

CHAPTER III

SUPERVISION OF UNDERTAKINGS FOR COLLECTIVE INVESTMENT



1. Developments in the UCIs sector in 2003
2. Newly created entities approved in 2003
3. Closed down entities in 2003
4. Developments regarding UCIs investing principally in other UCIs
5. Developments in the regulatory framework
6. Management companies
7. Prudential supervisory practice

1. Developments in the UCIs sector in 2003

1.1. Key trends

In 2003, the undertakings for collective investment (UCIs) sector saw a fairly significant growth in terms of net assets managed, while the number of UCIs in operation decreased. Indeed, the net assets managed amounted to EUR 953.3 billion at the end of the year against EUR 844.5 billion twelve months earlier (+12.9%). 1,870 UCIs were registered on the official list as at 31 December 2003 against 1,941 at the end of the previous year (-3.7%). On a yearly basis, this represents the first fall in the number of UCIs since the entry into force of the law of 30 March 1988 relating to UCIs as amended.

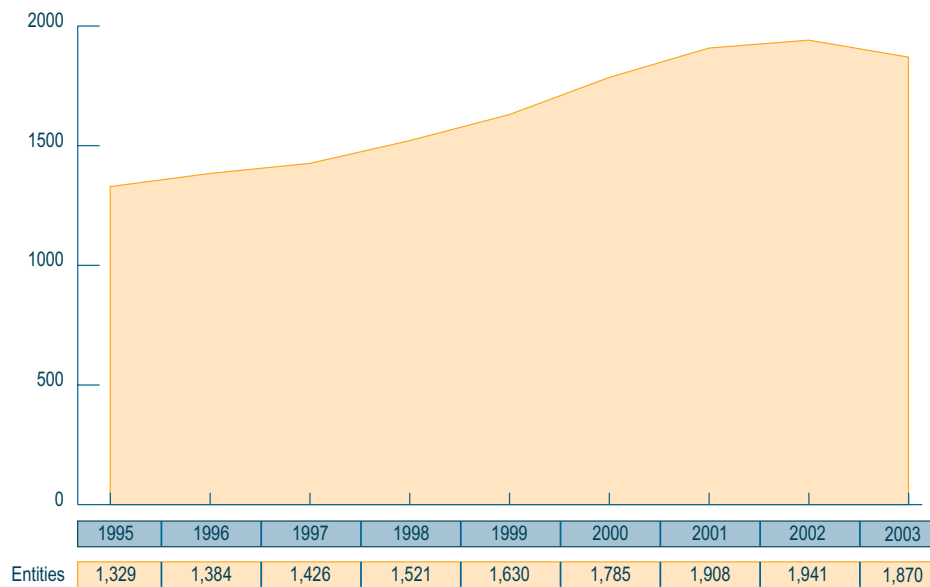
Development in the number and net assets of UCIs

in billions of EUR

Year	Number of UCIs	Registrations	Withdrawals	Net change	In %	Net assets	Net issues	Variation in 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	27.0	0.275
1998	1,521	234	139	95	6.7	486.8	84.1	95.0	24.2	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

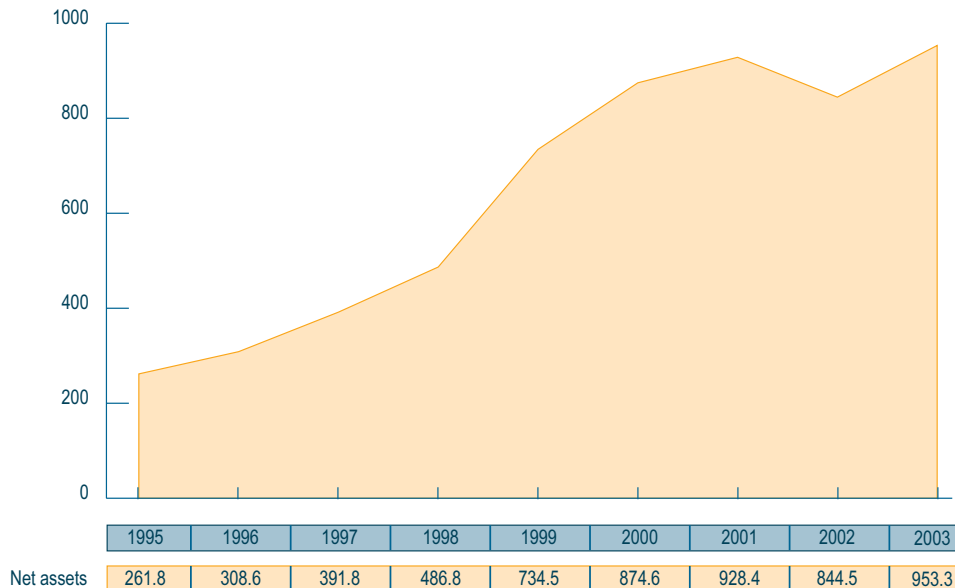
While the year 2002 was already marked by a large number of mergers and liquidations of UCIs and compartments, this trend became even more noticeable in 2003 with the implementation of the law of 20 December 2002 as amended, leading many promoters to restructure and reorganise their various products. Thus, the number of UCIs registered on the official list decreased by 71 entities. The number of UCIs newly registered on the official list in 2003 reached only 175 entities and is thus continuously falling since the record year 2001 with 299 new registrations. Moreover, the number of withdrawals continued to rise, reaching a record level of 246.

Number of UCIs



The reflation of the world economy, together with a continuous influx of new capital, meant that the total net assets of Luxembourg UCIs reached EUR 953.3 billion at the end of the year. This amount is the highest since the record level of EUR 967.7 billion in March 2002.

UCI net assets (in billions of EUR)



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 2003, FCPs were still the most prevalent with 957 entities out of a total of 1,870 UCIs in operation, compared with 888 entities operating as SICAVs and 25 as SICAFs.

SUPERVISION OF UNDERTAKINGS FOR COLLECTIVE INVESTMENT

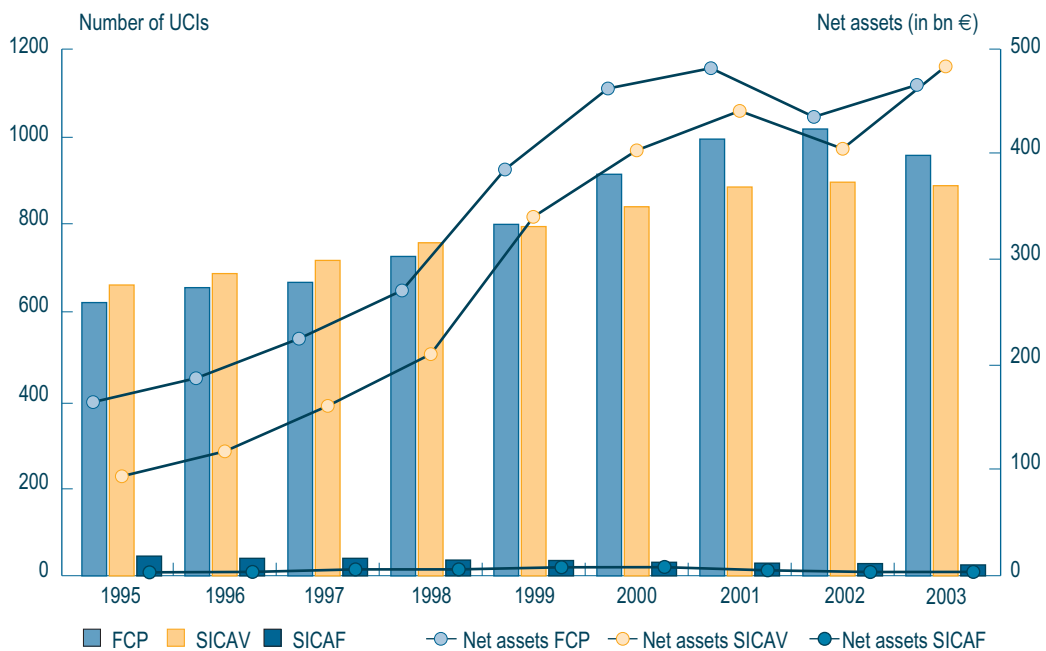
Breakdown of UCIs by legal status

At year end	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

At the end of 2003, FCP net assets totalled EUR 466.2 billion and represented 48.9% of the UCI total net assets. SICAV and SICAF assets, which amounted to EUR 483.8 billion and EUR 3.3 billion, represented 50.7% and 0.4% respectively of the total.

In 2003, the SICAV net assets grew by 19.3%, while the FCP net assets rose only by 7.0%. SICAV net assets exceed those of FCPs at the end of 2003, while the SICAF net assets practically stagnated.

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 and the law of 20 December 2002 as amended or the law of 19 July 1991 relating to UCIs reserved for institutional investors.

Breakdown of UCIs falling within the Parts I and II of the law of 30 March 1988 as amended and the law of 20 December 2002 as amended and institutional funds

in billions of EUR

At year end	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

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.

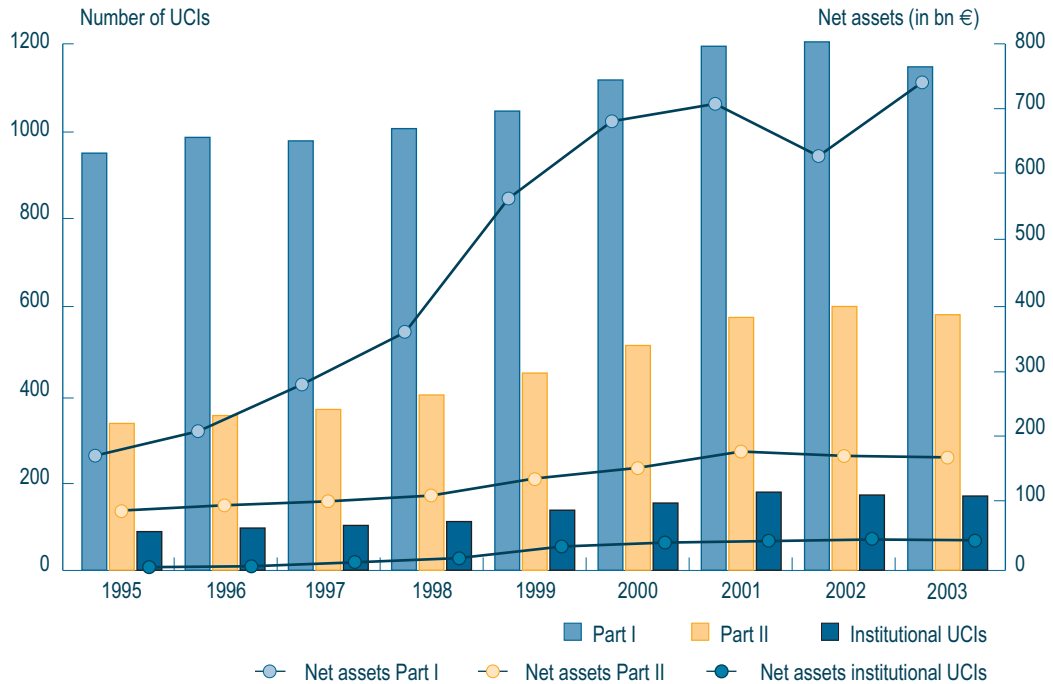
The number of UCIs under Part I and II of the law of 30 March 1988 as amended and the law of 20 December 2002 as amended slightly fell. Moreover, the net assets of UCIs under Part I rose considerably, while the assets of the UCIs under Part II decreased slightly (-1.3%).

