



# Circular CSSF 22/821

## LONG FORM REPORT

Practical rules concerning  
the self-assessment  
questionnaire to be  
submitted by institutions

Mission and related reports  
of the statutory auditors  
(*réviseurs d'entreprises  
agrés*)

## Circular CSSF 22/821

**RE:** LONG FORM REPORT - Practical rules concerning the self-assessment questionnaire to be submitted by institutions - Mission and related reports of the statutory auditors (*réviseurs d'entreprises agréés*)

Luxembourg, 25 October 2022

**To all Luxembourg credit institutions and Luxembourg branches of non-EU credit institutions**

Ladies and Gentlemen,

The purpose of this circular is to introduce a revised version of the long form report following on from the regulatory developments and the evolving supervisory practices since 2001. The revision of the long form report as contemplated under Circular CSSF 01/27 is the result of a thorough reconsideration of its objective, scope and content in order to realign it with supervisory and prudential points of focus as well as to suppress redundancies between existing reports.

This circular introduces the self-assessment questionnaire to be filled in on an annual basis by the institutions. It also introduces the Agreed Upon Procedure report(s) and the annual separate report on the protection of financial instruments and funds belonging to clients as required under Article 7 of the Grand-ducal Regulation of 30 May 2018 to be established by the *réviseurs d'entreprises agréés* (**REA**) of the institutions. The self-assessment questionnaire and the Agreed Upon Procedure report(s) do not cover matters relating to anti-money laundering and countering the financing of terrorism (AML/CFT). In this regard, it is expected that the REA provides, on an annual basis, a separate and additional report covering AML/CFT further to CSSF Regulation N°12-02.

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## 1. Scope of application and legal basis

The provisions of this circular are applicable to credit institutions<sup>1</sup> incorporated under Luxembourg law, including their branches, as well as Luxembourg branches of third-country credit institutions (an **institution**).

This circular does not apply to Luxembourg branches of EU credit institutions.

The framework for the revised long form report consists of four parts:

- a self-assessment questionnaire to be completed by institutions;
- the Agreed Upon Procedures report(s) (the **AUP report(s)**) to be prepared by the REA under ISRS 4400 (revised) Standard;
- a separate report to be prepared by the REA on the protection of financial instruments and funds belonging to clients;
- a separate report to be prepared by the REA on the procedures set up by institutions concerning the prevention of money laundering and terrorist financing (the **AML/CFT report**).

The self-assessment questionnaire introduced by this circular is based on the following powers of the CSSF to obtain information from institutions in the context of its legal supervisory mandate:

- Article 53(1) paragraphs 2 and 8 of the law of 5 April 1993 on the financial sector;
- Article 45(2) of the law of 30 May 2018 on markets in financial instruments;
- Article 58-5 of the law of 10 November 2009 on payment services, on the activity of electronic money institution and settlement finality in payment and securities settlement systems;
- Article 147(2) of the law of 17 December 2010 relating to undertakings for collective investment and Article 50(2) of the law of 12 July 2013 on Alternative Investment Fund Managers;
- Article 62(1) of the law of 13 July 2005 on institutions for occupational retirement provision in the form of pension savings companies with variable capital (SEPCAVs) and pension savings associations (ASSEPs).

The AUP report(s) to be prepared by the REA, as specified in section 3.1 of this circular, are based on the application of the following legal provisions which authorise the CSSF to request a REA to carry out an audit in relation to one or more specific aspects of the activities and operations of institutions:

- Article 54(2) of the law of 5 April 1993 on the financial sector as amended;
- paragraph 9 of Article 45(2) of the law of 30 May 2018;

<sup>1</sup> This circular applies to both significant supervised entities and less significant supervised entities as defined in Article 2, points 16 and 7 of Regulation (EU) No 468/2014 of the European Central Bank (ECB) of 16 April 2014 (the SSM Framework Regulation) respectively.

- point (c) of Article 147(2) of the law of 17 December 2010;
- point (m) of Article 50(2) of the law of 12 July 2013;
- point (h) of Article 62(1) of the law of 13 July 2005;
- point (9) of Article 58-5(1) of the law of 10 November 2009.

