

SUPERVISION OF THE OTHER PROFESSIONALS OF THE FINANCIAL SECTOR

1. Developments in 2005 of the other professionals of the financial sector (PFS)
2. Prudential supervisory practice

CHAPTER VI



1. DEVELOPMENTS IN 2005 OF THE OTHER PROFESSIONALS OF THE FINANCIAL SECTOR (PFS)

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

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

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

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

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

The year 2005 confirms the positive trend already observed in the previous year, the number of financial professionals increasing substantially as compared to the end of 2004. Indeed, after a stagnation between 2001 and 2003, the following years show a continuous growth in the number of PFS subject to the supervision of the CSSF. The growth in 2005 is still mainly attributable to the introduction by the law of 2 August 2003 of new specific PFS categories, as most of the entities authorised during this period have opted for one of these statuses.

The number of PFS thus rose from 166 entities as at 31 December 2004 to 185 entities at the end of 2005. The number of undertakings newly authorised in 2005 has however dropped compared to the number of entities that have been granted authorisation in the previous year (32 undertakings in 2005 against 43 in 2004). At the same time, it should be noted that the number of entities having given up their PFS status has slightly decreased (13 entities in 2005 against 19 entities in 2004).

Development in the number of PFS

Categories	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
<i>Investment firms</i>										
Commission agents			4	7	10	14	15	17	15	14
(Brokers and commission agents)	14	14	/	/	/	/	/	/	/	/
Private portfolio managers	36	34	37	38	46	51	51	48	46	46
Professionals acting for their own account	18	20	15	17	14	17	16	16	16	14
Distributors of units/shares of investment funds	20	18	22	25	35	43	45	47	37	37
Underwriters			1	2	4	4	3	3	3	2
(Underwriters and market makers)	3	3	/	/	/	/	/	/	/	/
Professional custodians of securities or other financial instruments	3	3	1	1	3	4	3	3	3	3
Registrar and transfer agents								1	8	11
<i>PFS other than investment firms</i>										
Financial advisors	6	7	9	10	9	10	9	9	8	12
Brokers			10	8	7	6	6	5	4	6
Market makers			1	2	2	2	2	2	2	1
Professionals performing cash-exchange transactions									1	/
Debt recovery									3	2
Professionals performing credit offering									5	7
Professionals performing securities lending									1	1
Administrators of collective savings funds									1	1
<i>PFS performing a connected or complementary activity of the financial sector</i>										
Domiciliation agents of companies				1	14	32	36	34	31	32
Client communication agents								2	8	12
Administrative agents of the financial sector									6	8
IT systems and communication networks operators of the financial sector								1	11	24
Professionals performing services of setting up and of management of companies.									2	2
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Categories	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Professionals of the financial sector authorised to exercise any activity referred to in section 1 of chapter 2 of Part I of the amended law of 5 April 1993 on the financial sector, with the exception of the categories of PFS also referred to in section 2 of the same chapter									3	4
Establishments authorised to exercise all the PFS activities permitted by article 28 of the law of 15 December 2000 on postal services and financial postal services						1	1	1	1	1
Total ¹	82	80	83	90	113	145	145	142	166	185

Notes concerning the registration of PFS on the official list

- This table, just as the official list of PFS published on the CSSF website, includes, under the heading of company domiciliation agents, only entities that have been approved exclusively as company domiciliation agents under article 29 of the law of 5 April 1993 on the financial sector as amended. Entities authorised to exercise, in addition to the status of domiciliation agent, another PFS activity covered by chapter 2 of Part 1 of the aforementioned law are included in this category, since approval obtained as other professional of the financial sector implicitly allows the provision of company domiciliation services in accordance with the law of 31 May 1999 on company domiciliation.
- Similarly, the entities listed in the category of professionals performing services of setting up and of management of companies have been approved exclusively to perform this activity, in accordance with article 29-4 of the law of 5 April 1993 on the financial sector as amended. Those entities that are authorised to exercise another additional PFS activity are listed in that category. Indeed, as authorisation obtained as other professional of the financial sector implies the authorisation to also provide company domiciliation services and as the persons allowed to provide company domiciliation services under article 29 of this law are *ipso jure* authorised to also act as professional performing services of setting up and of management of companies, all professionals of the financial sector are authorised to perform services of setting up and of management of companies.
- Following the entry into force of the law of 2 August 2003, the above-mentioned lists include, since 31 December 2004, the professionals performing debt recovery, the professionals performing cash-exchange transactions and the PFS authorised under the general provisions of the law of 5 April 1993 on the financial sector as amended, whose activities do not fall under a specific PFS category. The latter are registered on the official list as professionals of the financial sector authorised to exercise any activity referred to in section 1 of chapter 2 of Part I of the law of 5 April 1993 on the financial sector as amended, except for the categories of PFS also referred to in section 2 of the same chapter.

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

The table outlining the development in the number of PFS by categories over the years confirms the positive development observed in 2004 of the PFS statuses created by the law of 2 August 2003. It is especially the category of IT systems and communication networks operators of the financial sector that has boomed during 2005, with a significant increase of thirteen entities. This development reflects the special interest aroused by this new activity.

