent

This table reflects the growing interest in 2004 of the professionals of the financial sector as regards the activity of registrar and transfer agent. The majority of the above-mentioned PFS has indeed adopted the status of registrar and transfer agent, either as additional activity or through a change in activities.

Except for two PFS which had applied for the status of domiciliation agent of companies, all the other changes concerned statuses created by the law of 2 August 2003.

The trend according to which the company domiciliation activity is performed in addition to one or several other activities of the financial sector crystallises in 2004. Indeed, five domiciliation agents of companies have adopted an additional status during this period, namely that of registrar and transfer agent (three entities) or administrative agent of the financial sector (two entities).

1.4. Development in the balance sheet totals and results

	Balance sheet total in EUR		
	2002	2003	2004 ⁷
<i>Investment firms</i>			
Commission agents	147 610 385	164 866 179	197 774 101
Private portfolio managers	823 033 277	907 099 509	446 281 522
Professionals acting for their own account	195 589 363	271 124 494	441 810 076
Distributors of units/shares of investment funds	778 601 009	928 085 917	919 606 048
Underwriters	55 453 654	106 781 684	152 861 886
Professional custodians of securities or other financial instruments	847 861 986	925 418 041	916 604 188
Registrar and transfer agents	/	1 590 054	92 805 090
<i>PFS other than investment firms</i>			
Financial advisors	8 548 297	10 644 954	10 151 756
Brokers	45 163 287	43 277 682	44 432 522
Market makers	17 721 824	17 284 792	21 396 753
Professionals performing cash-exchange transactions	/	/	1 903 163
Debt recovery	/	/	788 398
Professionals performing credit offering	/	/	1 899 368 540
Professionals performing securities lending	/	/	32 747 671 283
Administrators of common savings funds	/	/	143 153
<i>PFS performing a connected or supplementary activity to the financial sector</i>			
Domiciliation agents of companies	82 607 292	111 916 406	56 642 659
Client communication agents	/	4 174 686	45 130 995
Administrative agents of the financial sector	/	/	206 269 638
IT systems and communication networks operators of the financial sector	/	1 590 054	247 001 922
Professionals performing services of setting up and of management of companies	/	/	2 368 267
Professionals of the financial sector authorised to exercise any activity referred to in section 1 of chapter 2 of Part I of the amended law of 5 April 1993 on the financial sector, with the exception of the categories of PFS also referred to in section 2 of the same chapter	/	/	109 894 352
Establishments authorised to exercise all the PFS activities permitted by article 28 of the law of 15 December 2000 on postal services and financial postal services	/	/	1 234 868 906
Total	2 292 287 619	2 481 838 773	38 432 404 157

⁷ Provisional figures.

SUPERVISION OF THE OTHER PROFESSIONALS OF THE FINANCIAL SECTOR

	Net results in EUR		
	2002	2003	2004 ⁸
<i>Investment firms</i>			
Commission agents	1 195 685	6 033 898	14 803 470
Private portfolio managers	151 487 146	153 179 404	63 482 909
Professionals acting for their own account	26 831 928	28 023 437	25 496 010
Distributors of units/shares of investment funds	106 542 893	94 658 705	126 868 157
Underwriters	1 938 609	2 556 767	1 886 846
Professional custodians of securities or other financial instruments	82 936 378	143 413 235	102 667 960
Registrar and transfer agents	/	-479 488	9 343 093
<i>PFS other than investment firms</i>			
Financial advisors	1 251 178	1 934 732	1 374 710
Brokers	18 056 064	16 585 941	20 706 131
Market makers	422 867	239 971	211 142
Professionals performing cash-exchange transactions	/	/	197 219
Debt recovery	/	/	16 919
Professionals performing credit offering	/	/	37 640 514
Professionals performing securities lending	/	/	2 198
Administrators of common savings funds	/	/	0
<i>PFS performing a connected or supplementary activity to the financial sector</i>			
Domiciliation agents of companies	10 032 141	8 569 665	7 666 563
Client communication agents	/	601 679	508 109
Administrative agents of the financial sector	/	/	5 380 630
IT systems and communication networks operators of the financial sector	/	-479 488	10 978 614
Professionals performing services of setting up and of management of companies	/	/	54 629
Professionals of the financial sector authorised to exercise any activity referred to in section 1 of chapter 2 of Part I of the amended law of 5 April 1993 on the financial sector, with the exception of the categories of PFS also referred to in section 2 of the same chapter	/	/	575 232
Establishments authorised to exercise all the PFS activities permitted by article 28 of the law of 15 December 2000 on postal services and financial postal services	/	/	-2 031 329
Total	320 234 143	367 168 643	318 706 062

⁸ Provisional figures.

Comment as regards the tables

Since the same company can operate in several business sectors, the total does not reflect the arithmetical sum of headings under the different PFS categories. For professionals of the financial sector authorised to conduct business as defined in articles 24A to 24D, 24G, 25, 26, 29-1 and 29-2 of the law of 5 April 1993 as amended, the balance sheet total and the net result respectively are recorded only once in the total, i.e. in the category for which the capital requirements are the most stringent. If the professional conducts additional business outside of the above-mentioned categories, as covered in section 2 of chapter 2 of the aforementioned law, the balance sheet total and net result respectively are aggregated for each category but are not included in the grand total to avoid double counting.

PFS established in Luxembourg recorded a growth in their balance sheet total during 2004, which reached EUR 38,432 million against 2,482 million at the end of 2003. This substantial increase is partly due to the considerable rise in the number of PFS in the year under review, up from 142 entities as at 31 December 2003 to 166 entities as at 31 December 2004. The relatively high balance sheet totals of the financial professionals authorised in 2004 as professionals performing credit offering and professionals performing securities lending are another factor explaining the positive development of the balance sheet total over a period of twelve months. Indeed, the volume of the credit activity of these PFS is entirely reflected in their balance sheet total. Overall, the table on the development of the balance sheet total reveals a general upward trend for the majority of categories, except for private portfolio managers and domiciliation agents of companies.

Despite the increase in the number of PFS in 2004, their net profits show a negative trend compared to the previous year. They total EUR 319 million as at 31 December 2004 against EUR 367 million as at 31 December 2003, representing a decrease of 13.20% year-on-year. This negative development is mainly attributable to the fact that several institutions authorised in 2004 and more specifically PFS active in the field of credit offering or leasing and securities lending have not been as profitable as other categories of PFS. The significant decrease in the net profits of the private portfolio managers and professional custodians of securities or other financial instruments, falling by 58.56% and 28.41% respectively, also contributes to the drop in net profits of the PFS over a year.

The tables on the development of the balance sheet totals and net profits reveal divergent results according to PFS categories in 2004. Certain categories recorded a fall compared to the previous year, while the balance sheet total and/or net profits of other categories remained either stable or increased at a sustained rate.

Commission agents

The balance sheet total and net result of commission agents increased substantially as compared to the end of 2003. This development is mainly due to the positive development of the figures of several significant professionals in this category.

Private portfolio managers

Private portfolio managers, whose number decreased from 48 entities at the end of December 2003 to 46 entities as at 31 December 2004, recorded a considerable decrease in their balance sheet total as well as in their net profit over twelve months. This negative trend is notably attributable to a significant professional who gave up his PFS status during 2004 to become a management company, i.e. Dexia Asset Management S.A..

SUPERVISION OF THE OTHER PROFESSIONALS OF THE FINANCIAL SECTOR

Distributors of units/shares of investment funds

Despite a slight decrease in their balance sheet total as compared to 2003, the distributors of units/shares of investment funds, whose number decreased from 47 entities to 37 entities during 2004, recorded a remarkable growth of net profits during this period. A few large-sized professionals were responsible for the financial development of the category distributors of units/shares of investment funds.

Professional custodians of securities or other financial instruments

The considerable decrease in net profits of this PFS category in 2004 is mainly due to the development of one important professional, namely Clearstream International S.A..

Registrar and transfer agents

IT systems and communication networks operators of the financial sector

The table shows an increase in the balance sheet total, as well as in net profits, mainly due to the important development in the number of entities authorised as registrar and transfer agent (plus 7 entities) and as IT systems and communication networks operators of the financial sector (plus 10 entities).

Professionals performing credit offering

Professionals performing securities lending

The entities concerned record a quite significant balance sheet total as at 31 December 2004. Contrary to other PFS categories, their business volume is entirely reflected in their balance sheet total.

1.5. Expansion of PFS at international level

1.5.1. Formation of subsidiaries during 2004

In 2004, the CSSF has not received any request from an investment firm incorporated under Luxembourg law to open a subsidiary abroad.

1.5.2. Freedom of establishment

In 2004, six investment firms incorporated under Luxembourg law established a branch in one or several other EU Member States under the principle of freedom of establishment, namely BNP Paribas Fund Services S.A. which set up a branch in Spain, J.P. Morgan Fleming Asset Management (Europe) S.à r.l. which set up a branch in Italy, Vontobel Europe S.A., which set up a branch in Germany, as well as WH Selfinvest S.A., Compagnie Financière et Boursière Luxembourgeoise S.A., in abbreviated form "Cofibol", and Createrra S.A. which set up in Belgium by way of a branch.

Under the law of 2 August 2003 amending the law on the financial sector, the category professional custodian of securities or other financial instruments is considered as investment firm. Therefore, Clearstream International S.A., represented by a branch in the United Kingdom, is henceforth registered on the list of investment firms incorporated under Luxembourg law active in one or several other EU Member States by way of a branch.

Due to its change into a management company under the law of 20 December 2002 concerning undertakings for collective investment, Nordea Investment Funds S.A. gave up its PFS status during 2004 and is therefore not listed on the table of Luxembourg-incorporated investment firms having established a branch in one or several EU Member States.

As at 31 December 2004, the following Luxembourg investment firms are represented by way of a branch in one or several EU Member States.

Name of PFS	Category	Branch
BNP Paribas Fund Services S.A.	Private portfolio manager, distributor of units/shares of investment funds and administrative agent of the financial sector	Spain
Clearstream International S.A.	Professional custodian of securities or other financial instruments	United Kingdom
Compagnie Financière et Boursière Luxembourgeoise S.A., in abbreviated form "Cofibol"	Professional acting for his own account	Belgium
Createrria S.A.	Professional acting for his own account and domiciliation agent of companies	Belgium
Creutz & Partners, Global Asset Management S.A.	Private portfolio manager	Germany
Financial Advisor Services (Europe) S.A.	Distributor of units/shares of investment funds	Germany Italy
J.P. Morgan Fleming Asset Management (Europe) S.à r.l.	Private portfolio manager and distributor of units/shares of investment funds	Sweden Austria Netherlands Germany Italy
Le Foyer, Patrimonium & Associés S.A.	Private portfolio manager and distributor of units/shares of investment funds	Belgium
Moventum S.A.	Private portfolio manager and distributor of units/shares of investment funds	Germany
SZL S.A.	Professional acting for his own account	Belgium
Vontobel Europe S.A.	Private portfolio manager and distributor of units/shares of investment funds	Germany
WH Selfinvest S.A.	Commission agent	Belgium

The number of branches established in Luxembourg by investment firms originating from another EU Member State amounts to four as at 31 December 2004. Although the number has not changed compared to the previous year, the situation of branches established in Luxembourg has nevertheless undergone two changes compared to the end of 2003.

While a branch originating from Gibraltar, namely Gadd Capital Management Ltd., started its activities in Luxembourg during 2004, the branch Compagnie de Gestion Privée originating from Belgium stopped its business activities on Luxembourg territory in 2004.

It should also be noted that the branch Prudential-Bache International Limited changed its name into Bache Financial Limited in 2004.

Name of branch	Country of origin
Bache Financial Limited	United Kingdom
Gadd Capital Management Ltd	Gibraltar
Morgan Stanley Investment Management Limited	United Kingdom
PFPC International Limited	Ireland

1.5.3. Freedom to provide services

In 2004, ten investment firms incorporated under Luxembourg law applied to pursue business in one or several EU Member States by way of free provision of services. The total number of investment firms active in one or several other EU Member States following a notification amounts to thirty-five as at 31 December 2004. The majority of the investment firms concerned conduct their business in several other EU countries by way of free provision of services. Furthermore, three Luxembourg investment firms have introduced a notification in 2004 to perform their business in one or several countries which are members of the EU since 1 May 2004.

The number of notifications to freely provide services in Luxembourg introduced by investment firms from other EU countries increased substantially in 2004, rising from 68 entities in 2003 to 108 entities in 2004. This positive development, contrary to the downward trend observed in the previous two years, reflects once again the internationalisation of the activities in the financial sector.

The geographical breakdown of foreign investment firms having introduced a notification in 2004 reveals that the British investment firms remain the most important in number to apply for free provision of services in Luxembourg, followed by the French and Dutch investment firms.

Country of origin	Number of entities having submitted a notification to freely provide services in 2003	Number of entities having submitted a notification to freely provide services in 2004
Austria	2	7
Belgium	1	1
Cyprus	/	1
Finland	1	1
France	13	13
Germany	1	6
Greece	/	1
Ireland	3	1
Italy	/	1
Netherlands	6	13
Norway	/	/
Slovenia	/	2
Spain	3	2
Sweden	1	/
United Kingdom	37	59
Total	68	108

While the geographical breakdown only shows slight changes for the majority of countries compared to the previous year, the number of entities from the United Kingdom has increased substantially by 22 entities, which partly explains the important increase in the total number of notifications compared to 2003.

The number of notifications received by the CSSF from Dutch investment firms has also risen over a year by seven entities, closely followed by entities from Germany and Austria, with an increase of five entities each. Furthermore, the table mentions three notifications from two new EU Member States, i.e. Cyprus (1 entity) and Slovenia (2 entities).

As at 31 December 2004, a total of 1,054 EU investment firms were authorised to freely provide their services on Luxembourg territory.

2. PRUDENTIAL SUPERVISORY PRACTICE

2.1. Prudential supervisory instruments

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

- financial information submitted periodically to the CSSF enabling it to continuously monitor the activities of PFS and the inherent risks, and to perform a periodic supervision of the capital adequacy ratio as laid down in article 56 of the law of 5 April 1993 on the financial sector as amended;
- the annual report drawn up by the external auditors (which includes a certificate relating to the fight against money laundering and a certificate concerning compliance with circular CSSF 2000/15);
- internal audit reports relating to audits carried out during the year, and the management's report on the state of the internal audit of the PFS;
- on-site inspections carried out by the CSSF.

2.2. On-site inspections

The CSSF attaches particular importance to this instrument of continuous supervision, as it allows a global and direct view of the situation and functioning of the PFS in practice.

In 2004, the CSSF carried out on-site inspections at the premises of five professionals of the financial sector.

The purpose of the inspections carried out at the premises of four PFS concerned more particularly the IT structure, as well as the state of the relating security measures. These on-site inspections, allowing also to check the sound operation of the entities concerned, have been carried out in collaboration with the IT audit of the CSSF.

The inspection at the premises of another PFS had been carried out by the CSSF given the considerable deterioration of the financial situation of the company. The serious irregularity noted afterwards, which was due to non-compliance with certain legal provisions, was followed by a disagreement between the shareholders of the PFS concerned. Even though the situation of the company could be stabilised, this case could not be closed as at 31 December 2004.

2.3. Meetings

A total of 102 meetings concerning the activities of professionals of the financial sector were held at the CSSF's premises during the year under review.

Half of these meetings were held within the scope of applications for approval as PFS, submitted either by companies newly incorporated or to be incorporated, or by existing entities, that intend to carry out financial activities that require prior approval. This figure includes the meetings that were held with entities enquiring whether the activities performed fall under the law of 5 April 1993 on the financial sector as amended, including more specifically the categories newly created by the law of 2 August 2003.

The remainder of the meetings held with representatives of PFS covered the following areas in particular:

- planned changes relating in particular to business activities, shareholders and daily management of PFS;

SUPERVISION OF THE OTHER PROFESSIONALS OF THE FINANCIAL SECTOR

- presentation of general context and activities of the companies concerned;
- requests for information within the scope of the prudential supervision carried out by the CSSF;
- courtesy visits.

2.4. Specific audits

Article 54(2) of the law of 5 April 1993 on the financial sector as amended entitles the CSSF to require external auditors to carry out a specific audit on a financial professional, covering one or several specific aspects of the business or functioning of the entity concerned. The ensuing costs are to be borne by the professional concerned. The CSSF has not made formally use of this right in 2004. Nevertheless, the CSSF requested one PFS to charge on its own initiative an external auditor in order to audit various specific aspects of the company's activities.

2.5. Supervision on a consolidated basis

The supervision of investment firms on a consolidated basis is governed by the law of 5 April 1993 on the financial sector as amended and more particularly by chapter 3bis of Part III. The relevant articles define the conditions governing the supervision of investment firms on a consolidated basis and its scope. The form, extent, content and means of supervision on a consolidated basis are also laid down therein.

In 2004, the CSSF had carried out supervision on a consolidated basis of fifteen investment firms falling under the above-mentioned law. An in-depth study of the financial groups to which most of the PFS investment firms belong was required in order to determine whether, at what level and in what form, consolidation should apply. For the investment firms concerned, circular CSSF 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 companies supervised on a consolidated basis belong to major groups operating in the financial sector and whose ultimate parent company is usually a credit institution.

The following PFS were subject to supervision by the CSSF on a consolidated basis at 31 December 2004:

- BNP Paribas Fund Services
- Brianfid-Lux S.A.
- Capital @ Work International S.A.
- Citco (Luxembourg) S.A.
- Clearstream International S.A.
- Crédit Lyonnais Management Services (Luxembourg) S.A.
- Foyer Asset Management S.A.
- Fund-Market Research & Development S.A.
- Hottinger & Cie
- HSBC Dewaay Luxembourg S.A.
- Interinvest S.à.r.l.
- Kredietrust Luxembourg S.A.
- Petercam (Luxembourg) S.A.
- Premium Select Lux S.A.
- UBS Fund Services (Luxembourg) S.A.

Interpretation of article 52-3 of the law of 5 April 1993 on the financial sector as amended

Article 52 relating to the official lists and the protection of titles provides in paragraph 3 that no person shall make use for commercial purposes of his registration in an official list or of the fact of his being subject to supervision by the CSSF.

The CSSF wishes to stress in this context that the approval as PFS shall not in any case be interpreted as corporate image and that being officially under the supervision of the relevant authority does not constitute *de facto* a quality label.

Herewith, the CSSF addresses in particular PFS which exercise a connected or complementary activity to the financial sector.

Overall, an application for approval as PFS is necessary where the activities fall under the scope of the law on the financial sector and shall not be motivated by the will to become PFS in order to mention this fact for advertisement purposes or to use it as corporate image.



| Department Supervision of PFS

First row, left to right:

Emilie LAUTERBOUR | Claudia MIOTTO | Denise LOSCH

Second row, left to right:

Sylvie MAMER | Sonny BISSDORFF-LETSCH | Gérard BRIMEYER | Martine SIMON

Third row, left to right:

Carole NEY | Nicole LAHIRE | Luc PLETSCHETTE | Carlo FELICETTI



SUPERVISION OF SECURITIES MARKETS

1. Reporting of transactions on financial assets
2. Investigations conducted by the CSSF in its supervision of securities markets
3. Supervisory practice

SUPERVISION OF SECURITIES MARKETS

1. REPORTING OF TRANSACTIONS ON FINANCIAL ASSETS

1.1. Reporting requirements

Since no changes have been made to the legislation as regards reporting of transactions on financial assets in 2004, the CSSF focused more particularly on the supervision of investment firms so that they comply with the requirements laid down in circular CSSF 99/7 on reporting to the CSSF, in accordance with the law of 23 December 1998 on the supervision of securities markets as amended.

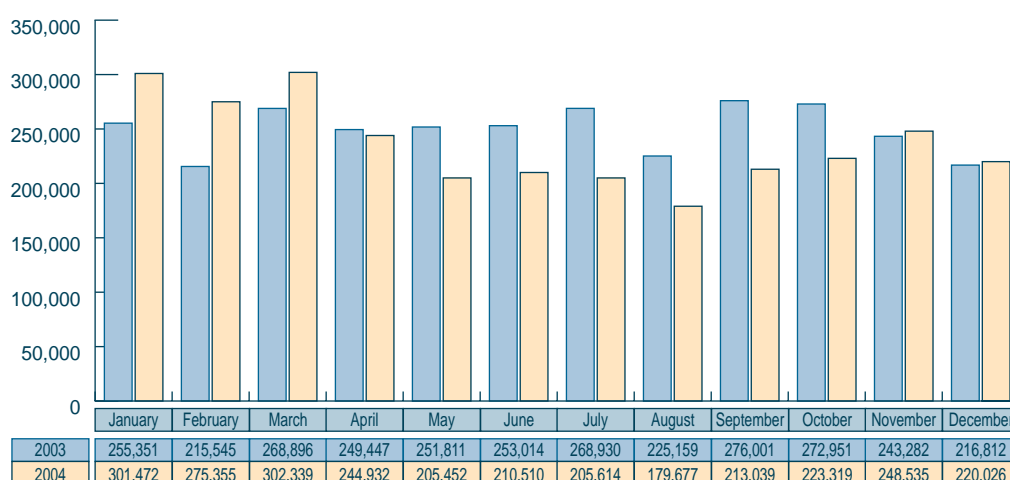
In this context and within the scope of its daily supervisory mission, the CSSF addressed a total of 82 letters, covering the following subjects, to investment firms:

Subject	Number
Mailing of the <i>Recueil</i> to new firms	6
Various authorisations / refusals (reporting via fax, exemptions, deferrals)	6
Reporting irregularities (technical problems, erroneous quotes, quotes deviating from the market, block transactions)	31
Request for explanations	20
Code of ethics	5
Reminders	9
Various	5
Total	82

1.2. Development in the number of trades reported

The number of trades reported in 2004 amounted to 2,830,270, representing a decrease of 5.57% as compared to 2003, when the number of trades reported amounted to 2,997,199.

Monthly volume of trades reported



Breakdown of transactions by type of instrument

Type of instrument	Number of trades reported (as a % of total)	
	2003	2004
Shares	62.19%	63.11%
Bonds	33.34%	32.78%
Futures	0.99%	0.90%
Options	1.77%	1.67%
Warrants	1.37%	1.38%
Bonds with warrants attached	0.34%	0.16%

The reported data allow to monitor the trends of the European markets and more particularly the Luxembourg market. The main purpose of the supervision of the securities markets is to prevent and detect infringements of financial and stock market laws and regulations. In this context, weekly internal reports, as well as specific internal reports, based on the trades reported, are drawn up. These *ex post* analyses of transactions on financial assets can be used as a starting point for inquiries of the CSSF.

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, investigations into non-compliance with the rules of conduct in the financial sector as laid down in circular CSSF 2000/15 of 2 August 2000 and investigations conducted within the scope of general supervision of securities markets.

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. Its aim is twofold: ensure fair and equal treatment of investors, as well as protection against the illegal use of insider information.

In the context of its supervision of securities markets, the CSSF either initiates inquiries 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. Inquiries initiated by the CSSF

- *Inquiries concerning insider dealing*

In 2004, the CSSF initiated one inquiry into a possible infringement of the law of 3 May 1991 on insider dealing. This investigation is still in progress.

In one inquiry opened in 2003, the CSSF decided to pass the file on to the Public Prosecutor in accordance with article 6, paragraph 2, of the law of 3 May 1991 on insider dealing. In this case, the insider information related to interim financial statements of a listed company. The CSSF analysed the different documents and information it received following its investigations at national and international level.

A second inquiry opened in 2003 which concerned several listed companies, has been closed without any further action taken.

- ***Inquiries into price manipulation***

At the request of certain investors, the CSSF has conducted investigations as regards price manipulation of a security listed on the Luxembourg Stock Exchange, as well as on another European stock exchange. Based on the information received, the CSSF could not conclude that the price of the listed security had been manipulated by any fraudulent means and has closed the case without taking any further action.

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

- ***Principles to abide by when transmitting information***

During the last years, the CSSF received on several occasions requests for information concerning the direct communication of information by Luxembourg professionals of the financial sector to foreign authorities. The main underlying reason for these requests was the compliance with the operating conditions of foreign regulated markets. In practice, certain foreign markets provide that foreign financial institutions can only trade on and/or have access to these markets provided that they subscribe to direct communication of information on the transactions' final beneficiaries to the market authorities and/or the supervisory authorities of these countries' markets. Is the Luxembourg banking secrecy opposable to this communication, which would raise a barrier to the entry into these markets, preventing the clients of the professionals of the Luxembourg financial sector from entering these markets?

The CSSF considers that a Luxembourg professional of the financial sector can transmit confidential information concerning a client directly to a market authority and/or a foreign markets supervisory authority provided that the client concerned gave his prior consent, thus mandating the professional to give such confidential information to a third party if required so. The main purpose of the banking secrecy being client protection, the latter can indeed agree that certain confidential information be revealed to a third party. Further information is available in the CSSF's Annual Report 2003 concerning the nature and scope of the banking secrecy.

- ***Inquiries into insider dealing***

In 2004, the CSSF processed 47 requests concerning inquiries into insider dealing (against 51 in 2003).

The CSSF handled all these requests with the necessary diligence befitting co-operation between authorities and no major issues relating to the involved financial institutions have arisen.

- ***Inquiries into price manipulation, fraudulent public offers, breaches of the requirement to report major shareholdings and other breaches of the law***

The CSSF received four applications for assistance from foreign authorities regarding price manipulation, five applications regarding fraudulent public offers of securities, two applications regarding breaches of the requirement to report major shareholdings, one application regarding financial fraud from an administrative authority of a country outside the European Economic Area, two applications regarding non-compliance with UCI investment policy, one application concerning false information in the prospectus published in relation with a capital increase, two requests relating to financial information disseminated by listed companies (one of them from an administrative authority of a country outside the European Economic Area) and one request covering several breaches of stock market regulations across several Member States of the European Union.

The CSSF responded to all these requests within the scope of its legal competence.

2.2. Inquiries into non-compliance with the rules of conduct in the financial sector and within the scope of general supervision of securities markets

The CSSF's interventions as regards non-compliance with the rules of conduct in the financial sector and/or within the scope of general supervision of securities markets were mainly motivated by the will to protect investors and ensure market integrity. The decisions to open an investigation or to intervene with a professional of the financial sector are, at first, based on analytical reports of daily trading activity on the Luxembourg Stock Exchange, as well as on the analysis of trades reported to the CSSF. The CSSF then analyses this information and decides on the appropriateness of an intervention.