As regards institutional UCIs, their number increased by three entities whereas their net assets decreased by 2.5%. It can be stressed in this context that the law of 30 March 1988 as amended, as well as the law of 20 December 2002 as amended allow for the creation of compartments and classes of units reserved for one or several institutional investors as regards UCIs under these laws. The current reporting of UCIs does not allow to identify the institutional investors in Part I and II of the laws.

As far as UCIs under the laws of 30 March 1988 and 20 December 2002 as amended are concerned, the distribution of UCIs subject to Part I and UCIs subject to Part II still remains fairly stable. Thus, 61.4% of all the UCIs in operation as at 31 December 2003 were Community UCITS governed by Part I of the above-mentioned laws and 31.2% were other UCIs not directly admitted to free marketing in the other EU countries. Institutional UCIs represented 7.4% of the 1,870 Luxembourg UCIs. At the same date, 77.7%, 17.8% and 4.5% of net assets were held in funds that fall under Part I, Part II and institutional investors respectively.

SUPERVISION OF UNDERTAKINGS FOR COLLECTIVE INVESTMENT

Breakdown of UCIs falling within Parts I and II of the law of 30 March 1988 as amended and the law of 2 December 2002 as amended and institutional funds



In 2003, only two UCIs changed from Part I of the law of 30 March 1988 as amended to submit to Part I of the law of 20 December 2002 as amended, while 52 UCIs subject to Part II of the law of 1988 were subject to Part II of the law of 2002. No UCI under Part II of the law of 30 March 1988 as amended changed into UCITS under Part I of the law of 20 December 2002 as amended. Eleven UCIs chose to submit to Part I of the law of 20 December 2002 as amended as soon as they were created and 29 UCIs opted for Part II of the law.

Breakdown of UCIs by legal status and according to Parts I and II of the law of 30 March 1988 as amended and the law of 20 December 2002 as amended and institutional UCIs

	FCP	SICAV	Others	Total
Part I (law 1988)	602	528	6	1,136
Part I (law 2002)	9	4	0	13
Part II (law 1988)	218	268	16	502
Part II (law 2002)	42	38	1	81
Institutional UCIs	86	50	2	138
Total	957	888	25	1,870

The following table compares the development in 2003 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 of 30 March 1988 as amended and the law of 20 December 2002 as amended and institutional UCIs

Number of UCIs	2002				2003				Variation 2002/2003			
	FCP	SICAV	SICAF	Total	FCP	SICAV	SICAF	Total	FCP	SICAV	SICAF	Total
Part I	650	548	8	1,206	611	532	6	1,149	-6.00%	-2.92%	-25.00%	-4.73%
Part II	284	300	18	602	260	306	17	583	-8.45%	2.00%	-5.56%	-3.16%
Institutional UCIs	83	48	2	133	86	50	2	138	3.61%	4.17%	0.00%	3.76%
Total	1,017	896	28	1,941	957	888	25	1,870	-5.90%	-0.89%	-10.71%	-3.66%

Net assets (in bn €)	2002				2003				Variation 2002/2003			
	FCP	SICAV	SICAF	Total	FCP	SICAV	SICAF	Total	FCP	SICAV	SICAF	Total
Part I	284.414	343.117	1.379	628.910	321.419	418.316	1.361	741.096	13.01%	21.92%	-1.31%	17.84%
Part II	120.785	49.121	1.733	171.639	114.294	53.178	1.842	169.314	-5.37%	8.26%	6.29%	-1.35%
Institutional UCIs	30.571	13.237	0.151	43.959	30.509	12.265	0.118	42.892	-0.20%	-7.34%	-21.85%	-2.43%
Total	435.770	405.475	3.263	844.508	466.222	483.759	3.321	953.302	6.99%	19.31%	1.78%	12.88%

In 2003, almost all the net issues were recorded for UCIs under Part I of the law of 1988 or the law of 2002 (Community UCIs), and principally for UCIs under the form of SICAVs. UCIs under Part II of these laws totalled only EUR 2.266 billion of net issues while for institutional UCIs, net redemptions exceed two billion euros.

Breakdown of net issues according to Parts I and II of the law of 30 March 1988 as amended and the law of 20 December 2002 as amended and institutional UCIs

	in billions of EUR			
	FCP	SICAV	Others	Total
Part I	26,985	55,586	-156	82,415
Part II	-3,056	5,052	270	2,266
Institutional UCIs	-680	-1,392	0	-2,072
TOTAL	23,249	59,246	114	82,609

1.2. Developments in umbrella funds

As opposed to the previous years where the number of umbrella funds grew continuously, the number of these UCIs fell slightly as compared to 2002. 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 or money market paper, 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.

SUPERVISION OF UNDERTAKINGS FOR COLLECTIVE INVESTMENT

As shown in the table below, the trend according to which the number of umbrella funds greatly exceeds that of traditionally structured UCIs continued in 2003. The proportion in number of umbrella funds in relation to the total number of UCIs rose from 61.3% to 63.1%, whereas the proportion in terms of net assets managed increased from 85.9% to 86.1%.

Umbrella funds

in billions of EUR

At year end	Total number of UCIs	Number of umbrella funds	As a % of the total	Number of subfunds	Average number of subfunds per umbrella fund	Total number of entities	Net assets of umbrella funds	As a % of the 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

As at 31 December 2003, 1,180 out of 1,870 UCIs had adopted a multiple subfund structure. The number of traditionally structured UCIs decreased from 751 to 690 (-8.1%) while the number of subfunds in operation fell from 7,055 to 6,819 (-3.3%). Thus a total of 7,509 economic entities were trading as at 31 December 2003, i.e. 3.8% less than at the close of the previous year, which can be mainly explained by the substantial number of restructurings that took place in 2003.

The average number of subfunds per undertaking decreased to 5.78 as at 31 December 2003. However, this figure conceals a wide dispersion between the smallest and largest UCIs.

As at 31 December 2003, umbrella fund net assets totalled EUR 820.9 billion, i.e. an increase of EUR 96.1 billion (+13.3%) compared with the previous year-end. With more than EUR 120 million, average net assets are still below those of traditionally structured UCIs, which totalled EUR 192 million per entity as at 31 December 2003.

1.3. Valuation currencies used

With regard to the valuation currencies used, most entities (4,921 out of a total of 7,509) are denominated in euros, followed by those in US dollars (1,796) and those in Swiss francs (238). In terms of net assets, the entities denominated in euros comprise EUR 600.130 billion of a total EUR 953.302 billion, ahead of entities expressed in US dollars (EUR 239.763 billion) and Swiss francs (EUR 51.486 billion).

1.4. UCIs' investment policy

The net assets of UCIs investing in bonds increased by 11.03% compared with the end of 2002, the assets of funds investing in equities by 25.22%, the assets of funds investing in mixed transferable securities by 19.33% and the assets of funds investing in other securities by 7.64%. The net assets of UCIs investing in money market and/or in cash funds however decreased by 12.33% as compared to the end of 2002.

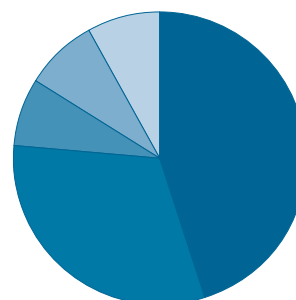
In absolute figures, the net assets managed by UCIs or UCI subfunds invested in bonds reached EUR 431.262 billion (i.e. 45.2% of the total net assets), followed by funds invested in equities (EUR 298.396 billion or 31.3%), money market and cash funds (EUR 77.638 billion or 8.1%), funds invested in other securities (EUR 75.670 billion or 7.9%) and mixed funds (EUR 70.336 billion or 7.4%). Funds investing in other securities include in particular funds investing in other UCIs or UCIs specialised in the investment in unlisted securities, real estate funds, funds investing in derivatives or venture capital funds.

Net assets and units/shares in UCIs by investment policy

	2002		2003		Variation	
	Number of units	Net assets (in bn €)	Number of units	Net assets (in bn €)	Number of units	Net assets (in bn €)
Fixed-income transferable securities	2,225	388.419	2,224	431.262	-0.04%	11.03%
Variable-yield securities	3,296	238.288	2,920	298.396	-11.41%	25.22%
Mixed transferable securities	920	58.940	916	70.336	-0.43%	19.33%
Money market instruments and/or liquid assets	248	88.561	270	77.638	8.87%	-12.33%
Other	1,117	70.300	1,179	75.670	5.55%	7.64%
Total	7,806	844.508	7,509	953.302	-3.80%	12.88%

Net assets of UCIs by investment policy

■ Fixed-income transferable securities	45.2%
■ Variable-yield transferable securities	31.3%
■ Mixed transferable securities	7.4%
■ Money market instruments and liquid assets	8.2%
■ Other	7.9%



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

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

Pol.	1st quarter 2003			2nd quarter 2003			3rd quarter 2003			4th quarter 2003			Total		
	Subsc.	Red.	N. iss.	Subsc.	Red.	N. iss.	Subsc.	Red.	N. iss.	Subsc.	Red.	N. iss.	Subsc.	Red.	N. iss.
1	159,562	145,245	14,317	191,336	175,824	15,512	219,355	209,917	9,438	224,767	217,683	7,084	795,020	748,669	46,351
2	30,064	35,917	-5,853	39,628	35,638	3,990	48,874	35,272	13,602	50,956	33,615	17,341	169,522	140,442	29,080
3	7,843	5,395	2,448	5,538	5,092	446	17,814	15,462	2,352	7,868	5,386	2,482	39,063	31,335	7,728
4	23,034	22,224	810	19,332	21,703	-2,371	15,948	18,134	-2,186	15,433	18,009	-2,576	73,747	80,070	-6,323
5	15,928	17,658	-1,730	7,113	5,443	1,670	13,934	10,746	3,188	15,477	12,832	2,645	52,452	46,679	5,773
Total	236,431	226,439	9,992	262,947	243,700	19,247	315,925	289,531	26,394	314,501	287,525	26,976	1,129,804	1,047,195	82,609

in millions of EUR

SUPERVISION OF UNDERTAKINGS FOR COLLECTIVE INVESTMENT

While the first quarter of 2003 was characterised by a general prudence of the investors, which resulted in net redemptions for the category of UCIs and/or subfunds investing mainly in equities, more interest was shown for this category of UCIs and/or subfunds in the second, and especially the two last quarters. Overall, only the category of UCIs and/or subfunds investing mainly in money market instruments and/or liquid assets was subject to net redemptions in 2003.