The IT systems and communication networks operators of the financial sector are followed by the client communication agents (+4 entities as compared to the previous year) and the registrar and transfer agents (+3 entities), as well as by the administrative agents of the financial sector and the professionals performing credit offering, showing an increase of two entities each.

Among the traditional PFS categories, the positive development of financial advisors (+4 entities as compared to the previous year) and brokers (+2 entities) should be underlined, a situation which reflects the renewed interest in this field of activity.

A slight decrease was recorded in the number of professionals acting for their own account, whereas the number of private portfolio managers, as well as that of the distributors of units/shares of investment funds remained stable during the year. The latter category has been less affected by the transformations into management companies under Chapter 13 of the law of 20 December 2002, the number of such changes of status having indeed fallen as compared to 2004.

It should also be noted that the sole financial player authorised as professional performing cash-exchange transactions ceased its activities in 2005.

As at 31 December 2005, no authorisation has been granted as yet in two categories introduced by the law of 2 August 2003, i.e. the professionals performing money transfer services and the management companies of non-coordinated UCIs.

Breakdown of PFS by geographic origin

Country	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Germany	6	6	6	7	11	11	10	10	10	13
Belgium	29	27	25	24	21	22	22	18	21	23
United States	6	3	4	3	4	8	8	8	11	13
France	11	10	10	10	11	14	13	9	12	12
Luxembourg	8	11	12	17	22	31	31	32	48	56
Netherlands	2	2	3	3	7	12	15	15	18	19
United Kingdom	9	10	9	8	8	9	10	11	8	8
Switzerland	5	6	4	4	7	11	10	10	10	12
Others	6	5	10	14	22	27	26	29	28	29 ²
Total	82	80	83	90	113	145	145	142	166	185

The number of PFS originating from Luxembourg has again increased considerably in 2005, although less than in 2004, from 48 entities at the end of 2004 to 56 entities as at 31 December 2005, thereby remaining by far in the majority.

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

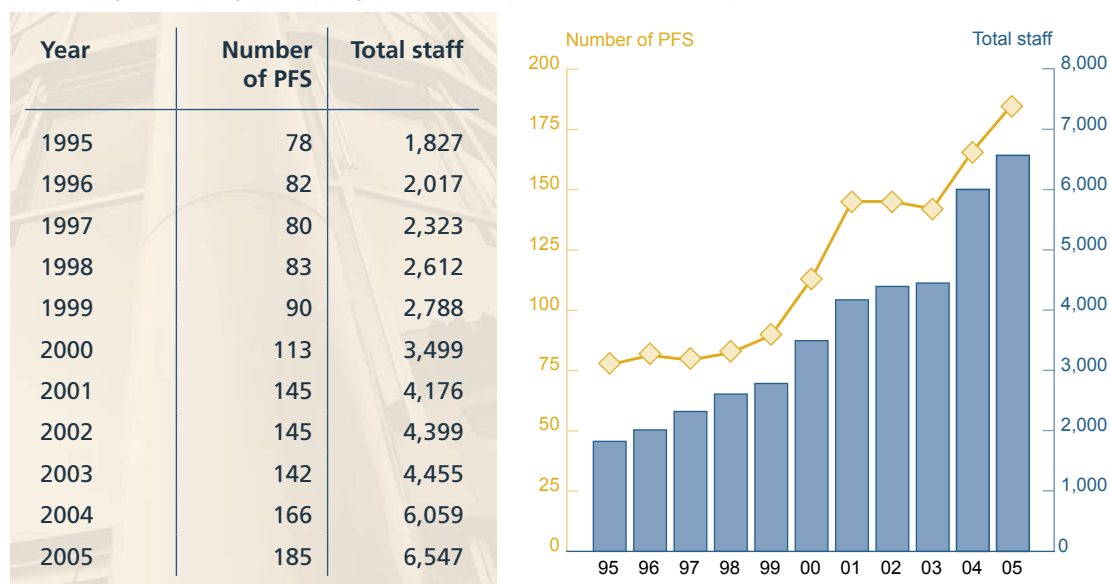
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The diversification of the geographical origin of the PFS newly submitted to the supervision of the CSSF in 2005 should also be mentioned. Indeed, the number of PFS from Germany increased by 3 entities while the number of PFS from Belgium, Switzerland and the United States increased by two entities each, a development which bears witness to the attractiveness of the Luxembourg financial centre at international level.

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

The upward trend of employment is closely related to the increase in the number of PFS active in the financial centre. The year 2005 is indeed marked by a considerable growth both in the number of PFS (+19 entities) and in the number of persons employed. The positive development of employment, rising from 6,059 people as at 31 December 2004 to 6,547 people as at 31 December 2005, i.e. an annual growth of 8.05%, thus mainly results from the high number of newly approved PFS in 2005 and, to a lesser extent, from the increase in employment of certain entities already acting as PFS in the financial centre.

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



The development in the number of staff per quarter shows a slight increase during the first quarter (+101 entities), stemming mostly from newly authorised institutions during this period. The second quarter however shows a decrease in the number of PFS staff, falling from 6,160 people as at 31 March 2005 to 6,122 people as at 30 June 2005. This drop is notably due to the change of a PFS with a high number of staff into a management company governed by Chapter 13 of the law of 20 December 2002 as amended on undertakings for collective investment. This decrease is nevertheless partially offset by the staff of the entities approved during the second quarter.