In this context, the CSSF conducted, in 2004, one investigation into several securities listed on the Luxembourg Stock Exchange. Within the context of this inquiry, the CSSF reminded an investment firm that transactions without real change in the title of ownership are against the code of ethics laid down in the Rules and Regulations of the Luxembourg Stock Exchange and the provisions of circular CSSF 2000/15 concerning the rules of conduct in the financial sector, which specifies in section IV. that: *"The professional shall refrain from any act liable to impair the market transparency and the proper operation of market activities. At no time shall he manipulate the market, alone or in concert with others, to his advantage or to the advantage of a third party, by means of any single or a series of acts, silences, spreading of false information or rumours, through misleading practices or any other means, without prejudice to the professionals' right to intervene in order to ensure the success of securities issues or to stabilise a market price"* and that the professional *"shall comply with all regulatory requirements governing the conduct of his business activities so as to promote the best interests of his clients and the market integrity."* Following the intervention of the CSSF, the investment firm concerned ceased the activities in question. It has to be noted that certain other aspects concerning this investigation are still in progress.

The year 2004 was also characterised by the final stage of the progressive abrogation of the "law Rau" which generated a disinvestment of "law Rau" UCIs in securities issued by Luxembourg companies. The CSSF has conducted an investigation in order to analyse the possible consequences of sale transactions on the Luxembourg stock market. No irregularities have been observed in this context.

On the same occasion, the CSSF examined a more technical aspect, namely the quality of the trades reported to the CSSF in accordance with circular CSSF 99/7. In this context, the CSSF observed significant breaches made by certain reporting parties. These breaches have in general been explained by the technical and administrative complexity in this field and have been rectified subsequently.

3. SUPERVISORY PRACTICE

In accordance with the law of 23 December 1998 on the supervision of securities markets as amended, the CSSF supervises stock exchanges and carries out supervisory functions related to public offers 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* (Luxembourg Stock Exchange). The CSSF monitors the proper functioning of the securities market, as well as the proper implementation of the related regulations.

3.1.1. Regulatory changes

In its Annual Report 2003, the CSSF indicated that the decision of the Government in Council of 19 December 2003 to revoke the decision of the Government in Council of 4 March 1988 concerning the admission to the Luxembourg Stock Exchange of foreign UCIs not subject to supervision abroad, allows the CSSF henceforth to agree to the listing of foreign UCIs which are not subject to a continuous supervision in their home country and to the listing of financial instruments whose proceeds is entirely or partly invested in funds not subject to a continuous supervision in their home country.

During 2004, the Luxembourg Stock Exchange adapted its Rules and Regulations to take account of these new regulations and notably the conditions for approval that apply to this type of financial instruments. It has introduced criteria, which are certainly more flexible, without losing sight of its objective to only admit high-standard UCIs.

As a consequence, the CSSF repealed circular CaB 91/3 of 17 July 1991 concerning the listing of foreign UCIs on the Luxembourg Stock Exchange based on the decision of the Government in Council of 4 March 1988 concerning the admission to the Luxembourg Stock Exchange of foreign UCIs not subject to supervision abroad and has published circular CSSF 04/151 concerning the information to be published in the listing particulars for the following categories of securities:

- A) shares and units of foreign UCIs whose securities are not publicly exposed, offered or sold in or from Luxembourg;
- B) securities which are redeemable or exchangeable in shares or units of UCIs or whose income and/or redemption is/are linked to underlying shares or units of UCIs.

Indeed, limiting the schedules setting forth the information to be provided in listing particulars relating to different categories of securities (appended to the Grand-Ducal regulation of 28 December 1990 on the requirements for the drawing up, scrutiny 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) to the categories of securities commonly traded when the Directives were drawn up was no longer in line with market developments. More particularly, the schedules concerned were not entirely appropriate for the categories of securities referred to under points A and B above.

The CSSF therefore deemed it useful to specify, in its circular CSSF 04/151, the information that should be included in the listing particulars relating to the categories of securities referred to under points A and B above.

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

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

As far as market activities are concerned, turnover increased by 50.71% as compared to 2003 to EUR 1,195.64 million. Total turnover of variable income securities represented 50.55% of trading compared to 49.45% for bonds.

At the end of 2004, the Luxembourg Stock Exchange counted 68 members (against 71 in 2003), including 11 cross members.

The year 2004 was again characterised by intense activity as regards new admissions to the Luxembourg Stock Exchange. 9,143 new securities were admitted, representing an increase of about 11% in relation to the number of quotation lines, compared to an increase of 10% in 2003. The total number of admissions as at 31 December 2004 reached 33,022 securities, composed of 24,292 bonds, 261 shares, 2,414 warrants and rights and 6,055 Luxembourg and foreign undertakings for collective investment and compartments.

3.2. Documentation relating to public offers and listings

Under the supervision of the CSSF, the Luxembourg Stock Exchange is entrusted with examining prospectuses, pursuant to the Grand-Ducal regulation of 28 December 1990 on the requirements for the drawing up, scrutiny 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.

In 2004, thirty-five public offers of transferable securities were made in Luxembourg, twenty-one of which were public exchange offers in relation to securities listed on the Luxembourg Stock Exchange. The CSSF approved the documentation relating to four public offers that were not the subject of an application for admission to official listing on the Luxembourg Stock Exchange.

In 2004, the Luxembourg Stock Exchange submitted around twelve application files drawn up for the purpose of due examination of the public offer prospectus or listing particulars to the CSSF in order to obtain the CSSF's written view on these issues. In addition, the Stock Exchange referred fifteen applications for an exemption from specific regulatory provisions concerning prospectuses to the CSSF. Six of them were duly justified and thus granted.

As regards co-operation with foreign authorities concerning mutual recognition of prospectuses, the CSSF issued certificates of approval relating to 114 public offers or admissions to the official stock exchange listing made simultaneously or within short interval in several Member States of the European Economic Area.

3.3. Luxembourg companies listed on the Luxembourg Stock Exchange

3.3.1. Financial information disclosed by listed companies

The law of 23 December 1998 on the supervision of securities markets as amended lays down the principle that financial information disclosed by companies listed on the Luxembourg Stock Exchange be monitored. The number of Luxembourg companies whose shares are listed amounted to 42 as at 31 December 2004.

Regulation (EC) N° 1606/2002 of 19 July 2002 on the application of international accounting standards (IAS Regulation) introduces the obligation for companies under the national law of a Member State, the securities of which are traded on a regulated market, to draw up their consolidated financial statements in accordance with the international accounting standards IAS/IFRS for each financial year starting as from 1 January 2005 or later.

SUPERVISION OF SECURITIES MARKETS

Directive 2003/71/EC of 4 November 2003 on the prospectus to be published when securities are offered to the public or admitted to trading (Prospectus Directive) and Directive 2004/109/EC of 15 December 2004 on the harmonisation of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market (Transparency Directive) have then been adopted with the same aim of harmonising the presentation of financial statements relating to listed companies. While the IAS Regulation only aims at companies under the national law of a Member State, the Prospectus and Transparency Directives extend the scope of application to issuers of securities admitted to a regulated market that have their registered office in a third country.

Continuing its works as regards the application of the accounting standards IAS/IFRS, the CSSF followed in 2004 the adaptation process of companies under Luxembourg law whose shares are listed on the Luxembourg Stock Exchange and has heightened the Luxembourg market participants' awareness of the problems linked to the transition to these accounting standards.

The CSSF started analyses on the accounting standards currently used by:

- the companies under Luxembourg law whose securities other than shares are admitted to the regulated market of the Luxembourg Stock Exchange, and
- the foreign companies whose securities are admitted to the regulated market of the Luxembourg Stock Exchange,

in order to be able to assess the consequences on the Luxembourg market of the application of the IAS/IFRS accounting standards or of accounting standards considered equivalent to the standards provided for by the IAS Regulation, the Prospectus Directive and the Transparency Directive.

- ***Scrutiny of financial information***

The CSSF verifies all the financial data submitted to it, in particular the yearly and half-yearly reports published by Luxembourg companies whose shares and units are listed on the Luxembourg stock exchange. The CSSF can ask an independent external auditor to prepare a written report on individual and consolidated annual accounts of these companies.

Since certain listed companies are in the transitional period towards the IAS/IFRS standards, the CSSF has often been contacted with a view to clarifying the application in Luxembourg of the provisions laid down by the IAS Regulation and the options given to Member States under this Regulation, as well as the possible interaction between the IAS Regulation and the Prospectus and Transparency Directives.

3.3.2. Reporting of major shareholdings

The CSSF systematically verifies 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, notably by considering attendance registers of ordinary and extraordinary meetings, as well as any other source of information.



| *Department Supervision of Securities Markets*

First row, left to right:

Malou HOFFMANN | Françoise KAUTHEN | Mylène HENGEN | Maggy WAMPACH

Second row, left to right:

Annick ZIMMER | Marie-Josée PULCINI | Marc LIMPACH | Jean-Christian MEYER | Simone GLOESENER

Absent:

Sylvie NICOLAY-HOFFMANN | Pierre VAN DE BERG

CHAPTER

VII



SUPERVISION OF INFORMATION SYSTEMS

1. Activities in 2004
2. Supervisory practice

1. ACTIVITIES IN 2004

1.1. Meetings, on-site inspections and participation in national groups

In 2004, IT audit participated in 101 meetings and carried out six on-site inspections on subjects covering the functioning and security issues of the supervised entities' IT systems, and more specifically of the entities having a support PFS status, introduced by the law of 2 August 2003 and defined by articles 29-1, 29-2 and 29-3 of the law of 5 April 1993 on the financial sector as amended. A large proportion of these meetings were held with providers of non-financial services that sought information on the authorisation procedure or that were concerned about qualifying their activities in order to determine whether they could be provided without an authorisation.

IT audit has also contributed to seven seminars or conferences and to 38 national meetings held within the framework of working groups or projects. IT audit thus participated, actively or as observer, in some groups of the *Banque centrale du Luxembourg* (Luxembourg Central Bank), the *Comité de Normalisation Luxembourgeois de la Sécurité de l'Information* (CNLSI – Luxembourg standardisation committee of IT security), which contributes to the definition and development of ISO standards in this area, in the design of the training programme of a professional Master in "Management of IT security system" within the University of Luxembourg and in the GRIF research programme which is part of the LIASIT project (Luxembourg International Advanced Studies in Information Technologies), which aims at creating in Luxembourg a centre of excellence in applied research, notably in the field of IT security.

1.2. The GRIF research project

On 30 June 2003, the CSSF signed a co-operation agreement with the *Centre de Recherche Public Henri Tudor* (CRP-HT). The aim of the agreement is to carry out an applied research project, named *Gestion des Risques Informatiques dans le Secteur Financier: nouvelles approches méthodologiques* (GRIF project, IT risk management in the financial sector: new methodological approaches).

This project, which is co-financed by CRP-HT and the CSSF, has been set up in the context of the international harmonisation of banking supervision as defined by the New Basel Accord (Basel II) and more particularly the supervisory mission of the CSSF under Pillar 2, which requires that the supervisory authority reviews and assesses capital adequacy and the internal rating system of credit institutions.

The main objective of the CSSF and CRP-HT consists in studying new methodological approaches allowing to assess IT-related risks, preferably in a quantitative manner. The findings in this highly specific field of research aim to formalise and quantify the consideration of IT risks within the global operational risks of financial institutions.

At year-end 2004, the CSSF and CRP-HT defined a standardised methodology, which does not only apply to IT operational risks, but also to the entire operational risks as defined by Basel II. From this point of view, the project's results surpass initial objectives and are perceived as sufficiently innovating for the CSSF to consider promoting this method to other authorities affected by Pillar 2.

The CSSF and CRP-HT will submit the project's main results to the professionals concerned and to the public by the end of the first half of 2005. The methodology defined within the scope of Pillar 2 can also be used by institutions within Pillar 1. Additional work with the professionals concerned (credit institutions, investment firms, consultants and auditors) is planned to consolidate the method and to promote its understanding by all the other parties involved.

It has to be noted that this method remains compatible with any other method used within the scope of Pillar 1, be it COSO¹, or in the IT area, Cobit, Méhari, EBIOS, etc., and that it presents, by virtue of its standardisation, transparency in the specific assessment of Pillar 2.

1.3. International co-operation

The year 2004 was marked by the end of the works of the Electronic Banking Group (EBG), which will be integrated into another group of the Basel Committee. It has not been defined for the time being which group will take over the EBG's works, but the groups dealing with operational risks are privileged candidates.

The end of the meetings does not imply that there is no communication. The members of EBG regularly inquire about new challenges in the field of international e-banking. The CSSF has thus followed the progression of the "phishing" phenomenon, which has grown rapidly, departing from the United States and Asia, before hitting Europe.

"Phishing"² is a form of online fraud, aiming at getting hold, through the Internet, by fraudulent means and by eluding the users, of confidential information that will be used in an unlawful way.

The "phishing" phenomenon proves that data security in the financial world is not only the responsibility and remit of the financial professionals, but that the user of online financial services must also be made aware of the threats and assume his responsibilities in this field. For this reason, the CSSF highly approves the financial institutions that have informed their clients about the existence of "phishing" and the initiatives aiming to inform the public, such as the CASES³ project.

2. SUPERVISORY PRACTICE

Within the scope of the supervision of operational aspects of support PFS, the IT audit focuses in particular on verifying compliance with the legal and regulatory framework aiming directly or indirectly at maintaining or improving the professionalism of the activities so as to ensure that the quality of the subcontracted services meets the same prudential criteria as the credit institutions that use them.

2.1. Segregation of environments within support PFS

The CSSF stresses that the segregation of client's environments and data by the support PFS is a fundamental element guaranteeing quality and perennality of activities, notably because it contributes to minimise reputational and, indirectly, legal and financial risks. Indeed, a service provider entrusted with processing the data of several financial institutions must at any time be able to distinguish for which one it is providing a service. He must also be able to ensure perfect impermeability between the entities concerned, so as to guarantee perfect confidentiality of the entrusted data.

¹ COSO Enterprise Risk Management – Integrated Framework. COSO was formed in 1985 to promote the National Commission in the United States, named "National Commission on Fraudulent Financial Reporting" and known as "Treadway Commission" (www.coso.org).

² Phishing = (Phreaking + Fishing). Phreaking: hacking telephone exchanges, since the blue Box of John Draper in the seventies. Fishing: reference to password fishing in the Internet ocean.

³ Cyberworld Awareness Security Enhancement Structure – *Portail de la sécurité de l'information du Ministère de l'Economie* (Portal of data security of the Ministry for economic affairs) (www.cases.lu).

SUPERVISION OF INFORMATION SYSTEMS

The CSSF reminds that the supervised entities must remain prudent when assessing technical solutions. Thus, IT audit approves or disapproves a solution proposed by an establishment only after having appraised the way the latter has assessed risks, and by balancing this solution against the current good practices and the experience gained with similar cases in the past.

Experience prompts IT audit to be very prudent with respect to solutions for the segregation of environments that are mainly based on procedures, without being supported by technical safeguards. Indeed, the smooth functioning of the procedures implies strict discipline of the persons concerned. Unfortunately, experience shows that this discipline fades with time and as staff changes.

Another aspect of prudence relates to the reliability of the proposed technical solutions in order to guarantee a segregation of environments. The CSSF does not impose one computer to be set up for each financial entity the PFS deals with, which would be contrary to any economy of scale that outsourcing should allow. However, it is advisable to be prudent when a system (computers and other peripheral equipment) is shared by several financial institutions. Resources can be shared in many different ways, but analysis should take into account the reliability of the various operating systems and of the financial applications used. Hence, the CSSF is reluctant to approve the sharing of an application operating on a single system partition, unless this operating mode has been proved over several years. *A fortiori*, sharing of an application by several institutions is unacceptable if each institution connects to a single shared application, as in this case the segregation only depends on the identifier (username and password) used. A user access configuration error or simply the knowledge of another institution's identifier and password (like after change of employer) would permit connection to a third party environment.

Currently, the most commonly used solution in ASP⁴ mode remains the multiple partitioning in which an instance of the financial package is operated per user.

The problem is even more complicated in cases of systems that allow a virtual partitioning for multiple operating systems. These solutions are based on products such as VMware and are promising as far as security is concerned, notably when processors will be able to handle the technology of these virtual machines. In this case, one can expect partitioning being done at processor level and not within the operating system of the virtual machine. In these circumstances, the CSSF does not pronounce itself on the reliability of the current solutions and encourages prudence.

2.2. Interim staffing services and the PFS status operators of systems and networks

Several IT service companies contacted the CSSF in order to determine whether their activities fall under the status of IT systems and communication networks operator of the financial sector.

The services of these companies include the provision of specialised staff, namely network engineers, system administrators, or operators specialised in writing operating scripts, to operate production systems or networks of financial institutions.

Last year, the CSSF had already stated its position as regards the status of these services: it considers the administration of a production system as being part of operating a system or a network. *Stricto sensu*, these services thus fall under the PFS status in accordance with article 29-3 of the law of 5 April 1993 on the financial sector as amended.

⁴ Application Service Provider, often through the rental at request of a computer application operated by the provider.

However, further clarifications should be added to this position, notably as regards the contractual liability of the subcontractor and the temporary character of the service, to which might be added the purpose of the subcontractor's intervention.

As far as the subcontractor's liability is concerned, the service contract should clearly establish that the subcontractor is only liable for the profile of the persons provided to the company. The contract cannot, by any means, provide for the liability of project finality. The tasks and duties to be carried out by the subcontractor's staff must be entirely defined by the financial institution. Moreover, the provision of services should be limited in time and should not extend beyond the periods allowable for temporary services, in accordance with the existing law in this area, nor be renewed with different staff, which would be considered as offering operator services disguised as temporary services.

The objective of the subcontractor's services is an important element enabling to qualify the activity. Where the services are provided over a reasonable and limited period of time and for non repetitive tasks, such as conversion from one system to another, the activity can be considered as a development project and not as an operating assignment, as the services become void as soon as the migration is complete. In this case, the subcontractor could also be liable for the result of the service and guarantee the project finality, since the provision of the service will not be considered by the CSSF as system operation, but as a specific non-repetitive project.

In order to be able to assess the services on the borderline between those requiring a PFS authorisation as systems and networks operator and those that do not, the CSSF checks in particular if the company concerned fulfils the conditions set out below. It should be noted that the activities on the borderline are those consisting in providing staff specialised in operating functions (systems or networks engineers, operators, production agents, script developers, etc.).

The conditions allowing a subcontractor to qualify its services as temporary work, and not as operating of systems and networks requiring an authorisation as PFS, are the following:

- the provider does not renew services for the same financial institution in a consecutive manner;
- the provider does not assume liability for the finality of the service, which would include the duty to achieve a result, but only for the quality of the profile of the person provided to the financial institution, which entails an obligation of due care;
- the provider lays down by contract that the works and duties to be performed by the staff provided are allocated by the financial institution;
- the provision of the services must *a priori* take place within the financial institution;
- services are provided for a limited period of time in accordance with the law in force in the area of temporary labour.

The CSSF thus endeavours to avoid that the services of systems and networks operators are provided without authorisation and in a disguised manner, in the form notably of systematically renewed temporary contracts.

Furthermore, the CSSF reminds the institutions supervised that sound administrative and accounting organisation rests on the monitoring of the main supporting activities. The financial institutions must therefore avoid to make systematic use of temporary resources for IT functions, in particular relating to production systems and networks.

It is acceptable to replace a computer specialist (i.e. a system administrator), unavailable for reasons of ill-health or any other, by a temporary worker, but the financial institution shall not end up using only temporary workers. Indeed, the systems' sound functioning ensuring the continuity of the financial services offered is only possible if the financial institution keeps the mastery.

Periodic renewal of staff leads, to say the least, to an impoverishment of the knowledge of the production tools, in particular as regards historical knowledge of events and issues encountered. It can also result in a dilution of responsibilities according to the degree of motivation and involvement of temporary staff.

The responsibilities of system administrators in the context of defining the user access rights need also be mentioned, as this activity makes these persons strategic players.

The CSSF therefore requires particular attention from the external auditors in the course of their annual audit.

It is essential that each financial institution ascertains that the subcontracted works comply with the law, as well as with the prudence principles linked to the services of temporary staff mentioned above. A financial institution cannot call upon a subcontractor that does not hold the required license and would be constrained to renounce calling upon this entity. The subcontractor could be prosecuted for illegal exercise of an activity of the financial sector.

2.3 The new telephony technologies: VoIP

The VoIP technology, i.e. "Voice over IP", consists in conveying voice over a network using the IP protocol (the Internet Protocol). Concretely, VoIP is a new telephony mode that allows to use the Internet (public or specific to a company or a group) to communicate.

The use of the VoIP technology by financial professionals raises new supervisory issues, notably as regards data confidentiality. Indeed, with traditional telephony, the internal communications of an institution that has its own telephone exchange remain physically confined within the institution. External communications are transmitted to a telephone company falling under the law on telecommunications that requires it to keep communications secret.

Questions raised by the use of VoIP technology are multiple, such as:

- Is the technology sufficiently mastered so as to ensure that the institution's network equipment is adequately configured and secured? Indeed, ill-configured equipment allows to duplicate the link and listen to the communication with any equipment (VoIP telephone or office computer) connected to the local network.
- Is the network used to convey internal VoIP communications exclusively managed by the Luxembourg institution? If this network, which can be the institution's IT network, is for instance managed by an entity of the group or by the parent company, then principles laid down in circular IML 96/126 will not be fulfilled, as confidentiality will not be ensured.

- If VoIP technology is used to communicate outside the institution, for instance with the other entities of the group, or with the non-VoIP external world, the question arises whether an agreement as networks operator is needed. It is indeed possible that the operator is not a telephony operator in accordance with the telecommunications law. Furthermore, in case of interconnecting IP networks, the company must be protected against intrusions. But firewalls and IDS⁵, as far as VoIP is concerned, come up to technological limits and are not sufficiently developed to allow efficient protection. VoIP can thus be used as an intrusion means into a computer network.

These questions are not aimed at discouraging the financial professionals to use VoIP, but show that the implementation of this technology should be carried out cautiously, by correctly analysing the weaknesses and threats. VLAN⁶ can be used for local networks segmentation and the implementation of VPN⁷ must absolutely be considered in this context.

A prudential approach would consist in apprehending VoIP solutions in the same manner as computer networks. The major risk lies in the implementation of VoIP solutions by certain experts in traditional telephony who are not concurrently specialised in data networks and, above all, are not aware of the CSSF's prudential requirements. A VoIP project shall, under no circumstances, be considered as a simple telephony project.

⁵ IDS: Intrusion Detection System. Systems allowing to detect abnormal behaviours (patterns) of a network, which could suppose an intrusion. IDS is like a network anti-virus.

⁶ VLAN: Virtual Local Area Network. This technology allows to separate physical networks by allocating a logical security to the transport protocol (Ethernet).

⁷ VPN: Virtual Private Network. This technology uses cryptography of transmitted information, ensuring confidentiality between two or several pre-configured participants within the computer network.



First row, left to right:

Marie-Anne VOLTAIRE (Internal audit)

Monique REISDORFFER | Marcelle MICHELS | Joëlle DELOOS | Karin FRANTZ (Executive secretaries)

Pascale DAMSCHEN (IT Coordination)

Second row, left to right:

Pascal DUCARN (IT Audit) | Constant BACKES (Systems Security)

David HAGEN | Claude BERNARD (IT Audit)

Absent:

Geneviève PESCATORE | Marc WEITZEL (Director General's Advisors)



MEANS OF SANCTION AVAILABLE TO THE CSSF

1. Means of intervention available to the CSSF
2. Sanctions imposed in 2004

MEANS OF SANCTION AVAILABLE TO THE CSSF

1. MEANS OF INTERVENTION AVAILABLE TO THE CSSF

The following means of intervention are available to the CSSF to ensure that the persons subject to its supervision comply with the laws and regulations relating to the financial sector:

- injunction, sent by registered letter, requesting the establishment concerned to remedy the particular situation;
- suspension of persons, suspension of the voting rights of certain shareholders or suspension of the activities or a sector of activities of the establishment concerned.

In addition, the CSSF has the right to:

- impose or ask the Minister of Treasury and Budget to impose disciplinary fines on the persons in charge of the administration or management of the establishments concerned;
- under certain conditions, request the District Court responsible for commercial affairs to have payments suspended and place an establishment under controlled administration;
- ask the Minister of Treasury and Budget to refuse or withdraw registration from the official list of credit institutions or the other professionals of the financial sector, if an establishment does not fulfil or no longer fulfils the conditions for being or continuing to be registered on the official list in question;
- refuse or withdraw registration from the official list of undertakings for collective investment, pension funds, management companies (Chapter 13 of the law of 20 December 2002 as amended), SICARs or securitisation vehicles if an establishment does not fulfil or no longer fulfils the conditions for being or continuing to be registered on the official list in question;
- in extreme cases and under precise conditions laid down by law, request the District Court responsible for commercial affairs to order the winding up and liquidation of an undertaking.

Moreover, the CSSF informs the Public Prosecutor of any instance of non-compliance with legal provisions relating to the financial sector, giving rise to penal sanctions and that could entail prosecution against the implicated persons. The following cases are concerned:

- persons performing an activity of the financial sector without holding a licence;
- persons active in the field of company domiciliation without belonging to any of the professions entitled by the law of 31 May 1999 governing the domiciliation of companies as amended to carry on this activity;
- persons other than those registered on the official lists of the CSSF, who use a title or appellation, thereby breaching article 52(2) of the law of 5 April 1993 on the financial sector as amended, that gives the appearance that they are authorised to perform one of the activities reserved for persons registered on one of the lists;
- attempted fraud.

2. SANCTIONS IMPOSED IN 2004

2.1. Credit institutions

In 2004, the CSSF did not have to formally use its right of injunction and suspension conferred on it by law.

However, the CSSF required the resignation of two managers. In one case, the legislation governing money laundering was seriously infringed. The other case was about unprofessional and deontologically incorrect behaviour with relation to a client.

The CSSF filed one complaint with the Public Prosecutor's Office for illegal electronic money issuance.

2.2. Other professionals of the financial sector (PFS)

In 2004, the CSSF did not use its right of suspension conferred on it by the law of 5 April 1993 on the financial sector as amended.

However, the CSSF used its right of injunction, in accordance with article 59 of the abovementioned law, on two occasions. The imposed injunctions concerned a situation of insufficient financial base, governed by article 20 of the law on the financial sector and a situation of non-compliance with legal provisions regarding central administration and administrative and accounting organisation according to article 17 of this law.

During 2004, the CSSF also imposed disciplinary fines of EUR 1,500 each on persons responsible for the daily management of four PFS, in accordance with article 63 of the law of 5 April 1993 on the financial sector as amended. These were imposed on account of refusal to transmit information in accordance with articles 53 and 54 of the aforementioned law, i.e. documents and information relating to the closing of previous financial years which had not been transmitted to the CSSF by the PFS concerned.

