

A technical drawing or blueprint is overlaid on a dark blue background. The drawing features various geometric shapes, including circles, lines, and rectangles, resembling architectural or engineering plans. The text 'CHAPTER IV' is prominently displayed in the center of the drawing.

CHAPTER IV

SUPERVISION OF OTHER FINANCIAL SECTOR PROFESSIONALS

101

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

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

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

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

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

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

1.1. Movements in other financial sector professionals

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

102

Movements in the number of FSPs

Categories	1993	1994	1995	1996	1997	1998	1999	2000	2001
<i>Investment firms</i>									
Commission agents (Brokers and commission agents)	16	15	14	14	14	/	/	/	/
Private portfolio managers	27	31	33	36	34	37	38	46	51
Professionals acting for their own account	15	17	18	18	20	15	17	14	17
Distributors of investment fund units/shares	11	14	19	20	18	22	25	35	43
Underwriters (Underwriters and market makers)	3	3	3	3	3	/	/	/	/
<i>FSPs other than investment firms</i>									
Financial advisors	6	7	6	6	7	9	10	9	10
Brokers						10	8	7	6
Market makers						1	2	2	2
Professional custodians of securities or other financial instruments	3	3	3	3	3	1	1	3	4
Company domiciliation agents							1	14	32
Institutions authorised to conduct all the FSP activities permitted by Article 28 of the Law of 15 December 2000 on postal services and financial postal services									1
Total¹	66	74	78	82	80	83	90	113	145

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

Note on FSPs registered on the official list:

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

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

Breakdown of FSPs by geographic origin

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

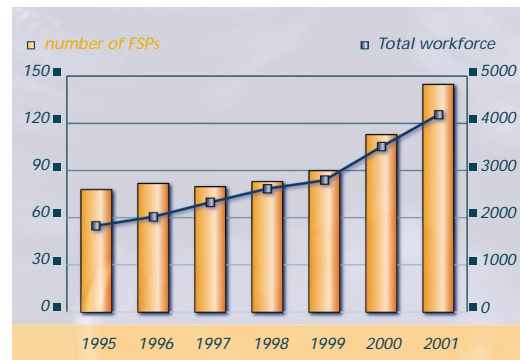
There was considerable growth - from 22 to 31 - in the number of FSPs originating from Luxembourg, followed by those from the Netherlands (five new entities), Switzerland (four new entities) and the United States (four new entities). The increase in Luxembourg FSPs was due in particular to company domiciliation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

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

1.2. Development of employment for other financial sector professionals

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

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



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

104

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

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

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

1.3. Changes in 2001 in the official list of FSPs

1.3.1 Luxembourg-registered FSPs approved in 2001

- *Investment firms*

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

The following institutions were approved as investment firms in 2001:

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

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

- **FSPs other than investment firms**

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

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

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

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

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

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

1.3.2. FSPs that renounced their status in 2001

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

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

1.3.3. Changes in category in 2001

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

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

1.4. Movement of balance sheet total and results

Movement of balance sheet total and net results of FSPs

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

108

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

Comment on the tables:

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

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

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

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

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

Private portfolio managers

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

Distributors of investment fund units/shares

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

Professionals acting for their own account

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

Brokers

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

1.5. Expansion of FSPs at international level

- **Formation of subsidiaries in 2001**

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

- **Freedom of establishment**

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

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

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

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

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

- **Free provision of services**

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

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

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

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

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

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

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

For FSPs not subject to permanent supervision, the CSSF's role is confined to ensuring that the general provisions relating to the authorisation of other financial sector professionals incorporated under Luxembourg Law are applied, as laid down in Articles 13 to 22 of the amended Law of 5 April 1993 on the financial sector.

This applies to:

- Credit activities, leasing with purchase option activities when exercised as main activity, factoring and bond lending activities;

Position of the CSSF with respect to leasing activity

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

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

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

112

2.1. FSPs authorised under general provisions in 2001

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

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

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

2.2. FSPs which renounced their status in 2001

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

3. Prudential supervisory practice

3.1. Prudential supervision instruments

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

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

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

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

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

3.2. On-site inspections

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

3.3. Interviews

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

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

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

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

3.4. Sanctions

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

3.5. Specific audits

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

3.6. Supervision on a consolidated basis

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

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

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

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

4. Company domiciliation agents

4.1. Developments in the regulatory framework

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

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

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

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

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

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

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

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

a) before conclusion

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

b) after conclusion

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

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

4.2. Summary of the situation

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

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

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

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

117

4.2.2. Shareholders of company domiciliation agents

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

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

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

Nationality of shareholders

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

4.2.3. The CSSF awareness-raising campaign

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

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

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

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