The analysis of employment during the last two quarters clearly shows a continuous growth in total PFS staff, rising from 6,122 as at 30 June 2005 to 6,334 people as at 30 September 2005 and to 6,547 as at 31 December 2005, i.e. an 6.94% increase over the second half-year. This growth is mainly due to the positive development of the number of PFS performing a connected or complementary PFS activity of the financial sector during this period, but also to the increase in staff of certain institutions acting as registrar and transfer agent or distributor of units/shares of investment funds.

1.3. Changes in 2005 in the official list of PFS

1.3.1. PFS under Luxembourg law authorised in 2005

- *Investment firms*

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

The following undertakings were authorised as investment firms in 2005:

- | | |
|--------------------------------------|--|
| • Banque Invik Asset Management S.A. | Private portfolio manager |
| • Fund Channel S.A. | Commission agent and distributor of units/shares of investment funds |
| • Investindustrial S.A. | Registrar and transfer agent ³ |
| • Tareno (Luxembourg) S.A. | Private portfolio manager |
| • Value-Call S.à r.l. | Private portfolio manager |

In 2005, five entities were approved as investment firms, including three entities active as private portfolio manager. One entity has adopted the statuses of commission agent and distributor of units/shares of investment funds, while one company has applied for authorisation as registrar and transfer agent. The latter has also been granted the status of financial adviser and is therefore registered on the official list of PFS other than investment firms.

Position of the CSSF with respect to circular CSSF 2000/12 on the definition of capital ratios pursuant to article 56 of the law of 5 April 1993 on the financial sector as amended

In accordance with point 1. of Part III, circular CSSF 2000/12 applies to all investment firms incorporated under Luxembourg law, except for those undertakings to which article 13(2) of the law of 5 April 1993 on the financial sector as amended applies and for undertakings that only receive and transmit the instructions of investors without holding themselves customers' funds and/or securities.

In this context, the CSSF stresses that commission agents (article 24A of the law on the financial sector) and distributors of units/shares of investment funds that do not accept nor make payments (article 24D) do not fall, owing to their activities defined by the law, under the scope of circular CSSF 2000/12 and are thus not required to periodically report on their own funds and risks to the CSSF.

The CSSF considers that the same is true for registrar and transfer agents (article 24G), as their business activity consists in the reception and execution of orders on one or several instruments referred to in section B of annexe II. The execution of these orders includes keeping the register for the issuer. Given the above and considering that registrar and transfer agents do not hold themselves the funds and/or securities of their customers, this category of investment firm is also excluded from the scope of circular CSSF 2000/12 on the definition of capital ratios.

³ Please refer also to the list of PFS other than investment firms.

- ***PFS other than investment firms***

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

The following undertakings were approved as PFS other than investment firms in 2005:

- Family Trust Management Europe S.A. Financial advisor⁴
- Farad Investment Advisor S.A. Broker
- Figed S.A. Broker⁵
- Fortis Commercial Finance S.A. Professional performing credit offering
- Fortis Lease Luxembourg S.A. Professional performing credit offering
- Investindustrial S.A. Financial advisor⁶
- Logiver S.A. Financial advisor
- Luxequip Bail S.A. Professional performing credit offering
- Services Généraux de Gestion S.A.,
in abbreviated form "S.G.G." Financial advisor⁷
- Stradivari Advisors S.A. Financial advisor

Among these ten entities that have been granted authorisation in 2005, five are registered as financial advisor and two undertakings as broker, which also bears witness to the renewed interest in traditional PFS activities. Three entities have adopted the status of professional performing credit offering, one of the categories introduced by the law of 2 August 2003.

Four of the newly authorised companies had applied for more than one PFS status, which confirms the diversification of activities in the financial sector. These institutions are thus also registered on the official list of investment firms and on the table of PFS performing a connected or complementary activity of the financial sector respectively.

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

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

⁴ Please refer also to the list of PFS performing a connected or complementary activity of the financial sector.

⁵ Please refer also to the list of PFS performing a connected or complementary activity of the financial sector.

⁶ Please refer also to the list of investment firms.

⁷ Please refer also to the list of PFS performing a connected or complementary activity of the financial sector.

The following undertakings have been authorised as PFS performing a connected or complementary activity of the financial sector in 2005:

• Allied Arthur Pierre S.A.	Client communication agent
• American Express Financial Services (Luxembourg) S.A.	Administrative agent of the financial sector
• Cofinor S.A.	Domiciliation agent
• Computacenter PSF S.A.	IT systems and communication networks operator of the financial sector
• Computer Task Group Luxembourg PSF S.A., in abbreviated form "CTG Luxembourg PSF S.A."	IT systems and communication networks operator of the financial sector
• Dimension Data Financial Services S.A.	IT systems and communication networks operator of the financial sector
• Family Trust Management Europe S.A.	Professional performing services of setting up and of management of companies ⁸
• Figed S.A.	Professional performing services of setting up and of management of companies ⁹
• Hewlett-Packard PSF Luxembourg S.à r.l.	IT systems and communication networks operator of the financial sector
• N.R.G. Luxembourg S.à r.l.	Client communication agent
• Services Généraux de Gestion S.A., in abbreviated form "S.G.G."	Domiciliation agent ¹⁰
• Siemens Financial Business Services S.A.	IT systems and communication networks operator of the financial sector
• Sogeti PSF	IT systems and communication networks operator of the financial sector
• Streff S.à r.l.	Client communication agent
• Sun Microsystems Financial Sector S.à r.l.	IT systems and communication networks operator of the financial sector
• Systemat Luxembourg PSF S.A.	IT systems and communication networks operator of the financial sector
• Tata Consultancy Services Luxembourg S.A.	IT systems and communication networks operator of the financial sector
• Telindus PSF	IT systems and communication networks operator of the financial sector
• T-Systems Luxembourg S.A.	IT systems and communication networks operator of the financial sector
• Xerox Luxembourg S.A.	IT systems and communication networks operator of the financial sector and client communication agent