In 2004, the CSSF filed three complaints with the Public Prosecutor's Office for illegal domiciliation activities of companies not authorised thereto. The CSSF also lodged nine complaints with the Public Prosecutor's Office for illegal activity of the financial sector, including four cases where the companies concerned pooled funds from the public without being authorised thereto.

2.3. Undertakings for collective investment

In 2004, the CSSF had to suspend the issues and redemptions of shares of two SICAVs.

The CSSF applied article 27(5) of the law of 30 March 1988 as amended and article 71 implementing article 28(5) of the law of 20 December 2002 on undertakings for collective investment as amended. These articles entitle the CSSF, in the interest of shareholders, to suspend redemptions if the provisions of laws, regulations or the articles of incorporation concerning the activity and operation of the SICAV are not observed.



CUSTOMER COMPLAINTS

1. Complaints in 2004
2. Analysis of complaints handled in 2004
3. FIN-NET network, the cross-border out-of-court complaints network for financial services

CUSTOMER COMPLAINTS

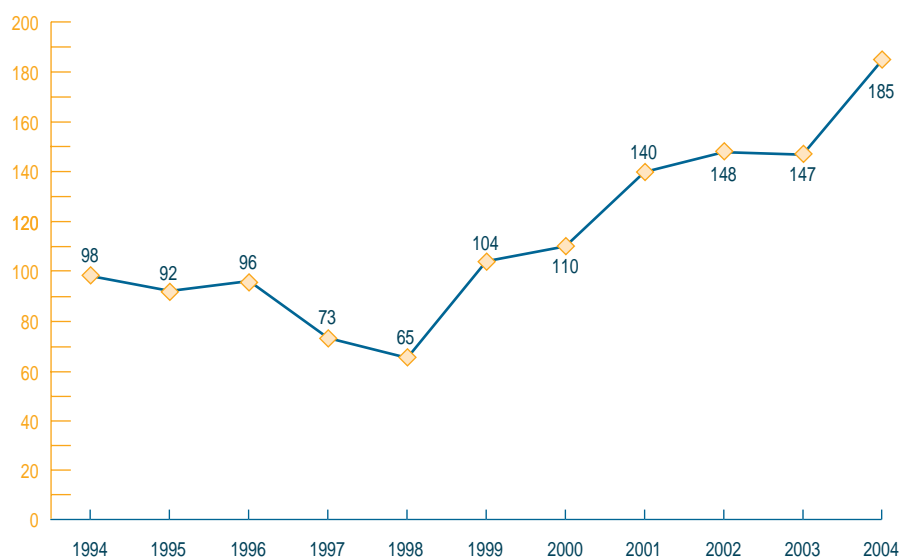
1. COMPLAINTS IN 2004

The law of 5 April 1993 on the financial sector as amended confers on the CSSF the task of mediating between the entities under its supervision and their customers. Under the terms of article 58 of this law, the CSSF is competent to receive complaints from clients of the entities subject to its supervision and to intercede with these entities with a view to settle the disputes amicably.

Within the CSSF, the General Secretariat handles these disputes.

The number of new complaints handled by the CSSF in 2004 increased considerably. This rise is partly due to the fact that customers are better informed about the CSSF's functions with regard to complaint handling, so that they refer more readily to an out-of-court complaint settlement system, which has notably the advantage of being speedy and free of charge.

Development in the number of complaints



Among the 185 complaints received in 2004, 176 were lodged by natural and nine by legal persons. Forty-one complainants contacted the CSSF through a lawyer or a representative. The European Consumer Centre, the EEJ-Net network and the *Union Luxembourgeoise des Consommateurs* (Luxembourg Consumer Union) each forwarded one complaint to the CSSF. The majority of complaints (175) concerned credit institutions, while ten concerned PFS.

Number of complaints handled in 2004

Number of complaints received in 2004	185
Files from 2003	53
Total files handled in 2004	238

Geographic breakdown¹ of the 238 complaints handled in 2004

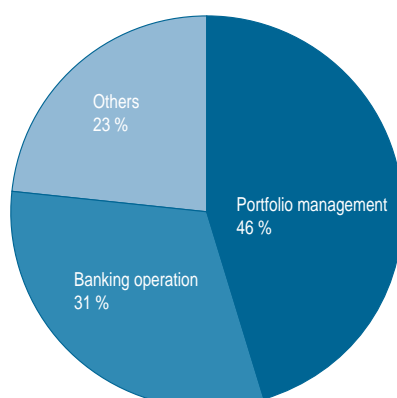
Belgium	76	Denmark	3
Germany	48	Netherlands	2
Luxembourg	48	Italy	2
France	22	Portugal	1
United Kingdom	9	Austria	1
Spain	6	Greece	1
Sweden	3	Others (non EU)	16 ²

Among the 238 files handled in 2004, 189 could be closed, with the following outcome or reason for closing:

Files closed		189
Unjustified complaints	65	
Justified or partly justified complaints	9 ³	
Amicable settlement	36	
Absence of amicable settlement	25	
Withdrawal by client	42 ⁴	
Others	12 ⁵	
Open files carried forward into 2005		49
Total		238

It has to be noted that 16 out of the 49 files carried forward into 2005 were settled by 1 March 2005.

Breakdown of complaints (closed in 2004) according to their object



¹ According to the home country of the complainant.

² Including South Africa (4), Switzerland (2).

³ This category concerns all the cases where the CSSF concluded that the complaints were justified or partly justified, but where no amicable settlement could be reached as the client refused the settlement proposed by the professional, even if, in certain cases, the parties resumed negotiations in order to find a solution to their dispute.

⁴ This category not only encompasses the complaints on which the complainant does not follow up, but also those where the client decided to refer his matter directly to the courts, thus putting an end to the CSSF's intervention.

⁵ This category notably covers the cases where the CSSF decided to end its intervention in accordance with article 58 of the law of 5 April 1993 on the financial sector as amended as it noticed during the procedure that a legal investigation is taking place.

CUSTOMER COMPLAINTS

Banking operations		86⁶
Deficient client information	16	
Non-execution or incorrect execution of orders	17	
Fees, commissions, interest rates	25	
Cross-border transfers	8	
Non-fulfilment of agreement	5	
Dispute over the existence of consent	3	
Deadlines	2	
Various disputes ⁷	32	
Portfolio management (advice and discretionary management)		59
Deficient client information	24	
Including cases relating to non-information about risks	11	
Unprofessional management	13	
Dispute over the existence of a discretionary management mandate	9	
Non-execution or incorrect execution of orders	9	
Dispute over the existence of consent	6	
Non-observance of investment profile	4	
Fees and commissions	4	
Non-fulfilment of agreement	3	
Others		44⁸

While the total number of complaints handled by the CSSF increased in 2004, the number of complaints relating to private portfolio management, already decreasing in 2003, continued to drop. The more general category of complaints relating to banking operations has taken the lead with 45.5% of the complaints closed in 2004.

- **Complaints regarding UCIs**

In 2004, the department Supervision of UCIs dealt with sixteen complaints lodged by investors regarding UCIs. Fourteen files have been closed or are about to be closed. Two complaints could be settled amicably while another one was withdrawn by the investor. Analysis of the breakdown of complaints relating to UCIs according to object shows that the vast majority relate to a delay in the payment of the redemption proceeds of units of UCIs, or to the performance or investment policy of UCIs.

The 2004 statistics of the General Secretariat do not include complaints regarding UCIs. It has to be noted that the General Secretariat will deal with these complaints as from 2005.

2. ANALYSIS OF COMPLAINTS HANDLED IN 2004

2.1. Banking operations

Most of the complaints received in 2004 concerned all sorts of banking operations, from account opening, to the different transactions made on the account, including the closing.

⁶ Certain files can appear in several sub-categories.

⁷ This category encompasses complaints relating to a wide range of daily banking operations, most of them with low economic stakes.

⁸ Including, among others, disputes arising from inheritance and account search procedures, issues relating to the freezing of accounts, communication issues between clients and professionals and disputes relating to the general terms.

2.1.1. When establishing a business relationship

Some of the complaints received related to the nature and importance of the information required by the professional at the account opening. Certain clients had difficulties understanding why the credit institution, at the time of the account opening, enquired about their possible connections to politicians or senior civil servants, as the clients considered this as a violation of their privacy. It should be explained in this context that the professionals require this information in order to comply with the due diligence and know-your-customer procedures they are obliged to set up within the scope of the fight of money laundering and terrorist financing. As the credit institutions are required, within the framework of anti-money laundering measures, to keep their client files up to date, this kind of information can even be requested from long-standing clients. Certain professionals respond more firmly in case they have not received the information, as shown in the complaint lodged by a client who reproached the bank for not being able to dispose of his account, as it was frozen until reception of the requested information. The professional explained that the account was frozen as a result of the client's refusal to deliver a certain number of information concerning his personal situation. Given the rules of conduct as regards anti-money laundering measures, the CSSF could not blame the credit institution for any misconduct and invited the client to provide the information requested.

The CSSF came to the same conclusion in a case where the client, the co-account holder, could not dispose of the account because he failed, despite several notices, to provide the credit institution with the information relating to the account's beneficial owner. The CSSF agreed with the credit institution, which denied the client access to his account until reception of the documents required within the fight against money laundering and terrorist financing.

2.1.2. In the course of the business relationship

The contractual relation between a client and a professional, which rests on mutual trust, is governed by the general terms and contracts whose clarity is a condition *sine qua non* for sound business relations. The professional must ensure that the documents governing the relations between the parties do not give rise to divergent interpretations that could mislead the client.

One case submitted to the CSSF related to the terms of the contract, which were not formulated in a clear manner, and more particularly to the interpretation of "rates offered on the eurocredit market" mentioned in the loan agreement that the client had signed with the credit institution. While the client considered that "rates offered on the eurocredit market" referred to the Euribor rates, the credit institution stated that the contract indisputably referred to its refinancing rate. The CSSF concluded that the client's claim was justified. The wording the client disputed was indeed misleading as it lacked precision and allowed two fundamentally different interpretations. The formulation was thus out of line with point 5.6 of circular CSSF 2000/15 relating to the rules of conduct in the financial sector, which provides that all information provided to the client must be clear, truthful, accurate, complete and comprehensibly formulated, in an adequate form and reflect the assessment the professional made of his client's knowledge and experience. Following the CSSF's intervention, the credit institution proposed an amicable settlement to the client. Moreover, the CSSF invited the credit institution, so as to remove any ambiguity and avoid further complaints, to amend the wording of its contracts and to specify more explicitly that it refers to the refinancing rate of the credit institution.

It is important to stress that any amendment to the terms binding the professional and the client must be communicated to the latter beforehand in a clear and unequivocal manner. This information must be provided to the client within reasonable time by letter or in any other form. New prices or increases in existing prices must be communicated to the client before they take effect.

CUSTOMER COMPLAINTS

Throughout the business relationship, the client is informed about the state of his account by means of statements of accounts and wealth he must sign, etc. These documents contain a certain number of important information, e.g. concerning the value dates, which are regularly disputed. Within the scope of these complaints, the CSSF informs the complainants that accounting of operations with value dates is a common practice in the financial markets, and recognised by the European Commission, according to which transactions on bonds should be effected within T+3, T being the date of the transaction, plus three working days. The credit institution's decision to apply one or several value dates depends on its commercial and pricing policy with which the CSSF does not interfere, provided that the clients have been appropriately informed. Indeed, the CSSF only intervenes in this field if the credit institution violates the prices communicated to the clients or a legal provision.

Many complaints submitted to the CSSF in 2004 concerned prices and fees, notably those submitted by foreign clients who disputed all sorts of costs billed by Luxembourg credit institutions.

A certain number of complaints concerned the amount of securities transfer fees billed by credit institutions. These transfer fees are in general calculated according to the security concerned and the securities lines. In principle, the professional's general terms provide that the professional is entitled to charge fees that can be looked up on the price list available to clients. By signing the general terms, the client acknowledges being aware of their content, and even having accepted how fees are charged. The CSSF can therefore only intervene in order to seek an amicable settlement between the professional and the client in matters where the client has not been informed beforehand of the existence of these fees and commissions, or has not been able to obtain this information, or where the credit institution did not abide by the prices communicated.

Furthermore, the CSSF concluded that a credit institution that had granted preferential rates to a client over several consecutive years for the payment of coupons is not bound to continue to do so. Preferential fees and commissions compared to the standard price list should not be taken for granted. The credit institution is indeed not obliged to apply for every future transaction the discount conceded. However, where the credit institution decides to revise its decision and apply the standard price, it should refrain from doing so with retroactive effect.

2.1.3. At the closing of accounts

The CSSF informed the clients concerned that charging costs for account closing is in line with practices existing in the Luxembourg financial centre and that the pricing policy is in principle the remit and responsibility of the professionals. These costs mostly cover those relating to administration and banking organisation.

In principle, a business relation between the professional and the client ends at the initiative of the latter. In one case submitted to the CSSF, the client was surprised by the contrary. A credit institution can close an account without being obliged to justify its decision provided that it abides by the existing procedures, i.e. in general, prior notice by registered letter within a reasonable period of time, unless otherwise stipulated in the general terms.

2.1.4. Inheritance

In 2004, the CSSF was solicited several times with respect to problems concerning inheritance. The majority of complainants were confronted with issues relating to banking secrecy when they searched for accounts of deceased relatives. Article 41 of the law of 5 April 1993 on the financial sector as amended provides that the professionals are obliged to keep secret the information entrusted to them within the scope of their professional activity, or will incur criminal sanctions. In general, heirs or legatees searching for bank accounts of the deceased request credit institutions in

writing to provide information on the existence of bank accounts that belonged to the deceased. Credit institutions respond in the most diverse ways to such requests. Where the credit institutions do not respond at all, the heirs can be led to complain to the CSSF. The CSSF informed the client that in Luxembourg, only a credit institution that establishes that the deceased held an account, is bound to reply positively to the request of a legal heir or universal legatee having proven his capacity by means of the required official documents. This position is in line with established jurisprudence. The banking secrecy, which is opposable to any person save for the client himself, is not opposable to the heirs entitled to a compulsory portion after the client's decease. Indeed, heirs continue the person of the deceased client and have consequently the same rights *vis-à-vis* the credit institution than the deceased who was a client of the credit institution.

The banking secrecy is also invoked within the scope of other complaints. Thus, in one complaint submitted to the CSSF, the heir of the beneficial owner of an account requested information on the account. However, insofar as no contractual link binds the beneficial owner and the credit institution, the bank refused to provide any information. Indeed, only the client can enter into a contractual relationship with the credit institution and become the holder of the inherent rights and obligations. The identification of the beneficial owner within the scope of the fight against money laundering does therefore not imply that the latter can exercise the same rights and obligations as the account holder. Thus, the credit institution can legally invoke the banking secrecy against the beneficial owners themselves or against their heirs or proxies. According to the CSSF, the complaint was not justified.

2.2. Portfolio management

The fact that discretionary management mandates and advice contracts are not always clearly delimited also generated many complaints in 2004.

A certain number of clients trust and allow managers to act freely without any discretionary management mandate. However, these same clients do not hesitate to invoke the absence of a mandate as soon as losses are recorded, pretending not to be aware of the transactions that had been effected on their account.

Thus, in one case, a client pretended having sustained a major material loss because the professional had invested his assets in risky financial products, without having signed a discretionary management contract or agreement, or given instructions. After having analysed the positions of both parties, the CSSF concluded that the client could hardly invoke the absence of a discretionary management mandate. Indeed, the facts, and in particular the fact that the client did not object during his telephone conversations with his manager or when he received his statements of account, prove that the client could not be unaware of the transactions made within his portfolio.

Since the client has never raised any objection in this regard, one can justifiably consider that in this case, the entries were tacitly approved. Indeed, the silence of the client at the reception of the statements of account can imply tacit agreement of the entries and the conditions applied, without however depriving the client of a subsequent liability action. However, it needs to be stressed that in this case, the credit institution is not entirely faultless. Indeed, the credit institution had confirmed that it had concluded a verbal discretionary management agreement with the client from the outset of business relations and that a general framework for investments had been laid down, fixing the limits within which the account manager could act. Therefore, the credit institution can be blamed for not having laid down these conditions in writing as the discretionary management included investments in high-risk technology securities. The credit institution had thus voluntarily accepted a vague situation, which could turn out to be detrimental for both parties afterwards.

CUSTOMER COMPLAINTS

In this context, the CSSF reminds that the provisions of point 5.3 of circular CSSF 2000/15 on the rules of conduct, according to which the contract between parties must state at least the objectives of the management, the categories of securities and instruments the portfolio can include, the modes of communicating investment developments to the client, the duration, the terms of renewal and termination of the contract, as well as the basis on which the professional will be remunerated. The CSSF requires that this information be laid down in writing and signed by both parties.

The professional having managed on a discretionary basis, as in the present case, a portfolio comprising derivatives without having concluded a written contract, was an aggravating factor given the very high risk inherent in futures markets. In order to make professionals cautious, point 5.5 of the above-mentioned circular requires professionals to have their clients sign a written warning notice if the latter wishes to invest in products such as derivatives or other leveraged instruments. Thus, a client cannot blame a professional, as was the case in a complaint submitted to the CSSF, for not having carried out his orders, since he had never, despite the reminders of the professional, signed and returned the document allowing the professional to operate on the options or futures markets and which included a detailed description of the characteristics and risks of this type of investment.

In one case submitted to the CSSF, the client complained that the professional had pressured him into investing in derivatives without making him aware of the risks incurred and that the professional had thus disregarded circular CSSF 2000/15. The professional however was able to prove that the client had authorised the professional in writing to invest in the securities concerned and that the manager had notified the client in writing on the risk of losing the whole outlay at the maturity of the securities concerned, notably of the call options. Furthermore, the professional had made the client sign a written warning notice that detailed the futures operations and made the client aware of the risks incurred. The professional could thus not be blamed for having disregarded circular CSSF 2000/15, and notably point 5.5.

In another portfolio management case, the professional was able to prove by means of several conversation reports that the client had been regularly alerted against investment decisions that the professional considered as inconsiderate. The client was always carried away by his taste for risk investments according to his own "strategy", despite the professional's warnings. In fact, the professional only advised the client, the client always made the final decision. The transcriptions of the orders show that they were all given over the phone and that to this end, the client had signed an agreement to discharge the professional. Finally, the client was informed in writing about all the transactions and balances of the account that were available to him by way of hold mail. The client can therefore hardly blame the professional for not having allowed him to take informed decisions.

The professionals shall inquire about the financial standing of their clients, their experience in investments, their objectives concerning the requested services. They are required to transmit any useful information to the clients in order to allow the latter to make a decision with full knowledge of the facts. Some complaints are due to the fact that even though the management profile of a client was duly defined at the outset of the business relationship, the latter blames the professional for having disregarded his profile within the scope of the advice contract signed between both parties, as the professional had invested in too risky products and not diversified his portfolio. In another case submitted to the CSSF, the professional, although he had fulfilled his advice mission, could not protect the client against his own decisions knowing that within the scope of an advice contract signed between parties, he must follow the instructions of the client. The professional's role is restricted to advising the client in his decisions.

Therefore, establishing the client's profile in accordance with points 4.2 and 4.3 of circular CSSF 2000/15 proves to be of the foremost importance and the professional should thus ensure to keep

the profile up to date throughout the business relationship. An investment profile, which is not adapted to the client's objectives and needs, gives rise to complaints, within the scope of the advice management as well as the discretionary management. In order to avoid any subsequent disputes, the profiles should be established in writing, signed by the client and follow the same procedure in case of subsequent amendments to the profile.

One complaint related to non-compliance with the conservative profile of the client who affirmed that the professional had invested, on his own initiative, in speculative products without being informed and made aware of the inherent risks. The client had signed a discretionary management contract. However, the profile had not been laid down in writing at the beginning of the business relationship. The client's profile had then been modified, according to the professional at the client's request, from conservative to aggressive. The professional explained that on the occasion of many meetings, the client repeated that his portfolio be managed in a speculative manner and that this management should not be changed. The client however persisted in saying that he never wished to change his conservative profile. Given the contradictory positions, no amicable settlement could be reached in this case as there was no document signed by the client regarding, on the one hand, the establishment, and on the other hand, the modification of his profile. Indeed, the professional produced a testimonial of the account manager as sole proof of the client's agreement to modify his profile. It has therefore been impossible to establish if the client initiated himself the modification of the investment profile. It is also important to note that these events occurred before circular CSSF 2000/15 came into force, which now requires that the client's investment profile be laid down in writing.

3. FIN-NET NETWORK, THE CROSS-BORDER OUT-OF-COURT COMPLAINTS NETWORK FOR FINANCIAL SERVICES

On 18 and 19 March 2004, the UK Financial Ombudsman Service had organised an international conference in London, intended for "Ombudsmen" and bodies responsible for the out-of-court settlement of cross-border disputes, as well as for those that plan to set up bodies responsible for handling disputes relating to financial services (credit institutions, insurance undertakings, etc.). Within the scope of this conference was also held the Fin-Net plenary meeting, which concentrated on how to promote a more comprehensive geographical and sectoral coverage in this area.

The second Fin-Net plenary meeting, held on 15 October 2004 in Brussels, concerned the possibilities to improve communication with the public and within Fin-Net itself. Furthermore, statistics relating to the complaints handled in 2003 by Fin-Net were presented to its members.



| ***Department General Secretariat***

First row, left to right:

Carine CONTE | Iwona MASTALSKA | Danièle BERNA-OST | Nadine HOLTZMER

Second row, left to right:

Gilles HAUBEN | Benoît JUNCKER | Danielle MANDER | Jean-François HEIN | Steve HUMBERT

Absent:

Natasha DELOGE | Christiane TRAUSCH

CHAPTER

X



INTERNATIONAL CO-OPERATION: CSSF INVOLVEMENT IN INTERNATIONAL GROUPS

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

INTERNATIONAL CO-OPERATION

Article 3 of the law of 23 December 1998 creating a *Commission de Surveillance du Secteur Financier* as amended appoints it, *inter alia*, to deal with and participate in the negotiations concerning problems relating to the financial sector, at both European Union and international level. In accordance therewith, the CSSF participates in the work of the following forums.

1. CO-OPERATION WITHIN EUROPEAN INSTITUTIONS

1.1. Groups attached to the European Commission

1.1.1. The Committee of European Banking Supervisors (CEBS)

The Committee of European Banking Supervisors (CEBS) was established by the Commission Decision 2004/5/EC of 5 November 2003. Its duties encompass reflecting, discussing and giving advice to the European Commission in the fields of banking regulation and supervision. The Committee also co-operates with the other competent committees in banking matters, notably with the European Banking Committee established by Commission Decision 2004/10/EC. CEBS is chaired by Mr José-María Roldan (Banco de España, Spain). The Vice-Chairman is Mrs Danièle Nouy (Commission Bancaire, France). Mr Andrea Enria (Banca d'Italia, Italy) has been appointed General Secretary. The Chair is supported by a "Bureau", comprising Mr Andreas Ittner (Oesterreichische Nationalbank, Austria), Mr Helmut Bauer (Bundesanstalt für Finanzdienstleistungsaufsicht, Germany) and Mrs Kerstin af Jochnick (Finansinspektionen, Sweden). The Committee's Secretariat is based in London.

CEBS took up its duties in January 2004 during its first meeting in Barcelona on 29 January 2004. The CSSF is represented by Mr Arthur Philippe, Director.

CEBS will fulfil the functions of a Level 3 committee for the banking sector in the application of the Lamfalussy process.

The role of CEBS is to:

- advise the European Commission either at the Commission's request, within the time limit which the Commission may lay down according to the urgency of the matter, or on the Committee's own initiative, in particular as regards the preparation of draft implementing measures in the field of banking activities;
- contribute to the consistent application of Community Directives and to the convergence of Member States' supervisory practices throughout the Community;
- enhance supervisory co-operation, including the exchange of information.

During 2004, CEBS mainly focused on the works relating to the future Directive on capital adequacy, which will transpose the New Basel Accord into European law. Moreover, in the field of accounting, CEBS was notably consulted as regards the drawing up of new IFRS rules and their implementation in Europe.

As part of its mission, CEBS set up a consultation process, which was subject to a public consultation in April 2004. The purpose of this consultation on the "Draft public statement on consultation practices" was to obtain feed-back from the interested parties, i.e. the market participants and the consumers of banking services, on the appropriateness of this public consultation process. The aim was indeed to operate in a transparent matter and to benefit from the expertise of the market participants and the consumers of banking services by implementing practical and appropriate solutions. The consultations' aim is to promote the role of these circles in drawing up new guidelines and to build consensus between all affected parties as regards the implementation of the regulations and prudential supervisory processes.

This first consultation was followed by two others: one on outsourcing with the aim of setting down general principles on outsourcing, and the other one on the “Supervisory Review Process”, aimed at providing a practical overview of the Committee’s approach towards the implementation of the New Basel Accord’s Pillar 2 requirements, respectively the relevant provisions of future Directive on capital adequacy.

- **CEBS – *Groupe de contact***

Created in 1972, the *Groupe de Contact* has been used as forum for informal co-operation between banking supervisory authorities on EU level from the outset. Following the enlargement of the European Union, it now also comprises the representatives of the authorities of the ten new Member States. The *Groupe* is chaired by Mr Fernand Naert of the Commission bancaire, financière et des assurances (Belgium) since the end of 2004. Within the new European structure of banking supervision, the *Groupe* henceforth acts as main working group of the Committee of European Banking Supervisors and, in that capacity, assists CEBS with a view to achieve convergence of the prudential supervisory practices in the European Union. The *Groupe* also continues to be a body appreciated for informal co-operation concerning the situation of individual credit institutions, particularly in the event of problems. It follows the development of national regulations, discusses practical aspects of prudential supervision of credit institutions and conducts general comparative studies.

In 2004, the *Groupe* underwent certain structural changes owing to the enlargement of the European Union and to its being formally attached to the Committee of European Banking Supervisors. The *Groupe* thus revisited its working procedures and certain organisational aspects.

The *Groupe* continued to focus on the implementation of the prudential supervisory review process, Pillar 2 of the new capital adequacy framework at Community level.

In this field, the *Groupe* notably worked on the following: questions regarding the relation between the banks’ internal ratings process of capital adequacy and the prudential assessment process of supervisory authorities; drawing up of best practice guidelines for internal governance of credit institutions, as well as the relevant supervision to be carried out by the authorities; the drawing up of approaches to solve issues relating to the distribution of responsibilities and duties between home and host authorities as regards banking groups operating across Europe, as well as the development of common approaches for authorities with respect to the validation of advanced methods that credit institutions plan to adopt to assess their capital requirements.

Furthermore, the *Groupe* continues, following the public consultation that closed in July 2004, to polish up their high-level principles regarding outsourcing of banking functions. It plans to consolidate this work, once approved by CEBS, with the principles on the prudential supervisory process (subject to public consultation at the beginning of 2004) in a compendium on issues relating to Pillar 2 of the new capital adequacy framework.