The separate report prepared by the REA on the protection of financial instruments and funds belonging to clients is required under Article 7 of the Grand-ducal Regulation of 30 May 2018.<sup>2</sup>

The separate report prepared by the REA on AML/CFT is based on the application of Articles 49(2) and 49(3) of CSSF Regulation N°12-02 of 14 December 2012 (hereafter "RCSSF 12-02").<sup>3</sup>

The self-assessment questionnaire and the reports to be prepared by the REA cover domains in scope of the prudential supervision for which the CSSF or the European Central Bank are competent. Please note however that the sections of the self-assessment questionnaire and modules of the reports to be prepared by the REA covering matter relating to the Market in Financial Instruments Directive (**MiFID**), the Payment Services Directive (**PSD 2**), undertaking for collective investments (**UCI**) depositaries and AML/CFT are under the exclusive competence of the CSSF.

All parts of the framework have been designed in a proportionate way and targeting in-scope institutions all alike with a view to allow the competent authorities to gather sufficient information to implement their risk-based approaches to supervision and to obtain information and assurances as regards in-scope institutions' compliance with key regulatory provisions the control of which falls within the competent authorities' legal mandate.

<sup>2</sup> Grand-ducal Regulation of 30 May 2018 on the protection of financial instruments and funds belonging to clients, product governance obligations and the rules applicable to the provision or reception of fees, commissions or any monetary or non-monetary benefits.

<sup>3</sup> CSSF Regulation N°12-02 of 14 December 2012 on the fight against money laundering and terrorist financing, as amended.

## 2. The self-assessment questionnaire

The self-assessment questionnaire to be completed by institutions consists of the following sections:

Section	Description	Level of application	Exemptions
Internal governance	Overview of the operational and decision-making structure of the institutions, including the composition of its committees and internal control functions.	Institutions, on an individual basis, <u>excluding</u> their branches, if any.	/
IT risk	Overview of IT systems and processes, including an assessment of the level of risks and the controls in place.	Institutions, on an individual basis, <u>including</u> their branches, if any.	/
Credit risk	Overview of the methodologies applied for calculating impairment losses under IFRS 9 as well as a description of how the concept of “forborne” is implemented at the level of the institutions. This section shall also provide an overview of scenarios and forecasts used by the institution to account for its exposure to credit risk.	Institutions, on an individual basis, <u>including</u> their branches, if any.	/
Large exposures	Qualitative information on large exposures reported by the institutions.	Institutions, on an individual basis, <u>including</u> their branches, if any.	/
Related parties	Overview of intragroup exposures, including a description of the purpose of these exposures. In addition, this section shall also provide an overview of services	Institutions, on an individual basis, <u>including</u> their branches, if any.	/

Section	Description	Level of application	Exemptions
	provided to / received from related parties.		
Foreign branches	Overview of the foreign branches, including a description of how corporate, commercial and risk group policies are applied in the foreign branches, as well as an overview of the controls in place.	Foreign branches located in another Member State or in a third country.	Institutions that did not have any foreign branches located in another Member State or in a third country at the closure of the financial year.
MiFID	Overview of organisational and operational setup with regard to MiFID, as well as a description of investment services and financial instruments offered by the institutions to their clients. This section shall include information on distribution and communication means and on the client database.	Institutions, on an individual basis, <u>excluding</u> their branches, if any.	Institutions that did not provide any investment services or sell or advise in relation to structured deposits during the financial year.
PSD 2	Overview of payment services and a description of the interface through which those payment services are offered to clients.	Institutions, on an individual basis, <u>including</u> their branches, if any.	Institutions that did not provide any payment services during the financial year.
Depository bank	Quantitative and qualitative overview of the UCI depository function and the	Institutions, on an individual basis,	Institutions that do not provide

Section	Description	Level of application	Exemptions
	related services. In addition, this section contains a self-assessment against the main legal requirements.	<u>excluding</u> their branches, if any.	depository and related services.
Consolidation aspects	Information relating to the oversight of the subsidiaries (organisation, control function, IT systems) and quantitative information on each subsidiary.	Covering all subsidiaries included in the scope of prudential consolidation according to the provisions of Chapter 2 of Title II of Part One of Regulation (EU) No 575/2013.	Institutions that did not consolidate other entities from a prudential perspective at the closure of the relevant financial year.