The following table breaks down the UCIs according to their investment policy. As only 13 UCIs fell under Part I of the law of 20 December 2002 as amended as at 31 December 2003, the detailed presentation published since 1990 has been maintained and the few units of these 13 aforementioned UCIs have been integrated appropriately in the three categories of Part I. This categorisation of the investment policies will be reviewed during 2004 to adapt to the needs of the law of 20 December 2002 as amended.

UCIs' investment policy

Situation as at 31 December 2003	Number of entities	Net assets (in bn EUR)	Net assets (as a % of total)
UCITS subject to Part I			
- Fixed-income transferable securities	1,917	393.952	41.3
- Variable-yield transferable securities	2,689	282.013	29.6
- Mixed transferable securities	803	65.131	6.8
UCITS subject to Part II ¹			
- Fixed-income transferable securities	183	20.089	2.1
- Variable-yield transferable securities	139	5.182	0.6
- Mixed transferable securities	77	3.014	0.3
UCITS subject to Part II ²			
- Venture capital	19	0.407	0.0
- Unlisted transferable securities	14	2.056	0.2
- Leveraged funds	8	0.378	0.0
- Other open-ended UCIs	930	56.140	5.9
- Money market instruments and liquid assets	118	66.461	7.0
- Cash	121	10.501	1.1
Other UCIs subject to Part II			
- Real estate	7	2.343	0.2
- Futures and/or options	49	2.743	0.3
- Other securities	0	0.000	0.0
Institutional funds			
- Fixed-income transferable securities	124	17.221	1.8
- Variable-yield transferable securities	92	11.201	1.2
- Mixed transferable securities	36	2.191	0.2
- Venture capital	1	0.000	0.0
- Unlisted transferable securities	5	0.040	0.0
- Leveraged funds	0	0.000	0.0
- Other open-ended UCIs	137	11.016	1.2
- Real estate	6	0.522	0.1
- Futures and/or options	3	0.025	0.0
- Money market instruments and liquid assets	31	0.676	0.1
Total	7,509	953.302	100.0

¹ UCITS not governed by Part I of the law dated 30 March 1988 as amended pursuant to article 2 points 1 to 3 and Part I of the law of 20 December 2002 as amended 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.

² UCITS not governed by Part I of the law dated 30 March 1988 as amended pursuant to Article 2 point 4, i.e. UCITS which fall within one of the categories set by IML Circular 91/75 owing to their investment and borrowing policy.

1.5. Developments in guarantee-type UCIs

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 2003, the number of guarantee-type UCIs rose from 75 to 76 entities, and the number of units increased from 151 to 166. This increase in units is due to the launch of 44 new units while the guarantee given matured or was not extended for 29 units.

As at 31 December 2003, the 166 units comprise 18 units guaranteeing investors only a proportion of their invested capital, 82 units guaranteeing repayment in full of their invested capital (money-back guarantee), and 66 units offering their investors a return on the initial subscription price.

Funds with a money-back guarantee remain dominant, but there is also a substantial number of funds guaranteeing their investors a return on their initial investment. These funds generally track a stock market index and, through the use of derivatives, enable investors to participate to some extent in the growth of this index.

The net assets of guarantee-type UCIs increased by EUR 3.49 billion, reaching EUR 20.89 billion in 2003, i.e. an increase of 1.8%. It is also worth noting that guarantee-type UCIs created by German promoters alone included 95.4% of the total net assets of guarantee-type funds.

Developments in guarantee-type UCIs

<i>At year end</i>	<i>Number of UCIs</i>	<i>Number of economic units</i>	<i>Net assets (in bn of EUR)</i>
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

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 2003

Country	Net assets (in bn €)	in %	Number of UCIs	in %	Number of units	in %
Switzerland	218,587	22.9%	242	12.9%	1,329	17.7%
United States	170,869	17.9%	116	6.2%	696	9.3%
Germany	162,964	17.1%	676	36.1%	1,209	16.1%
Italy	109,621	11.5%	73	3.9%	664	8.8%
Belgium	84,899	8.9%	130	7.0%	1,032	13.7%
United Kingdom	61,751	6.5%	101	5.4%	549	7.3%
France	50,536	5.3%	162	8.7%	695	9.3%
Japan	22,567	2.4%	67	3.6%	158	2.1%
Sweden	19,192	2.0%	35	1.9%	162	2.2%
Netherlands	16,578	1.7%	40	2.1%	190	2.5%
Others	35,738	3.8%	228	12.2%	825	11.0%
Total	953,302	100.0%	1,870	100.0%	7,509	100.0%

As compared to 2002, the United States has once more overtaken Germany and took second place of Luxembourg UCI promoters.

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. The UCIs governed by Part I of the law of 30 March 1988 as amended 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.

As the UCITS under Part I of the law of 20 December 2002 as amended cannot benefit from the European passport before 13 February 2004, the CSSF did not issue any certificates for these UCIs in 2003.

Until 31 December 2003, the CSSF had delivered a total of 2,854 Directive compliance certificates for registered UCITS, representing a decrease of 56 entities compared with 31 December 2002, and an increase of 265 entities compared with 31 December 2001. The certificates issued by the CSSF were intended for 1,020 different UCIs (2002: 1,068 UCIs, 2001: 997 UCIs, 2000: 979 UCIs), which means that 89% of UCIs falling under Part I of the law of 30 March 1988 as amended had requested at least one certificate.

The main target countries in decreasing order are: Germany (737 certificates), Austria (348), Italy (314), France (265), Spain (231), Belgium (187), Sweden (164), United Kingdom (156) and the Netherlands (148).

As regards foreign UCITS marketed in Luxembourg at the end of 2003, 131 foreign Community UCITS (70 of German origin, 26 of French origin, 22 of Irish origin, 10 of Belgian origin and 3 of British origin) took advantage of the marketing facilities provided by the Directive to offer their units/shares in Luxembourg.

Finally, it is worth noting that, as at 31 December 2003, 33 foreign UCIs (16 of German origin, 15 of Swiss origin and 2 of Belgian origin) were authorised to market their units/shares in Luxembourg on the basis of Article 70 of the law of 30 March 1988 as amended.

Marketing of foreign UCIs in Luxembourg

	2000	2001	2002	2003
<i>Art. 56 – Country of origin</i>				
Germany	107	112	93	70
France	26	27	26	26
Ireland	11	15	19	22
Belgium	8	9	9	10
United Kingdom	1	2	2	3
Denmark	1	1	1	-
Subtotal	154	166	150	131
<i>Art. 70 - Country of origin</i>				
Germany	6	5	13	16
Switzerland	49	49	16	15
Belgium	-	1	1	2
Subtotal	55	55	30	33
Total	209	221	180	164

2. Newly created entities approved in 2003

2.1. General data

The number of newly approved entities³ in 2003 is on the decrease as compared to 2002, thereby confirming the trend observed over the last years. Thus, 1,086 new entities have been approved in 2003, representing a decrease of 18.8% as compared to 2002, by 27.5% as compared to 2001 and by 42.4% as compared to the record year 2000.

	2000	2001	2002	2003
Newly approved entities	1,885	1,497	1,338	1,086
<i>of which : launched in the same year</i>	1,297	1,020	881	637

The entities approved in the course of a year have not necessarily been launched that same year. Until 31 December 2003, only 637 entities out of the 1,086 entities approved during the year were active, i.e. 58.7% of the total number of approved entities. This percentage is slightly inferior to that of the previous years, which stodd between 65.8% and 68.8%. The lapse between the authorisation of a new entity and its effective launching can be explained notably 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.

³ 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.

SUPERVISION OF UNDERTAKINGS FOR COLLECTIVE INVESTMENT

2.2. Analysis of the investment policy of new entities

The investment policy of new entities reflects the general market trends.

Thus, in 2003, the number of UCIs investing in bonds increased so that the proportion of newly approved entities investing in bonds reached a third of the total number of approved entities in 2003. At the same time, the proportion of newly approved entities investing in equities decreased substantially.

The proportion of the number of newly approved entities investing in mixed transferable securities and that of the number of newly approved entities investing in other UCIs remained stable.

	2000		2001		2002		2003	
	Number of entities	As a % of the total	Number of entities	As a % of the total	Number of entities	As a % of the total	Number of entities	As a % of the total
Equities	965	51.19%	658	43.95%	471	35.20%	265	24.40%
Mixed	148	7.85%	146	9.75%	135	10.09%	124	11.42%
Bonds	411	21.80%	360	24.05%	325	24.29%	364	33.52%
Money Market	25	1.33%	19	1.27%	60	4.49%	52	4.79%
Funds of Funds	320	16.98%	281	18.77%	332	24.81%	255	23.48%
Futures	5	0.27%	19	1.27%	7	0.52%	15	1.38%
Various	11	0.58%	14	0.94%	8	0.60%	11	1.01%
Total	1,885	100.00%	1,497	100.00%	1,338	100.00%	1,086	100.00%

Among the 1,086 newly approved entities in 2003, 16 entities, i.e. 1.5% benefited from the reduced subscription tax reserved for UCIs/subfunds investing in cash funds, money market instruments and short-term securities.

	2000	2001	2002	2003
Number of entities benefiting from reduced tax	49	30	67	16

2.3. Origin of promoters of new entities

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

- The promoters of Belgian, Swiss and German origin take the top places. It is the first time that Belgian promoters created the highest number of entities with almost 18% of the new entities. The Swiss and German promoters were less active with 16.2% and 14.7% respectively.
- The number of new entities created by Italian and French promoters increased substantially over the last year. Italian and French promoters created 11.7% and 9.1% respectively of the newly created entities.
- Promoters from the United States created less entities as in the previous years.

Origin of the promoters of new entities

	2000		2001		2002		2003	
	Number of entities	As a % of the total	Number of entities	As a % of the total	Number of entities	As a % of the total	Number of entities	As a % of the total
Belgium	166	8.81%	169	11.29%	197	14.72%	192	17.68%
Switzerland	348	18.46%	259	17.30%	289	21.60%	176	16.21%
Germany	339	17.98%	264	17.64%	227	16.97%	160	14.73%
Italy	214	11.35%	217	14.50%	97	7.25%	127	11.69%
France	175	9.28%	147	9.82%	82	6.13%	99	9.12%
United Kingdom	115	6.10%	111	7.41%	122	9.12%	86	7.92%
United States	189	10.03%	92	6.15%	99	7.40%	76	7.00%
Austria	15	0.80%	29	1.94%	47	3.51%	38	3.50%
Netherlands	86	4.56%	31	2.07%	28	2.09%	36	3.31%

3. Closed down entities in 2003

3.1. General data

While the number of matured entities remained almost stable over the last years, the number of liquidated or merged entities increased continuously. In 2003, a total of 1,178 economic entities have been closed down. This figure includes more than 1,000 entities that have stopped their activities or have been the object of mergers.

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

3.2. Investment policy of closed down entities

The investment policy of the closed down entities reflects the general market trends. The proportion of closed down entities investing in equities rose even stronger in 2003 with 573 entities of this category that closed down, of which 268 have merged. Moreover, a vast number of reorganisations and restructurings have taken place in the other categories, namely 294 closed down entities in the category "Bonds", including 123 merged entities, 158 in the category "Mixed", including 54 merged entities and 110 in the category "Funds of Funds", including 33 merged entities.