Another important part of the *Groupe*’s responsibilities concerns the exchange of information on particular problems encountered by one or several authorities and on topical issues. This exchange of information between members, as well as between the *Groupe* and CEBS has been strengthened and significantly formalised during 2004.

INTERNATIONAL CO-OPERATION

- ***CEBS – Joint EGCRD/Gdc Working group on Validation of the Advanced Approaches***

This joint EGCRD¹ and *Groupe de contact* working group gathers experts of the banking supervisory authorities of CEBS members in the field of validation of advanced credit risk and operational risk approaches. The group's mandate is in line with the efforts of EGCRD to achieve convergence in the technical fields concerning validation of eligible models in the proposed amendment of Directives 2000/12/EC and 93/6/EEC.

- ***CEBS – Working Group on Common Reporting (COREP)***

In order to meet the requirements of the industry and European institutions in order to reduce the administrative burden and harmonise the reporting requirements for credit institutions, CEBS mandated the Working Group on Common Reporting to develop a common reporting framework for the supervision of capital adequacy within the scope of the new regulatory framework, which is being endorsed.

This decision reflects CEBS' conviction that the introduction of this new regulatory framework, as well as the adoption of the accounting standards IAS/IFRS, present unique opportunities to achieve these objectives.

The proposed framework, which was subject to a public consultation launched in January 2005, should be finalised around mid-2005, so that the institutions concerned have enough time to make the necessary changes to their information systems. It should also be stressed in this context that the final "product" will not only comprise a harmonised framework, but also an IT solution to support the framework, based on the XBRL protocol that each country is free to adopt. Further information is available on the CSSF website at http://www.cssf.lu/docs/COREP_Consultation_Communique.pdf.

- ***CEBS – Supervisory Disclosure Task Force (SDTF)***

The task force, established in 2004 by CEBS, is responsible for the definition of elements falling within the scope of the disclosure made by supervisory authorities of the European Union in accordance with article 144 (included in the proposed Directive amending Directive 2000/12/EC). This future transparency obligation requires supervisory authorities to set up a permanent infrastructure allowing the European financial sector and the public to consult and compare the different legislative and regulatory environments of the banking supervisory authorities. These elements include laws, prudential regulations, national options and discretions exercised by national authorities, supervisory methodologies and statistical data relating to banks and investment firms.

The group will work out proposals for the physical aspect of the disclosure and the definition of CEBS' role regarding the implementation of the disclosure policy. These proposals will be submitted to public consultation during 2005. This new homogeneous disclosure framework for all the supervisory authorities of the European Union should normally be adopted in 2006. The first statistical data should be disclosed according to the defined framework during 2008.

• **CEBS- Expert Group on Accounting and Auditing (EGAA)**

The main activities of the working group established in 2004 are exposed hereinafter according to its sub-working groups.

CEBS – EGAA Sub-Working Group on Prudential and Accounting

Based on recommendations of the Basel Committee on banking supervision, the sub-working group developed adjustments – prudential filters – to adjust the impact of the implementation of certain IAS/IFRS accounting standards on prudential own funds. These works led, on the one hand, to recommendations addressed to the European Commission and, on the other hand, to the publication of guidelines for supervisory authorities of Member States (cf. http://www.c-ebs.org/press/prudential_filters.htm).

The sub-working group is currently responsible for the development and carrying out of a quantitative survey to measure the impact of the application of the IAS/IFRS accounting standards on prudential own funds, as well as the assessment of the prudential filters' efficiency.

CEBS – EGAA Sub-Working Group on Standards & Accounting

The sub-working group, responsible for the supervision and follow-up of the implementation of the new accounting standards by IASB, as well as for the drafting of recommendations and guidelines on the interpretation and setting up of standards for supervisory needs, started its works in 2004.

The sub-working group prepared the comments on the standards "IAS 39 – Fair value option" and "ED 7 Financial Instruments: Disclosures", which have been sent to IASB as CEBS comments. Furthermore, it carried out a survey among the members of EGAA with the aim to assess the consequences of the carved-out version of the IAS 39 standard on the provisions as regards macro-hedging.

CEBS – EGAA Sub-Working Group Financial Reporting

The sub-working group, which gathers representatives of fifteen supervisory authorities and European central banks, started its works in April 2004. Its purpose is to develop a consolidated European financial reporting system for prudential supervision which takes account of the introduction of new accounting requirements due to the transposition of the IAS/IFRS accounting standards into European law. The works of EGAA in this field are to be considered jointly with those of COREP as regards the development of a European reporting framework for the supervision of capital adequacy.

While the mandate of the sub-working group had been limited at a first stage to the development of consolidated primary financial statements (balance sheet and profit and loss account) in accordance with the IAS/IFRS standards, the works have been extended to the annexes of the financial statements. This European common financial reporting framework is based on the IAS/IFRS standards as at 31 March 2004. Furthermore, the sub-working group took into account the disclosure requirements as regards financial instruments as referred to in the draft standards ED7 "Financial Instruments: Disclosures", as well as the impact of the IFRIC Draft Interpretation D8 "Members' shares in co-operative entities" on the presentation of IAS/IFRS financial statements.

1.1.2. The Committee of European Securities Regulators – CESR

Established by the European Commission Decision of 6 June 2001, CESR (Committee of European Securities Regulators) took over from FESCO (Forum of European Securities Commissions) in September 2001. CESR is one of the two committees proposed in the Committee of Wise Men's report, which was endorsed by the Stockholm resolution of 23 March 2001. Composed of representatives of 27 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 is entrusted with ensuring harmonised and continued application of Community legislation in Member States. CESR also works towards strengthening co-operation between the supervisory authorities.

In 2004, CESR welcomed the securities regulators of the new EU Member States.

CESR went on with its works related to the Financial Services Action Plan (FSAP), notably continuing its works on the mandates concerning the drafting of implementing measures within the scope of the Directive concerning financial instruments markets. Save for the works carried out at Level 2 of the Lamfalussy process under the mandates received by the European Commission within the scope of the Directives, CESR started Level 3 works by drawing up recommendations, standards, common interpretations and procedures to implement co-operation within different areas in order to strengthen regulatory convergence within the EU.

Within the scope of the European legislative process, CESR began to reflect on how European regulators can play an active role in the consistent implementation of European Directives and in harmonising the application of these rules within the scope of Level 3 of the Lamfalussy process. After having consulted market participants, CESR presented a document specifying the general principles governing the Level 3 works and describing the current and future organisation of the role to be endorsed by CESR at Level 3 in different areas.

In October 2004, CESR launched an analytical report entitled "Which supervisory tools for the EU securities markets?" The first objective was to take stock of the progress made through the FSAP toward the integration of the EU Single Market for Financial Services in the field of securities. The second objective was to identify and analyse the supervisory tools necessary to implement the FSAP and to anticipate the developments in the next five years so as to allow securities regulators to evolve effectively and by so doing, ensure they can fully play their role in maintaining fair, transparent and secure securities markets in Europe.

Following the extension of the Lamfalussy process in May 2004 and the creation of new Level 3 committees, CESR began a continuous dialogue with CEBS (Committee of European Banking Supervisors) and CEIOPS (Committee of European Insurance and Occupational Pensions Supervisors). The growing interdependence of the European and American markets led to a practical dialogue of CESR with the American regulatory authorities, the SEC (Securities and Exchange Commission) and CFTC (Commodities and Futures Trading Commission).

The Market Participants Consultative Panel, a committee comprised of fifteen market participants appointed in a personal capacity, established in June 2002 following a suggestion of the European Parliament and the Committee of Wise Men, is charged with assisting CESR in carrying out its tasks. The three meetings of this committee in 2004 mainly concerned issues regarding corporate governance, credit risk transfer, equivalence of international accounting standards, rating agencies, hedge funds, evaluation of the functioning of the panel and works and priorities of post FSAP.

The groups established within CESR

• *Review Panel*

Established following the decision of December 2002 of CESR chairmen, the Review Panel is responsible for assisting CESR in its task to ensure consistent and equivalent implementation of EU legislation in the Member States. In March 2004, the Review Panel published its first interim report on the review of the status of implementation of CESR standards for Alternative Trading Systems (ATS) and guidelines, as well as the tables setting out in detail the implementing measures for these standards in all Member States. It also published a synthesis table providing an overview of the status of implementation. Furthermore, the Review Panel conducted a mapping exercise of the powers and competence of CESR members. Since the Review Panel will be tasked to conduct further reviews of the consistent and equivalent implementation of CESR and EU measures, a database containing the data gathered was set up and will be accessible to the public. This database will be made available in the course of 2005.

• *Expert group Credit Rating Agencies*

Following a report presented by the European Parliament following the recent financial scandals, the European Commission was called to analyse by 31 July 2005 whether credit rating agencies should be regulated. The European Commission published a mandate in July 2004, requesting CESR's technical advice that should be submitted by 1 April 2005. The Credit Rating Agencies expert group thus worked on the following issues concerning rating agencies:

- use of registration and regulatory framework, entry barriers;
- conflicts of interest inherent in the activity carried out by rating agencies;
- presentation of ratings, quality and transparency of procedures and methods used;
- relationship with issuers;
- use of ratings in European legislation and in private contracts.

In a consultation paper issued on 30 November 2004, the expert group presented several possible approaches to the issues raised by considering the impact that these approaches could have on the competition within the business sector concerned.

• *Prospectus expert group*

The expert group's technical advice on the implementation measures under the Directive 2003/71/EC, finalised in 2003, resulted in the publication by the European Commission of Regulation (EC) 809/2004 of 29 April 2004 implementing Directive 2003/71/EC (Prospectus Directive) concerning information to be published in prospectuses, the structure of prospectuses, inclusion of information by reference, the publication of prospectuses and the dissemination of promotional information.

The expert group then started works in a Level 3 capacity as defined by the Lamfalussy process to draft recommendations in order to facilitate the understanding of certain provisions of Regulation (EC) 809/2004, without however imposing further obligations, and to ensure consistent implementation across the EU. The expert group closely co-operates with a new consultative group comprised of twelve external experts, including one representative of the *Bourse de Luxembourg* (Luxembourg Stock Exchange).

INTERNATIONAL CO-OPERATION

Following the consultation process, CESR published recommendations on 10 February 2005, which provide the following information:

- certain provisions regarding financial information, such as the selected financial information, operating and financial review, liquidity and capital, forecasts and estimations, historical financial information, *pro forma* information, capital resources, financial data not extracted from the issuer's audited financial statements, interim financial information, working capital statements and capitalisation and indebtedness;
- certain provisions regarding non financial information, notably adapted information to be included for certain categories of specialist issuers, clarifications relating to information on property companies, compensation, related parties transactions, acquisition rights, option agreements, history of share capital, description of the rights attaching to shares, statements by experts, information on holdings, interests of natural or legal persons involved in the issue, terminology used with respect to UCITS and closed-end UCIs;
- content of documents prepared within the context of certain exemptions from the obligation to publish a prospectus.

The group currently continues its works relating to issues linked to complex historical financial statements.

• **Transparency expert group**

In June 2004, the expert group was given its first mandates under the Directive on the harmonisation of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market (Transparency Directive). CESR has been asked to submit its advice by 30 June 2005. These first mandates concern three areas:

- issues related to notifications of major holdings of voting rights in companies whose shares are admitted to trading on a regulated market;
- standards for the dissemination of regulated information on companies whose shares are admitted to trading on regulated markets and conditions under which periodic financial information must be kept available;
- issues related to half-yearly reports, the equivalence of transparency requirements for third country issuers and procedures whereby an issuer may elect its home Member State.

Furthermore, the European Commission called on CESR to draft regular progress reports concerning a single European electronic storage network. Based on this report, the European Commission will consider until 2006 whether a second mandate should be sent to CESR to set up implementing measures concerning mechanisms for storage and electronic networks at supervisory authorities.

On 27 October 2004, the expert group published a first consultation paper on the standards for dissemination of regulated information and the conditions under which periodic financial reports of issuers must be kept available. This document also includes a progress report on a single European electronic storage network. The group continued its works and published, on 13 December 2004, a second consultation document covering major shareholdings, half-yearly financial statement, equivalence and the home Member State.

• *Expert groups related to the Directive concerning markets in financial instruments*

Under a **Steering Group** and assisted by a consultative group composed of 23 external experts (including one professional of the Luxembourg financial sector), three CESR expert groups cover the mandates for the Directive on Markets in Financial Instruments (commonly referred to as ISD 2 or MIFID).

The mandates cover three major subjects handled by three working groups within CESR:

- the requirements for financial intermediaries and investor protection – the Group on Intermediaries;
- the rules governing financial markets and market transparency – the Group on Market;
- the requirements for transaction reporting and co-operation – the Group on Co-operation and Enforcement.

CESR received two sets of mandates from the European Commission. The first set, published in January 2004, notably covers organisational issues of the financial intermediaries and investor protection (compliance function, organisation regarding procedures, internal systems and resources, outsourcing, record keeping, safeguarding of clients' assets, management of conflicts of interest, rules of conduct for the provision of investment services, client order handling and best execution), pre- and post-trade transparency, rules governing the admission of securities to regulated markets, reporting requirement regarding financial instruments and co-operation and exchange of information between supervisory authorities. The deadline for CESR's technical advice is 31 January 2005.

The second set of mandates, published in June 2004, notably covers the definition of investment advice, the list of financial instruments, certain conduct rules (requirement to act honestly, fairly and professionally in the best interest of the clients, suitability test, execution only), display of client limit orders, transactions executed with eligible counterparties and systemic internalisation. The deadline to submit technical advice is 30 April 2005.

For reasons of coherence between the different measures designed to ensure a high degree of competition and efficiency in European markets, and, in particular, to strike an appropriate balance between the transparency and best execution provisions of the MIFID, the European Commission, in its second mandate, decided to extend the deadline granted to CESR in the provisional mandate requesting advice on best execution obligation, pre- and post-trade transparency requirements for regulated markets and the rules governing the admission of securities to regulated markets, to 30 April 2005. It has also extended the deadline for submission of CESR's technical advice on client order handling rules to 30 April 2005.

In order to draft the first implementing measures, the three expert groups consulted the professionals on two occasions. The comments received have been considered while finalising the technical advice presented by CESR to the European Commission on 31 January 2005. As far as the subjects covered by the implementing measures to be delivered by 30 April 2005 are concerned, consultation of professionals is still ongoing. The expert groups Intermediaries and Markets will also collect the comments of end-users on the occasion of a day organised to that end in March 2005. CESR also held open hearings in July and November 2004.

Based on the standards set up by CESR as regards investor protection and having taken account of the industry's comments, the **expert group on Intermediaries** presented, on 31 January 2005, technical measures to the European Commission, covering notably the compliance function, management of personal transactions, organisation regarding procedures, internal systems and resources, outsourcing, record keeping, safeguarding of clients' assets, management of conflicts of interest within an entity concerned by MIFID, rules of conduct for the provision of investment

INTERNATIONAL CO-OPERATION

services relating to information to be provided to clients and the content of the client file to be established, as well as the content of the agreement to be reached with non-professional clients.

Within the scope of the first set of mandates, the expert group continues its work to draft technical measures concerning the best execution rules by defining the criteria to be taken into account for the definition of the importance of different elements of best execution, such as price, cost, swiftness, security and probability of execution and delivery, as well as the rules governing the handling of eligible counterparties. Within the second set of mandates, the group notably deals with the definition of investment advice, the list of financial instruments, certain rules of conduct (requirement to act honestly, fairly and professionally in the best interest of the clients, suitability test, execution only), the conflicts of interest inherent in investment research, the agreement with the professional client and the handling of eligible counterparties.

The **expert group on Co-operation and Enforcement** developed implementing measures concerning the reporting requirement for all on and off stock exchange transactions on financial instruments admitted on a regulated market and the obligation to co-operate between supervisory authorities. The purpose of these measures is more specifically to draw up a general format for the transaction reporting on financial instruments and the exchange of information on transactions reported between relevant authorities, as well as to set up flexible rules regarding the transmission modes of these declarations. More technical aspects notably relating to the IT area will be handled in collaboration with IT experts.

The implementing measures confirm the principle of supervision should be carried out by the home Member State authority and set up rules in order to improve and speed up co-operation between competent authorities. They are covered by a technical advice submitted to the European Commission on 31 January 2005 together with the advice drawn up by the expert group on Intermediaries.

Due to the extension of the above-mentioned deadlines, the **expert group on Market** will submit its technical advice on both major issues to the European Commission on 30 April 2005.

The first issue handled by the expert group relates to the rules governing the admission of financial instruments to regulated markets and the definition of the means to be implemented to ensure control of these rules by regulated markets. By taking account of the existing regulations within the scope of the prospectus, market abuse, transparency and UCITS Directives, the laws governing listed companies and the Directive on listing criteria, the expert group, which has been mandated to set up listing criteria for admission to trading on a regulated market for different instruments under MIFID, proposes to only address the points linked to the different categories without including those related to the issuing companies.

The second issue concerns market transparency with a view to promoting fair pricing. The group will focus on pre-and post-trade transparency requirements for regulated markets and multilateral trading systems, as well as the post-trade transparency requirements for investment firms. Particular attention is focused on requirements concerning systematic internalisation. Substantial differences between financial markets in Member States complicate the task of setting up harmonised measures for the aforementioned issues in order to achieve a single market, a level playing field for all the participants and similar levels of investor protection for all investors. In practice, the group notably endeavours to determine the scope of application of the systematic internalisation by defining what is to be understood as systematic internaliser, normal market size, share classes, large size compared to normal market size and liquid market.

• *Expert Group on Investment Management*

In 2004, the expert group, chaired by the Chairman of the Italian Commissione Nazionale per le Società e la Borsa (Consob), has notably set up three sub-working groups, the first having dealt with the transitional provisions of Directives 2001/107/EC and 2001/108/EC (Directives UCITS III) amending Directive 85/611/EEC (Directive UCITS I). The other two sub-working groups dealt with the clarification of the definitions concerning eligible assets for these UCITS.

The Expert Group on Investment Management is assisted by a consultative group consisting of sixteen industry experts, including one representative of the Luxembourg investment fund sector.

The CSSF participated in the **sub-working group concerning the transitional provisions of Directives 2001/107/EC and 2001/108/EC**, whose works have been coordinated by the German Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin).

The document containing guidelines concerning the transitional provisions of Directives UCITS III has been finalised, adopted and published on 3 February 2005 on CESR's website (www.cesr-eu.org, reference 04-434b). The document aims at putting an end to the uncertainties caused by divergent interpretations of these transitional provisions, also known as "grandfathering clauses", by the prudential authorities of the EU Member States. It deals with the transitional provisions concerning UCITS and those concerning management companies, multiple compartment UCITS and simplified prospectuses, as well as the extent of the passport for management companies and UCITS.

Since the document fixes new deadlines as compared to those contained in the amended UCITS Directive, the following points can be stressed:

- A grandfathered management company can launch UCITS III funds until 30 April 2006 if it applies the adapted risk management process. After this date, the management company must comply with the requirements of Directive UCITS III. Management companies that have launched UCITS III funds before 30 April 2006 must have received before 30 April 2006 at the latest the authorisation of the competent authority as management company complying with the requirements of the Directive UCITS III, which shall be confirmed by a special attestation delivered by the competent authority.
- A grandfathered UCITS I umbrella fund can launch UCITS I compartments until 31 December 2005. Grandfathered UCITS I umbrella funds which have launched a compartment since 13 February 2002 must comply with the requirements of Directive UCITS III by 31 December 2005 at the latest.
- All UCITS (UCITS I and UCITS III funds) should have a simplified prospectus available no later than 30 September 2005.

The CSSF has also participated in the **two sub-working groups on the clarification of definitions of the eligible assets of UCITS**, whose works have been coordinated by the British Financial Services Authority (FSA) and the French Autorité des Marchés Financiers (AMF) respectively.

The issues discussed within these sub-groups notably concerned the concepts of transferable securities and structured financial instruments, closed-end UCIs, credit derivatives, money market instruments, UCITS tracking an index as well as derivative instruments on financial indices and in particular whether indices based on non-eligible assets should be considered as financial indices.

On 21 March 2005, CESR published a consultation paper on the clarification of definitions of the eligible assets for UCITS, which is available on the CESR website (reference 05-064b). The consultation period ends on 10 June 2005.

INTERNATIONAL CO-OPERATION

Permanent CESR groups

• CESR-Fin

CESR-Fin is a permanent operational group with the role of coordinating the work of CESR Members in the area of endorsement and enforcement of financial reporting standards in Europe. Following the introduction of a new accounting framework in the European Union, the enforcement of the international accounting standards IAS/IFRS will become mandatory for listed companies as from 2005.

To meet its objectives, CESR-Fin has established three sub-committees, whose works are coordinated by CESR and in which the CSSF participates as a member:

- SISE, the Sub-committee on Endorsement of International Financial Reporting Standards;
- SCE, the Sub-committee on Enforcement for enforcement of international accounting standards in Europe;
- ATF, the Audit Task Force, in the area of audit of financial statements.

The European Commission participates in the meetings of CESR-Fin and of its sub-committees as observer.

The following issues dominated the agenda of CESR-Fin and its sub-committees in 2004:

- the follow-up of the endorsement of IAS/IFRS standards in the EU, including in particular the IAS 39 standard on financial instruments;
- the establishment of co-operation mechanisms allowing consistent enforcement of the accounting standards in Europe;
- the set-up of the ATF sub-committee, created in 2004, and the definition of its key objectives;
- the works relating to the mandate of the European Commission on the equivalence of accounting standards in third countries.

As regards the works on the adoption of IAS/IFRS standards, CESR-Fin has focused notably on the standards IFRS 2 – Share Based Payments (a standard backed by the committee for reasons of investor protection), IFRS 3 – Business Combination, IFRS 4 – Insurance Contracts and IAS 39 – Financial Instruments. Since the standard IAS 39 has been the subject of intense debate in Europe, the publication of an improved version of the standard, including the possibility to apply hedge accounting on a portfolio basis, has not been sufficient to appease the concerns of the banking industry, the European Central Bank and prudential supervisors. The current version of the IAS 39 standard has been endorsed at EU level in July 2004, except for the following two unresolved issues:

- the hedge accounting provisions;
- the option to apply fair value to all assets and liabilities without restrictions.

Following the endorsement in March 2004 of Standard N° 2² relating to the consistent enforcement of the financial reporting framework within Europe, the sub-committee SCE focused its activities on the implementation of this standard. The sub-committee thus prepared guidance for implementation and Terms of Reference of the EECS (European Enforcers Coordination Sessions). The EECS is an extended formalised structure of the SCE sub-committee, within which national supervisors of the European Union, members of CESR or not, entrusted with national responsibilities in enforcement of financial reporting, can discuss the enforcement decisions of the accounting standards and share their experience in this area. The implementation of Standard N° 2 also provides for the development of a database as a practical reference tool which sets out decisions taken by national enforcers.

² The principles of Standard N° 2 are described in the CSSF's Annual Report 2003.

The implementation of the necessary tools for EECS and the development of the database should be achieved in the beginning of 2005, thereby allowing the SCE sub-committee to focus on the discussions concerning the implementation of international accounting standards.

In March 2004, CESR decided to set up an *ad hoc* Audit Task Force (ATF) entrusted with monitoring developments in the area of audit of financial statements of listed companies in the European Union, from the perspective of securities regulators. The works for this purpose are directly related to the transposition of Directives on Prospectus and on Transparency. The group actively monitors the modernisation of the 8th Company Law Directive and focuses on issues related to the quality of the audit. Its approach will not include undertaking detailed reviews of all technical aspects of the auditing standards, as this work is performed at international level through IOSCO³. The group will rather concentrate on the application of common auditing standards in Europe, the independence of auditors and the oversight of the profession.

Within the scope of the comitology process, the European Commission issued a mandate to CESR on the assessment of equivalence between third country GAAP, specifically the US, Japan and Canada, and the accounting standards IAS/IFRS. Indeed, provisions of the Prospectus and Transparency Directives require issuers whose securities are admitted to trading on a European regulated market to prepare their accounts according to the IAS/IFRS accounting standards or according to the national accounting standards of non EU countries, on the condition that these standards are considered equivalent to the IAS/IFRS standards. In a first stage, CESR-Fin has developed principles and guidelines for the assessment of the standards concerned in order to decide on a possible equivalence. CESR-Fin is of the view that equivalent does not mean identical. Therefore, it should be assessed whether the investors' decisions could be affected or not by the presentation of financial statements according to a specific accounting standard. The methodology used by CESR-Fin will serve as objective reference for any assessment processes of accounting standards. The second stage in the decision process of a possible equivalence will consist in the technical analysis of the differences between the three GAAP and the IAS/IFRS standards, as well as the analysis of supervisory mechanisms in the countries concerned. The technical advice on this matter must be submitted to the European Commission by 30 June 2005 at the latest.

The working group is assisted by a consultative group gathering seventeen external experts (including a representative of a Luxembourg auditor).

³ Also refer to the description of the activities of Standing Committee No 1 under Chapter X, point 2.2.2. "IOSCO groups".

INTERNATIONAL CO-OPERATION

• *CESR-Pol*

CESR-Pol's purpose is to enhance sharing of information, co-operation and coordination of supervision and enforcement activities between CESR members.

A major priority of CESR-Pol is to ensure the effective and harmonious day-to-day operation of the Market Abuse Directive at Level 3 of the Lamfalussy process. Under the mandate it received from the Chairmen of CESR at its meeting on 11 and 12 December 2003, CESR-Pol developed detailed measures on the following topics:

- accepted market practices (procedure to abide by, format and accepted practices proposed by certain members);
- a description of certain types of price manipulation;
- indication of insider dealing and price manipulation;
- format for reporting suspicious transactions to the relevant authority.

Detailed measures are being drafted as regards the exchange of information and cross-border investigations involving several competent authorities, the procedure applying in urgent cases, as well as the set up of a central database for CESR-Pol members for cases of market abuse.

Furthermore, CESR-Pol endeavoured to effectively integrate the new EU Member States by ensuring that all the competent authorities of the States concerned sign the Memorandum of Understanding (MoU). CESR-Pol also organised a training seminar on international co-operation in February 2004. Moreover, CESR-Pol continued its works on the supervision of Internet activities in order to detect illegal financial activities, on the issues with non co-operative jurisdictions and the exchange of information between members on non-authorised provision of financial services.

Joint CESR-ECB working group on compensation and securities settlement systems

On 27 September 2001, the European Central Bank (ECB) and CESR drafted the framework for co-operation between the European System of Central Banks (ESCB) and CESR as regards compensation and securities settlement systems in order to study issues of common interest.

In October 2004, CESR and the Governing Council of the ECB approved the report established by the working group entitled "Standards for clearing and settlement systems in the European Union". This report is available on the CESR website (www.cesr-eu.org).