The table shows the considerable interest in the connected or complementary activities in the financial sector, including in particular the activity of IT systems and communication networks operator of the financial sector in the light of the developments in the field of data processing and outsourcing.

Indeed, twelve institutions have requested an authorisation to perform this activity during the year under review, including one entity that has opted in addition for the status of client communication agent. Four entities have been approved as client communication agent, three of them performing only this activity. In 2005, only one undertaking has been granted authorisation to act as administrative agent of the financial sector.

⁸ Please refer also to the list of PFS other than investment firms.

⁹ Please refer also to the list of PFS other than investment firms.

¹⁰ Please refer also to the list of PFS other than investment firms.

The status of domiciliation agent of companies has been requested by two undertakings in 2005, a trend which is slightly decreasing as compared to the previous years. One of these players has also been granted authorisation as financial advisor and is therefore registered on the official list of PFS other than investment firms. It should also be mentioned that one of the professionals performing services of setting up and of management of companies has also been authorised as financial advisor and one as broker.

The majority of establishments authorised in 2005 as PFS performing a connected or complementary activity of the financial sector, including notably IT systems and communication networks operators of the financial sector, has applied for only one PFS status.

Definition of the activity of a professional performing services of setting up and of management of companies (article 29-4 of the law on the financial sector): additional information regarding the services relating to the setting up or management of companies

- The services pertaining to the setting up of companies consist in performing, for the account of the customer, all kinds of steps to set up the type of company requested, including the service of intermediary offered to a customer to draw up memoranda of association of a company (Luxembourg or foreign), as well as the representation of a customer for the incorporation of a company.

As regards the services relating to the management of companies, article 29-4 notably aims at natural and legal persons that provide directors, administrators or managers to third companies, who may act as intermediary charged with seeking representatives, or by intervening actively in the management of the client company.

The CSSF specifies however that the persons active as director, administrator or manager for their own account and independently from any third-party request based on a professional/customer relationship are not referred to under article 29-4.

- As regards the definition of the activity of a professional performing services of setting up and of management of companies, the CSSF specifies, in accordance with article 29-4 of the law on the financial sector, that the relationship between the professional and the customer is the deciding element. Indeed, it implies that the activity in question is performed in a repetitive manner or that the service provider is remunerated for the services provided.

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

The PFS governed by the general provisions (section 1 of chapter 2 of Part I of the law of 5 April 1993 on the financial sector as amended) fall under the scope of prudential supervision of the CSSF following the amendment of the law on the financial sector by the law of 2 August 2003.

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

Only one institution has been granted approval as professional of the financial sector authorised to exercise any activity referred to in section 1 of chapter 2 of Part I of the law of 5 April 1993 as amended, except for the categories of PFS also referred to in section 2 of the same chapter, namely:

- Cyberservices S.à r.l.

1.3.2. PFS that gave up their status in 2005

Thirteen institutions, including nine investment firms, gave up their PFS status in 2005. Three entities have been taken over by merger, one PFS has split into two new companies and three entities gave up their PFS status in order to become a management company under Chapter 13 of the law of 20 December 2002 as amended on undertakings for collective investment. The other withdrawals are due to the winding-up of the institution (two entities), the liquidation (one entity), the change into a bank (one entity), the discontinuation of activities (one entity) and the switch to activities which no longer require an authorisation as PFS as they no longer fall under the scope of the law of 5 April 1993 on the financial sector as amended (one entity).

- | | |
|--|---|
| <ul style="list-style-type: none"> • ACM Global Investor Services S.A.
Registrar and transfer agent
Domiciliation agent | Takeover by merger by Alliance Capital (Luxembourg) S.A. |
| <ul style="list-style-type: none"> • Bearbull (Luxembourg) S.A.
Private portfolio manager | Takeover by merger by Banque Degroof Luxembourg S.A. |
| <ul style="list-style-type: none"> • Crédit Lyonnais Management Services (Luxembourg) S.A., in abbreviated form "C.L.M.S. (Luxembourg) S.A."
Professional acting for its own account
Private portfolio manager | Takeover by merger by Crédit Agricole Luxembourg Conseil S.A. |
| <ul style="list-style-type: none"> • E Oppenheimer & Son (Luxembourg) Limited
Commission agent
Administrative agent of the financial sector
Domiciliation agent | Cessation of PFS activities |
| <ul style="list-style-type: none"> • Eurolease-Factor S.A.
Professional performing credit offering | Split into two new companies |
| <ul style="list-style-type: none"> • Fund-Market Research & Development S.A.
Private portfolio manager | Change into management company |
| <ul style="list-style-type: none"> • GMI-Conseils en Valeurs Mobilières Internationales S.A.
Financial advisor | Winding-up |
| <ul style="list-style-type: none"> • J.P. Morgan Fleming Asset Management (Europe) S.à r.l.
Private portfolio manager
Distributor of units/shares of investment funds | Change into management company |
| <ul style="list-style-type: none"> • Key Asset Management S.A.
Private portfolio manager | Liquidation |
| <ul style="list-style-type: none"> • Le Recours S.à r.l.
Debt recovery | Winding-up |
| <ul style="list-style-type: none"> • Schroder Investment Management (Luxembourg) S.A.
Distributor of units/shares of investment funds
Registrar and transfer agent | Change into management company |
| <ul style="list-style-type: none"> • Travelex Belgium N.V., Bruges (Belgium), succursale de Luxembourg
Professional performing cash-exchange transactions | Cessation of activities |
| <ul style="list-style-type: none"> • V.M.S. Luxembourg S.A.
Professional acting for its own account
Market maker
Underwriter | Change into a bank |