The information communicated as part of the self-assessment questionnaire shall be accurate and as concise as possible, while providing a true and fair view, and be based on the prudential reporting figures (FINREP/COREP/LAREX) under IFRS as at the closure of the financial year.<sup>4</sup>

The self-assessment questionnaire is available in digital form as described in section 4.1. It will be adapted for subsequent financial years as required, including in response to developments of the legal and regulatory framework.

<sup>4</sup> For institutions for which the date of the closure of the financial year is not aligned with the remittance date of the prudential reporting, the questionnaire should be based on the last prudential reporting submitted before the closure of the financial year.



### 3. The mission of the REA

#### 3.1 The AUP report(s)

Institutions have to mandate their REA to perform a predefined list of agreed-upon procedures (AUPs) broken down into different modules.

For the year 2023, based on the information related to the financial year 2022, this list comprises the MiFID and PSD2 modules.<sup>5</sup> According to the individual business models of an institution, one or both of these modules may not be applicable. However, where a specific AUP within the applicable module(s) does not apply to an institution, the REA shall explicitly mention it.

The CSSF intends to update the present circular for the subsequent financial years notably to include further modules to be performed, in principle within a three-year cycle. The determination of the applicable modules for an institution will follow a risk-based approach.

The REA performing the AUPs must be the REA appointed by an institution for the audit of its financial statements. The REA's findings shall be documented in the AUP report(s) to be filled in using the CSSF digital solution.

The AUPs shall be performed in accordance with the International Standard on Related Services 4400 applicable to AUPs engagements.

#### 3.2 The report on the protection of financial instruments and funds belonging to clients

If applicable, institutions are also required to mandate their REA to prepare, on an annual basis, a separate report on the protection of financial instruments and funds belonging to clients. This report shall cover the adequacy of the arrangements under Article 37-1(7) and (8) of the Law of 5 April 1993 on the financial sector, as amended, Article 13, paragraph 4 of the Law of 5 August 2005 on financial collateral arrangements, as amended, and Section 2 of the Grand-ducal Regulation of 30 May 2018.

The authorised management of the institution is responsible for providing the REA with the required information for the drafting of the descriptive parts of the report. The REA may include in its report descriptive elements directly provided by the institution's authorised management, but s/he shall verify and ensure

<sup>5</sup> Only institutions closing their financial year on or after 31/12/2022 are subject to the AUPs reports for the year 2023.

that these elements are correct and adequate. If needed, s/he may have to perform some amendments.

The purpose of this separate report, which must be uploaded through the CSSF digital solution, is notably to ensure the reliability of the answers provided by an institution in the self-assessment questionnaire in relation to the protection of financial instruments and funds belonging to clients. However, this does not preclude the REA to perform further assessments beyond those set forth in the self-assessment questionnaire.

### **3.3 The AML/CFT report**

Institutions are also required to mandate their REA to prepare, on an annual basis, a separate report covering AML/CFT further to CSSF Regulation N°12-02. The AML/CFT report describes the procedures set up by the institution concerning the prevention of money laundering and terrorist financing as required for compliance with or as defined in:

- Chapter 5 of Part II of the law on the financial sector;
- the Law of 12 November 2004 on the fight against money laundering and terrorist financing, as amended;
- Grand-ducal Regulation of 1 February 2010 providing details on certain provisions of the amended Law of 12 November 2004 on the fight against money laundering and terrorist financing;
- Regulation (EU) 2015/847 of the European Parliament and of the Council of 20 May 2015 on information accompanying transfers of funds;
- international acts on the fight against terrorist financing brought to the attention of the institutions through CSSF circulars;
- CSSF regulations on the fight against money laundering and terrorist financing;
- CSSF circulars with regard to AML/CFT.