The working group currently focuses on a methodology designed to assess compliance with these standards. Moreover, it works on the pending issues listed under paragraph 27 of its abovementioned report. To this end, the group was sub-divided into several smaller sub-groups. The development of the methodology in question and the analysis of the pending issues should be finished in autumn 2005. These works are carried out in co-operation with participants in securities markets. The standards will enter into force after the finalisation of these works.

1.1.3. The Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS)

The Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS) is comprised of high level representatives from the insurance and occupational pensions supervisory authorities from EU Member States. The Committee's objectives are to advise the European Commission, either at the European Commission's request or on the Committee's own initiative, as regards the preparation of implementing measures in the fields of insurance, reinsurance and occupational pensions, to contribute to the consistent implementation of EU Directives and to the convergence of Member States' supervisory practices and to constitute a forum for supervisory co-operation, including the exchange of information on supervised institutions.

In 2004, the CSSF participated in the works of CEIOPS concerning occupational pensions in its capacity as member.

CEIOPS decided to create several working groups among which the Occupational pensions committee. This permanent working group deals with all the aspects relating to Directive 2003/41/EC concerning the activities and supervision of institutions for occupational retirement provision (IORP Directive). Its tasks include:

- developing a common understanding of the IORP Directive;
- facilitating the supervisory co-operation, coordination and exchange of information between supervisory authorities on cross-border membership and related issues;
- carrying out the preparatory work for dealing with issues related to pension funds.

These functions notably comprise the following tasks:

- preparation of a protocol organising the co-operation, coordination and regular information exchange between occupational pensions supervisors in view of the implementation of the IORP Directive;
- analyses of the current status of the pension savings institutions from the EU legislation point of view;
- monitoring of the practices adopted by the Member States to calculate technical provisions;
- monitoring of the progress achieved in the adaptation of investment rules and the use of depositaries in the national supervisory systems.

On 28 February 2005, CEIOPS released for public consultation the protocol relating to the collaboration of the relevant supervisory authorities in the application of the IORP Directive, which is available on the CEIOPS website (www.ceiops.org).

1.1.4. The Contact committee on money laundering

The Contact committee on money laundering, established by Directive 91/308/EEC on prevention of the use of the financial system for the purpose of money laundering, is entrusted with facilitating the harmonised implementation of the Directive through regular consultation on concrete issues regarding implementation. Within the scope of its works, the committee also deals with questions discussed within the Financial Action Task Force on money laundering (FATF). Luxembourg is represented within this committee by representatives of the Ministry of Justice, the Ministry of Finance and the CSSF respectively.

In 2004, the committee met on three occasions. Its works mainly focused on the proposed third anti-money laundering Directive.

INTERNATIONAL CO-OPERATION

1.1.5. The Expert group on payment systems

The *ad hoc* group, which met five times in 2004, analysed the responses received from the different professional and consumer representatives following a public consultation on a new legal framework for payments within the internal market. The group having discussed the responses received, the European Commission drew up a draft Directive. This future proposal for a Directive will probably be submitted for discussion to the EU Council in 2005.

1.1.6. The Contact committee on accounting directives

The Contact committee on accounting directives, instituted under Article 52 of the fourth Company Law Directive (Directive 78/660/EEC), met once at the beginning of 2004. Discussions mainly concerned the problem relating to the delay in the transposition of Directive 2001/65/EC of 27 September 2001 amending Directives 78/660/EEC, 83/349/EEC and 86/635/EEC as regards the assessment rules applicable to annual accounts and consolidated accounts of certain forms of companies, as well as to those of banks and other financial institutions (Directive Fair Value). The Contact committee on accounting Directives will meet jointly with the Accounting regulatory committee in 2005.

1.1.7. The Accounting Regulatory Committee

The Accounting Regulatory Committee, established by the European Commission in accordance with Article 6 of the IAS Regulation, met eight times in 2004. The meetings mainly concerned the adoption of the remaining standards of the International Accounting Standards Board (IASB), constituting the stable platform for the implementation in 2005 and the discussion of the current IASB draft standards.

During the meeting of 1 October 2004, the committee endorsed the international standard IAS 39 "Financial instruments: recognition and measurement" by carving out certain provisions concerning, on the one hand, the possibility to allow full fair valuation of all liabilities ("full fair value option") and, on the other hand, hedge accounting.

The carve-out of the full fair value option is based on observations from the European Central Bank and prudential supervisors represented in the Basel Committee on banking supervision. Insofar as Article 42a of the fourth Company Law Directive (Directive 78/660/EEC) does not allow full fair valuation of all liabilities, European companies are not allowed either to use voluntarily the full fair value option for all their liabilities. Neither can Member States require mandatory use of the carved out fair value provisions.

The carve-out of certain hedge accounting provisions reflects criticism by the majority of European banks, which argued that IAS 39 in its current form would force them into disproportionate and costly changes both to their asset/liability management and to their accounting systems, and would produce unwarranted volatility. However, because there is no existing EU law on this issue, individual companies may apply the carved-out hedge accounting provisions. A Member State may also make these provisions mandatory under its national rules, which is not planned for Luxembourg however.

Following the meeting of the committee, the European Commission has published a political declaration appealing to all parties concerned, namely the IASB, the European Central Bank, the Basel committee regulators and European banks, to work intensely to find appropriate, balanced solutions as quickly as possible on the outstanding issues in IAS 39, so that the carve-outs can be eliminated by the end of 2005.

On 1 January 2005, the European Commission has published the current status of the endorsement process of the international accounting standards within the European Union, namely the international accounting standards adopted by the European Commission for the European Union, following the formal opinion of the Accounting Regulatory Committee, applicable as of 1 January 2005.

The works of the Accounting Regulatory Committee can be consulted on the website of the European Commission at http://europa.eu.int/comm/internal_market/accounting/ias_en.htm.

1.2. The groups operating at European Union Council level

The CSSF is a member of the 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 Finance Ministers. The groups are chaired by a representative of the Member State, which presides over the Council. Ireland chaired in the first half of 2004 followed by the Netherlands in the second half. The list of Directives under negotiation at Council level and a brief description thereof is available in chapter XI.

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 high level 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 on 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 supervisory policies and practices in Member States. It should also be consulted on proposals for Directives and bills tabled by Member States on matters within its competence.

Two working groups comprising members of the central banks and national supervisory authorities, i.e. the Working group on macro-prudential analysis and the Working group on developments in banking, assisted the Banking Supervision Committee in carrying out its mandate in 2004.

In order to systematise the analysis of macro-economic data with a view to identifying, as far as possible in time, the factors likely to weaken the financial institutions as a whole and therefore the financial system, the Working group on macro-prudential analysis monitors the macro-economic environment and reports to the Committee on trends and facts likely to be relevant to the prudential supervision of the financial sector.

Every year, the working group draws up a report on the stability of the financial sector. This report is also discussed by the Executive board of the European Central Bank. It has also been prepared under the aegis of the Banking Supervision Committee for three years now. In 2004, the group analysed more specifically the stability of the banking sector in the new EU Member States. A separate study has been devoted to the level of indebtedness of the EU households and its impact on the stability of the financial system. Finally, the group looked into the profitability and solvency risk for banks resulting from a possible increase in interest rates.

INTERNATIONAL CO-OPERATION

As in the previous years, the Working group on developments in banking focused on the drawing up of its structural report during the first half of 2004. This annual report aims to identify and monitor the structural trends marking the European banking sector as a whole. The 2004 report focuses in particular on the development strategies of European credit institutions, as well as on the outsourcing phenomenon. The extent of the report has been widened to include the ten countries that joined the European Union on 1 May 2005. During the second half of 2004, the group continued to analyse the structure of the large European banking groups and launched a study on the mortgage credit activity in Europe.

Finally, it has to be noted that at year-end 2004, a joint working group on crisis management has been established together with CEBS. The future works of this joint working group revolve around several themes. Thus, it aims to develop guidelines for prudential supervisory authorities and central banks to manage financial crises that could have an impact on individual banks, banking groups, or even on financial markets. Another part concerns the development of guidelines to establish an efficient cross-border co-operation network between supervisory authorities and central banks, taking account of the competence and responsibilities on all sides.

2. MULTILATERAL CO-OPERATION

2.1. The Basel Committee on banking supervision

2.1.1. The new capital adequacy framework

On 26 April 2004, the Basel Committee has published the document "International Convergence of Capital Measurements and Capital Standards: A Revised Framework", which is the new capital adequacy framework, commonly known as "New Basel Accord" or "Basel II".

Pillar 1 of the new framework advocates the adoption of methods to calculate the minimum capital requirements that are more risk-sensitive than the former rules. These calculation methods mainly concern credit risk and operational risk (the methods for market risk do not change); for each of these risks, three methods at three different complexity levels are proposed.

Pillar 1 is strengthened by a second Pillar, the supervisory review process, which consists for supervisory authorities to ensure that each bank has an adequate internal process to assess economic capital, based on a thorough assessment of the risks incurred.

Finally, the Pillar 3 of the new framework aims to promote market discipline by requiring that the banks' financial communication be improved.

The Basel Committee expects the new framework to be implemented as of 31 December 2006, except for the more advanced methods, i.e. the Advanced IRB Approach for credit risk and the Advanced Measurement Approach for operational risk, which can only be implemented as of 31 December 2007, in order to allow banks and supervisory authorities to benefit from an additional year to carry out impact analyses or parallel calculations.

• ***Works concerning the trading book***

On 15 January 2004, the Basel Committee has set up a joint sub-group, together with IOSCO, in order to review the treatment of certain counterparty credit risk and trading book-related items in the light of the capital adequacy framework. A newsletter entitled “New work on counterparty credit risk and trading book-related issues” was published in June 2004. The sub-group’s works are still in progress and notably cover:

- treatment of counterparty credit risk for OTC derivatives;
- treatment of double-default effects for hedged transactions;
- capital treatment for less liquid instruments held in the trading book;
- hedging of settlement/delivery risk inherent in unsettled transactions.

• ***Accord Implementation Group***

In January 2004, the Accord Implementation Group published a document entitled “Principles for the home-host recognition of AMA operational risk capital” under the aegis of the Basel Committee. The document concerned intends to respond to the expectations of the banking industry on which conditions the most advanced approaches to calculate capital requirements for operational risk will apply for banking groups operating on a cross-border basis and stresses four principles.

The first principle provides that the calculation of operational risk requirements according to the most advanced approaches should be consistent notably with the principles set out in the 2003 paper on “High-level principles for the cross-border implementation of the New Accord”. The second principle obliges the board of directors and senior management of every banking organisation to understand the operational risk profile of their bank. Thirdly, since experience has shown that capital is generally not freely transferable within a banking group, especially during times of stress, each banking subsidiary within the group must be adequately capitalised on a stand-alone basis. Finally, the paper sets out a fourth principle according to which supervisors should balance the three principles above with the goal of minimising the burden and cost - for both banking organisations and supervisors concerned.

• ***Joint CTF/AIG Working Group on LGD***

Established in 2004, the working group was charged with studying the technical and practical possibilities to evaluate or assess loss-given default (LGD) in an economic downturn, as laid down in paragraph 469 of the New Accord⁴. The group has been mandated, *inter alia*, to identify the products for which losses vary materially in the course of an economic cycle, through the consultation of banks, as well as by assessing academic or other studies in order to propose more indications as to the interpretation of the paragraph.

⁴ See “International Convergence of Capital Measurement and Capital Standards – A Revised Framework”, June 2004. Interested parties can also refer to the Press release of the Basel Committee on banking supervision of 11 May 2004 published on the website www.bis.org.

INTERNATIONAL CO-OPERATION

- ***Accord Implementation Group related to Validation under the Basel II Framework***

The group is a sub-group of the Accord Implementation Group and is in charge of sharing information and experience between the banking supervisory authorities as regards validation of the banks' internal ratings system. The group, which started its activities in June 2004, identified five work areas, namely the internal rating system design (rating dimensions, segmentation, etc.), risk quantification (definition of default, robustness of the PD, LGD and EAD estimation, etc.), criteria related to technical support of the internal rating systems (IT support, data integrity, etc.), organisational and governance aspects, the use of internal ratings (limit policies, pricing, credit risk modelling, etc.), as well as specific portfolio issues (low-default portfolios, specialised lending, etc.)⁵.

- ***Working Group on Overall Capital/QIS***

In 2004, the working group continued its efforts to update the Excel workbooks in order to incorporate the latest changes made to the text of the New Accord and to allow to carry out isolated impact studies in Member States of the Basel Committee. The workbooks, which are available for download on the website of the Bank for International Settlements (www.bis.org), have already been used in several countries (QIS4/Field tests). The group has also started the necessary works for the fifth coordinated impact study (QIS5) planned for the second half of 2005. The Luxembourg credit institutions are invited to participate in this study.

2.1.2. The other subgroups of the Basel Committee

- ***Transparency Group***

Following the finalisation of the provisions of Pillar 3 – market discipline – with a view to publishing the New Basel Accord in June 2004, the Transparency Group has been dissolved and its remaining responsibilities transferred to the Accounting Task Force.

These responsibilities include the IASB's works as regards the recasting of the IAS 30 standard on disclosures by banks and the development of regular surveys on disclosure practices.

- ***Accounting Task Force***

The Accounting Task Force is responsible for monitoring the developments in accounting and audit. Its mandate covers two aspects:

- following-up on the work of accounting and auditing standard setters that are of particular interest to the financial and banking sector, in particular the works of the International Accounting Standards Board (IASB) and of the various committees operating under the aegis of the International Federation of Accountants (IFAC), including the International Auditing and Assurance Standards Board (IAASB);
- developing principles and guidelines in the areas of accounting, auditing and, more recently, compliance.

As regards the follow-up on the works of the accounting standard setters, the Task Force continued to focus on the issues relating to the accounting rules applying to financial instruments, IAS 32 and IAS 39.

⁵ Interested parties can also refer to the relating Press release of the Basel Committee on banking supervision published in January 2004 on the website www.bis.org.

Provisioning and issues relating to the fair value option give the most cause for concern from a prudential point of view. While for the first, the problem consists in addressing an incompatibility between the rules laid down by IASB and the prudential principles, the difficulty raised by the fair value option is to avoid potential abuses owing to the lack of restrictive application criteria.

The group has also invested a lot of resources into the issues relating to the impact of the international accounting standards IAS/IFRS on prudential own funds. These works led to the publication of three press releases recommending the supervisory authorities to apply certain prudential filters in order to adapt, i.e. correct the impact of the accounting rules on prudential own funds. Based on these recommendations, the Committee of European Banking Supervisors developed guidelines.

As far as audit is concerned, the group participated in the reorganisation process of IFAC and the creation of the Public Interest Oversight Board that should be operational in 2005.

According to the mandate given by the Basel Committee for the development of best practice principles concerning compliance within institutions, the group continued to work on the finalisation of the relating document. This document has thus been revisited in order to take account of the comments received upon the public consultation that had closed in January 2004. The final version of the document should be made available in the course of 2005.

- ***Working Group on Cross-Border Banking***

In October 2004, the Working Group on Cross-Border Banking, a joint working group of the Basel Committee and the Offshore Group of Banking Supervisors, published, under the aegis of the Basel Committee, a document entitled "Consolidated KYC Risk Management". This document, which had been submitted to public consultation in August 2003, stresses the importance for banks to apply certain principles governing a sound KYC programme to all the entities of the banking group.

Group-wide KYC risk management means establishing a centralised process for coordinating and promulgating these policies on a group-wide basis, as well as arrangements for the sharing of information within the group. These policies, as well as the procedures established to this end, should be designed not merely to comply strictly with all relevant laws and regulations, but more broadly to identify, monitor and mitigate reputational, legal, operational and concentration risks. Effective control of consolidated KYC risk requires banks to coordinate their risk management activities on a group-wide basis across all branches and subsidiaries.

The Basel Committee recognises that effective implementing policies on a group-wide basis comes up against customer privacy considerations in various jurisdictions, in particular concerning transmission of names as regards customer liabilities. Nevertheless, the Committee considers that it is essential, in conducting effective monitoring on a group-wide basis, that subsidiaries be free to pass information about their liabilities or assets under management, subject to adequate legal protection, back to their parent bank. The Committee considers that legal restrictions that impede effective consolidated KYC risk management processes should be removed.

INTERNATIONAL CO-OPERATION

- **Working Group on corporate governance**

The Working Group on corporate governance was created in September 2004 on the initiative of the Basel Committee on banking supervision. The group, which met for the first time in December 2004 in Basel, has been mandated to update the improvement proposals for corporate governance designed for banking organisations as published in 1999 in a document entitled “Enhancing Corporate Governance for Banking Organisations”.

The group is notably in charge of assessing how the corporate governance principles reviewed in 2004 by the Organisation for Economic Co-operation and Development (OECD) apply to the banking sector. Furthermore, it is charged with specifying the prudential lessons that can be learned from recent concrete cases of failures in the field of corporate governance. Finally, and more specifically, it should provide best practice principles as regards the use and implementation, for own account or on behalf of third parties, of legal means, as well as complex financing structures. The latter topic is considered from a “Know Your Structure” point of view.

The final report of the working group is to be submitted to the Basel Committee at year-end 2005.

2.1.3. Other publications

The documents “Modifications to the capital treatment for expected and unexpected credit losses” and “Modifications to the securitisation framework” were published in January 2004. They are now redundant, however, as the modifications explained therein have been integrated into the New Basel Accord.

The document “Implementation of Basel II: Practical considerations”, published in July 2004, addresses authorities of non-G10 countries that are not ready yet to implement the new framework at the deadlines and aims at providing practical advice concerning implementation.

Published in July 2004, the document “Principles for the management and supervision of interest rate risk” is a revisited version of the principles for the management and supervision of interest rate risk published in 1997. The new version was subject to two consultations in 2001 and 2003. The principles concerned are intended to support the interest rate risk in the bank portfolio, provided under Pillar 2 of the new capital adequacy regime.

2.2. The International Organisation of Securities Commissions (IOSCO) and IOSCO task forces

2.2.1. The XXIXth Annual Conference of IOSCO

The securities and futures regulators and other members of the international financial community met in Amman, Jordan, from 17 to 20 May 2004, on the occasion of the XXIXth Annual Conference of IOSCO.

The Presidents Committee launched an electronic, interactive version of the IOSCO “Methodology for assessing implementation of the objectives and principles of financial regulation”, key instrument to promote the implementation of IOSCO principles in the member jurisdictions. Indeed, IOSCO is increasingly focusing on promoting the implementation of its principles by its members. The variety in the structure of securities markets around the world, the varying degree of development of those markets and the varying institutional arrangements to regulate those markets present great challenges to IOSCO and its membership in achieving full implementation. To assist its members in this task, IOSCO launched a pilot program to assist its members in the completion of a self-assessment of their level of implementation of the IOSCO principles and in the development of an action plan to correct identified deficiencies.

Within the scope of the strengthening of international co-operation, works on the assessment of applicants to the Multilateral Memorandum concerning Consultation and Co-operation and the Exchange of Information (MMOU), have been carried on. Applicants to the MMOU are subject to a rigorous screening process undertaken to assess their ability to co-operate according to the standards set by the MMOU. By joining this process, they commit themselves to take part in an efficient system of information exchange in order to combat stock market infringements and breaches and any other form of international financial crime. Twenty-seven candidates have signed this MMOU and two candidates have committed themselves to undertake the necessary reforms to become a full signatory.

The Presidents Committee took stock of the works on the strengthening of the securities markets against financial fraud, as well as on the work of the task group responsible for developing a code of conduct for rating agencies.

Moreover, the IOSCO Presidents Committee endorsed the “Principles on Client Identification and Beneficial Ownership for the Securities Industries”. The endorsement of these principles represents the commitment of the global community of securities regulators to robust standards of client identification for the securities sector.

At the beginning of 2004, IOSCO published certain consultative reports, notably that on the recommendations for central counterparties, that on stock repurchase programmes, as well as certain reports in the field of investment funds.

2.2.2. IOSCO groups

The CSSF is a member of two IOSCO groups, i.e. the Standing Committee n° 1, dealing with subjects concerning accounting, and Standing Committee n° 5 concerning UCIs and collective management.

- ***Standing Committee n° 1***

As a member of the Permanent Committee and its Subcommittee on Disclosure, the CSSF participated in the project to develop international standards in the field of information to be published for multinational offers and listings of bond issues, a project that should result in the publication of general guidelines and explain the underlying reasons for diverging approaches concerning certain standards in certain countries.

Continuing the works started in the previous years, the Committee closely examined the development of IAS/IFRS standards and draft standards and actively intervened by addressing comments to the IASB (International Accounting Standards Board). In 2004, it also focused on discussions concerning the development process of International Audit Standards (IAS) and the creation of the Public Interest Oversight Board (PIOB), an international supervisory authority of auditors.

Finally, a project on the implementation and interpretation of international accounting standards has been launched in order to promote a coherent implementation of IFRS among IOSCO members. This project should also result in the creation of a database, which centralises the decisions taken by regulators as regards the implementation of standards. The works on this subject will be in line with a comparable project undertaken by CESR-Fin.

INTERNATIONAL CO-OPERATION

- ***Standing Committee n°5***

In 2004, the Committee worked on the following topics: “Examination of governance for CIS”, “Best practice standards on anti market timing and associated issues” and “Anti-money laundering guidance for CIS”. The documents, dated February 2005, have in the meantime been submitted by the IOSCO secretariat to public consultation. The consultation period will close on 11 May and 18 May 2005 respectively.

Furthermore, the IOSCO’s Technical committee has given the Committee a mandate to analyse hedge funds. Finally, the Committee has started works on the distribution costs and the cost structure, as well as on “soft commissions”.

2.3. The informal groups

- ***The extended contact group “Undertakings for collective investment”***

The extended contact group “Undertakings for collective investment” is entrusted with establishing multinational dialogue on issues that arise within the scope of regulation and supervision of UCIs.

The CSSF participated in the annual meeting of the group, which was held from 27 to 29 October 2004 in Rome. The members have presented their latest assessments with respect to legislation and regulations concerning UCIs, as well as statistics on the UCI sector.

2.4. Institut Francophone de la Régulation Financière (IFREFI)

The *Institut Francophone de la Régulation Financière* (IFREFI, Francophone institute for financial regulation), gathering the financial markets regulatory authorities of fourteen French-speaking countries (Algeria, Belgium, France, Guinea, Luxembourg, Quebec, Morocco, Switzerland, the West African Monetary Union, Monaco, Tunisia, the Economic and Monetary Community of Central Africa, Cameroon and Rumania) was created in 2002 by a charter. IFREFI is a flexible structure of co-operation and dialogue and aims at furthering the exchange of knowledge and experience, drawing up studies and exchanging essential information relating to the financial markets between the Member States of the Institute. According to the charter, IFREFI also aims at promoting professional training by organising training seminars on specific topics.

During the annual meeting of the presidents which was held in Vevey (Switzerland) in May 2004, five new members (Monaco, Tunisia, the Economic and Monetary Community of Central Africa, Cameroon and Rumania) have been welcomed and signed the charter. The presidents discussed the international standards applicable to financial regulation and stressed the importance of taking into account the IOSCO standards in drafting the regulatory framework, as well as within the scope of financial regulation of its members.

In 2004, IFREFI organised three training seminars. The first one, which had taken place in Switzerland in May 2004, dealt with the regulation of management companies and collective savings products. The two other seminars were held in Morocco in June 2004 and December 2004 respectively. One concerned financial information while the other one was about the explanation, application and assessment method of the transposition of IOSCO principles, as well as the need for the signature and requirements prior to signature of the IOSCO MOU.



| Department General Supervision

First row, left to right:

Diane SEIL | Karin WEIRICH | Danièle KAMPHAUS-GOEDERT | Jean-Marc GOY | Joëlle MARTINY

Second row, left to right:

Ronald KIRSCH | Nadia MANZARI | Romain STROCK | Claude SIMON | Claudine WANDERSCHIED | Marguy MEHLING

Third row, left to right:

Guy HAAS | Edouard REIMEN | Claude WAMPACH | Didier BERGAMO | Davy REINARD | Alain HOSCHIED

Absent:

Ngoc Dinh LUU | Patrick MAAR | Manuel NEU | Martine WAGNER



BANKING AND FINANCIAL LEGISLATION AND REGULATIONS

1. Directives under discussion at Council level
2. Directives adopted by the Council and the European Parliament but not yet implemented under national law
3. Laws passed in 2004
4. Circulars issued in 2004
5. Circulars in force

1. DIRECTIVES UNDER DISCUSSION AT COUNCIL LEVEL

The CSSF participates in the groups examining the following proposals for Directives:

1.1. Proposed Directives to recast Directive 2000/12/EC of 20 March 2000 on the taking-up and pursuit of the business of credit institutions, and Directive 93/6/EEC of 15 March 1993 on the capital adequacy of investment firms and credit institutions

The proposed Directives aim to establish a new capital adequacy regime for credit institutions and investment firms, in parallel to the works carried out by the Basel Committee on banking supervision (Basel II).

The proposals apply the “re-casting technique” (interinstitutional agreement 2002/7777/01) allowing to make substantive amendments to existing legislation without any distinct amending Directive. This technique reduces the complexity of the European legislation making it more accessible and comprehensible. Amendments of a non-substantive nature are also made to many provisions to improve the structure, drafting and readability of the Directives.

1.1.1. Proposals concerning Directive 2000/12/EC

The proposed Directive purports to clarify and develop the obligation for credit institutions to have in place effective internal risk management systems. Given the diversity of credit institutions covered by the Directive, these requirements will have to be met on a proportionate basis.

As a consequence of the modified approach to expected loss endorsed by the Basel Committee (“Madrid decision”), some limited amendments are necessary as regards own funds.

The existing solvency ratio requirements for credit risk are replaced by two methods to calculate risk weighted exposure amounts.

The Standardised Approach is based on the existing framework, with risk weights determined by the allocation of assets and off-balance sheet items to a limited number of risk buckets. Risk sensitivity has been increased by the number of exposure classes and risk buckets. There are lower risk weights for non-mortgage retail items (75%) and residential mortgages (35%). The use of credit rating agencies’ ratings to assign risk weights where these are available (external ratings) is permitted.

The Internal Ratings Based (IRB) approach permits credit institutions to use their own estimates of the risk parameters inherent in their different credit risk exposures. These parameters form the inputs into a prescribed calculation designed to provide soundness to a 99.9% confidence level. The foundation approach allows credit institutions to use their own estimates of probability of default, while using regulatory prescribed values for other risk components. Under the advanced approach, credit institutions may use their own estimates for losses given default and their exposure at default. The proposed roll-out rules for the IRB approach provide flexibility for credit institutions to move different business lines and exposure classes to the foundation or the advanced IRB approach during a reasonable timeframe.