	2000		2001		2002		2003	
	Number of entities	As a % of the total	Number of entities	As a % of the total	Number of entities	As a % of the total	Number of entities	As a % of the total
Equities	164	36.4%	239	31.6%	381	44.0%	573	48.6%
Mixed	42	9.3%	94	12.4%	114	13.2%	158	13.4%
Bonds	182	40.4%	335	44.3%	222	25.7%	294	25.0%
Money market	20	4.4%	26	3.4%	60	6.9%	18	1.5%
Fund of Funds	15	3.3%	30	4.0%	68	7.9%	110	9.3%
Futures	12	2.7%	17	2.2%	13	1.5%	9	0.8%
Various	16	3.5%	16	2.1%	7	0.8%	16	1.4%
Total	451	100.0%	757	100.0%	865	100.0%	1,178	100.0%

3.3. The main restructurings on Luxembourg UCIs in 2003

At international level, the trend of mergers and acquisitions of banks and financial groups continued during 2003. The UCIs promoted by the banks and financial undertakings concerned by these mergers and reorganisations were also affected to a large extent by this development.

Compared to the year 2002, the total number of large UCI restructurings more than tripled.

It has to be noted that the slight decrease in 2003 in the number of UCIs in Luxembourg is also due to the mergers that took place within the scope of the restructurings of the UCI range of certain promoters, which have been quite numerous in 2003.

The main arguments put forward by the UCI promoters who initiated a restructuring were the following:

- simplification of the UCI range in order to obtain a greater transparency in the products offered;
- creation of a key-UCI with numerous subfunds instead of several legal entities;
- optimisation of the UCI range according to economic, geographical criteria or the degree of risk involved.

62 large restructurings have affected Luxembourg UCIs in 2003, involving 87 legal entities and 461 subfunds.

While the restructurings of Luxembourg UCIs that took place in 2002 were due to more diverse reasons, the restructurings in 2003 can be divided into two large categories:

1. Management activities of a promoter group taken over by another one	19 cases
2. Restructuring of the UCI range of a promoter	43 cases
Total	62 cases

Finally, it has to be noted that besides the large restructurings presented in this chapter, 43 other mergers of smaller UCIs took place in 2003, involving a total of 91 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 placement of the majority of net assets in other UCIs. Their portfolios therefore consist principally, if not exclusively, of shares of SICAVs or units of *fonds communs de placement* (FCPs) in Luxembourg or other countries.

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

With the introduction of the law of 20 December 2002 on UCIs as amended, the UCIs known as funds of funds can fall under Part I as well as under Part II of this law.

As mentioned in the 2002 Annual Report, the number of entities investing principally in other UCIs rose sharply between 1999 (213 entities) and 2002 (997 entities). This upward trend was confirmed in 2003 as the number of entities increased to 1,098 entities as at 31 December 2003. The rate of increase over the year was 10.1% in terms of entities.

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 2003 and reached 7.2% at the end of 2003. Their proportion reached only 1.8% in December 1998.

4.2. Legal status of funds of funds

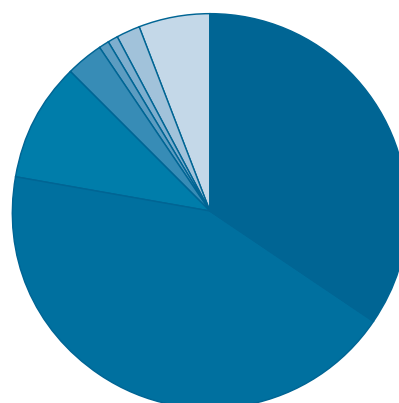
As at 31 December 2003, 77.90% of UCIs known as funds of funds (846 entities) came under Part II of the law of 30 March 1988 as amended, while 12.80% (139 entities) were subject to the law of 19 July 1991.

As regards the law of 20 December 2002 as amended, 1.75% (19 entities) fall under Part I and 7.55% (82 entities) under Part II of this law.

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

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

■ FCP Part II of the law of 1988	34.53%
■ SICAV Part II of the law of 1988	43.37%
■ FCP institutional funds	9.85%
■ SICAV institutional funds	2.95%
■ FCP Part I of the law 2002	0.74%
■ SICAV Part I of the law of 2002	1.01%
■ FCP Part II of the law of 2002	1.93%
■ SICAV Part II of the law of 2002	5.62%



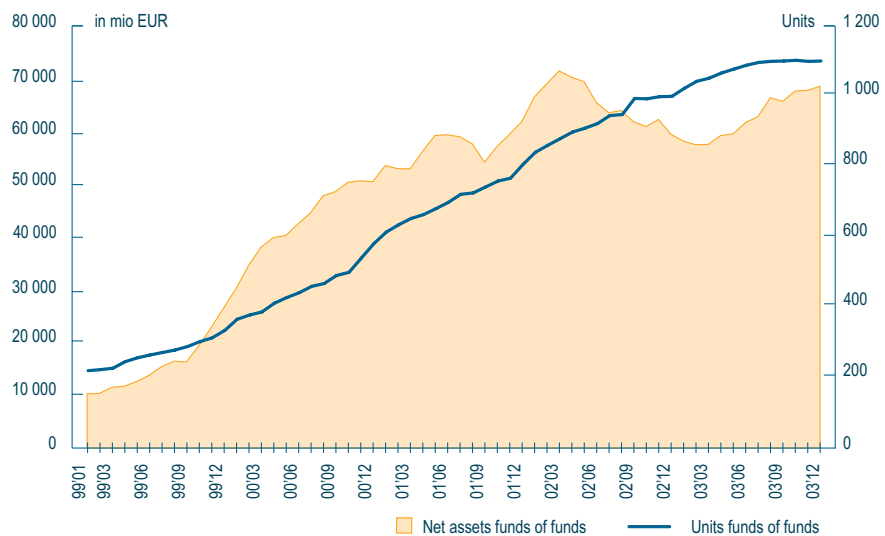
SUPERVISION OF UNDERTAKINGS FOR COLLECTIVE INVESTMENT

4.3. Development of the number of entities and net assets of funds of funds

The number of funds of funds entities continued to rise from January to September 2003. However, from October 2003 until the end of the year, the number of funds of funds entities did not grow any further, and reached 1,098 entities as at 31 December 2003.

The net assets of these funds reached a peak in March 2002 amounting to EUR 71.4 billion. Since then, however, the continuous slump of the 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 net assets of funds of funds amounted to EUR 68.5 billion as at 31 December 2003.

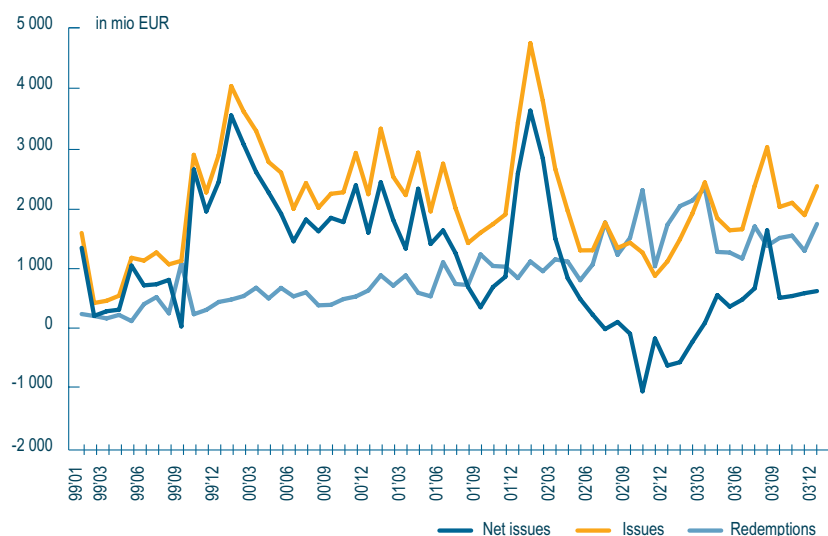
Development in the number of entities and net assets of funds of funds



4.4. Development in net issues of funds of funds

With regard to the inflow of new capital for this type of UCI, net issues totalled approximately EUR 5.4 billion for the year 2003. During the first two months of 2003, net issues were negative, thereby following a trend already observed during the last months of 2002. With the revival of the stock markets during the second quarter, the flows became positive and reached a slight peak in August 2003.

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



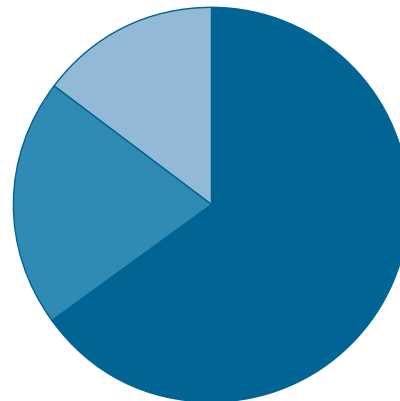
4.5. Categorisation of funds of funds according to specific investment policy

The funds of funds may 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-type funds of funds);
- 3) those investing in funds that invest in hedge funds (funds of hedge funds).

Distribution of net assets of funds of funds according to specific investment policy

■ Mixed funds of funds	65.0%
■ Funds of hedge funds	20.4%
■ Feeder-type funds of funds	14.6%

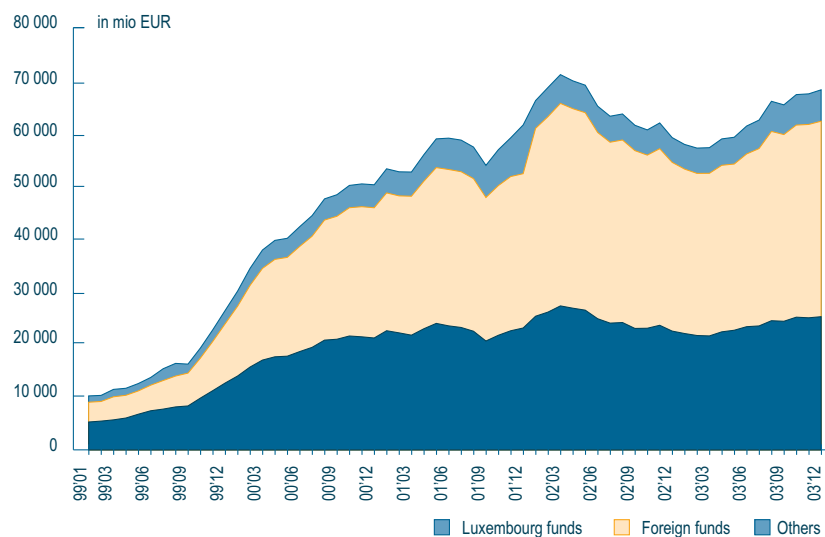


The category mixed funds of funds was in the lead in terms of net assets with 65.0%. The proportion of funds of hedge funds increased from 16.6% in 2002 to 20.4% at the end of 2003 and that of feeder-type funds of funds from 13.1% in 2002 to 14.6% at the end of 2003.