1.3.3. Changes in category in 2005

The changes in categories of the professionals of the financial sector in 2005 continue the trend initiated in 2004, i.e. the financial players seek to diversify the services they provide. Despite a drop in the total number of changes requested in 2005 as compared to the previous year, the changes concerning the adoption of an additional PFS status remain in the majority.

Name of the PFS	Category(ies) before the change	Category(ies) after the change
• Atag Asset Management (Luxembourg) S.A.	Private portfolio manager	Private portfolio manager Registrar and transfer agent
• BNP Paribas Fund Services S.A.	Private portfolio manager Distributor of units/shares of investment funds	Private portfolio manager Distributor of units/shares of investment funds Administrative agent of the financial sector
• Compagnie Financière et Boursière Luxembourgeoise S.A., in abbreviated form "Cofibol"	Professional acting for its own account	Professional acting for its own account Registrar and transfer agent
• Crédit Agricole Luxembourg Conseil S.A., in abbreviated form "CAL Conseil"	Commission agent Domiciliation agent	Private portfolio manager Domiciliation agent
• Farad Investment Advisor S.A.	Broker	Broker Distributor of units/shares of investment funds
• ING Lease Luxembourg S.A.	Professional performing credit offering	Professional performing credit offering Administrative agent of the financial sector
• Maitland Luxembourg S.A.	Administrative agent of the financial sector Domiciliation agent	Administrative agent of the financial sector Domiciliation agent Registrar and transfer agent
• MeesPierson Intertrust (Luxembourg) S.A.	Professional acting for its own account	Professional acting for its own account Administrative agent of the financial sector
• Unico Financial Services S.A.	Professional acting for its own account Distributor of units/shares of investment funds	Professional acting for its own account Distributor of units/shares of investment funds IT systems and communication networks operator of the financial sector

This table reflects the growing interest in 2005 of the existing PFS for the activity of registrar and transfer agent and administrative agent of the financial sector. Indeed, three extensions of status concern the activity of registrar and transfer agent, and the same number of PFS has opted for the category administrative agent of the financial sector as additional activity.

The majority of undertakings that had requested a change of status during 2005 are investment firms, including five that have adopted an additional status, while only one entity had requested a change of category.

1.4. Development in the balance sheet totals and results

Categories	Balance sheet total in EUR		
	2003	2004	2005 ¹¹
<i>Investment firms</i>			
Commission agents	164,866,179	228,721,820	234,666,635
Private portfolio managers	907,099,509	450,342,614	370,458,735
Professionals acting for their own account	271,124,494	390,557,957	277,183,833
Distributors of units/shares of investment funds	928,085,917	952,754,027	695,462,369
Underwriters	106,781,684	152,646,460	21,421,713
Professional custodians of securities or other financial instruments	925,418,041	916,534,933	810,804,535
Registrar and transfer agents	1,590,054	110,412,089	96,074,387
<i>PFS other than investment firms</i>			
Financial advisors	10,644,954	8,979,377	27,395,755
Brokers	43,277,682	44,019,211	54,723,126
Market makers	17,284,792	21,122,130	8,017,222
Professionals performing cash-exchange transactions	/	1,903,163	/
Debt recovery	/	754,826	485,913
Professionals performing credit offering	/	1,892,660,216	1,837,798,018
Professionals performing securities lending	/	39,449,146,884	46,388,629,755
Administrators of collective savings funds	/	143,153	161,740
<i>PFS performing a connected or complementary activity of the financial sector</i>			
Domiciliation agents	111,916,406	55,966,969	60,173,984
Client communication agents	4,174,686	55,064,446	56,366,648
Administrative agents of the financial sector	/	206,256,933	408,892,280
IT systems and communication networks operators of the financial sector	1,590,054	248,310,954	304,042,871
Professionals performing services of setting up and of management of companies	/	2,252,807	2,584,453
Professionals of the financial sector authorised to exercise any activity referred to in section 1 of chapter 2 of Part I of the amended law of 5 April 1993 on the financial sector. with the exception of the categories of PFS also referred to in section 2 of the same chapter	/	110,073,668	119,090,708
Establishments authorised to exercise all the PFS activities permitted by article 28 of the law of 15 December 2000 on postal services and financial postal services	/	1,230,334,511	1,424,821,083
Total	2,481,838,773	45,130,954,839	51,980,617,087

¹¹ Preliminary figures.