The AML/CFT report shall provide, in particular:

- the description of the AML/CFT policy set up by the institution in order to prevent money laundering and terrorist financing, the verification of its compliance with the provisions of Part II, Chapter 5 of the Law of 5 April 1993 on the financial sector, as amended, the Law of 12 November 2004 on the fight against money laundering and terrorist financing, as amended, the Grand-ducal Regulation, Regulation (EU) 2015/847, CSSF regulations and CSSF circulars relating to AML/CFT and the control of their sound application;
- the assessment of the institution's analysis of money laundering and terrorist financing risks to which it is exposed. The REA must verify if the implemented procedures, infrastructures and controls, as well as the scope of the AML/CFT measures are appropriate considering the ML/FT

- risks to which the institution is exposed, particularly through its activities, the nature of its customers and the provided products and services;
- a declaration on whether an audit of compliance with the institution's AML/CFT policy has been performed by the internal audit function and the compliance officer in charge of the control of compliance with the professional obligations<sup>6</sup>;
  - a short description of the training and awareness-raising measures for employees as regards money laundering and terrorist financing, and, in particular, with respect to the identification of money laundering and terrorist financing transactions;
  - statistics concerning the detected suspicious transactions which indicate the number of suspicious transaction cases reported to the FIU by the institution, as well as the total amount of funds involved during the financial year;
  - the control of the application of the provisions of Regulation (EU) 2015/847 by the institution, in its respective role, and the percentage of transfers of funds for which data on the payer or payee were missing or incomplete and the measures taken in this context by the institution.

The AML/CFT report shall also provide:

- a description of roles and responsibilities with regard to AML/CFT within the institution, including the roles and responsibilities of and the interactions between the management and the different departments and services, indicating the corresponding number of staff involved on AML/CFT matters. The AML/CFT report shall also include a description of the committees and the corresponding hierarchical and functional structures by indicating the general and particular delegations of power with respect to AML/CFT. It shall also provide a description by the institution and an assessment by the REA of the three-lines-of-defence model, as defined in Article 39(7) of the RCSSF 12-02;
- the list of persons involved on AML/CFT matters, as referred to in the RCSSF 12-02 and Circular CSSF 12/552 (*compliance officer, person responsible for compliance, Chief Compliance Officer, etc.*). It shall also state all the changes with regard to these persons which occurred during the financial year. Since these persons may delegate to members of staff certain operational tasks in relation with these functions, the AML/CFT report shall provide, where appropriate, a description of the delegation mechanism;

<sup>6</sup> As defined in Article 1(1) of CSSF Regulation 12-02 of 14 December 2012

- a description of the network of national agencies, national and foreign subsidiaries, the branches abroad, the foreign representative offices and the tied agents, as well as the main related ML/FT risks. The AML/CFT report shall also indicate if the institution uses the services of external managers as regards the clients' assets and shall, where appropriate, provide a description of the manner in which the relationships with external managers are managed and documented from an AML/CFT perspective;
- a description of the institution's commercial policy as well as the strategy regarding the management of the related ML/FT risks. It shall also include a description of how the institution monitors and ensures compliance with its internal objectives with regard to ML/FT risks management. The REA shall assess if the institution has sufficient financial resources and the appropriate infrastructure to control ML/FT risks to which it is exposed.

The REA shall state how the sample of reviewed files was selected. When determining the sample, the CSSF expects the REA to apply a risk-based approach, taking into account the different business activities performed. The REA shall state the reference date of the sample data and provide relevant information on the methodology adopted for determining the sample (for example, the number of files reviewed compared to the total number of clients or the volume of deposits reviewed compared to the total volume of deposits). Where the REA identifies cases of non-compliance with the legal or regulatory provisions or deficiencies, the REA shall give detailed indications enabling the CSSF to assess the situation (number of pending incomplete files as a percentage of the total number of reviewed files, details of the deficiencies identified, etc.).

Where applicable, the AML/CFT report must encompass the institution's branches, majority-owned subsidiaries abroad and the tied agents. It must cover, in particular, the branches', majority-owned subsidiaries' and the tied agents' compliance with the applicable provisions as regards the prevention of money laundering and terrorist financing and it must include, in that respect:

- an analysis of money laundering and terrorist financing risks incurred by the branches, majority-owned subsidiaries and the tied agents;
- a description and assessment of the money laundering and terrorist financing risk management in the branches, majority-owned subsidiaries and the tied agents;
- the verification of the implementation of and compliance with the institution's AML/CFT policy in the branches, majority-owned subsidiaries and the tied agents.