4.6. Nationality of UCIs acquired by funds of funds

As at 31 December 2003, the percentage of net assets of funds of funds invested in Luxembourg funds was 37.0%, while 54.3% were invested in foreign funds. The remaining 8.7% were invested in other financial products (cash, equities, bonds, derivatives, etc.). These proportions remained almost unchanged as compared to 31 December 2002.

Development and distribution of net assets of funds of funds

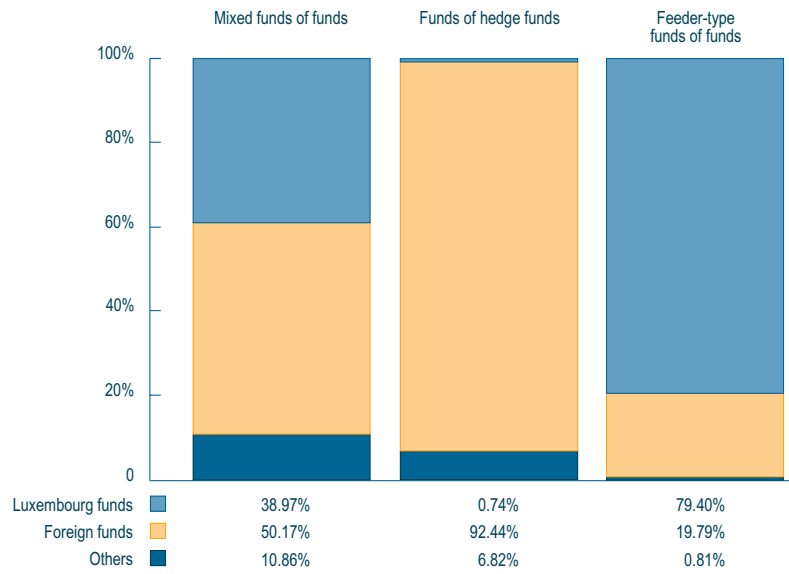


SUPERVISION OF UNDERTAKINGS FOR COLLECTIVE INVESTMENT

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

As at 31 December 2003, 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-type funds of funds.

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



5. Developments in the regulatory framework

5.1. The law of 19 December 2003 concerning the State budget of income and expenditure

Article 12 of the law of 19 December 2003 concerning the State budget of income and expenditure amends paragraph (3) of article 108 of the law of 30 March 1988 on UCIs as amended and paragraph (3) of article 129 of the law of 20 December 2002 on UCIs as amended.

Under the terms of this law, certain Luxembourg UCIs and certain compartments will be exempt from the subscription tax as from 1 January 2004, on the condition that the following four criteria are met:

- the UCI's or the compartment's securities must be reserved for institutional investors;
- the UCI's or the compartment's object must be the collective investment in money market instruments and the placing of deposits with credit institutions;
- the weighted residual portfolio maturity must not exceed 90 days;
- the UCI or the compartment must have obtained the highest possible rating from a recognised rating agency.

Where several classes of securities exist within the UCI or the compartment, the exemption only applies to classes whose securities are reserved for institutional investors.

5.2. Circular CSSF 03/97 concerning the publication by undertakings for collective investment in the reference database of the simplified and full prospectuses as well as the annual and semi-annual reports

The purpose of circular CSSF 03/97 of 28 February 2003 is to specify the publication modes of simplified and full prospectuses and the annual and semi-annual reports that UCIs shall publish for their investors in accordance with Chapter 17 of the law of 20 December 2002 regarding UCIs as amended.

The circular states that the *Centrale de Communications Luxembourg S.A.* (CCLux) set up a database of the financial centre in order to create an infrastructure allowing investors and professionals of the industry to access by electronic means all the prospectuses as well as the annual and semi-annual reports concerning Luxembourg UCIs.

Pursuant to article 114(2) of the law of 20 December 2002, simplified and full prospectuses as well as annual and semi-annual reports of UCIs subject to the aforementioned law must be published in the database of the financial centre. This obligation does not apply to UCIs subject to the law of 19 July 1991 regarding UCIs the securities of which are not intended to be placed with the public.

Moreover, it is highly recommended that UCIs subject to the law of 30 March 1988 regarding UCIs as amended also comply with this obligation of publication in the database.

The CSSF may grant, if duly justified, an exemption as regards the publication of prospectuses and annual and semi-annual reports in the database of the financial centre.

5.3. Circular CSSF 03/108 concerning Luxembourg management companies subject to Chapter 13 of the law of 20 December 2002 concerning undertakings for collective investment as amended, as well as Luxembourg self-managed investment companies subject to article 27 or article 40 of the law of 20 December 2002 as amended

The main purpose of circular CSSF 03/108 of 30 July 2003 is to specify the application modes of certain articles of Chapter 13 of the law of 20 December 2002 concerning UCIs as amended, which introduces a specific regime applicable to management companies that manage UCITS under the amended Directive 85/611/EEC.

The majority of the provisions of the circular apply *mutatis mutandis* to investment companies under the amended Directive 85/611/EEC that have not designated a management company in conformity with this Directive.

The circular specifies the conditions which must be fulfilled in order to obtain and maintain an authorisation, distinguishing between management companies whose activities are restricted to collective management as provided for by Article 77(2) of the law of 20 December 2002 as amended, and management companies which carry out collective management and management of investment portfolios on a client-by-client basis as provided for by Article 77(3). In this context, it provides clarifications as regards the programme of activity, central administration and infrastructure, shareholders, professional repute and experience of the directors, own funds and external audit.

The circular also contains rules concerning the prudential supervision of management companies referred to under Chapter 13 of the law of 2002 as well as the prudential supervision of investment companies under the amended Directive 85/611/EEC, which have not designated a management company under the terms of this Directive.

The schedules for financial information, which are to be drawn up on a quarterly basis and submitted to the CSSF with regard to prudential supervision, are appended to the circular.

5.4. Circular CSSF 03/122 concerning clarifications of the simplified prospectus

Circular CSSF 03/122 of 19 December 2003 provides lines of conduct concerning the content of the simplified prospectus and notably the interpretation of certain elements of information comprised in schedule C appended to the law of 20 December 2002 concerning UCIs as amended.

The circular notably aims to describe three elements of information of the simplified prospectus mentioned in schedule C, namely:

- the UCITS' objectives, the UCITS' investment policy and a brief assessment of the UCITS' risk profile,
- the historical performance of the UCITS,
- the other possible expenses and fees.

The circular thus indicates that the description of the UCITS' risk profile is of qualitative nature.

Under the terms of the circular CSSF 03/122, UCITS can calculate a Total Expense Ratio (TER). The circular lays down rules to comply with in case a UCITS does so.

Circular CSSF 03/122 also determines the authorisation procedure of the CSSF in relation to the simplified prospectus.

Moreover, UCITS, which, by virtue of the transitional provisions of the law of 20 December 2002 as amended, remain governed by part I of the law of 30 March 1988 relating to UCIs as amended until 13 February 2007 at the latest, are not compelled by the law to publish a simplified prospectus. If any such UCITS nevertheless intend to publish a simplified prospectus, they must meet the requirements imposed by annexe I, schedule C, for the simplified prospectus of UCITS subject to part I of the law of 20 December 2002 as amended.

6. Management companies

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

The year 2003 was marked by the approval of the first management company under Chapter 13 of the law of 20 December 2002 as amended allowed to benefit from the European passport by way of the right of establishment and the freedom to provide services in another Member State of the European Union.

As at 31 December 2003, 16 management companies had submitted their application for approval to the CSSF in order to subject to the provisions of Chapter 13. At the end of 2003, three entities have been registered on the official list of management companies under Chapter 13 of the law of 20 December 2002 as amended, i.e.:

- BNP Paribas Asset Management Luxembourg, whose sole purpose is the management of undertakings for collective investment;
- LRI Fund Management Company S.A., whose purpose is the management of undertakings for collective investment, the management of investment portfolios on a discretionary client-by-client basis, as well as investment advice;
- Union Investment Luxembourg S.A., whose purpose is the management of undertakings for collective investment, the management of investment portfolios on a discretionary client-by-client basis, as well as the safekeeping and administration of units/shares of UCIs.

On the whole, the CSSF noted that one year following the coming into force of the law of 20 December 2002 as amended, a high number of market players took up the challenge to comply with the new legal provisions.

6.2. Overall situation

As at 31 December 2003, 284 management companies were active in the Luxembourg financial centre, among which three comply with the provisions of Chapter 13 of the law of 20 December 2002 as amended. 148 manage UCITS exclusively and 42 manage UCITS as well as other UCIs.

Of the remaining management companies, 54 exclusively manage UCIs subject to Part II of the law of 30 March 1988 as amended and/or subject to Part II of the law of 20 December 2002 as amended, 37 management companies manage exclusively UCIs subject to the law of 19 July 1991 on undertakings for collective investment whose securities are not intended to be placed with the public and three management companies manage UCIs subject to Part II of the law of 30 March 1988 as amended and/or Part II of the law of 20 December 2002 as amended, as well as UCIs subject to the law of 19 July 1991.

<i>Distribution of management companies (MCs)</i>	<i>Number</i>
MCs subject to Chapter 13 of the law of 2002	3
MCs subject to Chapter 14 of the law of 2002	281
Total	284
<i>of which</i>	
MCs managing exclusively UCITS subject to Part I of the law	148
MCs managing UCITS subject to Part I of the law as well as other UCIs	42
MCs managing UCIs subject to Part II of the law	54
MCs managing UCIs subject to Part II of the law and UCIs subject to the law of 1991	3
MCs managing UCIs subject to the law of 1991	37

According to the preceding table, 190 management companies manage at least one UCITS subject to Part I of the law of 1988 and/or the law of 2002 as at 31 December 2003.

The law of 20 December 2002 as amended provides that the management companies approved before 13 February 2004 that manage at 13 February 2004 a UCITS subject to Part I of the law of 1988 and/or of the law of 2002, can benefit from the so-called grandfathering clause, under the terms of which they must comply with the requirements laid down in Chapter 13 of the law of 2002 only at 13 February 2007 at the latest.

However, this is not the case for management companies managing exclusively UCIs under Part II of the law of 1988 and/or the law of 2002 on 13 February 2004. Consequently, should these management companies wish to manage UCITS under Part I of the law of 2002 after 13 February 2004, they must comply with the provisions of Chapter 13 of the law of 2002.

The following table shows a breakdown of management companies managing only one UCITS or UCI as at 31 December 2003.

<i>Management companies (MCs) managing only one UCITS/UCI</i>	<i>Number</i>
MCs managing only one UCITS subject to Part I of the law	143
MCs managing only one UCI subject to Part II of the law	54
MCs managing only one UCI subject to the law of 1991	37

6.3. Prudential supervisory practice

6.3.1. Notification procedure for management companies

The law of 20 December 2002 as amended introduces a European passport for management companies complying with the amended Directive 85/611/EEC. Under this European passport, management companies may perform, under the freedom to provide services, the activity, for which they have been authorised in their home Member State, in a Member State of the European Union other than their home Member State. They can also establish a branch in a Member State of the European Union other than their home Member State.