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Categories	Balance sheet total in EUR		
	2003	2004	2005 ¹²
Investment firms			
Commission agents	6,033,898	16,071,631	26,513,298
Private portfolio managers	153,179,404	63,749,770	45,289,874
Professionals acting for their own account	28,023,437	17,628,734	32,712,225
Distributors of units/shares of investment funds	94,658,705	134,295,503	127,725,962
Underwriters	2,556,767	1,886,846	1,350,825
Professional custodians of securities or other financial instruments	143,413,235	102,565,558	191,918,600
Registrar and transfer agents	-479,488	9,801,438	8,573,108
PFS other than investment firms			
Financial advisors	1,934,732	1,466,072	4,766,525
Brokers	16,585,941	20,620,214	24,190,329
Market makers	239,971	211,142	82,242
Professionals performing cash-exchange transactions	/	197,219	/
Debt recovery	/	-12,631	40,692
Professionals performing credit offering	/	38,326,556	41,652,278
Professionals performing securities lending	/	1,248,775	1,396,450
Administrators of collective savings funds	/	0	0
PFS performing a connected or complementary activity of the financial sector			
Domiciliation agents	8,569,665	7,927,475	6,846,693
Client communication agents	601,679	1,607,668	5,044,949
Administrative agents of the financial sector	/	5,417,473	21,889,476
IT systems and communication networks operators of the financial sector	-479,488,	10,975,582	20,915,551
Professionals performing services of setting up and of management of companies	/	54,630	-41,211
Professionals of the financial sector authorised to exercise any activity referred to in section 1 of chapter 2 of Part I of the amended law of 5 April 1993 on the financial sector. with the exception of the categories of PFS also referred to in section 2 of the same chapter	/	541,904	866,130
Establishments authorised to exercise all the PFS activities permitted by article 28 of the law of 15 December 2000 on postal services and financial postal services	/	-3,478,195	-3,088,217
Total	367,168,643	317,371,968	433,943,575

Comment as regards the tables

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

The balance sheet total of the PFS established in Luxembourg reached EUR 51,981 million as at 31 December 2005 against EUR 45,131 million at the end of 2004, which represents a 15.18% increase. This significant increase stems mainly from a substantial growth in the business volume of the institution authorised as professional performing securities lending. The considerable increase in the number of PFS in 2005, rising from 166 as at 31 December 2004 to 185 entities at the end of 2005, is another factor that explains the growth in the balance sheet total over a period of twelve months.

The positive development in the balance sheet total goes hand in hand with a rise in net results of the PFS, which amount to EUR 434 million as at 31 December 2005 against EUR 317 million as at 31 December 2004, representing a 36.73% increase year-on-year. This substantial growth can be explained, on the one hand, by the important number of PFS newly authorised in 2005, and, on the other hand, by an improved profitability of some important players acting as professional custodians of securities or other financial instruments and distributors of units/shares of investment funds.

The table plotting the development of the balance sheet total and net results in 2005 reveals differences according to the different categories of PFS. Certain categories recorded a fall in their results compared to last year, while the balance sheet total and/or net results of other categories remained either stable or increased at a more or less sustained rate.

- ***Commission agents***

Both the balance sheet total and net results of the commission agents increased substantially as compared to the end of 2004. This development is mainly due to the positive development of the figures of several significant professionals in this category.

- ***Private portfolio managers***

- Distributors of units/shares of investment funds***

Private portfolio managers and distributors of units/shares of investment funds, whose total number remained stable year-on-year with 46 and 37 entities respectively, have recorded a considerable decrease in their balance sheet total as compared to the previous year. This drop, which is mainly related to the change of an important player active as private portfolio manager and distributor of units/shares of investment funds into a management company, namely J.P. Morgan Fleming Asset Management (Europe) S.à r.l., could only be partially offset through the positive development of the balance sheet total of several other undertakings active in these fields.

Net results of the private portfolio managers have fallen considerably over twelve months. This development is mainly attributable to the aforementioned entity having given up its status. Distributors of units/shares of investment funds only record a slight decrease in their net results as compared to the previous year. Indeed, the improved profitability in 2005 of several important players in this PFS category did not allow to fully offset the negative development in the net results due to the change of two large-sized distributors of units/shares of investment funds into a management company.

- ***Underwriters***

The considerable decrease in the balance sheet total of one undertaking in this category, as well as the decrease in the number of underwriters, from three entities as at 31 December 2004 to two entities in 2005 following the change from one PFS into a bank, explain the significant fall in the balance sheet total. Nevertheless, this development did not have any major impact on net results, which only recorded a slight decrease year-on-year.

- ***Professional custodians of securities or other financial instruments***

Despite the stability in the number of professional custodians of securities or other financial instruments as compared to the previous year (three entities), this category recorded a fall in the balance sheet total and a significant increase in net results. The latter is mainly attributable to one major player in the financial centre, namely Clearstream International S.A..

- ***Financial advisors***

- ***Brokers***

The increase in the number of financial advisors (+4 entities) and brokers (+2 entities) in 2005 is the reason for the growth both in the balance sheet total and in the net results as compared to the end of 2004. This variation is due to a lesser extent to the positive development in the financial results of some other players authorised to perform these activities.