“Partial” use is allowed for non-material exposure classes and business lines (capital requirements can be calculated under the standardised approach even if a credit institution uses the IRB Approach for other exposure classes). The proposed EU framework recognises that for small credit institutions the requirement to develop a rating system for certain counterparties is potentially very burdensome. Permanent partial use for these exposure classes is proposed even in cases where credit institutions’ exposures to such counterparts are material.

As regards risk mitigation techniques they include the recognition of a wider range of collateral and guarantee/credit derivative providers than at present.

Credit institutions can choose between several methods of different levels of complexity i.e. a simple method – based on an easy-to-use “risk weight substitution” approach, or a comprehensive method – involving the application of volatility adjustments to the value of the collateral received. To calculate these adjustments, more and less complex approaches are made available (a simple “supervisory” approach where the amounts of the benchmark volatility adjustments are set out in a table or a more risk-sensitive “own estimates” approach).

New rules for capital requirements for securitisation activities and investments are introduced.

Three different methodologies are available as regards capital requirements for operational risk:

- a simple approach (basic indicator approach) based on a single income indicator, which does not require credit institutions to develop sophisticated and costly information systems about their risk exposure;
- a more precise risk-sensitive approach (standardised approach) as the capital requirement for operational risk is differentiated to reflect the relative risks of different business lines.
- more sophisticated methodologies (advanced measurement approaches - AMAs), which generate their own measures of operational risk, subject to more demanding risk management standards.

A certain number of amendments bring consistency between capital requirements and the large exposures rules, in particular to reflect the expanded recognition of credit risk mitigation techniques.

The proposed Directive introduces provisions that reflect the second pillar of the New Basel Accord. Credit institutions are thus required to have in place internal processes to measure and manage their risk and the amount of capital they themselves deem adequate to support those risks. Competent authorities are required to review compliance by credit institutions with the various legal obligations for organisation and risk control, and to evaluate the risks taken by credit institutions. This assessment will be used by supervisors to determine whether weaknesses exist in controls and capital held.

The uniform and centralised application of the new capital measurement methods within cross-border groups requires improved coordination and co-operation amongst national supervisory authorities. The proposed Directive sets down in detail the functioning of this enhanced co-operation within which the obligations and powers of the relevant consolidating supervisor have been developed further. Furthermore, supervisors will be provided with a minimum harmonised range of powers to require credit institutions to address any inadequacies in the requirements of the Directive.

A minimum set of disclosure requirements exists for Member States' authorities to enhance convergence of implementation and introduce transparency.

Provisions reflecting the third pillar of the New Basel Accord on own funds are also introduced. The disclosure of information by credit institutions to market participants contributes to greater financial soundness and stability, maintains a level playing field and respects the sensitivity of certain information. Most credit institutions are required to disclose on a minimum annual basis

- more frequent disclosure may be necessary in the light of specific criteria.

1.1.2. **Proposals concerning Directive 93/6/EEC**

The definition of the “trading book” is enhanced to increase certainty as to the capital requirements that apply and to restrict possible arbitrage between the “banking book” and “trading book” boundary.

The proposed Directive prescribes, for credit institutions and investment firms, the minimum capital requirements for market risk. The treatment of positions in undertakings for collective investment and credit derivatives and a number of other modifications for increased risk-sensitivity are new.

The rules on capital requirements for credit risk and operational risk in Directive 2000/12/EC, as at present, are extended to investment firms. New credit risk elements include the provision of a treatment for credit derivatives and an amended measure of exposure for repurchase transactions and securities/commodities financing transactions. For operational risk there are significant modifications to take account of the specific features of the investment firm sector, with an option to continue the expenditure based requirement for investment firms falling into the low-, medium- and medium/high-risk categories.

The existing option for competent authorities to waive the application of consolidated requirements for groups consisting of investment firms is continued subject to more prudentially sound conditions.

Safe for some changes to large exposures for trading book transactions, the current situation is continued where credit institutions and investment firms are subject to the same rules. A new element is an amended measure of exposure for repurchase transactions and securities/commodities financing transactions.

Enhanced requirements for the valuation of trading book positions are prescribed for prudential soundness in the context of rules designed for trading book positions to be priced on a daily basis.

The obligation for credit institutions to have in place effective internal risk management systems extends to investment firms. Given the diversity of the institutions covered, these requirements will have to be met on a proportionate basis. Furthermore, investment firms are required to have internal processes to measure and manage the risk they are exposed to and the amount of capital they deem adequate to support those risks. These provisions add to the existing risk management requirements for investment firms in Directive 2004/39/EC.

1.2. **Proposal for a Directive in order to establish a new financial services committee organisational structure**

The proposal for a Directive amending Directives 73/239/EEC, 85/611/EEC, 91/675/EEC, 93/6/EEC, 94/19/EC, 2000/12/EC, 2002/83/EC and 2002/87/EC, to establish a new financial services committee organisational structure aims at amending the current committees’ structure, established by the various sectorial financial services Directives. This proposal has been discussed in detail in the CSSF’s Annual Report 2003.

1.3. **Proposal for a Directive on statutory audit of annual accounts and consolidated accounts and amending Directives 78/660/EEC and 83/349/EEC**

The purpose of the proposal for a Directive is to replace the eighth Directive 84/253/EEC on the approval of persons responsible for carrying out the statutory audit of accounting documents (auditors). It maintains the requirements on registration and professional integrity, while substantially broadening its scope in order to enhance harmonisation of requirements as regards statutory audit of accounts.

The Directive thus proposes to clarify the duties of statutory auditors, notably by introducing the application of international standards to all statutory audits carried out in the European Union. It sets out certain ethical principles to ensure their objectivity and independence. Furthermore, it introduces a requirement for external quality assurance as well as rigorous public oversight. Finally, it improves co-operation between supervisory authorities in the EU and provides a basis for international regulatory co-operation with third country regulators such as the US Public Company Accounting Oversight Board (PCAOB).

The proposed instrument is the logical consequence of a reorientation of the EU policy on statutory audit started back in 1996 with the Green Paper on the role, position and liability of the statutory auditor.

The instrument is also to be understood as a response to the most recent financial scandals. Its purpose is to strengthen the role of the statutory auditor in the EU to underpin the confidence in the functioning of the EU capital markets, while guaranteeing the transparency of financial information. Two specific provisions were introduced in the proposal to respond to frauds, namely the liability of the group auditor and the set up of an independent audit committee in all public interest entities.

The ECOFIN Council of 7 December 2004 endorsed, with qualified majority, a general approach compromise text for the codecision procedure.

2. DIRECTIVES ADOPTED BY THE COUNCIL AND THE EUROPEAN PARLIAMENT BUT NOT YET IMPLEMENTED UNDER NATIONAL LAW

This section presents the Directives adopted by the Council and the European Parliament for which a draft law has been submitted to the Luxembourg *Chambre des Députés* or for which a preliminary draft is under discussion by committees operating within the CSSF or which are being implemented by the CSSF.

2.1. 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 ("Fair value Directive")

Besides prescriptions concerning the mandatory disclosure of information relating to the fair value of derivative financial instruments to be included in the annexe of the accounts, the fair value Directive introduces the IAS 39 standard "Financial instruments: recognition and measurement" as an option in the accounting Directives concerned. More detailed explanations concerning this Directive can be found in the CSSF's Annual Report 2002. A draft law transposing the Directive into Luxembourg law has been submitted to the *Chambre des Députés*.

2.2. Directive 2002/47/EC of 6 June 2002 on financial collateral arrangements

The Directive defines a single, minimum legal framework applicable to the provision of securities and cash as collateral, through the pledging of securities or the transfer of title, including repurchase agreements, aiming to ensure that effective and simple frameworks exist for the creation of collateral under either title transfer or pledge structures. The Directive is explained in detail in the Annual Report 2003 to the CSSF. A draft law aiming to transpose the Directive into Luxembourg law has been submitted to the *Chambre des Députés*.

2.3. Directive 2002/65/EC of 23 September 2002 concerning the distance marketing of consumer financial services and amending Directives 90/619/EEC, 97/7/EC and 98/27/EC

The Directive, whose purpose is to define a harmonised legal framework covering 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 marketing of financial services and products, has been covered in detail in the CSSF's Annual Report 2002. A draft law aiming to transpose the Directive into Luxembourg law has been submitted to the *Chambre des Députés*.

2.4. Directive 2002/87/EC of 16 December 2002 on the supplementary supervision of credit institutions, insurance undertakings and investment firms in a financial conglomerate and amending Directives 73/239/EEC, 79/267/EEC, 92/49/EEC, 92/96/EEC, 93/6/EEC, 93/22/EEC, 98/78/EC and 2000/12/EC

The Directive, the purpose of which is to supplement the legislation on sectoral prudential supervision with a set of measures governing the supervision of financial conglomerates, has been covered in detail in the CSSF's Annual Report 2002.

2.5. Directive 2003/6/EC of 28 January 2003 on insider dealing and market manipulation (Directive Market Abuse)

The purpose of the Directive is to ensure the integrity of the EU financial markets and to strengthen investor confidence in these markets. The Directive has been covered more explicitly in the CSSF's 2001 Annual Report.

In accordance with the final report of the Committee of Wise Men on the regulation of European securities markets, a first set of implementing measures, detailed in the CSSF's Annual Report 2003, has been endorsed.

Furthermore, the European Commission's services published on 17 November 2003 a working paper on a second set of implementing measures, which are based on the technical advice delivered by CESR in September 2003. The working paper led to the publication of Directive 2004/72/EC of 29 April 2004 on the implementing Directive 2003/6/EC as regards accepted market practices, the definition of inside information in relation to derivatives on commodities, the drawing up of lists of insiders, the notification of managers' transactions and the notification of suspicious transactions.

A draft law aiming to transpose the Directive into Luxembourg law has been submitted to the *Chambre des Députés*.

2.6. Directive 2003/41/EC of 3 June 2003 on institutions for occupational retirement provision

The purpose of the Directive is to create a harmonised prudential framework for the taking-up and pursuit of activities of institutions for occupational retirement provision and to allow institutions for occupational retirement provision to freely provide their services to companies located in other Member States thanks to the mutual recognition of prudential standards and co-operation mechanisms between competent authorities of the home and host Member States.

The Directive is covered separately in Chapter IV "Supervision of pension funds" of the CSSF's Annual Report 2003. A draft law aiming to transpose the Directive into Luxembourg law has been submitted to the *Chambre des Députés*.

2.7. Directive 2003/51/EC of 18 June 2003 amending Directives 78/660/EEC, 83/349/EEC, 86/635/EEC and 91/674/EEC on the annual and consolidated accounts of certain types of companies, banks and other financial institutions as well as insurance undertakings (Directive "Modernisation of accounting Directives")

The Directive supplements the IAS regulations making the application of IAS standards compulsory for consolidated accounts of companies listed on a regulated market from 2005 onwards. It amends the 4th and 7th Directives, the accounting Directive for banks and other financial institutions, as well as the accounting Directive for insurance undertakings. More detailed information is provided in the CSSF's Annual Report 2003. A draft law aiming to transpose the Directive into Luxembourg law has been submitted to the *Chambre des Députés*.

2.8. **Directive 2003/71/EC of 4 November 2003 concerning the prospectus to be published when securities are offered to the public or admitted to trading (Prospectus Directive)**

The Directive aims to introduce a single European passport for prospectus, thereby allowing companies to raise funds more easily across the European Union, while promoting investor protection by way of common standards governing the quality of information disclosed in prospectus. The Directive is described in detail in the CSSF's Annual Report 2003.

In accordance with the procedure decided upon following the resolution of the Stockholm European Council of March 2001 aiming at improving the decision procedure as regards securities, the first implementing measures based on technical advice prepared by CESR have been integrated into Regulation (EC) No 809/2004 of 29 April 2004. These measures cover:

- the format of prospectuses and the detailed information to be included in a prospectus, presented in the form of schedules;
- modes of incorporation by reference;
- method to disclose an annual document containing or mentioning all information that a specific issuer has published or made public in the course of the previous twelve months;
- publication methods for a prospectus in order to ensure that a prospectus is publicly available;
- methods to disseminate advertisements;
- certain transitional measures relating to historical financial information.

The Regulation is directly applicable in all Member States of the European Union.

A draft law aiming to transpose the Directive into Luxembourg law has been submitted to the *Chambre des Députés*.

2.9. **Directive 2004/25/EC of 21 April 2004 on takeover bids (Takeover Directive)**

The Directive, which introduces common EU provisions as regards takeover bids, was published on 30 April 2004. It will come into force on 20 May 2006 at the latest. More detailed information is available in the CSSF's Annual Report 2003.

2.10. **Directive 2004/39/EC of 21 April 2004 on markets in financial instruments, amending Directives 85/611/EEC, 93/6/EEC and 2000/12/EC and repealing Directive 93/22/EEC (MIFID Directive)**

The Directive enhances harmonisation of national rules and gives investment firms an effective single passport, which will allow them to operate throughout the European Union on the basis of authorisation in their home Member State. It also ensures that investors enjoy a high level of protection when making use of investment firms, wherever they are located in the European Union. Finally, it establishes a comprehensive regulatory framework governing the organised execution of investor transactions by exchanges, other multilateral trading systems and investment firms. The objectives of the Directive are detailed in the CSSF's Annual Report 2003.

In accordance with the Committee of Wise Men on the regulation of European securities markets, the European Commission gave several mandates to CESR to develop technical measures concerning the rules of conduct for investment firms, rules governing their internal organisation, investor protection, rules of pre-and post trade transparency, conditions for admission, definition of investment advice, publication of limit orders, treatment of eligible counterparties, systematic internalisation, rules governing reporting of transactions on financial instruments and rules governing co-operation between relevant authorities. The mandates and relating works in progress are described in detail under point 1.1.2. relating to Chapter X on international co-operation.

Within the scope of the first mandate, CESR submitted its technical advice to the European Commission on 31 January 2005. The latter will present proposals for a Directive or Regulation based on the technical advice to the European Securities Committee in the course of 2005.

2.11. Directive 2004/109/EC of 15 December 2004 on the harmonisation of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market and amending Directive 2001/34/EC (Transparency Directive)

The Directive introduces requirements that strengthen the transparency requirement for companies whose securities are admitted to trading on a regulated market. The disclosure of accurate, comprehensive and timely information about security issuers builds sustained investor confidence and allows an informed assessment of their business performance and assets. This enhances both investor protection and market efficiency.

Consistent with the provisions of the Prospectus Directive, the Transparency Directive sets down that issuers of shares or debt securities whose nominal unit value lies below EUR 1,000 should be under the supervision of the Member State where their registered office is located.

The Directive improves the quality of information available to investors on the results and the financial situation of a company whose shares are admitted to trading on a regulated market. In accordance with the Directive, all issuers of securities must publish their annual financial statements within four months following the end of the financial year. Investors in shares will receive more comprehensive half-yearly financial reports than those required by the existing legislation and, where the companies concerned do not publish quarterly statements, at least quarterly management reports. Issuers of debt securities shall also publish half-yearly reports, no later than two months following the end of the half-year. The Directive also introduces certain transparency requirements relating to the liability statements to include in the reports, notably requiring the identification of the persons responsible within the issuing companies.

The Directive should also allow to increase the information available on major changes in the shareholding of companies whose shares are admitted to trading on a regulated market and promote better dissemination of information on issuers, thereby removing a barrier to cross-border investments.

Furthermore, the Directive modernises the existing legislation in the European Union as regards information to provide to shareholders and bondholders during general meetings by proxy or electronic means.

In accordance with the procedure decided upon in the Stockholm Resolution adopted by the European Council in March 2001, which aims at improving the decision process as regards securities, the European Commission gave a first mandate for the preparation of a technical advice under the Transparency Directive to CESR. This mandate is detailed under point 1.1.2. relating to Chapter X on international co-operation.

2.12. Regulation (EC) No 1606/2002 of 19 July 2002 on the application of International Accounting Standards (IAS Regulation)

The IAS Regulation provides that all EU companies, whose securities (shares or bonds) are listed on a regulated market within the European Union, shall prepare their consolidated accounts according to the International Accounting Standards (IAS) as from the financial year 2005 (compulsory regime of the IAS Regulation). Member States have the option of also requiring or permitting the application of IAS to non-listed companies as well as for annual accounts (optional regime of the IAS Regulation).

According to the transitional provisions, Member States have the right to defer the application of compulsory provisions until 2007 for the companies of which:

- only the bonds are listed on a regulated market in the EU or
- the securities (shares or bonds) are listed on a regulated market outside the EU, which are already applying another set of internationally accepted standards for a financial year having started before the publication of the IAS Regulation.

The Regulation has been covered more specifically in the CSSF's Annual Report 2002. A draft law aiming to transpose the Directive into Luxembourg law has been submitted to the *Chambre des Députés*.

3. LAWS PASSED IN 2004

3.1. Law of 19 March 2004 transposing Directive 2001/24/EC of 4 April 2001 on the reorganisation and winding up of credit institutions into the law of 5 April 1993 on the financial sector as amended

The law transposes into national law Directive 2001/24/EC, which aims at ensuring mutual recognition of national reorganisation and winding-up measures of credit institutions in such crisis situations. It has been covered more specifically in the CSSF's Annual Report 2003.

3.2. Law of 22 March 2004 on securitisation

The law aims to establish a secure and stable legal framework allowing the development of asset securitisation in Luxembourg. Securitisation transactions have developed for a certain number of years in Luxembourg without being subject to an adequate legal framework. They were often founded on the grand-ducal regulation of 19 July 1983 on fiduciary agreements of credit institutions, which has been replaced in the meantime by the law of 27 July 2003 on trusts and fiduciary agreements.

Henceforth, the law on securitisation provides a comprehensive legal framework taking account of all the aspects of a securitisation transaction. It creates an environment allowing to protect investors' interests while offering promoters sufficient flexibility in structuring transactions.

Thus, the definition of securitisation given by the law is intentionally broad, encompassing traditional securitisations of claims as well as more modern forms of risk securitisation. The law defines securitisation as a transaction by which a securitisation vehicle acquires or assumes, directly or through another vehicle, any risk relating to claims, other assets, or obligations assumed by third parties or inherent to all or part of the activities of third parties, by issuing securities whose value or yield depends on these risks. The risk inherent in securitised assets is borne by the investor and the yield of the securities issued by the securitisation vehicle depends on this risk.

The law solely applies to securitisation vehicles located in Luxembourg.

Securitisation vehicles can be incorporated in two forms, namely in the form of a company or in the form of a fund managed by a management company. The securitisation vehicles incorporated in the form of a company must take the form of a stock company, whose purpose is to acquire securitisable assets and to issue securities representative of these assets. The securitisation funds can take the form of co-ownership or fiduciary property structure. They do not have legal personality and are managed by a management company.

Furthermore, the law allows securitisation vehicles to split into compartments, each holding different assets. It allows securitisation vehicles to choose whether they issue their securities in the form of shares or bonds.

In principle, securitisation vehicles are not under any supervision. However, if they issue securities to the public on a regular basis, they are required to obtain authorisation as this activity is considered as an activity consisting in pooling funds from the public. The required authorisation is granted by the CSSF which must approve the articles of incorporation or management regulations of the securitisation vehicle, and where applicable, of its management company. The law vests the CSSF with broad powers to supervise and control these securitisation vehicles. The CSSF has a vast investigation right in particular as regards all the elements likely to influence the security of investors.

As far as securitised risks are concerned, the law allows the securitisation of risks linked to the holding of assets, whether movable or immovable, tangible or intangible, as well as risks resulting from the obligations assumed by third parties or relating to the activities of third parties. The law thus enables securitisation vehicles to assume extremely varied risks. The law also allows techniques permitting the transfer of these risks to the securitisation vehicle.

Investors and creditors of a securitisation vehicle can entrust the management of their interests to one or several fiduciary representatives. Given the important part fiduciary representative can play, legislation provides that this function must be performed by professionals authorised as such by the Ministry of Treasury and Budget. A new category of professionals of the financial sector has thus been created.

3.3. Law of 15 June 2004 relating to the investment company in risk capital (SICAR)

A detailed analysis of the law is available under Chapter IV “Supervisory framework for SICARs”.

3.4. Law of 12 November 2004 on the fight against money laundering and financing of terrorism

The purpose of the law is to transpose 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 into national law. In addition to the transposition of the aforementioned Directive, it complements national legislation on a certain number of issues.

The new law extends the scope of the underlying infringements of money laundering by adding the fraud against the financial interests of the European Community. It defines the scope of application of the Luxembourg regulatory framework, notably as regards the financial sector, and extends it to professions not subject so far – or only partly subject – to the professional obligations as regards the fight against money laundering, but likely to be used by money launderers for their criminal purposes. In order to ensure uniform implementation of anti-money laundering professional obligations by all the participants concerned, a single intersectoral law was drawn up, providing as well for additional rules designed for the specific business sectors. The law thereby complements the anti-money laundering rules applicable to banks and the other professionals of the financial sector through a provision on the information to include in payments and funds transfers.

The law also innovates by extending the professional obligations regarding the fight against money laundering to the fight against financing of terrorism. The participants concerned must henceforth also report any information which could be an indication of financing of terrorism to the relevant authorities.

4. CIRCULARS ISSUED IN 2004

In 2004, the CSSF issued 44 circulars, 32 of which dealing with the fight against money laundering and financing of terrorism.

The following circulars are the most important, some of which being detailed in the relevant Chapters of the Annual Report:

- Circular CSSF 04/146 on the protection of undertakings for collective investment and their investors against Late Trading and Market Timing practices;
- Circular CSSF 04/151 relating to the information to be published in the listing particulars of the following categories of securities: shares and units issued by foreign undertakings for collective investment whose securities are not subject to public exposure, offer or sale in or from Luxembourg; transferable securities which are redeemable in or exchangeable with shares or units of UCIs or whose yield and/or redemption is/are linked to underlying shares or units of UCIs;
- Circular CSSF 04/155 on the Compliance function.

5. CIRCULARS IN FORCE (AS AT 1 MARCH 2005)

5.1. Circulars issued by the *Commissariat au Contrôle des Banques*

B 79/2	07.05.1979	European Code of Conduct on securities transactions
B 83/6	16.03.1983	Participating interest held by credit institutions

5.2. Circulars issued by the *Institut Monétaire Luxembourgeois*

IML 84/18	19.07.1984	Futures markets (law of 21 June 1984)
IML 86/32	18.03.1986	Control of the annual accounts of credit institutions
IML 88/49	08.06.1988	New legal provisions concerning controls carried out by auditors
IML 91/75	21.01.1991	Revision and re-casting of rules governing Luxembourg undertakings covered by the law of 30 March 1988 on undertakings for collective investment
IML 91/78	17.09.1991	Terms of application of Article 60 of the amended law of 27 November 1984 regulating private portfolio managers
IML 91/80	05.12.1991	Staff numbers (PFS)
IML 92/86	03.07.1992	Law of 17 June 1992 concerning the accounts of credit institutions
IML 93/92	03.03.1993	Computerised transmission of periodic data
IML 93/94	30.04.1993	Entry into force for banks of the law of 5 April 1993 on the financial sector
IML 93/95	04.05.1993	Entry into force for other professionals of the financial sector of the law of 5 April 1993 on the financial sector
IML 93/99	21.07.1993	Provisions for Luxembourg credit institutions wishing to exercise banking activities in other EEC countries through the establishment of branches or under the freedom to provide services
IML 93/100	21.07.1993	Provisions for credit institutions of Community origin exercising banking activities in Luxembourg through branches or under the freedom to provide services
IML 93/101	15.10.1993	Rules concerning the organisation and internal control of the market activity of credit institutions
IML 93/102	15.10.1993	Rules concerning the organisation and internal control of the activities of brokers or commission agents exercised by other financial sector professionals
IML 93/104	13.12.1993	Definition of a liquidity ratio to be observed by credit institutions
IML 94/109	08.03.1994	Allocation of responsibilities for the establishment of equipment for transmitting computerised data to the IML
IML 94/112	25.11.1994	The fight against money laundering and prevention of the use of the financial sector for the purpose of money laundering

BANKING AND FINANCIAL LEGISLATION AND REGULATIONS

IML 95/116	20.02.1995	Entry into force of: - the law of 21 December 1994 amending certain legal provisions concerning the transfer of claims and pledging; - the law of 21 December 1994 concerning repurchase agreements transacted by credit institutions
IML 95/118	05.04.1995	Treatment of customer complaints
IML 95/119	21.06.1995	Rules for the management of risks linked to derivatives transactions
IML 95/120	28.07.1995	Central administration
IML 96/123	10.01.1996	Staff numbers (new table S 2.9.)
IML 96/124	10.01.1996	Staff numbers (new table S 2.9. for PFS)
IML 96/125	30.01.1996	Supervision of credit institutions on a consolidated basis
IML 96/126	11.04.1996	Administrative and accounting organisation
IML 96/129	19.07.1996	Law of 9 May 1996 on the netting of claims in the financial sector
IML 96/130	29.11.1996	Calculation of a simplified ratio in application of IML Circular 96/127
IML 97/135	12.06.1997	Transmission of supervisory data and statistics by telecommunications media
IML 97/136	13.06.1997	Financial information for the IML and Statec
IML 98/142	01.04.1998	Financial data to be supplied periodically to the IML
IML 98/143	01.04.1998	Internal control
IML 98/147	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	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

5.3. Circulars issued by the *Banque Centrale du Luxembourg* (until 31 December 1998)

BCL 98/153	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
------------	------------	---

5.4. Circulars issued by the *Commissariat aux Bourses*

CAB 90/1	13.12.1990	Conditions for drafting, scrutiny and distribution of the prospectus to be published when transferable securities are offered to the public, or of listing particulars, to be published for the admission of transferable securities to official stock exchange listing
CAB 91/2	01.07.1991	Law of 3 May 1991 on insider dealing
CAB 93/4	04.01.1993	Law of 4 December 1992 on reporting requirements concerning the acquisition or disposal of major holdings in a listed company

CAB 94/5	30.06.1994	Publication of forecasts in the admission prospectus for an official listing
CAB 98/6	24.09.1998	Information to be included in the prospectus for a public offering or for admission to official listing of certain debt issues whose income and/or redemption is/are linked to underlying shares
CAB 98/7	15.10.1998	Information to be shown in the prospectus for a public offering or for admission to official listing of certain categories of warrants, bonds, or issue programmes

5.5.