Articles 88 and 89 of the law of 20 December 2002 as amended provide for a notification procedure for Luxembourg management companies wishing to establish a branch within the territory of another Member State or wishing to carry on business within the territory of another Member State of the European Union under the freedom to provide services. Under the terms of the aforementioned articles, these management companies must communicate certain information to the CSSF.

A management company wishing to establish a branch within the territory of another Member State must provide the following information:

- a) the Member State within the territory of which the management company plans to establish a branch;
- b) a programme of operations setting out the envisaged activities and services, as well as the organisational structure of the branch;
- c) the address in the host Member State from which documents may be obtained;
- d) the name of the persons responsible for the management of the branch.

A management company wishing to carry on business within the territory of another Member State of the European Union under the freedom to provide services, must provide the following information:

- a) the Member State within the territory of which the management company intends to operate;
- b) a programme of operations stating the envisaged activities and services.

The CSSF forwards the information to the competent authorities of the host Member State.

The notification procedure for management companies as provided for by article 89 is an innovation introduced by the law of 20 December 2002 as amended and is not to be mistaken for the notification procedure for UCITS as laid down by the provisions of article 55 of this law, which has been taken over from the law of 30 March 1988 as amended and which provides that a UCITS wishing to market its units in another Member State of the European Union, must inform the CSSF thereof, as well as the competent authorities of this Member State.

The notification procedure for management companies comes on top of the notification procedure for undertakings for collective investment (UCITS) benefiting from the European passport.

6.3.2. Application of the law of 20 December 2002 relating to UCIs as amended

The legal provisions governing management companies under Chapter 13 of the law of 20 December 2002 as amended being relatively recent, they give rise to certain interpretation issues. Hereinafter are some of these questions allowing to explain the CSSF's position.

- **Means to be put into place by a management company under Chapter 13 of the law of 20 December 2002 concerning undertakings for collective investment as amended in order to take account of the provisions of article 42(1) as regards the use of a risk-management process**

Article 42(1) of the law of 20 December 2002 as amended provides that the management companies under Chapter 13 of this law are required to manage the risks associated with their investment portfolios and to use a risk-management process. Consequently, the setting up of a risk-management process is an additional structural element which must be taken into account in order to verify that a management company complies with the legal requirements laid down in the law of 2002. As the legal texts do not specify under which form this risk-management process must be set up, the CSSF takes up the following position.

In order to carry out the management functions provided for by Annexe II of the law of 2002, the CSSF considers that a management company must have appropriate means allowing it to adequately monitor the risks inherent in the investment portfolios. It must, in principle, set up its own risk-management department.

Nevertheless, it can also delegate, under its own responsibility, the risk control to a qualified third party. In this case, the CSSF considers that a management company under Chapter 13 of the law of 20 December 2002 as amended must not necessarily have the technical means in relation to risk management, but must employ one or several persons qualified and experienced to verify that risk-management processes used are appropriate for the various UCITS under management. Moreover, the person(s) must be able to interpret and control the results generated, and be able to intervene in case of problems and propose corrective measures.

The risk-management process must be adapted to the investment policy of the UCITS managed.

In short, a management company must have the means to ensure permanent monitoring of risks inherent in investment portfolios under its management.

- **Possibility of the board of directors of an investment company having designated a management company to directly delegate one of the functions mentioned in Annexe II of the law of 20 December 2002 concerning undertakings for collective investment as amended**

Article 27 of the law of 2002 provides, *inter alia*, that investment companies, which have not designated a management company under Chapter 13 of this law must meet a series of criteria as regards the “substance” of these investment companies. The investment companies that have designated a management company under Chapter 13 of the law are not obliged to fulfil these criteria, as they are met by the management company.

The law however does not give any specific explanations as to the meaning of the terms “designate a management company”.

As regards investment companies that have designated a management company, the following question arises: does the delegation of one or several of the three functions provided under Annexe II to the law of 20 December 2002 as amended, i.e. investment management, administration and marketing, necessarily have to pass through the management company or is the board of directors allowed to directly delegate one of these functions to a third party?

In this context, the CSSF’s interpretation is as follows: an entity may only be considered as a management company if its corporate purpose includes at least the three functions included in the activity of collective portfolio management of Annexe II of the law of 2002.

The CSSF considers that the terms “designate a management company” are intended for situations where an investment company delegates all three management functions of Annexe II of the law of 2002 to a management company. In this case, the board of directors of the investment company cannot directly delegate one of these functions to a third company.



SUPERVISION OF UNDERTAKINGS FOR COLLECTIVE INVESTMENT

- **Possibility of a management company governed by Chapter 13 of the law of 20 December 2002 concerning undertakings for collective investment as amended, to perform the activity of receipt and transmission of orders, which is defined as commission agent under the law of 5 April 1993 on the financial sector as amended**

This point is connected with the question asked by certain professionals of the financial sector (PFS) that transformed into management companies under Chapter 13 of the law of 20 December 2002 as amended. Indeed, these management companies asked for permission to continue with their activities, including those performed as commission agent, for which they had been granted approval under their PFS status. Therefore, the question arose as to whether the activity of commission agent is governed by the provisions of Chapter 13.

The CSSF considers that a management company under Chapter 13 of the law of 2002 can act as commission agent on the sole condition that the mandates fall either under collective management, or under investment portfolio management on a discretionary basis, as this activity is necessary to carry on these mandates.

- **Collective management and investment portfolio management activities of a management company under Chapter 13 of the law of 20 December 2002 concerning undertakings for collective investment as amended**

As a management company under Chapter 13 of the law of 20 December 2002 as amended can carry on, besides collective management activities, investment portfolio management activities on a discretionary client-by-client basis, the question arose as to whether the latter activity can take precedence in terms of volume over collective management and whether a certain balance, in terms of volume, between collective management and investment portfolio management on a discretionary client-by-client basis should be imposed.

This question is of particular interest as the requirements in terms of initial capital imposed on management companies under Chapter 13 of the law of 20 December 2002 as amended can be less restrictive as the requirements concerning the initial capital for private portfolio managers according to the law of 5 April 1993 on the financial sector as amended.

The CSSF considers that situations of misuse must be avoided in this regard. Circular CSSF 03/108 therefore specifies that where a management company under Chapter 13 of the law of 2002 as amended provides investment portfolio management on a discretionary client-by-client basis, specific conditions must be fulfilled.

Insofar as the services provided by these management companies as regards client-by-client management are the same as those provided by private portfolio managers falling within the scope of article 24 B) of the law of 5 April 1993 on the financial sector as amended, the same prudential rules are to be applied, in principle.

Moreover, circular CSSF 03/108 defines that where a management company of UCITS provides services of investment portfolio management on a discretionary client-by-client basis, the provisions of circular CSSF 00/12 defining the capital ratios pursuant to article 56 of the law of 5 April 1993 on the financial sector as amended are applicable.

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 permanent supervision of the CSSF 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 the distribution, investment and 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 on the basis of the circular relating to protection of investors in the event of a miscalculation of net asset value (NAV) and correction for the consequences of non-compliance with investment rules applicable to UCIs;
- on-site inspections carried out by agents of the CSSF.

7.1.3. Auditing

- **Auditing of semi-annual and annual reports**

The result of the examination of semi-annual and annual reports by the CSSF shows that these reports are in general prepared in accordance with the applicable legal rules. During 2003, the CSSF had to intervene with several UCI service providers due to the following factors:

- publication deadline was 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;
- representation of the promoter on the board of directors;
- absence of the indication that the subscription can only be made on the basis of the UCI's prospectus;
- exchange rate not indicated;
- incorrect indication of the UCI's or compartment's denomination;
- high fees;
- incorrect breakdown of the securities portfolio.

- **Auditing 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 O1.1.) and yearly (tables O4.1. and O4.2.) basis. The time limit 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 date of reference is the date of the close of the financial year and the time limit is four months.



SUPERVISION OF UNDERTAKINGS FOR COLLECTIVE INVESTMENT

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 2003, the CSSF carried out six on-site inspections at the premises of providers of services to UCIs.

The purpose of two on-site inspections was to notably assess the functioning of the central administration and of the UCI depository bank, as well as the anti-money laundering procedures. Two on-site inspections mainly aimed to assess the functioning of the UCI's central administration and the procedures set up in the fight against money laundering. The sole purpose of another inspection was the assessment of the functioning of the UCI's central administration and another inspection concerned the assessment of the anti-money laundering procedures.

The providers of services that have been inspected by the CSSF carry out the functions of central administration and/or depository bank for more than 500 UCIs, so that the inspections made by the CSSF in 2003 concerning the organisation of the central administration and depository bank functions covered a large number of UCIs.

- **Specific audits**

In 2003, the CSSF required that a management company of UCIs charged an external auditor to undertake a specific audit. This audit was aimed at verifying the organisation of the management company in the fields of fund management, risk management and assessment, and compliance.

- **Survey on late trading and market timing**

The CSSF sent a circular letter to 425 service providers established in Luxembourg and operating for Luxembourg UCIs, mainly central administrations, depository banks, registrar and transfer agents, management companies and distributors of units/shares of investment funds, in November 2003 and February 2004 respectively, inviting them to answer a set of questions relating to late trading and market timing practices.

The CSSF wished to know, by means of this survey, whether the entities surveyed had set up specific procedures to rule out any late trading and market timing practices. The CSSF enquired about the results obtained thanks to these procedures and asked those entities that have noted cases of late trading or market timing in the past, to give an account of these cases and to indicate at the same time the name of the UCI(s) concerned, the measures taken against the natural and legal persons involved, as well as the financial impact of these practices on the UCI and its investors.

The vast majority of the entities surveyed co-operated with the CSSF by providing extensive information. Even if the CSSF has not finalised its survey to date, it can already state that considering the responses received the situation is overall under control, even though supplementary information will be required in certain isolated cases. Moreover, it is not ruled out that the CSSF will carry out on-site inspections at certain entities' premises to verify the information provided.

The CSSF is satisfied to note that the entities surveyed have taken or are taking the necessary additional measures of protection.

After the professionals of the financial sector have been consulted, the CSSF has decided to publish a circular intended to provide the latter with appropriate guidelines. This circular will notably serve as a reference for their future decisions and choices. The CSSF will take into account the specificities of the Luxembourg investment fund industry. Indeed, many Luxembourg funds are invested as well as distributed across all the time zones and marketed through intermediaries subject to a foreign supervisory authority.

As a conclusion, the CSSF stresses that the protection and fair treatment of the investors has always been its absolute priority. This will therefore be the *leitmotiv* of the future circular, whose purpose will be to avoid that investors are financially harmed when the above-mentioned improper practices are used.

- **Meetings**

In 2003, 142 meetings were held between representatives of the CSSF and intermediaries of the UCIs. These meetings concerned the presentation of new UCI projects, restructurings of UCIs but also the application of the laws and regulations of UCIs

7.2. Application of the law of 20 December 2002 concerning UCIs as amended

During 2003, a series of inquiries concerning the interpretation of the law of 20 December 2002 concerning UCIs as amended were submitted to the CSSF.