- ***Client communication agents***

- ***Administrative agents of the financial sector***

- ***IT systems and communication networks operators of the financial sector***

The table reveals a net increase in the balance sheet total, as well as in net results for these three PFS categories in 2005. This rise is mainly due to the substantial increase in the number of entities authorised as client communication agents (+4 entities), administrative agents of the financial sector (+2 entities) and IT systems and communication networks operators of the financial sector (+13 entities), as these categories introduced by the law of 2 August 2003 have indeed boomed in 2005.

1.5. Expansion of PFS at international level

1.5.1. Formation of subsidiaries during 2005

In 2005, the CSSF has not received any request from an investment firm incorporated under Luxembourg law to open a subsidiary abroad.

1.5.2. Freedom of establishment

In 2005, three investment firms incorporated under Luxembourg law set up branches in one or several other EU/EEA countries under the freedom of establishment, namely IAM Strategic S.A., which set up a branch in Sweden, Notz, Stucki Europe S.A. which set up a branch in Italy, as well as Vontobel Europe S.A., which set up in Austria by means of a branch.

Due to its change into a management company under the law of 20 December 2002 concerning undertakings for collective investment, J.P. Morgan Fleming Asset Management (Europe) S.à r.l. gave up its PFS status during 2005 and is therefore not registered anymore on the list of Luxembourg-incorporated investment firms having established a branch in one or several EU/EEA countries.

As at 31 December 2005, the following Luxembourg investment firms are represented by way of a branch in one or several other EU/EEA countries.

- **BNP Paribas Fund Services** Spain
Private portfolio manager
Distributor of units/shares of investment funds
Administrative agent of the financial sector
- **Clearstream International S.A.** United Kingdom
Professional custodian of securities or other financial instruments
- **Compagnie Financière et Boursière Luxembourgeoise S.A., in abbreviated form "Cofibol"** Belgium
Professional acting for its own account
Registrar and transfer agent
- **Createrra S.A.** Belgium
Professional acting for its own account
Domiciliation agent
- **Creutz & Partners, Global Asset Management S.A.** Germany
Private portfolio manager
- **Financial Advisor Services (Europe) S.A.** Germany
Distributor of units/shares of investment funds Italy
- **IAM Strategic S.A.** Sweden
Private portfolio manager
- **Le Foyer, Patrimonium & Associés S.A.** Belgium
Private portfolio manager
Distributor of units/shares of investment funds
- **Moventum S.A.** Germany
Private portfolio manager
Distributor of units/shares of investment funds
Registrar and transfer agent
- **Notz, Stucki Europe S.A.** Italy
Private portfolio manager
- **SZL S.A.** Belgium
Professional acting for its own account
- **Vontobel Europe S.A.** Germany
Private portfolio manager Austria
Distributor of units/shares of investment funds
- **WH Selfinvest S.A.** Belgium
Commission agent

The number of branches set up in Luxembourg by investment firms originating from another EU/EEA Member State totals four entities as at 31 December 2005:

- Gadd Capital Management Ltd Gibraltar
- Morgan Stanley Investment Management Limited United Kingdom
- PFPC International Limited Ireland
- T. Rowe Price Global Investment Services Limited, in abbreviated form "TRPGIS" United Kingdom

Although their number has not changed as compared to the previous year, the situation of branches has nevertheless undergone two changes as compared to the end of 2004. Indeed, while one branch from the United Kingdom, namely T. Rowe Price Global Investment Services Limited, has started its activities in Luxembourg in 2005, the British branch Bache Financial Limited stopped its activities in Luxembourg during the same year.

1.5.3. Freedom to provide services

In 2005, eleven investment firms incorporated under Luxembourg law applied to pursue business in one or several EU/EEA Member States under the freedom to provide services. The total number of investment firms active in one or several EU/EEA Member States, following a notification, amounts to 35 as at 31 December 2005. The majority of the investment firms freely provide services in several other EU/EEA countries.

Following several years of decrease, the clear upward trend in the number of notifications to freely provide services in Luxembourg introduced by investment firms from other EU/EEA countries, as already noted in 2004, has been confirmed in 2005. The number of foreign entities having applied for free provision of services in Luxembourg has indeed risen from 108 entities in 2004 to 128 entities in 2005. This growth, although weaker than in the previous year (108 entities in 2004 compared to 68 entities in 2003), bears witness to the internationalisation of the financial activities and more specifically the vivid interest for the Luxembourg financial centre.

The geographical breakdown of foreign investment firms having introduced a notification in 2005 reveals that the British investment firms remain by far the most important in number to apply for free provision of services in Luxembourg, followed by the Dutch and German investment firms.

Country of origin	Number of entities having applied for free provision of services in 2004	Number of entities having applied for free provision of services in 2005
Germany	6	12
Austria	7	5
Belgium	1	/
Cyprus	1	8
Denmark	/	2
Spain	2	/
Finland	1	/
France	13	4
[Gibraltar]	/	1
Greece	1	/
Ireland	1	3
Italy	1	/
Malta	/	1
Norway	/	1
Netherlands	13	12
United Kingdom	59	77
Slovenia	2	/
Sweden	/	2
Total	108	128

While the geographical breakdown shows only slight changes for the majority of countries compared to the previous year, the number of entities from the United Kingdom has increased substantially by 18 entities, which mainly explains the important increase in the total number of notification as compared to 2004.