The AML/CFT report must be sufficiently exhaustive and transparent, providing detailed descriptions and assessments, in order to allow a precise and informed

judgement on the risks incurred by the institution with respect to money laundering and terrorist financing. With regard to the language used for the assessments, the AML/CFT report shall not include imprecise negative formulations (e.g. “We did not encounter serious weaknesses”) or global and approximative assessments (e.g. “We noted that most of the points comply with the laws and regulations”). The AML/CFT report shall rather provide a positive assessment for each area and subject by providing an overview of the methodology adopted (e.g. use of the sample technique, method for selecting the sample, etc.) and, where applicable, provide a description of the identified findings in order to allow the CSSF to better understand and judge the extent of the noticed irregularities and weaknesses.

The REA shall also perform the follow-up of findings observed during the previous audits and described in detail in the previous AML/CFT report.

The REA shall provide a description of any potential issues in relation to AML/CFT the institution may have with foreign competent authorities.

The authorised management of the institution is responsible for providing the REA with the required information for the drafting of the descriptive parts of the AML/CFT report. The REA may include in its report descriptive elements directly provided by the institution’s authorised management, but s/he shall verify and ensure that these elements are correct and adequate. If needed, s/he may have to perform some amendments.

In addition to the descriptive parts, the REA shall perform independently a detailed assessment of the ML/FT risks to which the institution is exposed as well as organisational aspects. This assessment shall be duly documented.

It should be noted that the REA shall also inform the CSSF of all the suspicious transactions reported pursuant to Article 5 of the Law of 12 November 2004 on the fight against money laundering and terrorist financing, as amended, and which concern the institutions. Similarly, the REA must inform the CSSF in case they deem that the institution should have reported a suspicious transaction but has not, explaining his/her reasoning and having regard to the institution’s rationale. When discussing the cases with the institution, the REA needs to be mindful of applicable professional obligations.

## 4. Submission procedures

### 4.1 Self-assessment questionnaire

The self-assessment questionnaire will be accessible through the CSSF digital solution for each institution at least three months before the closure of the institution's financial year.

The self-assessment questionnaire must be reviewed and electronically signed by the authorised management before submitting it to the CSSF.

The self-assessment questionnaire must be transmitted on an annual basis to the CSSF in an electronic form via the CSSF digital solution within **three months after the closure of the financial year**, in accordance with the procedure described in section 4.3. For the year 2023, the self-assessment questionnaire must be transmitted within four months after the closure of the financial year.

### 4.2 Reports prepared by the REA

The AUP report(s), the separate report on the protection of financial instruments and funds belonging to clients and the AML/CFT report shall include the **digital signature** of the partner in charge of the mandate with the audit firm s/he represents.

With regard to the AUP report(s), the REA submits the report(s) to the institution, which can provide comments on the findings identified by the REA. These comments do not form part of the AUP report(s). The AUP report(s) shall be submitted subsequently by the institution to the CSSF.

With regard to the separate report on the protection of financial instruments and funds belonging to clients and the AML/CFT report, the REA submits the reports to the institution. These two reports shall be submitted subsequently by the institution to the CSSF.

All reports prepared by the REA must be transmitted by the institution to the CSSF in electronic form via the CSSF digital solution within **five months after the closure of the financial year**, in accordance with the procedure described in section 4.3. For the year 2023, the reports prepared by the REA must be transmitted within six months after the closure of the financial year.

### 4.3 Practical rules

Procedures and explanations on the practical modalities regarding the preparation and transmission of the self-assessment questionnaire, the AUP report(s), the separate report on the protection of financial instruments and

funds belonging to clients and the AML/CFT report are made available to institutions and their REA, via the eDesk portal.

A user guide “Authentication and user account management” is available to institutions via the eDesk portal of the CSSF.

## 5. Final provisions

This circular repeals Circular CSSF 01/27 as amended by Circulars CSSF 08/340, CSSF 10/484, CSSF 11/521 and CSSF 21/765, as well as Circular IML 96/125.

This circular shall apply as from 31 December 2022.

Yours faithfully,

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