Circulars issued by the *Commission de surveillance du secteur financier*

CSSF 99/1	12.01.1999	Creation of the <i>Commission de Surveillance du Secteur Financier</i>
CSSF 99/2	20.05.1999	Entry into force of three new laws dated 29 April 1999
CSSF 99/4	29.07.1999	Entry into force of the law of 8 June 1999 creating pension funds in the form of pension savings companies with variable capital (sepcav) and pension savings associations (assep)
CSSF 99/7	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 00/10	23.03.2000	Definition of capital ratios pursuant to article 56 of the amended law of 5 April 1993 on the financial sector (application to credit institutions)
CSSF 00/12	31.03.2000	Definition of capital ratios pursuant to article 56 of the amended law of 5 April 1993 on the financial sector (application to investment firms)
CSSF 00/13	06.06.2000	Sanctions against the Federal Republic of Yugoslavia and the Taliban in Afghanistan
CSSF 00/14	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	02.08.2000	Rules of conduct for the financial sector
CSSF 00/16	23.08.2000	Supplement to Circular IML 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	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	20.10.2000	Bank accounts of the State of Luxembourg
CSSF 00/22	20.12.2000	Supervision of investment firms on a consolidated basis carried out by the <i>Commission de Surveillance du Secteur Financier</i>
CSSF 01/26	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	23.03.2001	Practical rules on the role of external auditors

BANKING AND FINANCIAL LEGISLATION AND REGULATIONS

CSSF 01/28	06.06.2001	Verification by banks and PFS that the legal requirements on domiciliation are satisfied
CSSF 01/29	07.06.2001	Minimum content required for an agreement on the domiciliation of companies
CSSF 01/31	04.07.2001	Supplement to Circulars CSSF 00/16 and IML 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	11.07.2001	Publication of information on financial instruments
CSSF 01/34	24.09.2001	Entry into force of a series of laws concerning the financial sector
CSSF 01/40	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 Circular IML 94/112 on the fight against money laundering and prevention of the use of the financial sector for the purpose of money laundering
CSSF 01/42	19.11.2001	Mortgage bond banks: rules on real estate valuation
CSSF 01/46	19.12.2001	Repeal of Circular CSSF 01/35
CSSF 01/47	21.12.2001	Professional obligations of domiciliation agents of companies and general recommendations Amendment of Circular CSSF 01/28
CSSF 01/48	20.12.2001	Supplement to Circulars CSSF 00/16, 00/31 and 01/37 and IML 94/112 on the fight against money laundering and prevention of the use of the financial sector for the purpose of money laundering
CSSF 02/61	04.06.2002	Identification and declaration of business relations with terrorist circles
CSSF 02/63	01.07.2002	Cross-border payments in euros
CSSF 02/65	08.07.2002	Law of 31 May 1999 governing the domiciliation of companies; precisions as regards the concept of "seat"
CSSF 02/71	01.10.2002	Law of 3 September 1996 concerning the involuntary dispossession of bearer securities
CSSF 02/77	27.11.2002	Protection of investors in case of miscalculation of NAV and the compensation following non-compliance with investment rules applicable to undertakings for collective investment
CSSF 02/78	27.11.2002	Details on the obligation of declaration with respect to money laundering and on the primary offences that could lead to money laundering offences
CSSF 02/80	05.12.2002	Specific rules applicable to Luxembourg undertakings for collective investment (UCIs) which adopt alternative investment strategies
CSSF 02/81	06.12.2002	Practical rules regarding the tasks of external auditors of undertakings for collective investment
CSSF 03/87	21.01.2003	Coming into force of the law of 20 December 2002 regarding undertakings for collective investment
CSSF 03/88	22.01.2003	Classification of undertakings for collective investment governed by the provisions of the law of 20 December 2002 regarding UCIs
CSSF 03/95	26.02.2003	Mortgage bonds: Applicable minimum requirements regarding management and control of mortgage register, cover assets and limit of circulating mortgage bonds

CSSF 03/97	28.02.2003	Publication of the simplified and complete prospectuses as well as annual and half-yearly reports of UCIs in the database of the financial centre
CSSF 03/100	01.04.2003	Publication on the Internet of CSSF instructions: - <i>Recueil des instructions aux banques</i> of the CSSF - Schedule of Conditions for the technical implementation of the CSSF reporting requirements – SOC/CSSF
CSSF 03/108	30.07.2003	Luxembourg management companies subject to Chapter 13 of the law of 20 December 2002 concerning undertakings for collective investment, as well as Luxembourg self-managed investment companies subject to article 27 or article 40 of the law of 20 December 2002 concerning undertakings for collective investment
CSSF 03/113	21.10.2003	Practical rules concerning the mission of external auditors of investment firms
CSSF 03/122	19.12.2003	Clarifications on the simplified prospectus
CSSF 04/132	24.03.2004	Abrogation of Circular CaB 91/3
CSSF 04/140	13.05.2004	Amendment of Circular CSSF 2000/12 applicable to investment firms incorporated under Luxembourg law and to branches of non EU investment firms to transpose Directive 2004/69/EC of the European Commission of 27 April 2004 amending Directive 2000/12/EC of the European Parliament and of the Council as regards the definition of “multilateral development banks”; Amendment of the list of Zone A countries
CSSF 04/143	24.05.2004	Abrogation of Circulars IML 90/67, 90/68 and 91/77
CSSF 04/144	26.05.2004	Amendment of Circular CSSF 2000/10 applicable to banks incorporated under Luxembourg law and to branches of non EU banks to transpose Directive 2004/69/EC of the European Commission of 27 April 2004 amending Directive 2000/12/EC of the European Parliament and of the Council as regards the definition of “multilateral development banks”; Amendment of the list of Zone A countries
CSSF 04/146	17.06.2004	Protection of undertakings for collective investment and their investors against Late Trading and Market Timing practices
CSSF 04/151	13.07.2004	Information to be published in the listing particulars of the securities specified below: - shares and units of foreign UCIs whose securities are not publicly exposed, offered or sold in or from Luxembourg, and - securities which are redeemable or exchangeable in shares or units of UCIs or whose income and/or redemption is/are linked to underlying shares or units of UCIs
CSSF 04/154	24.08.2004	New capital requirements regime
CSSF 04/155	27.09.2004	The Compliance function
CSSF 04/156	01.10.2004	Circular CSSF 2000/10 - Abrogation of the communication of the detailed calculation of the capital requirement (tables B 3.2 and B 7.3) - List of currencies of EU Member States not participating in the Euro
CSSF 04/165	21.12.2004	Statistics on guaranteed deposits and instruments
CSSF 04/167	22.12.2004	Breakdown of value corrections made by the credit institutions at 31 December 2004

BANKING AND FINANCIAL LEGISLATION AND REGULATIONS

The circulars listing the persons to whom restrictive measures apply within the scope of the fight against terrorism and money laundering, are mentioned hereunder, and do not appear in the table above.

Changes to the list of countries and territories considered non co-operative by the Financial Action Task Force (FATF) are the subject of Circulars CSSF 00/16, 01/31, 01/37, 01/48, 02/66, 02/73, 03/86, 03/93, 03/104, 03/115, 04/129, 04/149, 04/162 and 04/171.

The amendments to Council Regulation (EC) N° 881/2002 imposing certain specific restrictive measures against certain persons and entities associated with Usama bin Laden, the Al-Qaida network and the Taliban published on 4 June 2002 in Circular CSSF 02/61 are the subject of the following CSSF Circulars: CSSF 02/62, 02/68, 02/70, 02/72, 02/74, 02/75, 02/79, 03/89, 03/91, 03/92, 03/96, 03/98, 03/99, 03/101, 03/102, 03/103, 03/105, 03/109, 03/110, 03/111, 03/112, 03/116, 03/117, 03/119, 04/125, 04/126, 04/127, 04/130, 04/131, 04/134, 04/138, 04/141, 04/148, 04/150, 04/152, 04/157, 04/160, 04/164, 04/166, 05/169, 05/170 and 05/173.

The specific restrictive measures against certain persons and entities within the scope of the fight against terrorism are the subject of Circulars CSSF 02/59, 02/75, 03/111 and 04/133.

The freeze of funds in relation to Mr Milosevic and those persons associated with him is the subject of Circulars CSSF 00/20 and 03/102.

The measures against UNITA (União Nacional para a Independência Total de Angola) are the subject of Circular CSSF 03/90.

The restrictive measures concerning certain Iraqi assets are the subject of Circulars CSSF 03/110, 03/114, 03/118, 04/136, 04/142 and 04/145.

The restrictive measures in relation to the persons indicted by the ICTY are the subject of Circulars CSSF 04/159, 04/163, 04/168 and 05/172.

The restrictive measures concerning Burma / Myanmar are the subject of Circulars CSSF 04/135, 04/161 and 05/174.

The restrictive measures in relation to Liberia are the subject of Circulars CSSF 04/137, 04/147, 04/153 and 04/158.

The restrictive measures in respect of Zimbabwe are the subject of Circular CSSF 04/128.



INTERNAL ORGANISATION OF THE CSSF

1. Functioning of the CSSF
2. Human resources
3. Information technology
4. Staff members
5. Internal committees

INTERNAL ORGANISATION OF THE CSSF

1. FUNCTIONING OF THE CSSF

The CSSF's administrative and management organisation is described in detail in the sub-section "*Gouvernement et fonctionnement*" (Corporate governance and functioning) of the CSSF website (www.cssf.lu, section "*Qu'est-ce que la CSSF*").

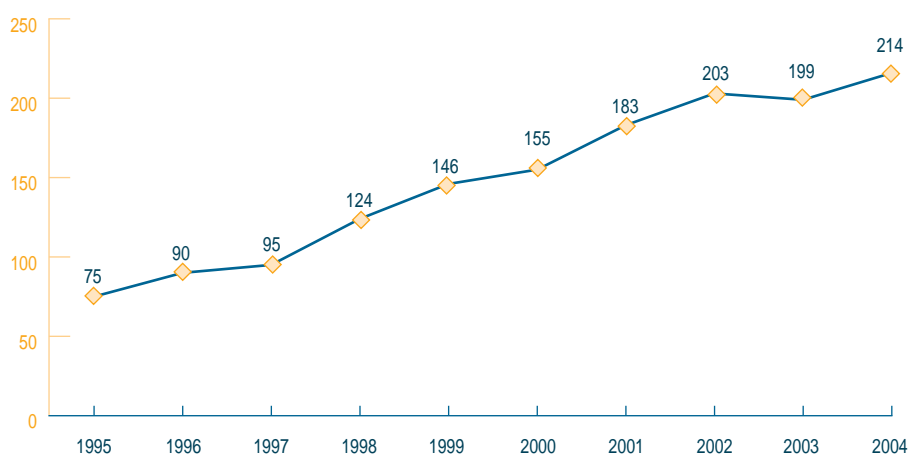
2. HUMAN RESOURCES

In 2004, the CSSF organised two competitive exams. The first one was held on 15 May 2004 for the *carrière supérieure* and resulted in the recruitment of six agents on 1 September 2004, among whom three are trained in economics, two in law and one in business administration.

The second competitive exam was held on 18 September 2004 for the *carrière moyenne*, and resulted in the recruitment of seven agents on 1 December 2004 and one agent on 1 January 2005.

Besides these recruitments, two employees were hired so that the total number of staff reached 214 people. Moreover, Mr Charles Kieffer, Director, retired on 31 December 2004.

Movements in staff numbers



During their training period, which lasts one year in principle, the trainees are given specialised in-house training, followed by exams, which should allow them to get an overview of the supervisory activities carried out by the CSSF. Moreover, the *carrière supérieure* trainees attend one or several seminars covering specific subjects and draw up a dissertation paper on one of the subjects covered by the training programme.

Within the scope of continuing training of CSSF staff, 51 diverse training sessions were held on subjects such as money laundering, risk management, UCIs, legal English, personal development, management, security, accounting, IT tools, human resources management and audit. Several agents also followed specialised training abroad.

In 2004, the attendance to the different training sessions rose from 196 in 2003 to 428. Overall, 432 training days were followed by CSSF staff and 173 agents have at least attended one session in the course of 2004.



| ***Department Administration and Finance***

From left to right:

Paul CLEMENT | Marco VALENTE | Alain KIRSCH | Jean-Paul WEBER | Edmond JUNGERS |
Georges BECHTOLD | Raul DOMINGUES | Elisabeth DEMUTH | Milena CALZETTONI

Absent: Carlo PLETSCHETTE



| Department Information Technology

First row, left to right:

Nadine ESCHETTE | Karin PROTH | Carine SCHILTZ

Second row, left to right:

Marc KOHL | Guy WAGENER | Joao Pedro ALMEIDA | Jean-Jacques DUHR

Third row, left to right:

Jean-Luc FRANCK | Edouard LAUER | Guy FRANTZEN | Paul HERLING | Steve KETTMANN

Absent: Sandra WAGNER | Jean-François BURNOTTE

3. INFORMATION TECHNOLOGY

The activities of the department Information Technology in 2004 focused on the upgrade of the different office automation software. The users now work in a Windows XP and Office 2003 environment, supported by servers running mostly on Windows 2003. The migration was made both internally and in co-operation with an external provider for the setting up of the central server and the Active Directory. A large part of the office equipment was replaced.

The Electronic Document Management System (DMS) set up at the end of 2003 was completed to fulfil the agents' needs. The former DMS system, Linkworks, was definitively stopped in June 2004.

A connexion has been established with the prospectus exchange system of the Stock Exchange, named "e-file.lu". At a first stage, prospectuses in preparation are received electronically and injected in the CSSF's internal circuit. It is planned that all the functionalities of "e-file.lu" will be integrated into the CSSF's IT system so as to completely automate the file exchange between the intermediaries, the Stock Exchange and the CSSF.

IT staff has been reinforced by a system administrator who focuses on the backup site and the IT security installation, in order to ensure improved availability and integrity of the existing infrastructure. Several projects planned for 2005 have been prepared, such as the set up of the storage area network (SAN) on two sites or the introduction of personal e-mail addresses.

4. STAFF MEMBERS (AS AT 1 MARCH 2005)

Executive Board

Director General | Jean-Nicolas Schaus

Directors | Arthur Philippe, Simone Delcourt

Executive Secretaries | Marcelle Michels, Monique Reisdorffer, Joëlle Deloos,
| Karin Frantz

IT audit | David Hagen, Claude Bernard, Pascal Ducarn

Internal audit | Marie-Anne Voltaire

Director General's advisors | Marc Weitzel, Geneviève Pescatore

IT coordination | Pascale Damschen

Systems security | Constant Backes

INTERNAL ORGANISATION OF THE CSSF

General Supervision

Head of function	Claude Simon
Deputy head	Romain Strock

Division 1 – International files

Head of division	Romain Strock
	Jean-Marc Goy, Ngoc Dinh Luu, Nadia Manzari, Karin Weirich

Division 2 - Issues regarding accounting, tax system and external audit

Head of division	Danièle Kamphaus-Goedert
	Marguy Mehling, Martine Wagner, Diane Seil

Division 3 - Special functions

Joëlle Martiny, Davy Reinard, Didier Bergamo, Alain Hoscheid,
Ronald Kirsch, Patrick Maar, Manuel Neu, Edouard Reimen,
Claude Wampach

Department Supervision of banks

Head of department	Frank Bisdorff
Deputy head of department	Ed. Englaro

Division 1 – Supervision of credit institutions 1

Head of division	Marc Wilhelmus
	Marco Bausch, Jean Ley, Françoise Daleiden,
	Michèle Trierweiler, Gilles Jank, Yves Simon

Division 2 - Supervision of credit institutions 2

Head of division	Ed. Englaro
	Isabelle Lahr, Claudine Tock, Anouk Dondelinger,
	Jacques Streweler

Division 3 - Supervision of credit institutions 3

Head of division	Jean-Paul Steffen
	Joan De Ron, Jean Mersch, Alain Weis, Carlos Azevedo Pereira

Division 4 - Supervision of credit institutions 4

Head of division	Nico Gaspard
	Jean-Louis Beckers, Claude Moes, Monica Ceccarelli

Division 5 - Supervision of credit institutions 5

Head of division	Patrick Wagner
	Marc Bordet, Christina Pinto, Jean-Louis Duarte, Steve Polfer,
	Marina Sarmento

<i>Statistics and IT issues</i>	Claude Reiser, Romain De Bortoli
---------------------------------	----------------------------------

<i>Secretaries</i>	Michèle Delagardelle, Claudine Wanderscheid, Steve Humbert
--------------------	--

Department Supervision of undertakings for collective investment

Head of department | Irmine Greischer

Deputy head of department | Claude Steinbach

Practical studies and specific aspects | Pierre Bodry, Géraldine Olivera

IT systems | Nico Barthels, Danièle Christophory

Coordination of Divisions 1 to 5 | Francis Koepp

Division 1 - Supervision of UCIs 1

Head of division | Charles Thilges

| Marc Siebenaler, Francis Lippert, Dominique Herr,
| Marie-Rose Colombo, Tom Ewen, Dave Reuter,
| Jean-Claude Fraiture, Thierry Quaring

Division 2 - Supervision of UCIs 2

Head of division | Vic Marbach

| Martine Kerger, Géraldine Appenzeller, Marc Decker,
| Guy Morlak, Thierry Stoffel, Patricia Jost, Jean-Marc Lehnert,
| Damien Houel

Division 3 - Supervision of UCIs 3

Head of division | Ralph Gillen

| Joël Goffinet, Karin Hoffmann, Marc Racké, Laurent Charnaut,
| Martin Mannes, Isabelle Dosbourg

Division 4 - Supervision of UCIs 4

Head of division | Roberto Montebrusco

| Alain Strock, Nathalie Cubric, Diane Reuter, René Schott

Division 5 – Scrutiny of UCIs

Head of division | Francis Gasché

| Pierre Reding, Anica Giel-Markovinovic, Pascale Schmit,
| Nadine Pleger, Nathalie Reisdorff, Michèle Wilhelm,
| Claude Wagner, Yolanda Alonso, Daniel Schmitz, Carole Lis,
| Roberta Tumiotto, Evelyne Pierrard-Holzem

Division 6 – Authorisation and supervision of management companies

Head of division | Pascal Berchem

| Anne Conrath, Pascale Felten-Enders, Eric Tanson,
| Anne-Marie Hoffeld

INTERNAL ORGANISATION OF THE CSSF

Division 7 - Management and operation of data bases

- Head of division | Jolanda Bos
- | Marie-Louise Baritussio, Adrienne André-Zimmer,
| Danielle Neumann, Claude Krier, Claudine Thielen,
| Suzanne Wagner, Christiane Cazzaro

Division 8 - Legal aspects and prudential supervision

- Head of division | Angela De Cillia
- | François Hentgen, Fabio Ontano, Joëlle Hertges,
| Christiane Streef, Stéphanie Bonifas, Sabine Schiavo

- Secretaries** | Carole Eicher, Sandy Bettinelli, Carla Dos Santos,
| Simone Kuehler

Department Supervision of the other professionals of the financial sector

- Head of department | Sonny Bisdorff-Letsch
- Deputy head of department | Denise Losch
- | Carlo Felicetti, Brigitte Jacoby, Carole Ney, Luc Pletschette,
| Nicole Lahire, Claudia Miotto, Sylvie Mamer, Martine Simon,
| Gérard Brimeyer
- Secretary | Emilie Lauterbour

Department General Secretariat

- Head of department | Danièle Berna-Ost
- Deputy head of department | Danielle Mander
- | Benoît Juncker, Carine Conté, Natasha Deloge,
| Jean-François Hein, Nadine Holtzmer, Iwona Mastalska,
| Christiane Trausch, Gilles Hauben
- Secretary | Steve Humbert

Department Supervision of securities markets

- Head of department | Françoise Kauthen
- Deputy head of department | Annick Zimmer
- | Mylène Hengen, Simone Gloesener, Pierre van de Berg,
| Marc Limpach, Jean-Christian Meyer, Malou Hoffmann,
| Maggy Wampach, Sylvie Nicolay-Hoffmann
- Secretary | Marie-Josée Pulcini

Department Supervision of pension funds, SICARs and securitisation vehicles

Head of department	Christiane Campill
Deputy head of department	Marc Pauly
	Josiane Laux, Isabelle Maryline Schmit, Daniel Ciccarelli,
	Son Backes
Secretary	Carla Dos Santos

Department Administration and Finance

Head of department	Edmond Jungers
Deputy head of department	Georges Bechtold

Division 1 - Human resources and day-to-day management

Head of division	Georges Bechtold
	Alain Kirsch, Raul Domingues, Marco Valente, Paul Clement

Division 2 - Financial management

Head of division	Jean-Paul Weber
	Carlo Pletschette, Elisabeth Demuth
Secretary	Milena Calzетtoni

Department Information Technology

Head of department	Jean-Luc Franck
Deputy head of department	Sandra Wagner

Division 1 - Analysis and development

Head of division	Paul Herling
	Guy Wagener, Marc Kohl

Division 2 - Management of databases

Sandra Wagner

Division 3 - Operating systems

Head of division	Guy Frantzen
	Jean-Jacques Duhr, Edouard Lauer, Nadine Eschette,
	Steve Kettmann, Jean-François Burnotte

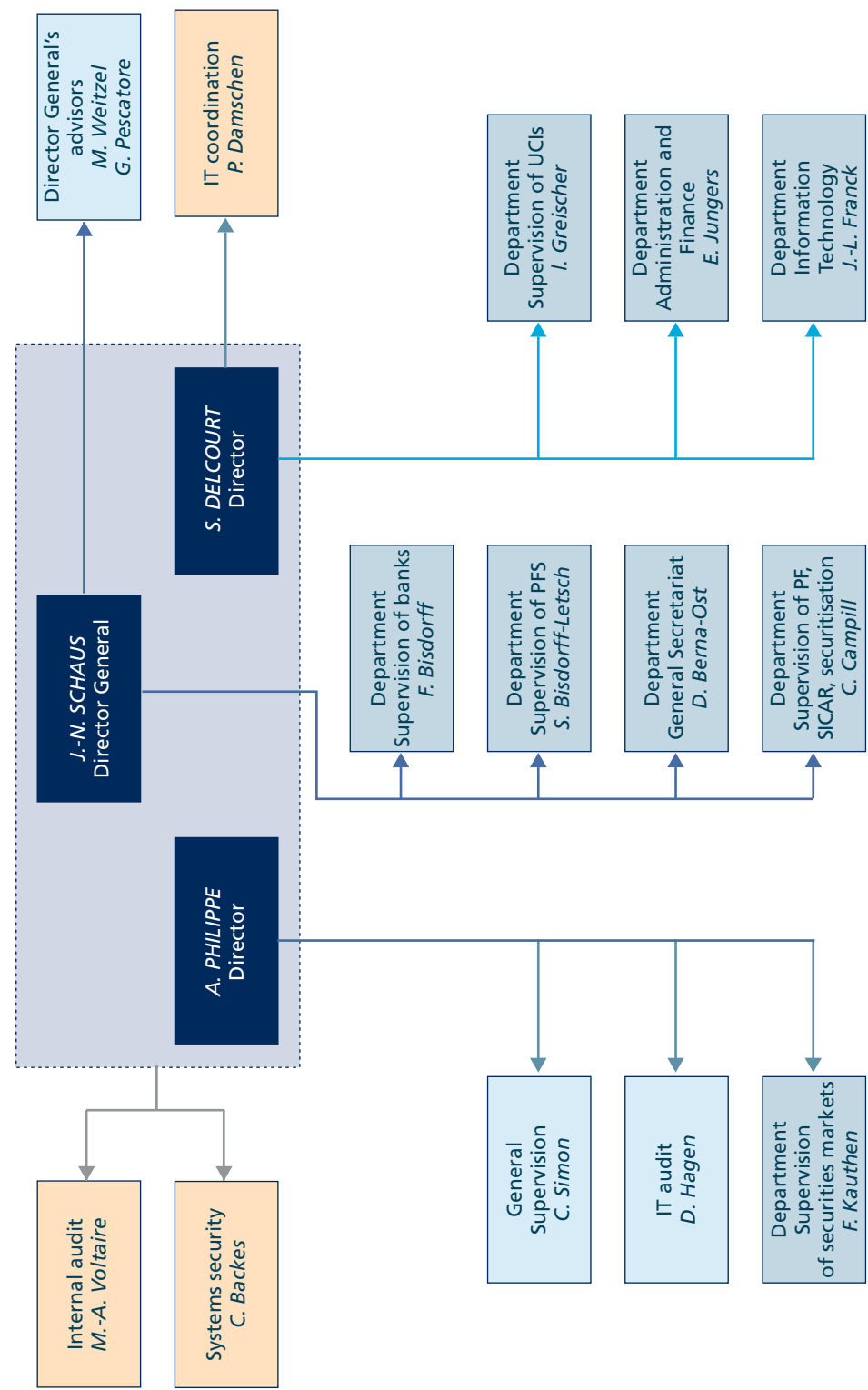
Division 4 - Dataflow management

Head of division	Joao Pedro Almeida
	Karin Proth, Carine Schiltz

Financial controller

PricewaterhouseCoopers (until 31 December 2004)
KPMG (as from 1 January 2005)

ORGANISATION CHART



5. INTERNAL COMMITTEES

Consultative committee for prudential regulation

Chairman	Jean-Nicolas SCHAUS
Members	Rafik FISCHER, Jean FUCHS, Jean GUILL, Robert HOFFMANN, Michel MAQUIL, François MOES, Arthur PHILIPPE, Lucien THIEL
Secretary	Danielle MANDER

Consultative committee Anti-Money Laundering

Chairman	Jean-Nicolas SCHAUS
Members	Claude BIRNBAUM, Bernard COUCKE, Pia HAAS, Charles HAMER, Roger HARTMANN, Jean-François HEIN, Jean-Luc KAMPHAUS, Pierre KRIER, Jean-Marie LEGENDRE, François MOES, François PAULY, Marc PECQUET, Arthur PHILIPPE, Jean-Jacques ROMMES, Thomas SEALE, Claude SIMON, Romain STROCK, Lucien THIEL, Marc WEITZEL, André WILWERT
Secretary	Geneviève PESCATORE

Committee Other Professionals of the Financial Sector

Chairman	Jean-Nicolas SCHAUS
Members	Pierre-Yves AUGSBURGER, Sonny BISDORFF-LETSCH, Freddy BRAUSCH, Jean BRUCHER, Henri DE CROUY-CHANEL, Alain FEIS, Jean FUCHS, Irmine GREISCHER, Antoine HYE DE CROM, Didier MOUGET, Jean-Michel PACAUD, Geneviève PESCATORE, Arthur PHILIPPE
Secretary	Denise LOSCH

Committee Banks

Chairman	Arthur PHILIPPE
Members	Stéphane BOSI, Ernest CRAVATTE, Serge DE CILLIA, Jean-Claude FINCK, Charles HAMER, Roger H. HARTMANN, Pierre KRIER, André MARC, Jean MEYER, François MOES, Paul MOUSEL, Adrien NEY, Frédéric OTTO, Philippe PAQUAY, Guy ROMMES, Jean-Nicolas SCHAUS, Claude SIMON, Romain STROCK, Klaus-Michael VOGEL
Secretary	Martine WAGNER