The number of notifications received by the CSSF from Cypriot investment firms has risen by seven entities over a year, closely followed by entities from Germany, with an increase of six entities. On the contrary, the table reveals a strong decrease in the notifications from France, decreasing from thirteen in 2004 to four in 2005. Furthermore, the CSSF has received the first notification to freely provide services in Luxembourg from an entity from Malta, a Member of the EU since 1 May 2004. Thus, the new EU Member States begin to show interest in Luxembourg, as nine Cypriot, two Slovene and one Maltese entities have introduced a notification in the last two years.

As at 31 December 2005, a total of 1,115 EU/EEA investment firms were authorised to freely provide their services on Luxembourg territory.

2. PRUDENTIAL SUPERVISORY PRACTICE

2.1. Instruments of prudential supervision

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

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

2.2. On-site inspections

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

In 2005, the CSSF carried out on-site inspections at the premises of two professionals of the financial sector.

The purpose of one on-site inspection of a PFS was to make sure that the entity is operating properly, notably as regards the central administration and the administrative and accounting organisation. The CSSF's checks concerned in particular the appropriateness of the administrative structures set up in relation with the notification to open a branch in a EU/EEA Member State.

The CSSF's inspection at the premises of the second PFS concerned more particularly the principle of asset separation, in accordance with the provisions of article 36-1 of the law of 5 April 1993 on the financial sector as amended. A PFS managing third party funds must indeed enter them in accounts separate from those relating to its own assets. Appropriate corrective measures have been taken in relation to the irregularities observed in order to remedy the situation.

2.3. Meetings

A total of 125 meetings concerning the activities of professionals of the financial sector were held at the CSSF's premises during the year under review.

Most of these meetings were held within the scope of applications for approval as PFS, submitted either by companies newly incorporated or to be incorporated, or by existing entities, that intend to carry out financial activities that require prior approval. This figure also includes the meetings that were held with entities that enquired whether the activities performed fall under the scope of the law of 5 April 1993 on the financial sector as amended.

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

- planned changes notably relating to business activities, shareholders and daily management of PFS;
- presentation of the general context and activities of the companies concerned;
- requests for information within the scope of the prudential supervision carried out by the CSSF;
- courtesy visits.

2.4. Specific controls

Article 54(2) of the law of 5 April 1993 on the financial sector as amended entitles the CSSF to require external auditors to carry out a specific audit of a financial professional, covering one or several specific aspects of the business or operation of the entity concerned. The ensuing costs are to be borne by the professional concerned. The CSSF has not made formally use of this right in 2005.

2.5. Supervision on a consolidated basis

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

As at 31 December 2005, the CSSF had carried out supervision on a consolidated basis of fourteen investment firms falling under the scope of the above-mentioned law. An in-depth study of the financial groups to which most of the PFS investment firms belong was required in order to determine whether, at what level and in what form, consolidation should apply. For the investment firms concerned, circular CSSF 00/22 on the supervision of investment firms on a consolidated basis specifies the practical aspects of the rules as regards this type of supervision. Many companies supervised on a consolidated basis belong to major groups operating in the financial sector and whose ultimate parent company is usually a credit institution.

The following PFS were subject to supervision by the CSSF on a consolidated basis at 31 December 2005:

- BNP Paribas Fund Services
- Brianfid-Lux S.A.
- Capital @ Work International S.A.
- Citco (Luxembourg) S.A.
- Clearstream International S.A.
- Foyer Asset Management S.A.
- Hottinger & Cie
- Interinvest S.à r.l.
- Kredietrust Luxembourg S.A.
- MeesPierson Intertrust (Luxembourg) S.A.
- Petercam (Luxembourg) S.A.
- Premium Select Lux S.A.
- Puilaetco Dewaay Luxembourg S.A.
- UBS Fund Services (Luxembourg) S.A.

Reminder concerning the interpretation of article 52(3) of the law of 5 April 1993 on the financial sector as amended

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

The CSSF insists on the importance it attaches to the interpretation of this article, even more so given the topicality of this subject. Indeed, some entities apply for authorisation as PFS, in particular as PFS performing a connected or complementary activity of the financial sector, as they consider that this authorisation provides them with a quality label.

The CSSF reiterates its position in this respect, that is to say that authorisation as PFS cannot in any case be interpreted as corporate image and that being officially under the supervision of the competent authority does not *de facto* constitute a quality label.

An application for authorisation as PFS shall be submitted where the activities fall under the scope of the law on the financial sector and shall not be motivated by the will to become a PFS in order to mention this fact for advertising purposes or to use it as corporate image.



DEPARTMENT SUPERVISION OF PFS

Left to right: Carole NEY, Simone GLOESENER, Claudia MIOTTO, Elisabeth DEMUTH, Nicole LAHIRE,
Denise LOSCH, Gérard BRIMEYER, Sylvie MAMER, Luc PLETSCHETTE, Sonny BILDORFF-LETSCH, Carlo FELICETTI

Absent: Emilie LAUTERBOUR, Anne MARSON