Many requests for information concerned the application of the transitional provisions of the law of 20 December 2002 as amended, while others were related to the adjustments of the investment policy relating to the transition under this law, the wording of the articles of association of an investment company under Part I of this law or the content of the simplified prospectus.

The CSSF also gave an opinion concerning certain aspects of the investment policy applicable to UCITS under Part I of the law of 20 December 2002 as amended.

7.2.1. Transitional provisions of the law of 20 December 2002 as amended

Until 13 February 2007, the Luxembourg UCI sector is governed by two laws, namely the law of 30 March 1988 as amended and the law of 20 December 2002 as amended.

Within the scope of the enforcement of the law of 20 December 2002 as amended and the transition under this law of UCIs previously subject to the law of 30 March 1988 as amended, the CSSF handled some twenty requests concerning the application of the transitional provisions of the law of 2002 during 2003.

The law of 2002 provides that UCIs subject to Part II of the law of 1988 will be *ipso jure* subject to the law of 2002 as from 13 February 2004.

One question that arose concerned amendments to the articles of association to be made by UCIs having adopted a company structure that are *ipso jure* subject to the law of 2002 as from 13 February 2004. The CSSF considered that where the articles of association do not need to be amended, except where the reference to the law of 30 March 1988 as amended should be replaced by a reference to the law of 20 December 2002 as amended, these UCIs do not need to modify their articles of association before 13 February 2004. It is understood that the UCIs concerned will replace the references to the law of 20 December 2002 as amended on the next occasion, such as for instance after the ordinary general meeting.

The CSSF stressed that in any case, the UCIs subject to the law of 20 December 2002 as amended must update their prospectus so that it mentions that they are subject to this law. When the conclusion is reached that the prospectus does not need an amendment other than the replacement of the reference to the law of 30 March 1988 as amended by a reference to the law



SUPERVISION OF UNDERTAKINGS FOR COLLECTIVE INVESTMENT

of 20 December 2002 as amended, this modification can be made by means of an addendum specifying that the references to the law of 30 March 1988 as amended are to be replaced by references to the law of 20 December 2002 as amended.

Moreover, the CSSF stressed that there should be no inconsistencies between the UCI's prospectus and its constituting documents.

7.2.2. Modifications to the investment policy

The CSSF's position is that the modifications to the investment policy are to be accompanied by a notice of one month, during which investors can request the redemption of their units/shares free of charge.

A UCI, which extends its investment policy must consequently accompany the modification of its investment policy by a notice of one month during which investors must be able to request the redemption of their units/shares free of charge.

This principle also applies to the modifications or extensions of the investment policy under Part I of the law of 20 December 2002 as amended if substantial modifications in accordance with Part I of the law of 30 March 1988 as amended are concerned.

The modifications to the investment policy become effective only after the expiry of the one month's notice.

However, the CSSF considers that modifications that do not constitute an extension of the investment policy and which are carried out with the sole purpose of complying with the provisions of the law of 20 December 2002 as amended must not be accompanied by a one month's notice.

7.2.3. Information of the simplified prospectus and the full prospectus concerning the historical performance of the UCI and the profile of the typical investor

Schedule A annexed to the law of 30 March 1988 as amended and schedule A annexed to the law of 20 December 2002 as amended contain information relating to the full prospectus of the UCIs, while the schedule C annexed to the law of 20 December 2002 as amended contains information on the content of the simplified prospectus of UCIs.

The law of 2002 supplemented Schedule A annexed to the law of 1988 with the points 5 and 6.

In this context, the question arose as to whether it is sufficient to insert information concerning the historical performance and the profile of the typical investor of the UCI solely in the simplified prospectus and not in the full prospectus.

As point 5.1. of schedule A of the law of 20 December 2002 as amended stipulates that the information concerning the UCI's historical performance can be attached to the prospectus, the CSSF considers that the information concerning the historical performance must only be included in the simplified prospectus.

On the other hand, the information concerning the profile of the typical investor must be included in the simplified prospectus as well as in the full prospectus. Indeed, point 5.2. of schedule A and schedule C of the law of 2002 require that the full prospectus and the simplified prospectus contain the profile of the typical investor for which the UCI is designed.

7.2.4. Regulated market

On several occasions, the CSSF was led to decide on the interpretation of the term “regulated market” defined in point 20) of article 1 and in article 41(1) of the law of 20 December 2002 as amended.

The CSSF considers that the market regulated by ISMA (International Securities Market Association) can be regarded as a regulated market as defined under article 41(1). On the other hand, the American TRACE (Trade Reporting and Compliance Engine) system is not a regulated market as such as defined under article 41(1), but the OTC Fixed Income market, to which the TRACE system is linked, can be considered as a regulated market as defined by the law in question.

In the context of the EU enlargement, the CSSF considers that the official stock exchanges of the countries who are to join the EU on 1 May 2004 are regulated markets as defined in article 41(1) of the law of 20 December 2002 as amended.

7.2.5. Use of credit default swaps (CDS)

As far as the use of credit default swaps (CDS) by UCITS under Part I is concerned, the CSSF considers that the use of these instruments is subject to the following conditions:

- the counterparties to the CDS must be first-class financial institutions specialised in this type of transactions;
- the prospectuses of the UCITS must provide a detailed description of the functioning and the risks linked to CDS and also indicate the assessment process which must be duly approved by the external auditor of the UCITS, in order to ensure adequate investor information.

Moreover, the following rules must be complied with where CDS contracts are concluded with a purpose other than hedging:

- the CDS must be used in the exclusive interest of investors by letting presume an interesting return compared to the risks incurred by the UCITS;
- the maximum limit in terms of inherent commitments to CDS must not exceed 20% of net assets of the UCITS. Moreover, the total commitments of the CDS and the total commitments of the other techniques and instruments shall not, at any moment, exceed the total value of the UCITS’ net assets;
- the general investment restrictions (10% of the net assets in one issuer, etc.) must apply to the CDS issuer and to the CDS’ final debtor risk (“underlying”);
- the use of CDS must fit the investment and the risk profiles of the UCITS concerned;
- UCITS must ensure that they guarantee adequate permanent coverage of commitments linked to the CDS and must always be in a position to honour the investors’ redemption requests;
- the CDS selected by the managers of UCITS must be sufficiently liquid so as to allow the UCITS to sell/settle the contracts in question at the defined theoretical prices.

7.3. Voluntary liquidations

As regards the liquidation of UCIs, the CSSF and the *Caisse de Consignation* came to the conclusion that the liquidation of a UCI or a compartment of an umbrella fund should in principle be closed within a time limit of nine months at the most.

Where this time limit cannot be met due to exceptional reasons, the UCI concerned can submit a duly justified application for exemption to the CSSF.

Under the terms of article 83 of the law of 30 March 1988 as amended and article 107 of the law of 20 December 2002 as amended, in the event of a voluntary or compulsory liquidation of a UCI, the sums and assets payable in respect of units whose holders failed to present themselves at the time of the closure of the liquidation, must be paid to the *Caisse de Consignation* to be held for the benefit of the persons entitled thereto.

SUPERVISION OF UNDERTAKINGS FOR COLLECTIVE INVESTMENT

At the time of the payment to the *Caisse de Consignation* of the sums and assets payable in respect of units whose holders failed to present themselves, the UCI can decide whether all the correspondence and payments made to the *Caisse de Consignation* must be made through the UCI. By means of this decision, the UCI can maintain the contact with his clients with a view of offering other investment products.

7.4. Circular CSSF 02/77

7.4.1. Statements made in 2003 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 undertakings for collective investment repealed circular CSSF 2000/8.

In 2003, the CSSF recorded 788 statements on the basis of circular CSSF 02/77, against 830 statements in 2002, representing a decrease of 5%.

Among these statements, 280 cases (348 cases in 2002) concerned NAV calculation errors and 508 cases (482 cases in 2002) non-compliance with investment rules, including 70 cases (61 cases in 2002) of non-compliance with investment policy. It is noteworthy that in absolute terms, the cases of NAV calculation errors decreased substantially as compared to 2002, i.e. a decrease of 20%, while the cases concerning non-compliance with investment rules increased by 5%.

The fact that the number of cases of NAV calculation errors in absolute terms continued to decrease can be explained by the continuous efforts of the central administrations of UCIs to improve their work procedures.

192 of the 280 cases of NVA calculation errors and 242 of the 508 cases of non-compliance with investment rules could not be closed at 31 December 2003, as the CSSF is still awaiting further information or the report(s) of the external auditor or the management letters following the application of the simplified procedure as foreseen by circular CSSF 02/77.

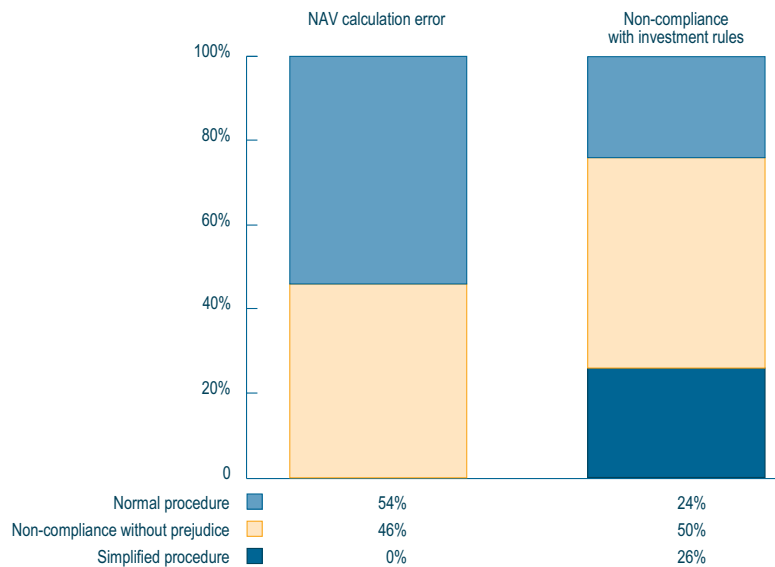
Indeed, circular CSSF 02/77 introduced a simplified procedure for cases of NAV calculation error or non-compliance with investment rules that entail losses for the UCI, where the indemnification amount does not exceed EUR 25,000 and the amount to be reimbursed to an investor does not exceed EUR 2,500.

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 or is not appropriate and reasonable.

This procedure constituted a substantial change to the circular CSSF 2000/8. Thus, in 2003, 129 cases of the 280 cases of NAV calculation errors, and 131 of the 508 cases of non-compliance with the investment rules could apply the simplified procedure.