Committee Compliance

Chairman	Arthur PHILIPPE
Members	Patrick CHILLET, Alain HONDEQUIN, Jean-Marie LEGENDRE, Jean-Noël LEQUEUE, Thierry LOPEZ, Vafa MOAYED, Didier MOUGET, Marc OLINGER, Jean-Jacques ROMMES, Jean-Nicolas SCHAUS, Claude SIMON, Jean STEFFEN, Romain STROCK, Marie-Anne VOLTAIRE
Secretary	Guy HAAS

INTERNAL ORGANISATION OF THE CSSF

Committee Banking Accounting

Chairman	Arthur PHILIPPE
Members	Volkert BEHR, André-Marie CRELOT, Eric DAMOTTE, Serge DE CILLIA, Doris ENGEL, Jean-Paul ISEKIN, Carlo LESSEL, Bernard LHOEST, Vafa MOAYED, Carole ROEDER, Daniel RUPPERT, Jean-Nicolas SCHAUS, Thomas SCHIFFLER, Claude SIMON, Romain STROCK, Alain WEBER
Secretary	Danièle KAMPHAUS-GOEDERT

Committee Company domiciliation

Chairman	Jean-Nicolas SCHAUS
Members	Gérard BECQUER, Carlo DAMGE, Johan DEJANS, Lucy DUPONG, Victor ELVINGER, Guy HARLES, Jean LAMBERT, Jean-Jacques ROMMES, Carlo SCHLESSER, Christiane SCHMIT, André WILWERT, François WINANDY
Secretary	Luc PLETSCHETTE

Committee Pension funds

Chairman	Jean-Nicolas SCHAUS
Members	Freddy BRAUSCH, Christiane CAMPILL, Simone DELCOURT, Jacques ELVINGER, Rafik FISCHER, Fernand GRULMS, Robert HOFFMANN, Claude KREMER, Anne-Christine LUSSIE, Jacques MAHAUX, Olivier MORTELMANS, Geneviève PESCATORE, Arthur PHILIPPE, Jean-Jacques ROMMES, Jean-Paul WICTOR, Claude WIRION, Jacques WOLTER
Secretary	Marc PAULY

Committee Information Technology

Chairman	Simone DELCOURT
Members	Nico BARTHELS, Jean-Luc FRANCK, David HAGEN, Marc HEMMERLING, Dominique LALIN, Bruno LEMOINE, Claude MELDE, Alain PICQUET, Olivier PEMMERS, François SCHWARTZ, Alain TAYENNE, Dominique VALSCHAERTS
Secretary	Pascale DAMSCHEN

Committee Legal experts

Chairman	Jean-Nicolas SCHAUS
Members	Philippe BOURIN, Maria DENNEWALD, Philippe DUPONT, Irmine GREISCHER, André HOFFMANN, Jean-Luc KAMPHAUS, Christian KREMER, Jacques LOESCH, André LUTGEN, Yves PRUSSEN, Jean-Jacques ROMMES, Jean STEFFEN, Romain STROCK, Marc WEITZEL
Secretary	Geneviève PESCATORE

Committee Mortgage Bonds

Chairman	Arthur PHILIPPE
Members	Janine BIVER, Reinolf DIBUS, Thomas FELD, Jean-François HEIN, Clive KELLOW, Jean-Jacques ROMMES, Raymond SCHADECK, Jean-Nicolas SCHAUS, Thomas SCHIFFLER, Martin SCHULTE, Claude SIMON, Romain STROCK
Secretary	Michèle TRIERWEILER

Committee Transferable Securities Markets

Chairman	Arthur PHILIPPE
Members	Danièle BERNA-OST, André BIRGET, Daniel DAX, Serge DE CILLIA, Jean-Paul DEKERK, Axel FORSTER, Patrick GEORTAY, Robert HOFFMANN, Philippe HOSS, Françoise KAUTHEN, Claude KREMER, Albert LE DIRAC'H, Jean-Nicolas SCHAUS, Richard SCHNEIDER, Jean-Marie SCHOLLER, Christiane SCHON, Claude SIMON, Henri WAGNER, Marco ZWICK
Secretary	Annick ZIMMER

Committee Undertakings for Collective Investment

Chairman	Jean-Nicolas SCHAUS
Members	Jacques BOFFERDING, Freddy BRAUSCH, Simone DELCOURT, Jacques DELVAUX, Jacques ELVINGER, Rafik FISCHER, Jean-Michel GELHAY, Irmine GREISCHER, Joëlle HAUSER, Robert HOFFMANN, Claude KREMER, Michel MALPAS, Julian PRESBER, Jean-Jacques ROMMES, Marc SALUZZI, Gilbert SCHINTGEN, Alex SCHMITT, Thomas SEALE, Claude SIMON, Camille THOMMES, Dominique VALSCHAERTS, Eric VAN DE KERKHOVE, Julien ZIMMER, Patrick ZURSTRASSEN
Secretary	Jean-Marc GOY

Committee SICAR

Chairman	Jean-Nicolas SCHAUS
Members	Freddy BRAUSCH, Christiane CAMPILL, Simone DELCOURT, Jacques ELVINGER, Amauri EVRARD, Alain KINSCH, Charles MÜLLER, Claude KREMER, Arthur PHILIPPE, Mark TLUSZCZ
Secretary	Joëlle HERTGES

A P P E N D I C E S



1. Communications related to the fight against money laundering and terrorist financing
2. The CSSF in figures
3. The financial centre in figures
4. Contact telephone numbers

1. COMMUNICATIONS RELATED TO THE FIGHT AGAINST MONEY LAUNDERING AND TERRORIST FINANCING

The obligation of the professionals of the financial sector to communicate to the CSSF a copy of the reports of suspicions of money laundering or terrorist financing made to the Public Prosecutor is laid down in circular CSSF 01/40 of 14 November 2001. This circular defines the scope of the obligation in question by providing that the professionals shall transmit, at the same time as they transmit information to the Public Prosecutor in accordance with article 40(2) second indent of the law of 5 April 1993 on the financial sector as amended, replaced by article 5 paragraph (1)a) of the law of 12 November 2004, the same information to the CSSF as that transmitted to the Public Prosecutor, whatever the origin of the information process and the content of the information concerned, to enable the CSSF to carry out its supervisory mission. This obligation was added to the requirement to inform the CSSF in case of involvement in a judicial investigation into money laundering, as provided for by circular IML 94/112, and is not limited to the initial report, but does also concern subsequent information that could be of interest to the CSSF.

The analysis of these communications allows the CSSF, in its capacity as supervisory authority, to contribute to the prevention of the use of the financial sector to unlawful purposes and to prevent that professionals under its supervision incur legal and reputational risks linked to money laundering or terrorist financing. Indeed, the analysis of the copies of the reports of suspicions or other reports in this field is an important exercise which allows to assess the concrete implementation and correct application of anti-money laundering procedures by the professionals, including in particular their compliance with obligations as regards KYC (Know Your Customer) procedures and co-operation with the authorities.

This mission is thus a direct implementation of the overall competence of the CSSF in this field, which has been confirmed by the law of 12 November 2004 on the fight against money laundering and terrorist financing (hereinafter "the law"), according to which *"the Commission is the relevant authority to verify compliance with the professional obligations as regards the fight against money laundering and terrorist financing by all the persons under its supervision, without prejudice to article 5 of the law of 12 November 2004 on the fight against money laundering and terrorist financing."*

Within the CSSF, the General Secretariat is the department in charge of handling the files relating to the communications of suspicions of money laundering and terrorist financing it receives as copy from the professionals of the financial sector.

The cases analysed show that more and more professionals regularly monitor their clients, notably allowing them to detect questionable facts that justify suspicions relating to certain clients. Internet proves to be an invaluable help as regards the search of information concerning in particular clients the majority of whom are non-resident. Some professionals apply their monitoring standards even beyond the active functioning of the account and submit a report when they become aware of criminal facts relating to a former client.

IT instruments aiming to detect unusual transactions are also very useful. However, they cannot substitute for an appraisal *intuitu personae* of the client and a thorough knowledge of his activities.

Nevertheless, the professional of the financial sector is often unable to voice a concrete suspicion, if the client information is incomplete, illogical or unclear. Even though the transactions carried out by the client did not match his profile nor the statements made upon the establishment of the business relationship, in many cases, the professional was not able to prove an indication of money laundering or terrorist financing. Circular CSSF 02/78 on predicate offences advocates that the professional gather all useful information received from the client in order to determine whether a report is necessary. The professional shall not analyse the situation from a legal point of view, as this duty falls on the relevant authorities, which have the necessary means of verification.

As far as clients that are legal entities are concerned, the CSSF observed that identification is too often restricted to formal client identification, i.e. the professional does not establish a complete profile including information on the economic background of the company, the final beneficial owner, the purpose of the relation with the professional of the financial sector, the planned activities and transactions. This applies in particular to clients of the type “holding companies”. More precisely, the “Parmalat” case has clearly shown that it is important to identify the client beyond his name and his reputation in the business world. Indeed, the professionals of the financial sector need this information to be able to detect unusual transactions, i.e. those that are not consistent with the established profile.

The communications in figures

In 2004, the CSSF dealt with a total of 509 communications related to the fight against money laundering and terrorist financing.

It is interesting to note that 91 of these reports were made following the request of potential clients to enter into business relations, but to which the professional of the financial sector did not respond favourably due to a suspicion of money laundering or terrorist financing. In this context, it must be stressed that often, either the professional refused to establish business relations for lack of transparent and conclusive information, or even because the documents seemed to be fraudulent or forgeries, or the clients withdrew following the professional’s request for further documents and information. It is obvious that thorough screening measures right from the outset prevent the professional from having to deal with risk clients he had better refused from the beginning.

Many reports (44) were also made within the context of combating terrorist financing. This category comprises the communications that have either been transmitted to the CSSF as copies following the circulars issued by the Luxembourg Financial Intelligence Unit (FIU), or following the CSSF circulars on financial restrictive measures (freeze of funds) decided at European level.

It can be observed that 86 out of the 162 credit institutions registered on the official list as at 31 December 2004 made a communication in 2004. As far as the other professionals of the financial sector (PFS) are concerned, 18 out of the 166 PFS registered on the official list as at 31 December 2004 transmitted a communication to the CSSF.

It is striking that the communications of the ten professionals of the financial sector that made more than ten communications each in 2004 – i.e. ten credit institutions – make up alone half of the communications received by the CSSF in 2004 (46%).

The reason why some professionals of the financial sector make a large number of reports while others only a few, even none, can be linked to the activity and the size of the professional, as well as to the number of clients. However, although reports should not be made rashly without the professional having observed a fact that might be an indication of money laundering or terrorist financing in accordance with article 5 paragraph (1) of the law, it is important that the professionals of the financial sector, including in particular PFS, that have not reported any suspicion, or very few, reflect on this situation.

2. THE CSSF IN FIGURES

APPENDICES

2. THE CSSF IN FIGURES

	Prudential supervision				IT matters		Matters of general interest			TOTAL	
	Supervision of banks	Supervision of UCIs	Supervision of PFS	Supervision of securities markets	Administration and Finance	IT systems	IT Audit	Management	Director General's Advisors		General Secretariat
Letters	2,316	15,500	1,059	954	719	276	72	114	269	2,816	24,095
Meetings	207	150	203*	24	30	62	203*	/	203*	13	689
On-site inspections	32	6	5	/	/	/	6	/	/	/	49
Internal committee meetings											
> Committee « Banks »	1										
> Committee « Banking accounting »	4										
> Committee « Compliance »	5										
> Committee « UCIs »		6									
> Committee « SICAR »		2									
> Committee « Other professionals of the financial sector »			1								
> Committee « Securities markets »				3							
> Committee « Legal experts »									30		
> Committee « Pension funds »									2		
> Consultative committee for prudential regulation										4	
National meetings	/	/	/	/	/	/	38	/	/	/	38
International meetings	146	12	9	96	/	/	/	4	/	6	273
Meetings with homologous authorities	30	7	/	/	/	/	/	/	/	/	37
Speeches at conferences	/	4	/	/	/	/	7	1	11	/	23

* Joint meetings of the departments and functions concerned.

3. THE FINANCIAL CENTRE IN FIGURES

Situation as at 31 December 2004

BANKS

Number	162
Balance sheet total	EUR 695.103 billion
Net profit	EUR 2.884 billion
Employment	22,554 people

UNDERTAKINGS FOR COLLECTIVE INVESTMENT

Number	1,968
Number of units	7,876
Total assets	EUR 1,106.222 billion

MANAGEMENT COMPANIES

Number	26
Employment	511 people

PENSION FUNDS

Number	12
--------	----

SICAR

Number	3
--------	---

SECURITISATION VEHICLES

Number	2
--------	---

PROFESSIONALS OF THE FINANCIAL SECTOR

Number	166
Balance sheet total	EUR 38.432 billion
Net profit	EUR 318.706 million
Employment	6,059 people
Total employment in supervised entities	29,124 people

4. CONTACT TELEPHONE NUMBERS

Commission de Surveillance du Secteur Financier

Address	110, route d'Arlon, L-1150 Luxembourg
Postal address	L-2991 Luxembourg
Switchboard	26 25 1 - 1
Fax	26 25 1 601 (executive board)
	603 (general supervision / banks)
	604 (pension funds, SICAR and securitisation)
	605 (UCI)
	606 (securities markets)
	607 (PFS)
	608 (administration / IT)

Executive Board

26 25 1 -

201		SCHAUS Jean-Nicolas		Director General
202		PHILIPPE Arthur		Director
210		DELCOURT Simone		Director
203		MICHELS Marcelle		Secrétaire de direction
204		REISDORFFER Monique		Secrétaire de direction
205		DELOOS Joëlle		Secrétaire de direction
206		FRANTZ Karin		Secrétaire de direction

IT Audit

395		HAGEN David		Attaché de direction
421		BERNARD Claude		Attaché de direction
280		DUCARN Pascal		Attaché de direction

Internal Audit

366		VOLTAIRE Marie-Anne		Attaché de direction 1er en rang
-----	--	---------------------	--	----------------------------------

Director General's Advisors

209		WEITZEL Marc		Conseiller de direction 1ère classe
334		PESCATORE Geneviève		Attaché de direction 1er en rang

IT Coordination

353		DAMSCHEM Pascale		Conseiller de direction adjoint
-----	--	------------------	--	---------------------------------

Systems Security

420		BACKES Constant		Attaché de direction
-----	--	-----------------	--	----------------------

General Supervision

222		SIMON Claude		Premier conseiller de direction
315		STROCK Romain		Conseiller de direction 1ère classe
217		KAMPHAUS-GOEDERT Danièle		Conseiller de direction 1ère classe
214		MEHLING Marguy		Conseiller de direction

26 25 1 -

- 352 | MARTINY Joëlle | *Conseiller de direction adjoint*
- 342 | GOY Jean-Marc | *Attaché de direction 1er en rang*
- 302 | REINARD Davy | *Attaché de direction 1er en rang*
- 351 | WAGNER Martine | *Attaché de direction 1er en rang*
- 306 | BERGAMO Didier | *Attaché de direction*
- 304 | HOSCHEID Alain | *Attaché de direction*
- 308 | KIRSCH Ronald | *Attaché de direction*
- 350 | LUU Ngoc Dinh | *Attaché de direction*
- 316 | MAAR Patrick | *Attaché de direction*
- 394 | MANZARI Nadia | *Attaché de direction*
- 399 | NEU Manuel | *Attaché de direction*
- 397 | REIMEN Edouard | *Attaché de direction*
- 398 | WAMPACH Claude | *Attaché de direction*
- 391 | WEIRICH Karin | *Attaché de direction*
- 455 | SEIL Diane | *Attaché de direction stagiaire*

Department Supervision of Banks

- 235 | BISDORFF Frank | *Conseiller de direction 1ère classe*
- 229 | ENGLARO Ed | *Conseiller de direction 1ère classe*
- 219 | GASPARD Nico | *Conseiller de direction 1ère classe*
- 258 | STEFFEN Jean-Paul | *Conseiller de direction 1ère classe*
- 310 | WAGNER Patrick | *Conseiller de direction 1ère classe*
- 213 | WILHELMUS Marc | *Conseiller de direction 1ère classe*
- 218 | BAUSCH Marco | *Conseiller de direction*
- 224 | DE RON Joan | *Conseiller de direction*
- 294 | LEY Jean | *Conseiller de direction*
- 233 | MERSCH Jean | *Conseiller de direction*
- 312 | REISER Claude | *Conseiller de direction*
- 262 | BECKERS Jean-Louis | *Conseiller de direction adjoint*
- 354 | DALEIDEN Françoise | *Conseiller de direction adjoint*
- 309 | WEIS Alain | *Conseiller de direction adjoint*
- 365 | BORDET Marc | *Attaché de direction 1er en rang*
- 215 | DE BORTOLI Romain | *Attaché de direction 1er en rang*
- 324 | LAHR Isabelle | *Attaché de direction 1er en rang*
- 328 | MOES Claude | *Attaché de direction 1er en rang*
- 279 | PINTO Christina | *Attaché de direction 1er en rang*
- 290 | TOCK Claudine | *Attaché de direction 1er en rang*
- 367 | TRIERWEILER Michèle | *Attaché de direction 1er en rang*
- 225 | AZEVEDO PEREIRA Carlos | *Attaché de direction*
- 299 | CECCARELLI Monica | *Attaché de direction*
- 275 | DONDELINGER Anouk | *Attaché de direction*
- 288 | DUARTE Jean-Louis | *Attaché de direction*
- 298 | JANK Gilles | *Attaché de direction*
- 371 | POLFER Steve | *Attaché de direction*
- 317 | SARMENTO Marina | *Attaché de direction*
- 318 | SIMON Yves | *Attaché de direction*
- 319 | STREWELER Jacques | *Attaché de direction*
- 292 | DELAGARDELLE Michèle | *Secrétaire*
- 314 | HUMBERT Steve | *Secrétaire*
- 239 | WANDERSCHIED Claudine | *Secrétaire*

Department Supervision of Undertakings for Collective Investment

- 242 | GREISCHER Irmine | *Conseiller de direction 1ère classe*
- 320 | STEINBACH Claude | *Conseiller de direction adjoint*
- 240 | BODRY Pierre | *Conseiller de direction 1ère classe*

26 25 1 -

234		CONRATH Anne		Conseiller de direction
226		HENTGEN François		Conseiller de direction
355		FELTEN-ENDERS Pascale		Conseiller de direction adjoint
321		STROCK Alain		Conseiller de direction adjoint
343		BERCHEM Pascal		Attaché de direction 1er en rang
381		DE CILLIA Angela		Attaché de direction 1er en rang
380		OLIVERA Géraldine		Attaché de direction 1er en rang
379		ONTANO Fabio		Attaché de direction 1er en rang
345		TANSON Eric		Attaché de direction 1er en rang
383		BARITUSSIO Marie-Louise		Attaché de direction
323		CUBRIC Nathalie		Attaché de direction
347		HERTGES Joëlle		Attaché de direction
340		MONTEBRUSCO Roberto		Attaché de direction
341		REDING Pierre		Attaché de direction
271		REUTER Diane		Attaché de direction stagiaire
451		STREEF Christiane		Attaché de direction stagiaire
249		BARTHELIS Nico		Inspecteur principal 1er en rang
245		KOEPP Francis		Inspecteur principal 1er en rang
227		BOS Jolanda		Inspecteur principal
247		GILLEN Ralph		Inspecteur principal
283		MARBACH Victor		Inspecteur principal
269		THILGES Charles		Inspecteur principal
220		ANDRE-ZIMMER Adrienne		Inspecteur
289		GIEL-MARKOVINOVIC Anica		Inspecteur
254		GOFFINET Joël		Inspecteur
246		KERGER Martine		Inspecteur
243		NEUMANN Danielle		Inspecteur
278		SCHMIT Pascale		Inspecteur
284		SIEBENALER Marc		Inspecteur
337		APPENZELLER Géraldine		Chef de bureau adjoint
241		GASCHE Francis		Chef de bureau adjoint
338		HOFFMANN Karin		Chef de bureau adjoint
256		LIPPERT Francis		Chef de bureau adjoint
305		PLEGER Nadine		Chef de bureau adjoint
330		RACKE Marc		Chef de bureau adjoint
335		REISDORFF Nathalie		Chef de bureau adjoint
339		SCHOTT René		Chef de bureau adjoint
336		WILHELM Michèle		Chef de bureau adjoint
387		DECKER Marc		Rédacteur principal
244		HERR Dominique		Rédacteur principal
384		KRIER Claude		Rédacteur principal
331		MORLAK Guy		Rédacteur principal
385		THIELEN Claudine		Rédacteur principal
282		WAGNER Claude		Rédacteur principal
333		WAGNER Suzanne		Rédacteur principal
390		ALONSO Yolanda		Rédacteur
361		BONIFAS Stéphanie		Rédacteur
373		CHARNAUT Laurent		Rédacteur
388		CHRISTOPHORY Danièle		Rédacteur
272		COLOMBO Marie-Rose		Rédacteur
374		EWEN Tom		Rédacteur
362		HOFFELD Anne-Marie		Rédacteur
389		MANNES Martin		Rédacteur
363		REUTER Dave		Rédacteur
273		SCHIAVO Sabine		Rédacteur
268		SCHMITZ Daniel		Rédacteur
375		STOFFEL Thierry		Rédacteur
457		CAZZARO Christiane		Rédacteur stagiaire

26 25 1 -

- 464 | DOSBOURG Isabelle | *Rédacteur stagiaire*
- 465 | FRAITURE Jean-Claude | *Rédacteur stagiaire*
- 466 | JOST Patricia | *Rédacteur stagiaire*
- 458 | LEHNERT Jean-Marc | *Rédacteur stagiaire*
- 463 | LIS Carole | *Rédacteur stagiaire*
- 462 | QUARING Thierry | *Rédacteur stagiaire*
- 459 | TUMIOTTO Roberta | *Rédacteur stagiaire*
- 293 | HOUEL Damien | *Employé*
- 281 | PIERRARD-HOLZEM Evelyne | *Employé*
- 332 | EICHER Carole | *Secrétaire de direction*
- 236 | DOS SANTOS Carla | *Secrétaire*
- 251 | BETTINELLI Sandra | *Secrétaire*
- 386 | KUEHLER Simone | *Secrétaire*

Department Supervision of the Other Professionals of the Financial Sector

- 231 | BISDORFF-LETSCH Sonny | *Conseiller de direction 1ère classe*
- 212 | LOSCH Denise | *Conseiller de direction 1ère classe*
- 325 | FELICETTI Carlo | *Attaché de direction*
- 356 | JACOBY Brigitte | *Attaché de direction*
- 396 | NEY Carole | *Attaché de direction*
- 377 | PLETSCHETTE Luc | *Attaché de direction*
- 456 | LAHIRE Nicole | *Attaché de direction stagiaire*
- 208 | MIOTTO Claudia | *Inspecteur principal*
- 285 | MAMER Sylvie | *Inspecteur*
- 286 | SIMON Martine | *Rédacteur principal*
- 461 | BRIMEYER Gérard | *Rédacteur*
- 277 | LAUTERBOUR Emilie | *Secrétaire*

Department General Secretariat

- 230 | BERNA-OST Danièle | *Conseiller de direction 1ère classe*
- 297 | MANDER Danielle | *Conseiller de direction 1ère classe*
- 238 | JUNCKER Benoît | *Conseiller de direction*
- 327 | CONTÉ Carine | *Attaché de direction*
- 329 | DELOGE Natasha | *Attaché de direction*
- 313 | HEIN Jean-François | *Attaché de direction*
- 393 | HOLTZMER Nadine | *Attaché de direction*
- 237 | MASTALSKA Iwona | *Attaché de direction*
- 348 | TRAUSCH Christiane | *Attaché de direction*
- 454 | HAUBEN Gilles | *Attaché de direction stagiaire*

Department Supervision of Securities Markets

- 232 | KAUTHEN Françoise | *Attaché de direction*
- 376 | ZIMMER Annick | *Attaché de direction*
- 311 | HENGEN Mylène | *Conseiller de direction*
- 326 | GLOESENER Simone | *Attaché de direction*
- 392 | VAN DE BERG Pierre | *Attaché de direction*
- 453 | LIMPACH Marc | *Attaché de direction stagiaire*
- 452 | MEYER Jean-Christian | *Attaché de direction stagiaire*
- 358 | HOFFMANN Malou | *Rédacteur*
- 460 | WAMPACH Maggy | *Rédacteur*
- 357 | NICOLAY-HOFFMANN Sylvie | *Employé*
- 276 | PULCINI Marie-Josée | *Secrétaire*

APPENDICES

26 25 1 -

Department Supervision of Pension Funds, SICARs and Securitisation vehicles

- 223 | CAMPILL Christiane | *Conseiller de direction 1ère classe*
- 344 | PAULY Marc | *Attaché de direction 1er en rang*

- 382 | LAUX Josiane | *Attaché de direction*
- 291 | SCHMIT Isabelle Maryline | *Attaché de direction*
- 322 | CICCARELLI Daniel | *Chef de bureau adjoint*
- 360 | BACKES Son | *Rédacteur*

Department Administration and Finance

- 255 | JUNGERS Edmond | *Conseiller de direction 1ère classe*
- 259 | BECHTOLD Georges | *Inspecteur principal 1er en rang*

- 252 | WEBER Jean-Paul | *Attaché de direction*
- 364 | KIRSCH Alain | *Rédacteur principal*
- 378 | PLETSCHEFFE Carlo | *Rédacteur principal*
- 292 | DEMUTH Elisabeth | *Expéditionnaire stagiaire*
- 265 | DOMINGUES Raul | *Huissier de salle*
- 263 | VALENTE Marco | *Huissier de salle*
- 257 | CALZETTONI Milena | *Secrétaire*
- 266 | CLEMENT Paul | *Chauffeur*

Department Information Technologies

- 401 | FRANCK Jean-Luc | *Attaché de direction*
- 402 | WAGNER Sandra | *Attaché de direction*

- 415 | ALMEIDA Joao | *Rédacteur*
- 405 | DUHR Jean-Jacques | *Rédacteur*
- 403 | HERLING Paul | *Rédacteur*
- 406 | LAUER Edouard | *Rédacteur*
- 417 | PROTH Karin | *Rédacteur*
- 416 | SCHILTZ Carine | *Rédacteur*
- 411 | WAGENER Guy | *Rédacteur*
- 408 | ESCHETTE Nadine | *Rédacteur stagiaire*
- 404 | KETTMANN Steve | *Rédacteur stagiaire*
- 407 | BURNOTTE Jean-François | *Employé*
- 409 | FRANTZEN Guy | *Employé*
- 410 | KOHL Marc | *Employé*