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

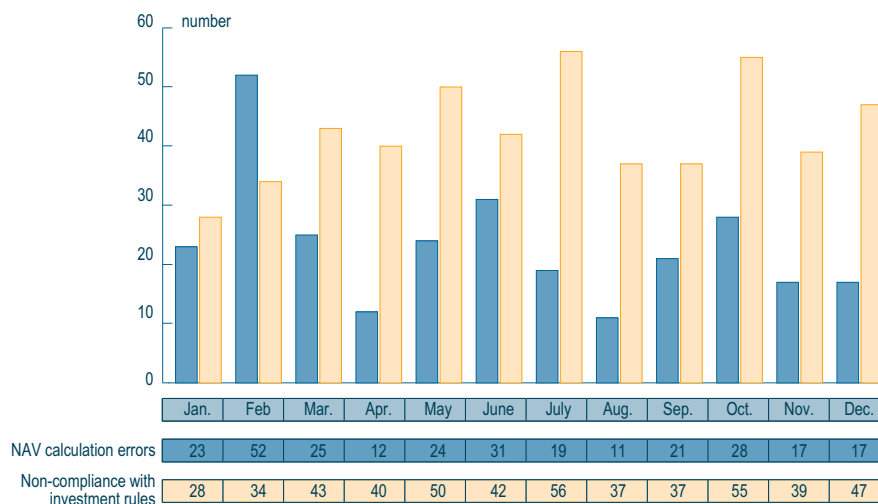
Simplified procedure



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

The following graph sets out in detail the statements made during 2003.

Notified errors in 2003



There was a higher number of statements during the months of February, May, June, July and October 2003.

With regard, more particularly, to statements made in relation to non-compliance with investment rules, a significant increase in number was observed for the months of May, July and October 2003.

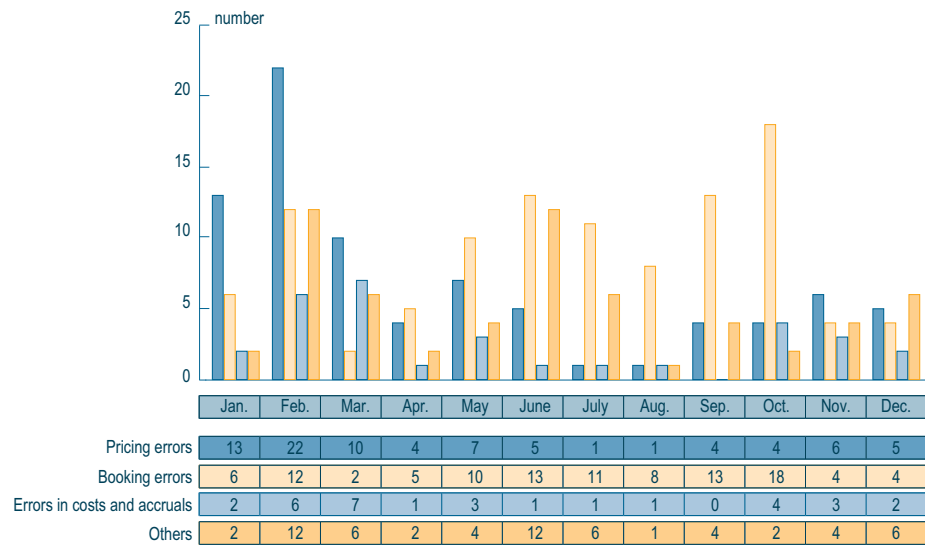
NAV calculation errors are due to four different causes: pricing errors, booking errors, errors in the calculation of costs and accruals and other errors, for example, in the valuation of swaps and futures.



SUPERVISION OF UNDERTAKINGS FOR COLLECTIVE INVESTMENT

The following graph plots the different cases of NAV calculation errors recorded in 2003.

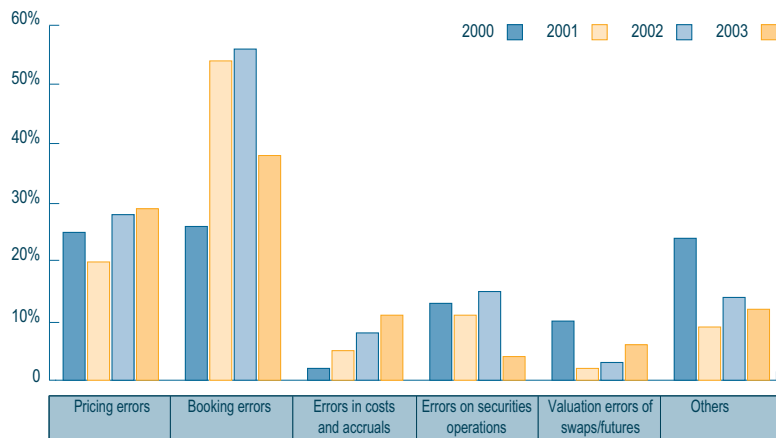
Reasons for NAV calculation errors in 2003



In 2003, 29% of NAV calculation errors were due to pricing errors, 32% to booking errors and 17% to calculation errors in costs and accruals. Among the other causes of error were problems linked to securities operations, representing 4% of cases reported and errors in the valuation of swaps and futures accounting for 6% of the NAV calculation errors.

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

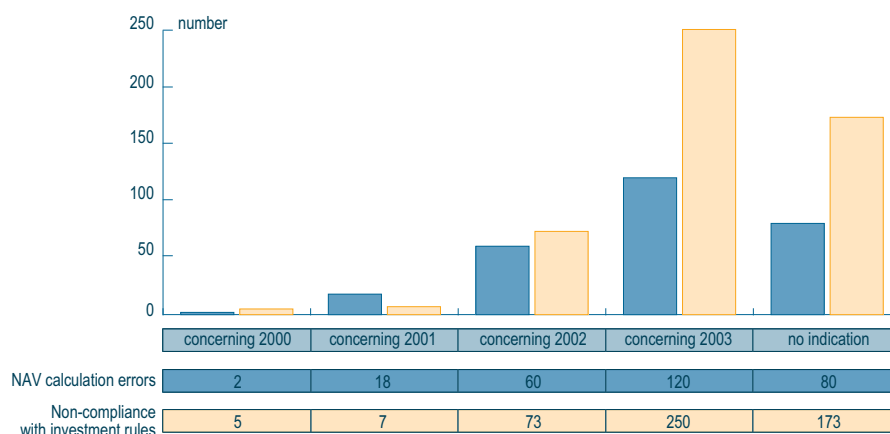
Development of the causes of NAV calculation errors over the last four years



Over the last four 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 continues to rise. Moreover, it is particularly noteworthy that the number of errors due to transactions on securities decreased substantially.

It should be noted that statements made during 2003 do not relate exclusively to errors and instances of non-compliance that occurred during 2003. Thus, they may also relate to errors or instances of non-compliance detected in 2003, 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 2003



Out of 788 statements made in 2003, 1% and 3% respectively were related to errors or instances of non-compliance that had occurred in 2000 or 2001. 17% concerned errors or instances of non-compliance which have occurred in 2002 and 47% of statements related to errors or instances of non-compliance that had actually occurred in 2003.

7.4.2. 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 2002 and 2003. It has to be noted that it is based on data available to the CSSF as at 31 December 2002 and 31 December 2003 respectively, while the amount of compensation had not yet been notified in certain cases.

	Compensation following NAV miscalculation			
	Investors		UCI/Subfund	
	2002	2003	2002	2003
EUR	1,327,002.72	758,417.22	2,521,755.19	1,164,859.50
USD	2,467,574.06	1,599,307.08	942,618.93	1,388,746.56
JPY	6,281,672.68	6,322,973.00	543,104.00	1,240,052.83
GBP	-	722.28	-	-
CHF	7,797.38	-	9,688.37	-
Other currencies*	38.09	-	3,961.39	808.25
Total (in EUR**)	3,735,892.66	2,072,540.61	3,435,598.79	2,274,412.65
	Compensation following non-compliance with investment rules			
	Investors		UCI/Subfund	
	2002	2003	2002	2003
EUR	389,419.10	73,356.74	1,386,888.57	320,566.54
USD	44,979.23	28,328.94	356,229.72	774,209.75
JPY	-	-	-	1,234,205.00
GBP	-	1,171.29	1,299.50	182.81
CHF	-	1,337.84	22,110.15	6,300.00
Other currencies*	220.16	-	866.07	225.08
Total (in EUR**)	432,529.75	98,307.89	1,744,662.65	947,227.15

* converted in EUR at the exchange rate applying on 31 December 2003 and 31 December 2002 respectively

** exchange rate as at 31 December 2003 and 31 December 2002 respectively



SUPERVISION OF UNDERTAKINGS FOR COLLECTIVE INVESTMENT

With regard to the 508 instances of non-compliance with investment rules, 255 have been regularised resulting in a profit, while 80 regularisations led to a loss. In 173 instances of non-compliance, the amount realised in the context of regularising operations has not yet been communicated.

As compared to 2002, the amounts of compensation paid following NAV calculation errors continued to decrease. The most important fall (-77%) has been recorded for compensation paid to investors due to instances of non-compliance with investment rules. 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;
- fewer movements on subscriptions and redemptions of units/shares in the periods during which NAV was incorrect; consequently the amounts of compensation paid to investors and/or UCIs can be not very important even if the period of non-compliance lasts several weeks.

7.4.3. Management letters

Chapter P of Circular IML 91/75 dated 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.

The analysis below sets out data for the year 2002, since these are more pertinent.

The majority of management letters, namely 71.3%, are management letters that contain no recommendations, i.e. the external auditor has not detected any irregularities in the management of the UCIs. 28.7% are management letters with recommendations by which the external auditors have reported irregularities of various types.

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.

During the course of 2002, 60% of management letters described instances of exceeding investment limits whilst 40% 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 "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.

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.

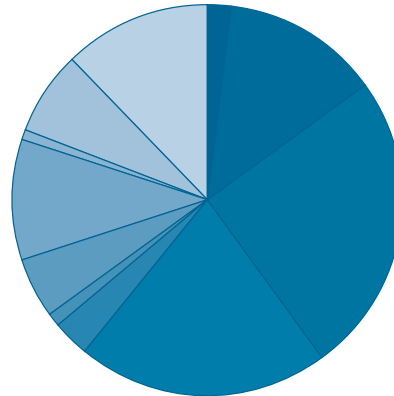
Certain management letters (8%) also contained details concerning the simplified procedure.

UCIs governed by Part I of the law of 30 March 1988 as amended represented 62.1% of Luxembourg UCIs. Insofar as statutory restrictions applying to them are tighter 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 as amended

■ art. 40(2)	2%
■ art. 40(4)	13%
■ art. 42(1) - 10%	25%
■ art. 42(1) - 40%	21%
■ art. 42(2)	3%
■ art. 42(3)	1%
■ art. 43(1)	5%
■ art. 44	10%
■ art. 45	1%
■ art. 47(2)	7%
■ chapter H circular IML 91/75	12%



The management letters mainly revealed cases where the statutory limits were exceeded as defined in Article 42(1) of the law of 30 March 1988 as amended, i.e. in 46% of cases. This article stipulates that an undertaking for collective investment in transferable securities (UCITS) cannot invest more than 10% of its assets in transferable securities of the same issuer and that the total value of transferable securities held by the UCITS of issuers in which it invests more than 5% of its assets must not exceed 40% of the value of the assets of the UCITS. Even though these limits are still frequently exceeded, a decrease of 8% as compared to 2001 has to be noted.

Compared with 2001, there has been an increase of 3% in cases of overstepping the limit set by Articles 40(4) and 44 and chapter H of circular IML 91/75. With regard to the other limits, the percentage of cases recorded has remained relatively constant.